

Annual Report

2019-2020

Part C: Financial Statements
Port Macquarie-Hastings Council



PORT MACQUARIE
HASTINGS COUNCIL

Port Macquarie - Hastings Council

GENERAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2020

Our Vision

A sustainable high quality life for all

Our Mission

Building the future together - people, place, health, education and technology



PORT MACQUARIE
HASTINGS

Port Macquarie - Hastings Council

General purpose financial statements
for the year ended 30 June 2020

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Port Macquarie-Hastings Council is constituted under the Local Government Act (1993) NSW and has its principal place of business at:

Port Macquarie-Hastings Council
Cnr Lord & Burrawan Streets
PORT MACQUARIE NSW 2444.

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

Port Macquarie - Hastings Council

General Purpose Financial Statements

for the year ended 30 June 2020

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

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

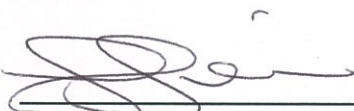
- The *Local Government Act 1993* (NSW) (as amended) and the Regulations made thereunder.
- The Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- The Local Government Code of Accounting Practice and Financial Reporting.

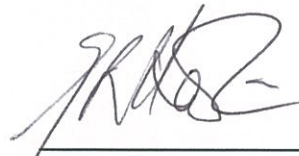
To the best of our knowledge and belief, these statements:

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

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

Signed on 29 October 2020 in accordance with a resolution of Council made on 12 August 2020.



Peta Pinson
Mayor
29/10/2020

Geoff Hawkins
Councillor
29/10/2020

Jeffery Sharp
Acting General Manager
29/10/2020

Nicole Spencer
Responsible Accounting Officer
29/10/2020

Port Macquarie - Hastings Council

Income statement for the year ended 30 June 2020

Original unaudited budget 2020 \$'000		Notes	Actual 2020 \$'000	Actual 2019 \$'000
	Income from continuing operations			
102,169	Rates and annual charges	3a	102,785	99,131
38,508	User charges and fees	3b	35,179	38,441
4,775	Other revenues	3c	5,529	5,637
14,138	Grants and contributions provided for operating purposes	3d,e	17,527	14,046
31,373	Grants and contributions provided for capital purposes	3d,e	42,842	67,493
8,701	Interest and investment revenue	4	8,158	8,881
1,015	Rental Income		1,166	956
200,679	Total income from continuing operations		213,186	234,585
	Expenses from continuing operations			
53,592	Employee benefits and on-costs	5a	51,588	50,854
2,465	Borrowing costs	5b	2,459	3,332
43,032	Materials and contracts	5c	43,280	39,990
49,043	Depreciation and amortisation	5d	51,732	50,323
-	Impairment	5d	1,759	27
14,213	Other expenses	5e	15,414	14,192
3,000	Net loss from disposal of assets	6	9,519	4,856
165,345	Total expenses from continuing operations		175,751	163,574
35,334	Operating result from continuing operations		37,435	71,011
45	Operating result from discontinued operations	22	(73)	213
35,379	Net operating result for the year		37,362	71,224
4,006	Net operating result for the year before grants and contributions provided for capital purposes		(5,480)	3,731

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

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

Port Macquarie - Hastings Council

Statement of comprehensive income for the year ended 30 June 2020

	Notes	Actual 2020 \$'000	Actual 2019 \$'000
Net operating result for the year - from Income statement		37,362	71,224
Other comprehensive income			
<i>Amounts that will not be reclassified subsequently to operating result</i>			
Gain/(loss) on revaluation of infrastructure, property, plant and equipment		<u>(28,678)</u>	<u>47,777</u>
Total other comprehensive income for the year		<u>(28,678)</u>	<u>47,777</u>
Total comprehensive income for the year		8,684	119,001

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

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

Port Macquarie - Hastings Council

Statement of financial position as at 30 June 2020

	Notes	Actual 2020 \$'000	Actual 2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	7	15,901	15,331
Investments	7	99,540	113,000
Receivables	8	23,288	28,062
Inventories	9	370	385
Contract assets	12b	5,768	-
Other assets	9	14	4
Non-current assets classified as held for sale	10	1,250	2,800
Total current assets		146,131	159,582
Non-current assets			
Investments	7	197,500	172,000
Receivables	8	2,627	5,081
Inventories	9	598	598
Infrastructure, property, plant and equipment	11	2,032,778	2,037,657
Total non-current assets		2,233,503	2,215,336
Total assets		2,379,634	2,374,918
LIABILITIES			
Current liabilities			
Payables	14	25,315	22,815
Contract liabilities	12b	1,142	-
Borrowings	14	10,467	9,972
Provisions	15	19,959	19,133
Total current liabilities		56,883	51,920
Non-current liabilities			
Borrowings	14	39,748	47,816
Provisions	15	4,171	4,201
Total non-current liabilities		43,919	52,017
Total liabilities		100,802	103,937
Net assets		2,278,832	2,270,981
EQUITY			
Accumulated Surplus		1,396,953	1,360,424
Revaluation reserves	16a	881,879	910,557
Total equity		2,278,832	2,270,981

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

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

Port Macquarie - Hastings Council

Statement of changes in equity for the year ended 30 June 2020

	Actual 2020 \$'000			Actual 2019 \$'000		
	Accumulated Surplus	IPP&E revaluation reserve	Total equity	Accumulated Surplus	IPP&E revaluation reserve	Total equity
Opening balance	1,360,424	910,557	2,270,981	1,289,200	862,780	2,151,980
Changes due to AASB 1058 and AASB 15 adoption (note 16)	(833)	-	(833)	-	-	-
Restated opening balance	1,359,591	910,557	2,270,148	1,289,200	862,780	2,151,980
Net operating result for the year	37,362	-	37,362	71,224	-	71,224
Gain (loss) on revaluation of infrastructure, property, plant and equipment (note 11)	-	(28,678)	(28,678)	-	47,777	47,777
Total comprehensive income	37,362	(28,678)	8,684	71,224	47,777	119,001
Closing balance	1,396,953	881,879	2,278,832	1,360,424	910,557	2,270,981

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

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

Port Macquarie - Hastings Council

Statement of cash flows

for the year ended 30 June 2020

Original unaudited Budget			Actual	Actual
2020			2020	2019
\$'000		Notes	\$'000	\$'000
Cash flows from operating activities				
Receipts:				
102,029	Rates and annual charges		102,245	98,767
39,500	User charges and fees		40,261	40,203
8,706	Investment revenue and interest		8,344	8,433
46,544	Grants and contributions		49,024	43,548
2,000	Bonds, deposits and retentions received		2,907	3,813
3,608	Other		16,226	12,075
Payments:				
(52,994)	Employee benefits and on-costs		(51,812)	(50,188)
(40,710)	Materials and contracts		(50,343)	(45,549)
(2,455)	Borrowing costs		(2,327)	(2,830)
(3,000)	Bonds, deposits and retentions refunded		(3,610)	(3,373)
(11,233)	Other		(14,564)	(13,775)
91,995	Net cash provided by operating activities	17	96,351	91,124
Cash flows from investing activities				
Receipts:				
151,943	Sale of investments		113,000	137,000
-	Sale of infrastructure, property, plant and equipment	6	359	692
Payments:				
(120,982)	Purchase of investments		(125,040)	(174,000)
(87,463)	Purchase of infrastructure, property, plant and equipment		(76,528)	(57,223)
(56,502)	Net cash used in investing activities		(88,209)	(93,531)
Cash flows from financing activities				
Receipts:				
1,500	Proceeds from borrowings and advances		2,400	-
Payments:				
(10,097)	Repayment of borrowings and advances		(9,972)	(11,115)
(8,597)	Net cash provided by (or used in) financing activities		(7,572)	(11,115)
26,896	Net increase/(decrease) in cash and cash equivalents		570	(13,522)
15,331	Cash and cash equivalents at beginning of reporting period		15,331	28,853
42,227	Cash and cash equivalents at end of reporting period	17	15,901	15,331

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

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

Port Macquarie - Hastings Council

Notes to the financial statements for the year ended 30 June 2020

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Note 1 Basis of Preparation

(continued)

These financial statements were authorised for issue by Council on 12 August 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

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

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

(a) *Historical cost convention*

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

(b) *Significant accounting estimates and judgements*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Council's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Port Macquarie-Hastings 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 & equipment - refer note 11
- (ii) estimated tip remediation provisions - refer note 15
- (iii) employee benefits provision - refer note 15

Significant judgements in applying the council's accounting policies

(i) *Projected Section 7.11 Commitments*

Council has used significant judgement in determining future Section 7.11 income and expenditure in Note 26.

Coronavirus (COVID-19) impact

Covid-19 is a respiratory illness that is caused by a new virus and was declared a world-wide pandemic by the World Health Organisation in March 2020.

Covid-19 and even more so the associated government (& societal) measures to slow the spread of the virus have had a significant impact on global and local economies and across communities and individuals.

Council has not been isolated from the direct and indirect effects of Covid-19 and has therefore had to react to the impacts of Covid-19 during the 19/20 financial year and consider the impacts of Covid-19 in preparing these financial statements.

Covid-19 effects on Council's financial performance for the 19/20 financial year

1. Reduced income attributable to Covid-19 included the following revenue sources:

- Airport Income	\$1m
- Glasshouse Income	\$497k
- Library Income	\$23k
- Income from rental properties	\$27k
- Parking fines	\$77k
- Food shop inspections	\$21k
- Interest on rates and annual charges	\$9k

2. Additional Covid-19 expenditure incurred by Council included:

- Payments to casual staff	\$45k
- Safety screens and other protection materials	\$29k

Covid-19 effects on Council's Statement of Financial Position for the 19/20 financial year

The impacts on Council's financial position have been minimal but included the following:

- Minor increase in the annual leave liability due to staff not taking planned leave.

Council does not believe that the impacts of Covid-19 on its financial position have been significant.

Note 1 Basis of Preparation

Monies and other assets received by Council

(a) The Consolidated Fund

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

The Consolidated Fund has been included in the financial statements of Port Macquarie-Hastings Council.

Cash and other assets of the following entities have been included as part of the Consolidated fund:

- * General purpose operations
- * Water supply
- * Sewerage service
- * Waste management service
- * Broadwater
- * Sanctuary Springs

(b) The Trust Fund

In accordance with the provisions of Section 411 of the LGA 1993, a separate and distinct Trust Fund is maintained to account for all money and property received by the Council in trust which must be applied only for the purposes of or in accordance with the trusts relating to those monies. Trust monies and property subject to Port Macquarie-Hastings Council's control have been included in these reports.

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

Goods and Services Tax (GST)

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

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

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

Volunteer Services

Council relies on volunteer services in three primary areas, The Glasshouse, the library and in our community inclusion section. Volunteer services are recognised in the income statement where the fair value can be measured reliably and the services would have been purchased had they not been donated. Council does not believe the value of volunteers is material to the financial statements.

New accounting standards and interpretations issued but not yet effective.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting period. Port Macquarie-Hastings Council's assessment of the impact of these new standards and interpretations relevant to them, is set out below.

AASB 1059 Service Concession Arrangements: Grantors

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

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

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

This standard provides guidance for public sector entities (grantors) who have entered into service concession arrangements with private sector operators.

AASB 1059 requires grantors to recognise a service concession asset and, in most cases, a corresponding liability on the balance sheet. A control approach is used to assess the service concession arrangements in place.

On initial recognition the asset is measured at current replacement cost based on AASB 13 *Fair Value Measurement* and existing assets of the grantors are reclassified at the date of transition. After initial recognition, the grantor accounts for the assets under either AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*.

The nature of the consideration given to the operator will affect whether the grantor applied either the 'financial liability' or the 'grant of right' model for the recognition of the liability.

Note 1 Basis of Preparation

AASB 2019-2 makes amendments to the recognition and measurement of the asset and liability where the modified retrospective approach to transition is being used and provides a practical expedient due to the different effective dates of AASB 16 and AASB 1059.

The effective date of this standard is the annual reporting period beginning on or after 1 January 2020 (i.e. year ended 30 June 2021).

Council does not expect an impact since we generally do not enter into service concession arrangements.

New accounting standards adopted during the year

During the year, Port Macquarie-Hastings Council adopted all standards which were mandatorily effective for the first time at 30 June 2020. The standards which had an impact on reported position, performance or disclosures have been discussed in Note 16.

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

Note 2(a) Council Functions or activities

(continued)

Functions/Activities	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).									
	Income from continuing operations		Expenses from continuing operations		Operating results from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	Actual 2020 \$'000	Actual 2019 \$'000	Actual 2020 \$'000	Actual 2019 \$'000	Actual 2020 \$'000	Actual 2019 \$'000	Actual 2020 \$'000	Actual 2019 \$'000	Actual 2020 \$'000	Actual 2019 \$'000
Leadership & Governance	649	348	6,064	4,814	(5,415)	(4,466)	73	20	82,139	79,301
Your Community Life	22,114	5,520	35,550	24,140	(13,436)	(18,620)	12,220	1,827	252,680	243,533
Your Business and Industry	7,974	11,903	14,311	6,545	(6,337)	5,358	51	5,752	42,364	49,027
Your Natural and Built Environment	120,915	159,159	119,826	128,075	1,089	31,084	9,689	8,734	2,002,451	2,003,057
Total functions & activities	151,652	176,930	175,751	163,574	(24,099)	13,356	22,033	16,333	2,379,634	2,374,918
General Purpose Income	61,534	57,655	-	-	61,534	57,655	9,585	9,324	-	-
Net operating result for the year	213,186	234,585	175,751	163,574	37,435	71,011	31,618	25,657	2,379,634	2,374,918

Note 2(b) Components of functions or activities

(continued)

Details of the functions or activities reported on in Note 2(a) are as follows:

Leadership & Governance

Council is trying to achieve a collaborative community that works together and uses opportunities for community participation in decision making that is defined as ethically, socially and environmentally responsible.

The result will be

- A community that has the opportunity to be involved in decision-making
- Open, easy, meaningful, regular and diverse communication between the community and decision-makers
- Partnerships and collaborative projects, that meet the community's expectations, needs and challenges
- Knowledgeable, skilled and connected community leaders
- Strong corporate management that is transparent

Your Community Life

Council is trying to achieve a healthy, inclusive and vibrant community.

The result will be

- Community hubs that provide access to services and social connections
- A safe, caring and connected community
- A healthy and active community that is supported by recreational infrastructure
- A strong community that is able to identify and address social issues
- Community participation in events, programs, festivals and activities

Your Business and Industry

The Port Macquarie - Hastings region is a successful place that has a vibrant, diversified and resilient regional economy for people to live, learn, work, play and invest

The result will be

- A strong economy that fosters a culture supportive of business and ensures economic development of the region
- Townships, villages and business precincts that are vibrant commercial, tourism, recreational and/or community hubs
- A region that attracts investment
- Partnerships that maximise economic return and create an efficient and effective business environment

Your Natural and Built Environment

A connected, sustainable, accessible community and environment that is protected now and into the future.

The result will be

- Effective management and maintenance of essential water, waste and sewer infrastructure
- A community that is prepared for natural events and climate change
- Sustainable and environmentally sensitive development outcomes that consider the impact to the natural environment
- Accessible transport network for our communities
- Infrastructure provision and maintenance that meets community expectations and needs
- Well planned communities that are linked to encourage and manage growth
- Accessible and protected waterways, foreshores, beaches and bushlands
- An environment that is protected and conserved for future generations
- Renewable energy options that are understood and accessible by the community

Note 3 Revenue from continuing operations

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
(a) Rates and annual charges		
Ordinary Rates		
Residential	41,345	39,822
Farmland	2,333	2,294
Business	7,835	7,538
Less: Pensioner rebates	(1,526)	(1,528)
Rates levied to ratepayers	49,987	48,126
Pensioner rate subsidies received	839	841
Total ordinary rates	50,826	48,967
Special Rates		
Broadwater Special Rate	106	104
Sanctuary Springs Special Rate	29	23
Total special rates	135	127
Annual Charges (pursuant to s.496, 496A, 496B, 501 & 611)		
Domestic waste management services	14,093	13,456
Water supply	8,698	8,782
Sewerage services	28,248	27,046
Waste management services (not domestic)	767	744
Stormwater drainage	804	792
Reclaimed water	32	35
Pensioner subsidies		
Water supply	366	366
Sewerage services	350	348
Waste management services	282	284
Less: Pensioner rebates	(1,816)	(1,816)
Total annual charges	51,824	50,037
Total rates and annual charges	102,785	99,131

Council has used 2019 valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and annual charges

Rates and annual charges are recognised as revenue when the council obtains control over the assets comprising these receipts which is the beginning of the rating period to which they relate. Prepaid rates are recognised as a financial liability until the beginning of the rating period.

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

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

2019 accounting policy

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

Note 3 Revenue from continuing operations

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
(b) User charges and fees		
User charges (pursuant to s.502)		
Water supply services	17,402	18,354
Sewerage services	1,226	1,341
Waste management services (not domestic)	6,932	6,984
Onsite Effluent	328	319
Reclaimed Water	323	162
Total user charges	26,211	27,160
Fees		
Animal registration	130	131
Certificate income	422	345
Cemeteries	249	268
Health	81	124
Private Works	381	840
s.611	114	111
Section 68 permits	790	941
Transport & communications	3,683	5,001
Planning & building - Regulatory	2,357	2,797
Water meter installations	542	454
Water supply fees	33	144
Other	186	125
Total fees	8,968	11,281
Total user charges and fees	35,179	38,441

Accounting policy for user charges and fees

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

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service. There is no material obligation for Council in relation to refunds or returns.

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

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

2019 accounting policy

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

Note 3 Revenue from continuing operations

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
(c) Other revenues		
Administration	356	207
Caravan Parks	230	226
Environment	184	354
Fines	433	562
Housing and community amenities	203	134
Insurance claims recoveries	336	-
Legal fees recovery	103	121
Legal Settlements	236	-
Recreation and cultural facilities	87	177
State waste rebate	112	112
Transport and communications	687	715
The Glasshouse	1,079	1,751
Waste management revenues	842	877
Water supplies	221	144
Other	420	257
Total other revenues	5,529	5,637

Accounting policy for other revenue

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

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

2019 accounting policy:

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

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

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

Note 3 Revenue from continuing operations

(continued)

	Operating		Capital	
	Actual	Actual	Actual	Actual
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
(d) Grants				
General purpose (untied)				
Financial assistance				
Relating to current year	4,653	4,577	-	-
Prepayment received in advance for subsequent year	4,932	4,747	-	-
Amount recognised as income during current year	9,585	9,324	-	-
Special purpose (tied)				
Airport	-	-	-	5,752
Community services and education	35	102	13	65
Health	103	112	-	-
Housing and community amenities	75	52	812	193
Library	204	150	-	-
NSW Rural Fire Service	478	502	-	751
Bushfire/disaster recovery	2,543	-	-	-
Recreation and culture	132	64	5,389	2,332
Transport				
- Other roads and bridges	156	125	5,999	3,181
- Roads to recovery	1,827	1,248	-	-
- LIRS interest subsidy	37	48	-	-
Sewerage services	-	-	3,855	1,238
Stormwater	-	-	-	52
Street lighting	145	144	-	-
Other	203	210	27	12
Total special purpose grants	5,938	2,757	16,095	13,576
Total grants	15,523	12,081	16,095	13,576
Comprising:				
- Commonwealth funding	11,497	10,618	-	-
- State funding	4,026	1,463	16,095	13,576
	15,523	12,081	16,095	13,576

Note 3 Revenue from continuing operations

(continued)

	Operating		Capital	
	Actual	Actual	Actual	Actual
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
(e) Contributions				
Developer contributions				
(s7.4 and s7.11 - EP&A Act, s64 of the LGA):				
Cash contributions				
S7.4 - contributions using planning agreements	-	-	(53)	646
S7.11 - contributions towards amenities/services	343	292	8,262	10,710
S7.12 - fixed development consent levies	-	-	298	290
S64 - water supply contributions	-	-	4,686	5,525
S64 - sewerage service contributions	-	-	1,893	2,179
Non-cash contributions				
S7.11 - in kind contributions	-	-	92	242
S7.11 - deferrals	-	-	(809)	261
S64 - water In kind contributions	-	-	61	716
S64 - sewer In kind contributions	-	-	-	-
S64 - water deferrals	-	-	(269)	71
S64 - sewer deferrals	-	-	(100)	119
Total development contributions	343	292	14,061	20,759
Other contributions				
Cash contributions				
RMS contributions (Regional/Local, Block Grant)	1,616	1,585	-	-
Other	45	88	25	-
Non-cash contributions				
Subdivision dedications (other than by s7.11)	-	-	12,661	33,158
Total other contributions	1,661	1,673	12,686	33,158
Total contributions	2,004	1,965	26,747	53,917
Total grants and contributions	17,527	14,046	42,842	67,493

Note 3 Revenue from continuing operations**Accounting policy for grants and contributions****Accounting policy from 1 July 2019****Grant Income under AASB 15**

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

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

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

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

Grant income

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

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

Capital grants

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

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

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

Contributions

Port Macquarie-Hastings Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of s7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979*.

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

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

Accounting policy prior to 1 July 2019

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

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner, or used over a particular period, and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed at note 3(f).

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

Note 3 Revenue from continuing operations (continued)

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
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(f) Unspent grants and contributions - external restrictions

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

Operating grants

Operating grants recognised as income in the current period that:

- have not been spent	1,054	119
- were received for the provision of goods and services in a future period	4,932	4,747
Operating grants recognised in previous reporting periods which have been spent in the current reporting period	(110)	(4,848)

Unspent operating grants that were recognised during the year comprise the following

- Bushfire Disaster Recovery Funding	863	-
- Crown Reserve Plans of Management	-	58
- Community Services	7	4
- Cultural	15	-
- Environmental	25	-
- Flood Mitigation	-	15
- Regional Gallery	43	42
- Waste Management	101	-
	<u>1,054</u>	<u>119</u>

Capital grants

Capital grants recognised as income in the current period that:

- have not been spent	98	859
Capital grants recognised in previous reporting periods which have been spent in the current reporting period	(805)	(553)

Unspent capital grants that were recognised during the year comprise the following

- Environment	-	1
- Glasshouse	10	10
- Library	73	105
- Recreation and Culture	13	461
- Roads and Transport	2	282
	<u>98</u>	<u>859</u>

Contributions

Contributions recognised as income in the current period that:

- have not been spent	16,161	21,203
Contributions recognised in previous reporting periods which have been spent in the current reporting period	(9,109)	(9,185)

Unspent contributions that were recognised during the year comprise the following

- S7.11/S64	16,143	21,163
- Environmental	13	3
- Recreation & Culture	5	37
	<u>16,161</u>	<u>21,203</u>

Note 3 Revenue from continuing operations (continued)

(continued)

(g) Disaggregation of revenue

The following shows the revenue recognition pattern for the streams of Council

	AASB 15 \$,000	AASB 1058 \$,000
Revenue recognition at a point in time		
Rates and annual charges	-	102,785
Financial assistance grants	-	9,585
User charges and fees	8,045	328
Grant revenue and non-developer contributions	-	7,684
Developer contributions	-	27,065
Fines	-	433
Other		3,787
	<u>8,045</u>	<u>151,667</u>
Revenue recognised over time		
Grant revenue		
Grants to acquire or construct Council controlled assets	-	16,035
User charges and fees	26,806	-
Other	1,309	-
	<u>28,115</u>	<u>16,035</u>
Total	<u>36,160</u>	<u>167,702</u>

30 June 2020

Note 4 Interest and investment income

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
Interest and Investment revenue		
Interest in financial assets measured at amortised cost		
Overdue rates and annual charges	281	266
Overdue user charges and fees	51	48
Cash and Investments		
- General Fund	2,666	2,713
- Waste Fund	478	487
- Water Fund	2,390	2,085
- Sewer Fund	1,150	1,344
- Special Funds	40	42
- S7.11 Deposits	497	870
- S64 Deposits Water fund	431	714
- S64 Deposits Sewerage Services	174	312
Total interest and investment revenue	8,158	8,881

Accounting policy for interest and investment revenue

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

Dividends are recognised as income in profit or loss when the shareholder's right to receive payment is established

Note 5 Expenses from continuing operations

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
(a) Employee benefits and on costs		
Salaries and wages	41,506	38,977
Travelling	1,562	1,596
Employee leave entitlements	6,908	7,669
Superannuation	4,697	4,664
Workers' compensation insurance	951	942
Fringe Benefits Tax	50	51
Payroll Tax	608	611
Training costs (excluding Salaries)	366	591
Other	77	100
Less: Capitalised costs	(5,137)	(4,347)
Total employee costs expensed	51,588	50,854

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Defined benefit 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 benefits superannuation scheme called the Local Government Superannuation Scheme - Pool B (Scheme). Pooled Employers form a sub-group of the Scheme with over 170 employers supporting around 5,000 employees and ex-employees.

The pooled Employers sub-group is considered to be a defined benefit multi-employer plan as defined by AASB119, for the following reasons:

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

Given the factors above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses (to the extent that they are not borne by members). As such Council does not believe that there is sufficient reliable information to allow each sponsoring employer to account for its proportionate share of the defined benefit obligation, sub-group assets and costs associated with the sub-group in the same way as it would for a single employer sponsored defined benefit plan.

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

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

Note 5 Expenses from continuing operations

(continued)

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

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

The past service contribution for each Pooled Employer is a share of the total past service contributions of \$40.0 million for 1 July 2019 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2019. These past service contributions are used to maintain the adequacy of the funding position for the accrued liabilities.

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

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

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

Agreed allocation of a deficit or surplus on :

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

2. withdrawal from the plan
There is no provision for allocation of any surplus which may be present at the date of withdrawal of an employer.

The expected contributions to the Fund by Council for the next annual reporting period is \$787,720.28.

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

Employer reserves only*	\$millions	Asset Coverage
Assets	1,695.20	
Past Service Liabilities	1,773.20	95.60%
Vested Benefits	1,757.50	96.50%

** excluding member accounts and reserve in both assets and liabilities*

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

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

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group. Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Funds Actuary, the final end of year review will be completed around November/December 2020.

The implications are that additional contributions are estimated to remain in place until 30 June 2021.

It is estimated that there are \$479,300 in past service contributions remaining.

Based on a Past Service Liabilities methodology, the share of the surplus that can be attributed to Council is 1.2%.

Note 5 Expenses from continuing operations

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
(b) Borrowing Costs		
Interest on Loans	2,341	2,760
Amortisation of discounts and premiums:		
- Tip remediation	188	582
Less: Capitalised costs	(70)	(10)
Total borrowing costs expensed	2,459	3,332

Accounting policy for borrowing costs

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

Note 5 Expenses from continuing operations

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
(c) Materials and contracts		
Raw materials and consumables	28,154	25,669
Contractor and consultancy costs		
- Domestic waste management contract	4,775	4,911
- Other	9,692	8,597
Remuneration of Auditors	117	125
Legal fees:		
- Planning and development	209	369
- Debt recovery	85	81
- Other	248	238
Total materials and contracts	43,280	39,990

Accounting policy

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

Auditors' remuneration

Auditors of the Council - NSW Auditor-General:

(i) Audit and other assurance services

Audit and review of financial statements	104	95
Total fees paid or payable to the Auditor-General	104	95

During the year the following fees were paid or payable for services provided by other audit firms

(i) Audit and other assurance services

Other assurance services - Thomas Noble & Russell	11	12
Internal audit services - The Trustee for Centium Group Unit Trust	2	18
Total fees paid or payable to audit firms	13	30

Total remuneration of auditors

117	125
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Note 5 Expenses from continuing operations (continued)

(continued)

	Note	Actual 2020 \$'000	Actual 2019 \$'000
(d) Depreciation and impairment of non-financial assets			
Depreciation			
Infrastructure, property, plant & equipment		51,732	50,323
Total depreciation costs		51,732	50,323
Impairment/revaluation decrement of IPPE			
Infrastructure Assets		1,993	27
Other Assets		17	-
Amounts taken through revaluation reserve		(251)	-
Total impairment costs charged to Income Statement (IPPE)		1,759	27
Total depreciation and impairment for non-financial assets		53,491	50,350

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

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 11 for IPPE assets.

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

Impairment of non-financial assets

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

Other assets that do not meet the criteria above are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

Note 5 Expenses from continuing operations (continued)

(continued)

	Actual 2020 \$'000	Actual 2019 \$'000
(e) Other expenses		
Bad & Doubtful Debts	304	35
Contributions and donations	308	365
Insurance	1,127	1,210
Electricity and heating	4,234	3,354
Mayoral fee	60	62
Councillors' fees	151	159
Councillors' (incl Mayor) expenses	30	51
Legal Settlements	728	-
Street lighting	1,173	1,086
Telephones	370	395
Bank charges and fees	351	346
Valuation fees	217	225
Emergency services levy (includes FRNSW, SES & RFS levies)	954	910
Waste Levy	5,407	5,994
Total other expenses from continuing operations	15,414	14,192

Accounting policy for other expenses

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

Note 6 Gain or loss from the disposal, replacement and de-recognition of assets

(continued)

	Note	Actual 2020 \$'000	Actual 2019 \$'000
Gain (or loss) on disposal of infrastructure, property, plant & equipment	11		
Proceeds from disposal		359	549
Less: Carrying amount of assets sold		1,685	709
Gain (or loss) on disposal		(1,326)	(160)
Gain (or loss) on disposal of non-current assets held for sale	10		
Proceeds from sales		-	-
Less: Cost of sales (Note 1)		2,800	-
Gain (or loss) on disposal		(2,800)	-
Gain (or loss) on disposal of real estate development			
Proceeds from sales		-	143
Less: Cost of sales		-	76
Gain (or loss) on disposal		-	67
Gain (or loss) on disposal of investments	7b		
Proceeds from disposal		113,000	137,000
Less: Carrying value of investments		113,000	137,000
Gain (or loss) on disposal		-	-
Loss on disposal of infrastructure assets			
Less: Carrying amount of assets disposed		5,393	4,763
		(5,393)	(4,763)
Net gain (or loss) from disposal of assets		(9,519)	(4,856)

Note 1:

Council purchased a property in William Street, Port Macquarie in 2005. Council has subsequently tested the market for the land several times over the years. To enable additional carparking to be provided within the CBD, the land was sold in 2019-2020 to a neighbouring property owner. The conditions of sale included a requirement for the provision of 150 additional public carparking spaces beyond that required by the development. As the sale has occurred, but the carparking spaces not yet provided, an adjustment has been made in the accounts to reflect the status. As this land was held on Council's books at a value of \$2.8m, there is a loss on sale shown in this note of \$2.8m.

Accounting policy for disposal of assets

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

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

Note 7(a) Cash and cash equivalents

(continued)

	Note	Actual 2020 \$'000	Actual 2019 \$'000
Cash at bank and on hand		5,034	2,521
Deposits at call		10,867	12,810
	17a	15,901	15,331

Accounting policy for cash and cash equivalents

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

Note 7(b) Investments

(continued)

	Actual 2020		Actual 2019	
	Current \$'000	Non-Current \$'000	Current \$'000	Non-Current \$'000
The following financial assets are held as investments:				
Debt securities at amortised cost				
- Term Deposits	99,540	197,500	113,000	172,000
Total	99,540	197,500	113,000	172,000

Accounting policy for investments

Financial instruments are recognised initially on the date that 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, term deposits and cash and cash equivalents in the statement of financial position.

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

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

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

(continued)

	Actual 2020		Actual 2019	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Total cash, cash equivalents and investments	115,441	197,500	128,331	172,000
External restrictions	87,630	149,921	98,204	131,618
Internal restrictions	19,809	47,579	23,884	40,382
Unrestricted	8,002	-	6,243	-
	115,441	197,500	128,331	172,000

	2020 Restricted Cash	2019 Restricted Cash
Notes	\$'000	\$'000
External Restrictions		
Included in liabilities	7,862	8,455
Other external restrictions		
<i>Developer contributions: (A)</i>		
- General	47,907	47,091
- Water	45,444	40,878
- Sewer	18,070	16,407
<i>Specific purpose unexpended grants: (C)</i>		
- General	6,754	5,974
- Waste	205	-
Unexpended Contributions (B)	92	99
Water fund (D)	66,543	59,429
Sewer fund (E)	27,777	33,384
Broadwater Special Rate (F)	1,428	1,434
Sanctuary Springs Special Rate (G)	39	35
Waste Management (H)	15,335	15,005
Stormwater Management	95	1,631
Total external restrictions	237,551	229,822
Internal Restrictions		
Operational Reserves		
Committed Works	6,423	7,619
Employee Leave Entitlements	5,617	5,217
Office Building & Equipment	1,683	1,212
Plant Replacement	5,836	5,715
Working Capital	8,835	8,328
	28,394	28,091
Quarantined Funds		
Crown Reserves	725	564
Environmental Levy	1,759	2,174
Onsite Effluent	797	673
Surf Clubs	769	724
Tourism & Industry Promotion	758	632
	4,808	4,767

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

30 June 2020

(continued)

	Notes	2020 Restricted Cash \$'000	2019 Restricted Cash \$'000
Internal Restrictions (continued)			
Roads and Infrastructure			
Asset Revaluation		165	135
The Glasshouse		457	457
Ferries		1,318	1,479
Infrastructure Priorities		593	814
Lake Road Upgrade		157	157
Major Buildings Renewals		119	119
Playing Fields		300	300
PM Town Centre Masterplan		1,712	1,611
Road Environmental Works		91	75
Regional Road Infrastructure		6,114	6,336
Strategic Priorities Reserve		8,404	6,242
Transport Infrastructure Renewal		2,800	2,591
William Street Carparking		3,391	-
Works Associated with Developments		150	100
		25,771	20,416
Council Business Units			
Airport		1,347	4,596
Crematorium & Lawn Cemetery		750	750
Property Investment		2,477	2,673
		4,574	8,019
Coastal and Estuary Management			
Canal Maintenance		(53)	836
Lake Cathie Dredging		28	15
Lake Cathie Remediation - Enforceable Undertaking		60	-
Town Beach Sand Nourishment/4WD Access Points		624	607
		659	1,458
Other			
Council Election		286	236
Covid-19 Relief Measures		1,493	-
Cultural Activities		200	230
HACC Greenmeadows		-	2
Planning Studies		187	176
Street Lighting		886	871
Work Health & Safety Initiatives		130	-
		3,182	1,515
Total Internal Restrictions		67,388	64,266
Total Restrictions		304,939	294,088

(A) Developer contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans.

(B) Contributions which are not yet expended for the purposes for which they were obtained.

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

(D-H) Water, Sewerage, Broadwater Special Rate, Sanctuary Springs Special Rate and Domestic Waste Management (DWM) funds are externally restricted assets which must be applied for the purposes for which they were raised.

Note 8 Receivables

(continued)

	Actual 2020		Actual 2019	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Purpose				
Rates and annual charges	4,711	714	4,058	827
Interest and extra charges	724	66	299	68
User charges and fees	3,335	364	7,463	86
Government grants and subsidies	5,632	470	8,541	700
Accrued revenues	3,436	-	4,045	-
Net GST Receivable	2,379	-	1,607	-
Other	3,465	1,013	2,141	3,400
Total	23,682	2,627	28,154	5,081
Less: Provision for impairment:				
Rates and annual charges	36	-	34	-
User charges and fees	358	-	58	-
	394	-	92	-
Total	23,288	2,627	28,062	5,081
Restricted receivables				
Externally restricted receivables				
Water Supply	4,669	375	6,866	970
Sewerage Services	2,194	297	1,180	580
Waste Management	1,404	109	1,476	133
Sanctuary Springs	1	-	-	-
Broadwater special rate	1	-	1	-
Total externally restricted receivables	8,269	781	9,523	1,683
Unrestricted receivables	15,019	1,846	18,539	3,398
Total receivables	23,288	2,627	28,062	5,081

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 measures 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.

Note 8 Receivables

(continued)

Impairment

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

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

When considering the ECL for rates debtors, council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold.

For non-rates debtors, council uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

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

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

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

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

Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1.

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

The council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are over 4 years past due, whichever occurs first.

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

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

Rates and annual charges outstanding are secured against the property.

	Actual 2020 Current \$'000	Non- Current \$'000	Actual 2019 Current \$'000	Non- Current \$'000
(a) Inventories				
At cost:				
Real estate (refer i. below)	-	598	-	598
Stores and materials	370	-	385	-
Total inventories	370	598	385	598
i. Real estate development				
Industrial/Commercial	-	598	-	598
Total real estate held for sale	-	598	-	598
Represented by:				
Development costs	-	598	-	598
Total real estate held for sale	-	598	-	598
(ii) Inventories not expected to be realised within the next 12 months	-	598	-	598
(b) Other assets				
Prepayments	14	-	4	-
Total other assets	14	-	4	-
External restricted/unrestricted inventories and other assets				
Water Supply	173	-	180	-
Sewerage Services	4	-	5	-
Unrestricted	207	598	204	598
Total inventories and other assets	384	598	389	598

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. Costs are assigned to individual items of inventory on 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.

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.

Note 10 Non-current assets classified as held for sale

(continued)

	2020 \$'000	2019 \$'000
Land	250	2,800
Buildings	489	-
Furniture & Fittings	14	-
Other Structures	495	-
Plant & Equipment	2	-
	1,250	2,800

2020

Council has entered into a contract to sell the Innes Garden Memorial Park. The settlement date is 1 July 2020 and the price of the sale is commercial in confidence.

2019

Council previously owned a commercial property in William Street, Port Macquarie. This property was sold on the 31 July 2019. Refer to Note 6 for additional information.

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

Note 11 Infrastructure, property, plant and equipment

(continued)

By asset class	At 30 June 2019			Movements during year						At 30 June 2020		
	Gross carrying amount \$'000	Accum depreciation \$'000	Net carrying amount \$'000	Renewals \$'000	New assets \$'000	Carrying value of disposals \$'000	Depn and impairment \$'000	Transfers/ Adjustments \$'000	Revaluation increments/(decrements) (2) \$'000	Gross carrying amount \$'000	Accum depreciation \$'000	Net carrying amount \$'000
Capital work in progress	87,836	-	87,836	33,696	28,416			(44,927)		105,021	-	105,021
Plant and equipment	43,133	23,271	19,862		2,573	354	2,678	32		44,138	24,703	19,435
Office equipment	12,097	7,832	4,265		27		1,175			12,055	8,938	3,117
Furniture and fittings	7,024	5,569	1,455		51	32	249	(29)		6,842	5,646	1,196
Leased property, plant and equipment	286	63	223				3			286	66	220
Land												
- Operational Land	95,507	-	95,507		786			39		96,332	-	96,332
- Community Land	29,237	-	29,237		207					29,444	-	29,444
- Crown Land (Council Trustee)	22,536	-	22,536							22,536	-	22,536
- Land Under Roads	67,636	-	67,636		66			5		67,707	-	67,707
- Non Depreciable Land Improvements	4,808	-	4,808							4,808	-	4,808
- Depreciable land improvements	10,213	2,559	7,654	3			199			10,215	2,757	7,458
Infrastructure:												
- Other Structures	7,672	2,837	4,835		8	16	202	(683)		6,188	2,246	3,942
- Buildings	185,162	54,395	130,767	1,059	627	1,300	4,900	6,472		189,578	56,853	132,725
- Roads	525,740	270,522	255,218	2,044	4,572	1,989	10,416	12,011	(12,470)	367,343	118,373	248,970
- Bridges	203,684	86,122	117,562	548	1,021	401	3,030	2,896	45,413	220,839	56,830	164,009
- Footpaths	192,407	99,025	93,382		1,598	144	2,520	2,997	37,904	185,414	52,197	133,217
- Other road assets	65,816	21,387	44,429	503	306	67	1,868	1,473	968	66,883	21,139	45,744
- Bulk Earthworks (non-deprec)	267,400	9	267,391		535	8		972	(143,159)	125,731	-	125,731

30 June 2020

Note 11 Infrastructure, property, plant and equipment

(continued)

By asset class	At 30 June 2019			Movements during year						At 30 June 2020		
	Gross carrying amount	Accum depreciation	Net carrying amount	Renewals	New assets	Carrying value of disposals	Depn and impairment	Transfers/ Adjustments	Revaluation increments/(decrements) (2)	Gross carrying amount	Accum depreciation	Net carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
- Stormwater drainage	244,387	106,112	138,275	63	2,095	524	2,929	1,114	37,119	254,715	79,502	175,213
- Water supply network	587,099	217,225	369,874	464	1,319	1,843	9,540	5,979	3,501	596,745	226,991	369,754
- Sewerage network	439,487	197,219	242,268	220	1,913	257	9,313	3,713	2,046	448,490	207,900	240,590
- Swimming Pools	11,216	3,726	7,490	-	-	-	195	-	-	11,216	3,921	7,295
- Other open space/ recreational assets	59,357	36,795	22,562	1,082	1,099	143	2,590	3,951	-	63,946	37,985	25,961
Other Assets												
- Heritage Collections	941	614	327	-	-	-	12	-	-	941	626	315
- Library Books	6,497	6,077	420	-	454	-	280	-	-	6,950	6,356	594
- Other	775	97	678	-	-	-	7	-	-	775	104	671
Reinstatement, Rehabilitation, Restoration Assets (refer note 15)												
Tip Asset	2,489	1,329	1,160	-	-	-	387	-	-	2,489	1,716	773
Totals	3,180,442	1,142,785	2,037,657	39,682	47,673	7,078	52,493	(3,985)	(28,678)	2,947,627	914,849	2,032,778

Notes:

- Excludes investment properties and non-current assets held for resale.
- Additions to Buildings and Infrastructure are made up of Asset Renewals and New Assets. Renewals are defined as replacements of existing assets with equivalent capacity or performance as opposed to the acquisition of new assets.
- The 'Water Supply network' and 'Sewerage network' asset classes do not include those fixed assets belonging to the water and sewerage funds which form part of other asset classes, eg land, buildings etc.
- Refer to Note 23 Fair value measurement for information regarding the fair value of IPP&E.
- Asset classes to be included in Special Schedule 7 - Infrastructure Asset Report.

Note 11 Infrastructure, property, plant and equipment

(continued)

By asset class	At 30 June 2018			Movements during year						At 30 June 2019		
	Gross carrying amount	Accum depreciation and impairment	Net carrying amount	Renewals	New assets	Carrying value of disposals	Depn and impairment	Transfers/ Adjustments	Revaluation increments/(decrements) (2)	Gross carrying amount	Accum depreciation and impairment	Net carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Capital work in progress	77,135	-	77,135	20,063	30,634			(39,996)		87,836	-	87,836
Plant and equipment	41,267	22,031	19,236		3,453	708	2,591	472		43,133	23,271	19,862
Office equipment	22,527	17,811	4,716		502	1	1,131	182	(3)	12,097	7,832	4,265
Furniture and fittings	7,073	5,405	1,668		110		323			7,024	5,569	1,455
Leased property, plant and equipment	286	60	226				3			286	63	223
Land												
- Operational Land	94,588	-	94,588		919					95,507	-	95,507
- Community Land	28,614	-	28,614		623					29,237	-	29,237
- Crown Land (Council Trustee)	22,536	-	22,536							22,536	-	22,536
- Land Under Roads	67,636	-	67,636							67,636	-	67,636
- Non Depreciable Land Improvements	4,625	-	4,625						183	4,808	-	4,808
- Depreciable land improvements	9,659	2,268	7,391		160		191		294	10,213	2,559	7,654
Infrastructure:												
- Other Structures	7,947	2,564	5,383	8		96	232	(357)	129	7,672	2,837	4,835
- Buildings	179,875	49,005	130,870	251	800	5	4,425	574	2,702	185,162	54,395	130,767
- Roads	497,345	251,431	245,914	20	7,953	295	9,533	2,134	9,025	525,740	270,522	255,218
- Bridges	179,221	82,794	96,427	27	159	1,097	2,905	20,784	4,167	203,684	86,122	117,562

Note 11 Infrastructure, property, plant and equipment

(continued)

By asset class	At 30 June 2018			Movements during year						At 30 June 2019		
	Gross carrying amount	Accum depreciation and impairment	Net carrying amount	Renewals	New assets	Carrying value of disposals	Depn and impairment	Transfers/ Adjustments	Revaluation increments/(decrements) (2)	Gross carrying amount	Accum depreciation and impairment	Net carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
- Footpaths	177,569	93,267	84,302		6,928	164	2,331	1,498	3,149	192,407	99,025	93,382
- Other road assets	60,766	18,806	41,960		130	13	1,740	2,503	1,589	65,816	21,387	44,429
- Bulk Earthworks (non-deprec)	255,699	9	255,690		1,571	254		620	9,764	267,400	9	267,391
- Stormwater drainage	227,338	99,358	127,980	2	6,910	786	2,773	791	6,151	244,387	106,112	138,275
- Water supply network	563,639	203,224	360,415		3,288	1,172	9,495	10,803	6,035	587,099	217,225	369,874
- Sewerage network	433,579	187,109	246,470	12	5,944	878	9,130	(3,943)	3,793	439,487	197,219	242,268
- Swimming Pools	9,702	2,929	6,773				209	735	191	11,216	3,726	7,490
- Other open space/ recreational assets	56,132	34,437	21,695	525	1,095	3	2,539	1,188	601	59,357	36,795	22,562
Other Assets												
- Heritage Collections	905	545	360	16	-	-	56	-	7	941	614	327
- Library Books	6,216	5,832	384		281		245	-	-	6,497	6,077	420
- Other	775	88	687				9	-	-	775	97	678
Reinstatement, Rehabilitation, Restoration Assets (refer note 15)												
Tip Asset	2,489	750	1,739	-	-	-	579	-	-	2,489	1,329	1,160
Totals	3,035,143	1,079,723	1,955,420	20,924	71,460	5,472	50,440	(2,012)	47,777	3,180,442	1,142,785	2,037,657

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

(continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent comprehensive valuations are performed at least 5 yearly however the carrying amount of assets is assessed by council at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Industry (DoI) - Water.

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

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

When infrastructure, property, plant and equipment are acquired by council at significantly below fair value, the assets are initially recognised at their fair value at acquisition date.

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

Plant and equipment	Years	Other Equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Other parks furniture	10 to 20
Computer equipment	5 to 10		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: Masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: Other	20 to 40
Water and sewer assets		Stormwater Assets	
Dams and reservoirs	40 to 100	Drains	80 to 100
Bores	20 to 40	Culverts	40 to 80
Reticulation pipes: PVC	40	Flood control Structures	80 to 100
Reticulation pipes: other	40 to 100		
Pumps and telemetry	10 to 50		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	25 to 35	Bulk earthworks	Infinite
Sealed roads: structure	80 to 90	Swimming pools	10 to 80
Unsealed roads	15 to 60	Other open space/recreation	5 to 100
Bridge: concrete	90	Other infrastructure	10 to 100
Bridge: other	40		
Kerb, gutter and footpaths	30 to 90		

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 under roads

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

Council has elected to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051.

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

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. Where the Crown reserves are under a lease arrangement they are accounted for under AASB 16 *Leases*, refer to Note 13. 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 fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed". Council recognises rural fire service assets when vested or purchased and depreciates them from the time they are held ready for use. Rural fire service assets controlled and recognised by council include land, buildings and fire fighting equipment.

30 June 2020

Note 12 Contract assets and liabilities

(continued)

	30 June 2020
	\$'000
a. Contract assets	
Grant and Contributions	
Environment & Heritage - Dunbogan Flood Access Road Upgrade	56
NSW Dept of Premier & Cabinet - Andrews Park Upgrade	65
NSW Dept of Premier & Cabinet - Telegraph Point Pedestrian Safety Upgrades	121
Office of Sport - Stuart Park Sporting Precinct	1,605
RMS - Bago Road Rehabilitation	837
RMS - Dunbogan Bridge at Reid Street	600
Stronger Country Communities - Bold St Pedestrian Crossing	205
Transport NSW - 2018/19 & 2019/20 CPTIGS Bus Shelters	85
Other	107
User Fees and Charges	2,087
	<u>5,768</u>
b. Contract liabilities	
Funds to construct Council controlled assets (i)	717
Funds received prior to performance obligation being satisfied (upfront payments) - AASB 15 (ii)	75
Upfront Fees - Ferry Tickets, Private Works, Water Meter Installation, Glasshouse Tickets	350
	<u>1,142</u>

(i) Council has received funding to construct assets including roads, bridges and other infrastructure. The funds received are under an enforceable contract which required Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. The revenue is expected to be recognised in the next 12 months.

(ii) The contract liability relates to grants received prior to the revenue recognition criteria in AASB 15 being satisfied since the performance obligations are ongoing. In addition, Council has received a deposit for the sale of the Innes Garden Memorial Park. The performance obligations of this contract will not be satisfied until settlement on 1 July 2020.

Revenue recognised that was included in the contract liability balance at the beginning of the period

Funds to construct Council controlled assets	848
Funds received prior to performance obligation being satisfied (upfront payments) - AASB 15	172
Deposits received in advance of services being provided (e.g Glasshouse Deposits)	248
	<u>1,268</u>

Note 12 Contract assets and liabilities

(continued)

Significant changes in contract asset and liabilities

The contract liabilities have arisen on adoption of AASB 15 and AASB 1058. Previously income received in advance was recognised for reciprocal contracts. The increase in the contract liability is primarily due to grants in

Accounting policy for contract assets and liabilities

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

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

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

Note 13 Leases

(continued)

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

Council as lessee

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

Terms and conditions of leases***Buildings******Environmental Laboratory***

Council leases a laboratory for the purpose of undertaking environmental testing. The lease is for five (5) years, and has a renewal option of two further terms each of five (5) years.

The costs associated with the environmental laboratory lease are not considered material to the financial statements.

Land

Council leases a number of parcels of land from the Crown for various purposes. Most of these leases have no termination date and can be cancelled at any time at the discretion of the Minister. These leases are considered short term leases, so are exempt from AASB 16 recognition and measurement.

Other Crown Land

Council leases a parcel of land in Laurieton for the purpose of a Home and Community Care Centre for the frail aged and disabled. The lease is for 40 years and there is provision for Council to apply for an extension to the lease as long as the use of the property remains unchanged.

The costs associated with this lease are not considered material to the financial statements.

Extension Options

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

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

Leases at significantly below market value - Concessionary/peppercorn leases

Council has a number of leases at significantly below market for land and buildings which are used for:

- Water Pipelines and Storage
- Child Care Centre
- Radio Repeater Station
- Community Hall

The leases are generally between 2 and 20 years and require payments of a maximum amount of \$1,000 per year. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

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

Note 13 Leases

(continued)

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

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

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

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

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

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

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

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

Exceptions to lease accounting

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

Leases at significantly below market value/Concessionary leases

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

Council as a lessor**(e) Operating Leases**

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

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

Note 13 Leases

(continued)

	\$'000
Operating Leases	
Lease income (excluding variable lease payments not dependent on an index or rate)	1,049
Lease income relating to variable lease payments not dependent on an index or rate	114
Direct operating expenses from property that generated rental income	(86)
Total income relating to operating leases	1,077

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

	\$'000
<1 year	911
1-2 years	670
2-3 years	588
3-4 years	541
4-5 years	300
> 5 years	783
Total undiscounted lease receivable	3,793

(f) Finance Leases

Council has sub-leased some properties which are on Crown land to community organisations and has classified these as finance leases since the sub-lease is for the remaining life of the Council's lease to the Crown. Council does not believe that any of the leases in place are individually material from a statement of financial position or performance perspective.

Accounting policy

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

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

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

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

Note 14 Payables and borrowings

(continued)

	Actual 2020		Actual 2019	
	Current \$'000	Non- Current \$'000	Current \$'000	Non- Current \$'000
Payables				
Goods and services	10,710	-	8,876	-
Accrued wages and salaries	1,635	-	973	-
Accrued expenses - other	1,442	-	1,162	-
Accrued Interest	366	-	422	-
Government departments and agencies	1,182	-	869	-
Deposits and retentions	6,857	-	7,395	-
Prepaid rates	2,427	-	2,538	-
Other prepayments	565	-	463	-
Other payables	131	-	117	-
Total payables	25,315	-	22,815	-
Borrowings				
Loans - Secured	10,467	39,748	9,972	47,816
Total borrowings	10,467	39,748	9,972	47,816
(a) Payables and borrowings relating to restricted assets				
Water	598	-	527	-
Sewer	3,459	6,761	3,319	10,072
Waste Management	191	814	156	961
Total restricted liabilities	4,248	7,575	4,002	11,033
Liabilities related to unrestricted assets	31,534	32,173	28,785	36,783
Total	35,782	39,748	32,787	47,816
(b) Current payables not expected to be settled within the next 12 months - Deposits and Bonds	3,829	-	3,771	-

Note 14 Payables and borrowings

(continued)

(c) Changes in liabilities arising from financing activities

	2019			2020
Class of borrowings	Opening balance as at 1/7/19	Cash Flows	Non Cash Changes	Closing Balance as at 30/6/20
Loans - Secured	57,788	(7,573)	-	50,215
Total liabilities from financing activities	57,788	(7,573)	-	50,215

	2018			2019
Class of borrowings	Opening balance as at 1/7/18	Cash Flows	Non Cash Changes	Closing Balance as at 30/6/19
Loans - Secured	68,903	(11,115)	-	57,788
Total liabilities from financing activities	68,903	(11,115)	-	57,788

(d) Financing arrangements

	2020	2019
Total facilities		
The amount of total financing facilities available to council at the reporting date is:		
- Bank overdraft facility	500	500
- Purchase Cards	500	500
	1,000	1,000

Drawn facilities

The amount of financing facilities drawn down at the reporting date is:

- Bank overdraft facility	-	-
- Purchase Cards	33	45
	33	45

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

Undrawn facilities

The amount of undrawn financing facilities available to council at the reporting date is:

- Bank overdraft facility	500	500
- Purchase Cards	467	455
	967	955

Note 14 Payables and borrowings

(continued)

Breaches and defaults

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

Security over loans

Council loans are secured over future cash flows.

Lease liabilities are secured by the underlying leased assets.

Bank overdrafts

The bank overdraft of Port Macquarie Hastings Council is secured by a registered first mortgage over the income of the Council.

Accounting policy for payables and borrowings

Council measures all financial liabilities initially at fair value less transactions costs, subsequent 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.

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

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

Note 15 Provisions

	2020		2019	
	Current	Non-Current	Current	Non-Current
	\$'000	\$'000	\$'000	\$'000
Provisions				
Employee benefits provisions				
Annual leave	4,182	-	3,696	-
Sick leave	4,752	187	4,854	329
Long service leave	10,707	476	10,578	552
Maternity leave	78	-	5	-
Redundancies	240	-	-	-
Other provisions				
Asset remediation	-	3,508	-	3,320
Total Provisions	19,959	4,171	19,133	4,201
Current provisions not expected to be settled within the next 12 months	13,912	-	13,114	-

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

The movement in the asset remediation provision is presented in the table below.

	2020 '000	2019 '000
Asset Remediation		
At beginning of year	3,320	2,738
Changes in provision:		
Revised discount rate	139	510
Unwinding of discount	49	72
Closing Balance	3,508	3,320

Nature and purpose of non-employee benefit provisions

Council is required by law to restore the current stage of the tip site at Cairncross at the end of its useful life in 2021. The projected cost of this restoration in 2021 is \$500,000 based on a study conducted by independent consultants. For the periods 2021-2031, 2032-2036, 2037-2051 Council has allocated \$100,000 pa, \$90,000 pa and \$85,000 pa respectively for ongoing monitoring costs. The reduction in the amount required is due to a reduction in surface water monitoring requirements over time. These figures are based on Council maintaining its current management approach which involves each cell being capped as it is filled. The amounts required have been discounted to present value at an interest rate equivalent to the risk-free cost of borrowing to Council.

(a) Provisions relating to restricted assets

Waste Management	759	3,529	818	3,348
Water	1,777	56	1,509	92
Sewer	1,313	59	1,703	67
Total restricted provisions	3,849	3,644	4,030	3,507
Provisions related to unrestricted assets	16,110	527	15,103	694
Total provisions	19,959	4,171	19,133	4,201

Note 15 Provisions

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.

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.

Asset remediation - tips

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 developing or during the operation phase, based on the net present value of estimated future costs.

Provisions for close -own 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 costs estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Note 15 Provisions

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.

at the reporting date. These costs are charged to the income statement. Movements in the environmental clean up provisions are presented as an operating costs, 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. 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 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.

Note 16 Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors

(a) Nature and purpose of reserves

IPPE Revaluation reserve

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

(b) Changes in accounting policy due to adoption of new Accounting Standards.

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

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

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

AASB 15 and AASB 1058

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

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

Revenue recognition from contract modifications

In relation to contract modifications, AASB 15 requires customer approval, which is a more prudent criteria than the probability requirement in the previous standards and has resulted in deferral of revenue where unapproved works have been performed.

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

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

Principal v agent

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

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

Licences

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

Note 16 Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors

Pre-paid rates

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

Grants - operating

Under AASB 1004, most grant income was recognised as revenue on receipt. Under AASB 15, where an agreement is enforceable and contains sufficiently specific performance obligations, the revenue is either recognised over time as the work is performed, or recognised at the point in time that the control of the services passes to the customer.

Grants - capital

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

Changes in presentation

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

- * Movement of balances between receivables and contract assets.
- * Additional line items of contract assets and contract liabilities have been created.

Opening contract balances at 1 July 2019	
	Balance at 1 July 2019 \$'000
Contract liabilities	
- Under AASB 1058	833
Total contract liabilities	833

Note 16 Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors

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

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

Statement of financial position as at 30 June 2020

	Carrying amount per Statement of financial position under AASB 15 and AASB 1058 \$'000	Reclassification \$'000	Remeasurement \$'000	Carrying amount under previous revenue standards \$'000	Note
Current assets					
Receivables	23,288	5,768	-	29,056	
Contract assets	5,768	(5,768)	-	-	
Current liabilities					
Income received in advance	565	2,852	-	3,417	
Prepaid Rates	2,427	(2,427)	-	-	
Contract liabilities	1,142	(425)	(717)	-	(i)
Net assets	2,278,832	-	(717)	2,278,115	
Equity					
Accumulated Surplus	1,396,953	-	717	1,397,670	
Total Equity	1,396,953	-	717	1,397,670	

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

Note 16 Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors

Income statement as at 30 June 2020

	Income statement and comprehensive income under AASB 15 and AASB 1058 \$'000	Reclassification \$'000	Remeasurement \$'000	Income statement and comprehensive income under previous revenue standards \$'000	Note
Operating Activities					
Revenue	213,186	-	717	213,903	(i)
Expenses	(175,751)	-	-	(175,751)	
Discontinued operation	(73)	-	-	(73)	
Profit/(Loss) for the year	37,362	-	717	38,079	
Total comprehensive income	8,684	-	717	9,401	

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

Statement of cash flows for the year ended 30 June 2020

The adoption of AASB 15 and AASB 1058 has not materially changed the statement of cash flows for the year ended 30 June 2020.

AASB 16

Council as a lessee

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

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

Practical expedients used on transition

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

- Contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16.

Note 16 Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors

Financial statement impact of adoption of AASB 16

Council has not recognised right-of-use assets and lease liabilities at 1 July 2019 for leases previously classified as operating leases, or leases that are significantly below market value which were previously off balance sheet as these are considered immaterial to the financial statements.

Council as a lessor

For the arrangements where Council is a lessor, there are no significant accounting policy changes on adoption of AASB 16 except for sub-leases, which have not been classified in relation to the right-of-use asset under the head lease rather than the underlying asset.

(c) Changes in accounting estimates

There are no significant changes in accounting estimates in this year.

Note 17 Statement of Cash Flows Information

	Notes	Actual 2020 \$'000	Actual 2019 \$'000
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7a	15,901	15,331
Balances as per statement of cash flows		15,901	15,331
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income statement		37,362	71,224
Depreciation, amortisation and impairment		53,583	50,440
Non cash capital grants and contributions		(11,636)	(35,270)
<i>Movement in operating assets and liabilities</i>			
Increase/(decrease) in provision for doubtful debts		302	21
Increase/(decrease) in provision for leave entitlements		608	1,209
Increase/(decrease) in other provisions		188	582
(Increase)/decrease in receivables		6,926	(5,625)
(Increase)/decrease in inventories		15	34
(Increase)/decrease in other current assets		(10)	-
(Increase)/decrease in contract assets		(5,768)	-
Increase/(decrease) in payables		2,556	1,574
Increase/(decrease) in accrued interest payable		(56)	(80)
Increase/(decrease) in other liabilities and accruals		-	38
Increase/(decrease) in contract liabilities		1,142	-
Loss on disposal of assets		9,519	4,856
Works in progress expensed		1,620	2,121
Net cash provided from (or used in) operating activities from Statement of cash flows		96,351	91,124
(c) Non-cash financing and investing activities			
Bushfire grants		-	703
Developer contributions in kind		153	958
Dedications		12,661	33,158
Other - Developer contribution deferrals		(1,178)	451
		11,636	35,270

Note 18 Commitments

	Actual 2020 \$'000	Actual 2019 \$'000
Notes		
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the end of the reporting date but not recognised in the financial statements as liabilities:		
- Buildings	-	2,905
- Road Infrastructure	1,386	6,308
- Sewerage and water infrastructure	6,648	19,443
- Other	-	535
	8,034	29,191

Council's commitments are for the purchase/construction of roads, water, sewer, parks etc infrastructure. The building commitment at 30 June 2019 is for the Port Macquarie Airport Terminal Building.

Note 19 Contingencies

(continued)

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

LIABILITIES NOT RECOGNISED

1 Other Liabilities

(i) Third Party Claims

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

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

(ii) Section 7.11 Plans

Council levies Section 7.11 and S64 Contributions upon various development across the Council area through the required Contributions Plans.

As part of these Plans, Council has received funds for which it will be required to expend the monies in accordance with those plans.

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

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

(iii) Statewide Limited

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

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

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

CONTINGENT ASSETS

1 Infringement Notices/Fines

The income received as a result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt. Accordingly, at year end, there is a potential asset due to Council representing issued but not received infringement notices.

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

Note 20 Financial risk management

Risk management

Port Macquarie-Hastings 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.

Port Macquarie-Hastings 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 team under policies approved by the Councillors.

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

Council's objective is to maximise its return on cash and investments while maintaining an adequate level of liquidity and preserving capital. The finance team manage the cash and investments portfolio with the assistance of independent advisors. Council has an investment policy which complies with S625 of the *Local Government Act* and the Ministerial Investment Order. 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 the local government regulations.

The risks associated with the instruments held are:

- price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or factors affecting similar instruments traded in a market. Council's investment portfolio currently comprises term deposits. As a result, there is no exposure to price risk on its investments.
- interest rate risk - the risk that movements in interest rates could affect returns. Council's investment portfolio comprises term deposits which are invested at a fixed interest rate. The interest rate risk arises when these deposits mature and may be re-invested at a lower interest rate
- liquidity risk - the risk that Council will not be able to pay its debts as and when they fall due
- credit risk - the risk that 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 may seek advice from independent advisors before placing any cash and investments.

Note 20 Financial risk management (continued)

(continued)

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

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

	2020 \$'000	2019 \$'000
Impact of a .25% (1) movement in interest rates		
- Income Statement	40	153

Notes:

(1) Sensitivity percentages based on management's expectation of future possible market movements. Interest rate movements calculated on cash, cash equivalents, managed funds, and FRNs.)

Note 20 Financial risk management (continued)

(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 policies.

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 other than Council has significant credit risk exposures in its local area given the nature of the business.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable in the financial statements.

Council makes suitable provision for doubtful receivables as required.

There are no material receivables that have been subject 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 recover these debts as a secured charge over the land - 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 payment.

Rates and annual charges (excluding water billing)

	Not Yet Due	Overdue debts				Total
	\$'000	< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	>5 years \$'000	\$'000
2020	-	3,681	303	242	303	4,529
2019	-	3,202	260	227	281	3,970

Water Billing

	Not Yet Due	Overdue debts				Total
	\$'000	< 1 year \$'000	1-2 years \$'000	2-5 years \$'000	>5 years \$'000	\$'000
2020	2,087	3,630	79	32	17	5,845
2019	2,096	4,127	61	13	11	6,308

Note: The rates and annual charges shown above do not include the water access charge so will not balance to Note 8 outstanding rates and annual charges.

Note 20 Financial risk management (continued)

(continued)

(b) Credit risk (continued)

Receivables - non-rates and annual charges

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

The loss allowance provision as at 30 June 2020 is determined as follows. The expected credit losses incorporate forward-looking information

2020	Not Yet Due	Overdue debts				Total
		< 30 days	30-60 days	60-90 days	>90 days	\$'000
Gross Carrying amount (\$,000)	-	14,624	852	221	655	16,352
Expected loss rate (%)	0.0%	0.0%	0.0%	0.0%	54.5%	
ECL Provision	-	-	-	-	357	357

2019	Not Yet Due	Overdue debts				Total
		< 30 days	30-60 days	60-90 days	>90 days	\$'000
Gross Carrying amount (\$,000)	-	16,601	108	306	289	17,304
Expected loss rate (%)	0.0%	0.0%	0.0%	0.0%	20.1%	
ECL Provision	-	-	-	-	58	58

Note 20 Financial risk management (continued)

(continued)

(c) Liquidity risk

Payables, lease liabilities and borrowings are subject to liquidity risk - that is 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 be extended and overdraft facilities drawn upon in extenuating circumstances.

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

The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

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

\$'000	Weighted average interest rate	Due within 1 year \$'000	Due between 1 and 5 years \$'000	Due after 5 years \$'000	Total contractual cash flows \$'000	Carrying values \$'000
2020						
Payables		22,192	-	-	22,192	22,192
Borrowings	4.23%	12,483	40,535	3,384	56,402	50,215
		34,675	40,535	3,384	78,594	72,407
2019						
Payables		19,711	-	-	19,711	19,711
Borrowings	4.32%	12,370	48,584	5,141	66,095	57,788
		32,081	48,584	5,141	85,806	77,499

Note 21 Material Budget Variations

(continued)

Council's original budget was incorporated as part of the Operational Plan adopted by the Council on 19 June 2019 and is not required to be audited. The original projections on which the budget was based have been affected by a number of factors. These include state and federal government decisions including new grant programs, changing economic activity, the weather, and by decisions made by Council.

While these general purpose financial statements include the original budget adopted by Council, the *Local Government Act* requires Council to review its financial budget on a quarterly basis so it is able to manage the variation between actuals and budget that invariably occur during the year. Port Macquarie-Hastings Council completes a monthly review of budgets which is presented to Council.

Material variations of more than 10% between original budget and actual results are explained below.

Budget variations relating to Council's income statement include:
Revenues

1. Rental Income

The rental income is under budget by \$151K (U) 14.88%. This is primarily due to COVID-19 concessions granted by Council to affected lessees.

2. Grants and contributions provided for operational purposes

The actual amount of grants and contributions received for operational purposes was over the original budget by some \$3.4m (F) 23.97%. Council generally does not include grant funding in the original budget unless it has been confirmed. This results in large variations to budgets as grants are approved throughout the year. Variations in the amounts received in grants and contributions are detailed below.

Bushfire Services	\$1,796K (F)	Council received two Bushfire Recovery grants during the year totalling \$1.6m. These were in response to the bushfire crisis in December and January. In addition hazard reduction grant funding of \$129k was also received.
Feb 2020 Storms and Flood Emergency Response	\$1,341K (F)	Council received a grant during the year to help with the clean up from a storm and flood incident.
Recreation and Culture	\$56K (F)	The following grants were not included in the original budget as amounts were not confirmed at the time of budget preparation: - Cultural Plan - Dynamic Young Leaders Program
Environmental Grants	\$65K (F)	The following grants were recognised during the year: - North Brother Catchment Flood Study - Flying Fox Management
Library	\$52K (F)	The Library per capita subsidy was greater than expected.
Roads & Transport	\$94K (F)	Council recognised a grant during the year for the North Hastings River Level 3 Timber Bridge
Waste Management	\$101K (F)	Council recognised a grant during the year for a Multi Dwelling Organics Recovery project

Note 21 Material Budget Variations

(continued)

3. Grants and contributions provided for capital purposes

The actual amount of grants and contributions received for capital purposes was over the original budget by some \$11.5mK (F) 36.56%. Council generally does not include grant funding in the original budget unless it has been confirmed. This results in large variations to budgets as grants are approved throughout the year. Variations in the amounts received in grants and contributions are detailed below.

Roads and Bridges Grants	\$4,470K (F)	The following grants have been recognised during the year: - Humpty Creek Bridge - Shared path Ocean Dr (Brotherglen-Hwy) - Bago Road rehabilitation - Thompsons Creek Bridge - Dunbogan Bridge - Reid Street - Pedestrian Refuges on Ocean Drive
Small Town Sewerage Program	\$3,855K (F)	These funds were recognised during the year.
Developer Contributions	\$3,195K (U)	Council had budgeted for a slowing in development. The slowing of the market has been greater than anticipated.
Developer Provided Assets	\$6,314K (F)	Council receives assets from developers on the completion of their subdivisions. This was greater than budgeted in 2019/20.

4. Other Revenues

The actual amount of other revenues was over the original budget by some \$754K (F) 15.79%. The primary items impacting this result are outlined below.

Legal Settlements	\$236K (F)	Council received a favourable legal settlement during the year for a breach of the EP&A Act by a ratepayer.
Safety, Health and Wellbeing	\$130K (F)	Council received a Safety, Health and Wellbeing Incentive during the year.
Insurance Claims Recoveries	\$335K (F)	During the year Council had two buildings damaged by fire. As these buildings were insured a debtor for the amount of the loss incurred to 30 June 2020 was raised.

Expenses**5. Net loss from the disposal of assets**

Net loss from the disposal of assets is over the original budget by \$6,519K (U) 217.3%. This has been caused by the following:

Sale of property in William Street, Port Macquarie	\$2.8m (U)	See Notes 5 and 10 for details.
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In addition, Council has completed a significant works program this financial year and the net loss from disposal of assets reflects the value of assets disposed of as the new assets were constructed.

Note 21 Material Budget Variations

(continued)

Budget variations relating to Council's cash flow statement include:

Cash flows from Operating Activities

Variance of 4.74% (F) is under the 10% threshold.

Cash flows from Investing Activities

Variance of 56.12% (U) is attributable to fewer investments being redeemed than anticipated and purchase of infrastructure, property, plant and equipment being less than expected.

Cash flows from Financing Activities

Variance of 11.92% (U) is due to Council deferring the loan borrowing of \$1.5m for the Hastings Regional Sporting Complex until 2020/21 and the taking up an infrastructure loan of \$2.4m.

In addition to the above mentioned items, minor favourable and unfavourable variations occurred throughout the year in a number of revenue and expense items. All variations have been monitored and reported to Council on a regular basis.

Note 22 Discontinued Operation

(a) Description

Council has entered into a contract for sale of the Innes Garden Memorial Park. The settlement date for this sale is the 1 July 2020. This sale does not include any of the Council's general cemeteries.

Financial information relating to the discontinued operation for the period to the end of June 2020 is set out below:

(b) Income statement and cash flow information

The Income Statement and cash flow information presented are for the full financial years 2019/20 and 2018/19.

	2020 \$'000	2019 \$'000
Revenue	1,092	1,201
Expenses	1,165	988
Operating result from discontinued operations	(73)	213
Net cash inflow/(outflow) from ordinary activities	338	444
Net increase/(decrease) in cash generated by the discontinued operation	338	444

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities transferred as at 30 June 2020 and 30 June 2019 are:

Infrastructure, property, plant and equipment	1,250	2,432
Receivables	47	58
Total Assets	1,297	2,490
Payables	11	12
Provision for employee benefits	334	86
Total Liabilities	345	98
Net Assets	952	2,392

Note 23 Fair Value Measurement

The Council measures the following asset and liabilities at fair value on a recurring basis.

* Infrastructure, property, plant and equipment

* Financial assets

Fair value hierarchy

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: Unobservable inputs for the asset or liability

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

2020	Note	Level 2 (\$) Significant observable inputs	Level 3 (\$) Significant unobservable inputs	Total
		\$'000	\$'000	\$'000
Infrastructure, Property, Plant and Equipment				
Operational land	11	96,332	-	96,332
Community land	11	-	29,444	29,444
Crown land (Council Trustee)	11	-	22,536	22,536
Land under roads	11	-	67,707	67,707
Land improvements - non depreciable	11	-	4,808	4,808
Land improvements - depreciable	11	-	7,458	7,458
Buildings	11	693	132,032	132,725
Other structures	11	-	3,942	3,942
Roads	11	-	248,970	248,970
Bridges	11	-	164,009	164,009
Footpaths	11	-	133,217	133,217
Other Road Assets	11	-	45,744	45,744
Bulk earthworks	11	-	125,731	125,731
Stormwater drainage	11	-	175,213	175,213
Water supply network	11	-	369,754	369,754
Sewerage network	11	-	240,590	240,590
Swimming pools and recreational assets	11	-	33,256	33,256
Other assets	11	-	986	986
Total Infrastructure, Property, Plant & Equipment		97,025	1,805,397	1,902,422

2019	Note	Level 2 (\$) Significant observable inputs	Level 3 (\$) Significant unobservable inputs	Total
		\$'000	\$'000	\$'000
Infrastructure, Property, Plant and Equipment				
Operational land	11	95,507	-	95,507
Community land	11	-	29,237	29,237
Crown land (Council Trustee)	11	-	22,536	22,536
Land under roads	11	-	67,636	67,636
Land improvements - non depreciable	11	-	4,808	4,808
Land improvements - depreciable	11	-	7,654	7,654
Buildings	11	726	130,041	130,767
Other structures	11	-	4,835	4,835
Roads	11	-	255,218	255,218
Bridges	11	-	117,562	117,562
Footpaths	11	-	93,382	93,382
Other Road Assets	11	-	44,429	44,429
Bulk earthworks	11	-	267,391	267,391
Stormwater drainage	11	-	138,275	138,275
Water supply network	11	-	369,874	369,874
Sewerage network	11	-	242,268	242,268
Swimming pools and recreational assets	11	-	30,052	30,052
Other assets	11	-	1,005	1,005
Total Infrastructure, Property, Plant & Equipment		96,233	1,826,203	1,922,436

Note 23 Fair Value Measurement

Valuation Techniques used to derive Level 2 and Level 3 Fair Values

The following table summarises the quantitative information relation to the significant unobservable inputs use in deriving the various Level 3 asset class fair values.

Class	Valuation technique(s)	Unobservable inputs
IPPE		
Plant, equipment, furniture, fittings and office equipment	Cost approach	Current replacement cost of modern equivalent asset, asset condition, useful life and residual value
Property, plant and equipment leased	Cost approach	Current replacement cost of modern equivalent asset using componentisation, asset condition and remaining lives Rates per m2 used were between \$2,500 and \$4,000
Operational Land	Market approach	Price per square metre
Community Land	Land values obtained from the NSW Valuer-General	Land value, land area, level of restriction
Land under roads	Market -based direct comparison	Extent and impact of use, market cost of land per square metre, restrictions. The market value of land varies significantly depending on the location of the land and current market conditions.
Buildings (including swimming pools and other recreational buildings)	Cost approach	Current replacement cost of modern equivalent asset using componentisation, asset condition, remaining lives and residual value Rates per m2 used were between \$2,500 and \$4,000
Other Structures	Cost approach	Current replacement cost of modern equivalent asset, asset condition, remaining lives, residual value
Roads (including bridges, footpaths, bulk earthworks) and other similar assets.	Cost approach	Asset condition, remaining lives using componentisation Unit rates per m2 or length varied from \$9 to \$22,070
Stormwater drainage	Cost approach	Asset condition, remaining lives using componentisation Unit rates per m2 or length varied from \$6 to \$54,618
Water supply and sewerage network infrastructure	Cost approach	Asset condition, remaining lives using componentisation Unit rates per m2 or length varied from \$137 to \$10,162
Other infrastructure	Cost approach	Asset condition, remaining lives using componentisation
Tip assets	Cost approach	Environmental legislation, timing of expected cash outflows, asset condition

Note 23 Fair Value Measurement

Class	Valuation technique(s)	Unobservable inputs
IPPE		
Library books	Cost approach	Current replacement cost of modern equivalent asset, asset condition, remaining lives, residual value
Other - art works	Market/Cost approach	Market approach if information readily available. The level of appreciation of the asset, current replacement/replication cost of equivalent asset, asset condition
Heritage collections	Cost approach	Current replacement cost of modern equivalent asset using componentisation, asset condition and remaining lives Rates per m2 used were between \$2,500 and \$4,000

Reconciliation of movements

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

	2020 (\$'000)	2019 (\$'000)
Balance at 1 July	1,826,203	1,754,984
Total gains or losses for the period		
Recognised in profit or loss - Realised - refer Note 6	(6,687)	(4,742)
Recognised in other comprehensive income - Revaluation	(28,678)	47,765
Other movements		
Purchases	21,352	36,422
Sales	(5)	(21)
Depreciation	(47,688)	(45,535)
Transfers into of level 3	40,900	37,330
Balance at 30 June	<u>1,805,397</u>	<u>1,826,203</u>

Note 24 Related Party Disclosures

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:

Compensation	2020 (\$'000)	2019 (\$'000)
Short-term benefits	1,451	1,370
Post-employment benefits	154	139
Other long-term benefits	125	185
Termination benefits	-	160
Total	1,730	1,854

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.

Item No	Nature of the transaction	Amount of the transactions during the year ('000)	Outstanding balances, including commitments at year end ('000)	Terms and conditions	Provisions for impairment of receivables related to the amount of outstanding balances ('000)	The expense recognised during the period relating to bad or doubtful debts due from related parties ('000)
2020						
1	Employee Expenses relating to close family members of KMP	\$73	Payroll accrual for 3 days	Council Staff Award	-	-
2	Fees and Charges	\$3	-	In accordance with Council's fees and charges	-	-
3	Purchase of Goods	\$18	-	30 Day Payment of invoices	-	-
4	Fees and Charges	\$11	-	In accordance with Council's fees and charges	-	-
5	Fees and Charges	\$2	-	Commercial Rental	-	-
Total		\$107				

Note 24 Related Party Disclosures

2019						
1	Employee Expenses relating to close family members of KMP	\$72	Payroll accrual for 1 day	Council Staff Award	-	-
2	Fees and Charges	\$80	-	In accordance with Council's fees and charges	-	-
3	Purchase of Goods	\$19	-	30 Day Payment of invoices	-	-
4	Fees and Charges	\$1	-	In accordance with Council's fees and charges	-	-
5	Fees and Charges	\$9	\$1 due to Council at 30 June 2019	Commercial Rental	-	-
6	Employee Expenses	\$3	-	In accordance with Council's policies and procedures	-	-
7	Fees and Charges	\$10	-	In accordance with Council's fees and charges	-	-
8	Fees and Charges	\$6	-	In accordance with Council's fees and charges	-	-
9	Fees and Charges	\$1	-	In accordance with Council's policies and procedures	-	-
Total		\$201				

- 1 A close family member of a Council KMP is employed by the council under the relevant pay award on an arm's length basis.

The following transactions have occurred in the ordinary course of business:

- 2 Development Fees were received in relation to planning applications from one of Council's KMPs. The applications relate to a property in Mahala Close, Bonny Hills.
- 3 & 4 Council had numerous transactions with the Hastings Co-operative during the year including the rental paid to council for an outdoor eating approval. In addition, Council purchased goods such as Gas, Kero, Cement, Herbicide, Sleepers, Sprayer etc from the Co-op. One of Council's KMP's is a director of this company.
- 5 One of council's KMP's has a Ground Lease at the Port Macquarie Airport at a commercial rental.
- 6 A KMP of Council was paid an amount to cover half of their removal costs on moving to Port Macquarie to undertake a Council position.
- 7 A KMP of council is partner in a company that use Council for the provision of property information.
- 8 A Council KMP is a shareholder/owner in Stabilcorp Pty Limited. During 2018/19 Stabilcorp Pty Limited was billed for waste landfill fees.
- 9 A KMP of Council paid Council to undertake some private water testing

Note 25 Events occurring after reporting date

Events that occur after the reporting date of 30 June 2020, and up to and including the date when the financial report is "authorised for issue" have been taken into account in preparing this financial report. Council has determined the date of the Auditors' Report as the appropriate "authorised for issue" date relating to this General Purpose Financial Report.

Innes Garden Memorial Park

Council entered into a sale contract for the Innes Garden Memorial Park (crematorium and lawn cemetery) which was finalised on the 1 July 2020. The sale price is commercial in confidence. This operation has been included in note 22 as a discontinued operation.

Covid-19

Council has disclosed the impact that the Covid-19 (coronavirus) pandemic has had on operations and financial reporting for the year ended 30 June 2020 in Note 1. As the pandemic is still developing and on-going, it is not practical to estimate the potential impact, positive or negative, after 30 June 2020.

Note 26 Statement of developer contributions

(a) Summary of developer contributions

	Opening Balance \$'000	Contributions received during year ⁽¹⁾			Interest & investment income earned during year \$'000	Expended during year \$'000	Balance before internal borrowings \$'000	Internal borrowings during the year ⁽⁴⁾ \$'000	Held as restricted asset ⁽²⁾ \$'000	Projected future contributions ⁽³⁾ \$'000	Projected cost of works still outstanding ⁽³⁾ \$'000	Projected over/under funding ⁽³⁾ \$'000	Cumulative balance of internal borrowings (to)/from ⁽⁵⁾ \$'000
		Cash \$'000	Non Cash Deferrals	In Kind \$'000									
Roads	15,300	3,405	-	92	158	2,396	16,559	-	16,559	23,119	53,103	(13,316)	5,919
Parking	4,617	2	-	-	47	2,554	2,112	-	2,112	8,857	10,207	762	(5,919)
Open Space	11,756	2,296	-	-	127	1,140	13,039	-	13,039	49,751	66,537	(3,747)	-
Community Facilities	9,122	2,519	-	-	102	1,144	10,599	-	10,599	19,572	35,746	(5,575)	-
Other	1,895	10	-	-	20	-	1,925	-	1,925	-	1,688	207	-
Administration Levy	-	343	-	-	-	343	-	-	-	900	900	-	-
S7.11 under plans	42,690	8,575	(808)	92	454	7,577	44,234	-	44,234	102,199	168,181	(21,669)	-
S7.11 not under plans	458	30	-	-	5	400	93	-	93	-	-	-	-
S7.12 levies	787	298	-	-	9	348	746	-	746	-	-	-	-
S7.4 Planning agreements	3,156	(53)	-	-	32	301	2,834	-	2,834	-	-	-	-
Section 64	57,285	6,579	(370)	61	602	1,013	63,514	-	63,514	-	-	-	-
Totals	104,376	15,429	(1,178)	153	1,102	9,639	111,421	-	111,421	102,199	168,181	(21,669)	-

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.

Notes:

(1) Reconcilable with Note 3

(2) Reconcilable with Note 7(c) (Restricted assets excludes 'amounts expended in advance')

(3) Projections are not applicable to S7.12 levies, Planning agreements and Section 64. Projections are based on undiscounted numbers.

(4) Borrowings within and between plans during current period only.

(5) Cumulative balance of borrowing within and between plans.

Note 26 Statement of developer contributions (continued)

(b) Contributions under plans

	Opening Balance \$'000	Contributions received during year (1)			Interest & investment income earned during year \$'000	Expended during year \$'000	Balance before internal borrowings \$'000	Internal borrowings during the year (4) \$'000	Held as restricted asset (2) \$'000	Projected future contributions (3) \$'000	Projected cost of works still outstanding (3) \$'000	Projected over/under funding (3) \$'000	Cumulative balance of internal borrowings (to)/from (5) \$'000
		Cash \$'000	Non Cash Deferrals	In Kind \$'000									
Roads	15,300	3,404		92	158	2,286	16,668	-	16,668	23,119	53,103	(13,316)	5,919
Parking	4,617	2	-	-	47	2,554	2,112	-	2,112	8,857	10,207	762	(5,919)
Open Space	11,756	2,296	-	-	127	1,140	13,039	-	13,039	49,751	66,537	(3,747)	-
Community Facilities	9,122	2,519	-	-	102	1,144	10,599	-	10,599	19,572	35,746	(5,575)	-
Other	1,895	-	-	-	-	-	1,895	-	1,895	-	1,688	207	-
Administration Levy	-	343	-	-	-	343	-	-	-	900	900	-	-
S7.12 levies	787	-	-	-	-	-	787	-	787	-	-	-	-
Totals	43,477	8,564	(808)	92	434	7,467	45,100	-	45,100	102,199	168,181	(21,669)	-

(c) Contributions not under plans

	Opening Balance \$'000	Contributions received during year (1)			Interest & investment income earned during year \$'000	Expended during year \$'000	Balance before internal borrowings \$'000	Internal borrowings during the year (4) \$'000	Held as restricted asset (2) \$'000	Projected future contributions (3) \$'000	Projected cost of works still outstanding (3) \$'000	Projected over/under funding (3) \$'000	Cumulative balance of internal borrowings (to)/from (5) \$'000
		Cash \$'000	Non Cash	In Kind \$'000									
Roads	47	30	-	-	1	-	78	-	78	-	-	-	-
Open Space	411	-	-	-	4	400	15	-	15	-	-	-	-
Totals	458	30	-	-	5	400	93	-	93	-	-	-	-

Note 27 Results by Fund

(continued)

General fund refers to all Council activities other than water and sewer. All amounts disclosed in this note are gross i.e. inclusive of internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

Income Statement by Fund	2020 \$'000 General	2020 \$'000 Water	2020 \$'000 Sewer
Income from continuing operations			
Revenue:			
Rates and annual charges	66,489	8,317	27,979
User charges and fees	15,155	19,196	828
Other revenues	5,203	237	89
Grants and contributions provided for operating purposes	17,527	-	-
Grants and contributions provided for capital purposes	29,569	5,711	7,562
Other income:	-	-	-
Interest and investment revenue ⁽³⁾	3,872	2,894	1,392
Rental Income	1,126	14	26
Total income from continuing operations	138,941	36,369	37,876
Expenses from continuing operations			
Employee benefits and on-costs	42,760	4,171	4,657
Borrowing costs	1,993	-	466
Materials and contracts	24,273	10,650	8,357
Depreciation and amortisation	32,280	9,958	9,494
Impairment	1,683	-	76
Other expenses	10,022	2,626	2,766
Net Loss from the disposal of assets	7,419	1,842	258
Total expenses from continuing operations	120,430	29,247	26,074
Operating result from continuing operations	18,511	7,122	11,802
Operating result from discontinued operations	(73)	-	-
Net operating result for the year	18,438	7,122	11,802
Net operating result for the year before grants and contributions provided for capital purposes	(11,131)	1,411	4,240

Statement of financial position by Fund	2020 \$'000 General	2020 \$'000 Water	2020 \$'000 Sewer
ASSETS			
Current assets			
Cash and cash equivalents	11,791	2,913	1,197
Investments	45,130	38,567	15,843
Receivables	14,338	6,756	2,194
Inventories	193	173	4
Contract assets	5,768	-	-
Other	14	-	-
Non-current assets classified as held for sale	1,250	-	-
Total current assets	78,484	48,409	19,238
Non-current assets			
Investments	97,381	70,967	29,152
Receivables	1,955	375	297
Inventories	598	-	-
Infrastructure, property, plant & equipment	1,335,295	407,141	290,342
Total non-current assets	1,435,229	478,483	319,791
Total assets	1,513,713	526,892	339,029
LIABILITIES			
Current liabilities			
Payables	24,569	598	148
Contract liabilities	1,067	74	1
Borrowings	7,156	-	3,311
Provisions	16,869	1,777	1,313
Total current liabilities	49,661	2,449	4,773
Non-current liabilities			
Borrowings	32,987	-	6,761
Provisions	4,056	56	59
Total non-current liabilities	37,043	56	6,820
Total liabilities	86,704	2,505	11,593
Net assets	1,427,009	524,387	327,436
EQUITY			
Accumulated Surplus	887,500	282,189	227,264
Revaluation reserves	539,509	242,198	100,172
Total equity	1,427,009	524,387	327,436

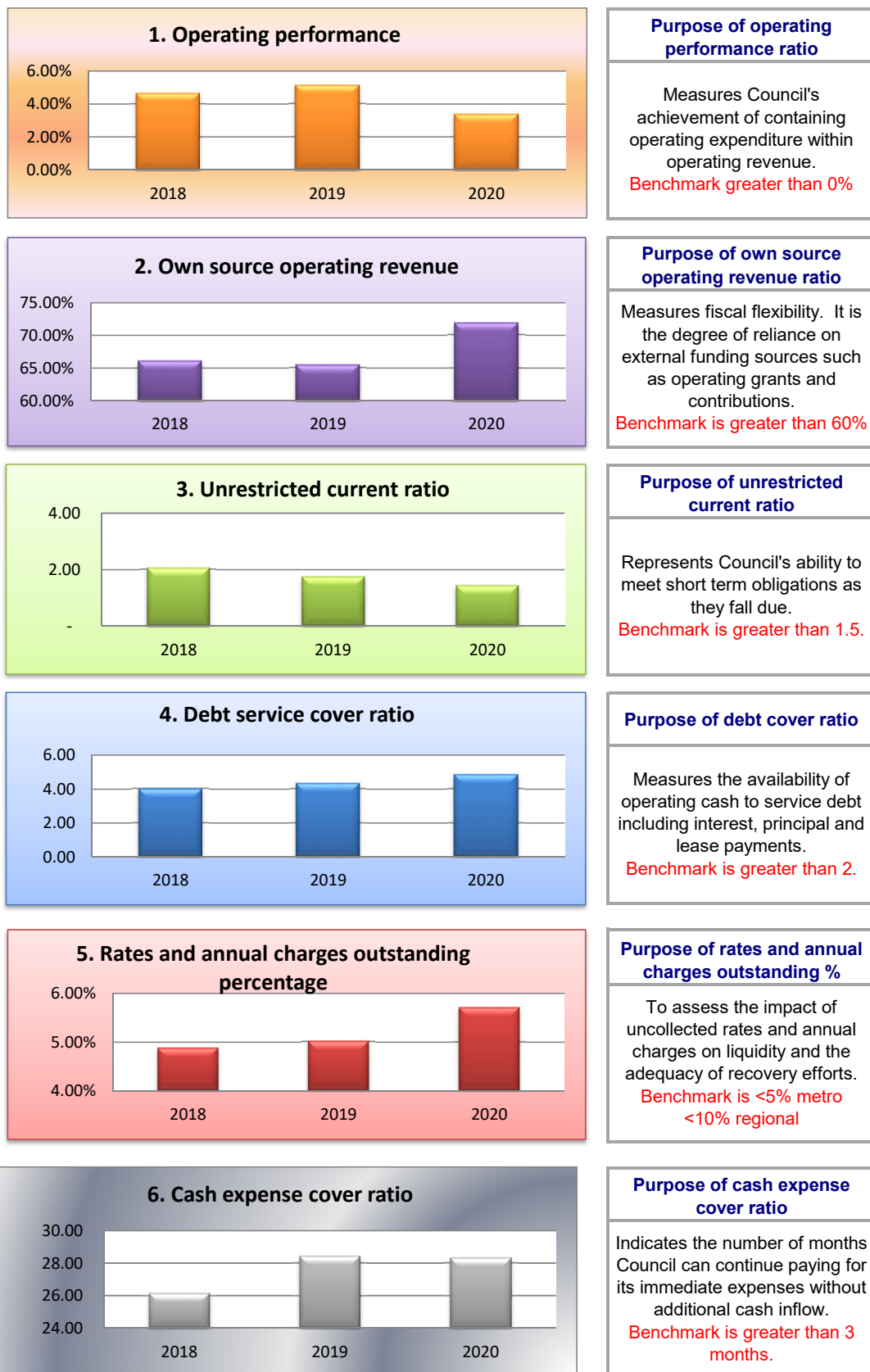
Note 28(a) Statement of performance measures - Consolidated Results

	Amounts 2020 \$'000	2020 Indicators	2019 Indicators	2018 Indicators	Benchmark
1. Operating performance					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions - operating expenses (2)	5,797	3.38%	5.12%	4.66%	>0
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	171,422				
2. Own source operating revenue					
Total continuing operating revenues ⁽¹⁾ less all grants and contributions	153,894	71.82%	65.42%	66.14%	>60%
Total continuing operating revenues ⁽¹⁾ inclusive of capital grants and contributions	214,264				
3. Unrestricted current ratio					
Current assets less all external restrictions	49,065	1.43 x	1.74x	2.05x	>1.5x
Current liabilities less specific purpose liabilities	34,327				
4. Debt service cover ratio					
Operating results ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation (EBITDA)	60,081	4.83 x	4.32x	3.98x	>2x
Principal repayments (from the statement of cash flows) + borrowing costs (from the income statement)	12,431				
5. Rates and annual charges outstanding percentage					
Rates and annual charges outstanding	6,179	5.71%	5.01%	4.88%	<10% regional
Rates and annual charges collectible	108,282				
5a. Rates and annual charges outstanding percentage (excluding pensioner accruals)					
Rates and annual charges outstanding	6,070	5.61%	4.90%	4.77%	
Rates and annual charges collectible	108,282				
6. Cash expense cover ratio					
Current year's cash, cash equivalents + term deposits	312,941	28.31	28.42	26.14	>3 Months
Payments from cash flow of operating and financing activities	132,630	months	months	months	

Notes:

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

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

Note 28(a) Statement of performance measures -
Consolidated results - Graphs

Note 28(b) Statement of performance measures by fund

	General Indicators		Water Indicators		Sewer Indicators		Benchmark
	2020	2019	2020	2019	2020	2019	
1. Operating performance							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions - operating expenses ⁽²⁾	-1.84%	-4.46%	10.61%	30.11%	15.09%	12.41%	>0
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
2. Own source operating revenue							
Total continuing operating revenues ⁽¹⁾ less all grants and contributions	66.36%	59.47%	84.30%	78.34%	80.04%	75.55%	>60%
Total continuing operating revenues ⁽¹⁾ inclusive of capital grants and contributions							
3. Unrestricted current ratio							
Current assets less all external restrictions	1.43	1.74	49.48	61.80	84.93	4.71	>1.5x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating results ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation (EBTDA)	3.69	3.11	-	13.94	3.96	3.71	>2x
Principal repayments (from the statement of cash flows) + borrowing costs (from the income statement)							

Note 28(b) Statement of performance measures by fund

	General Indicators		Water Indicators		Sewer Indicators		Benchmark
	2020	2019	2020	2019	2020	2019	
5. Rates and annual charges outstanding percentage							
Rates and annual charges outstanding	4.82%	4.38%	17.57%	13.41%	3.90%	3.61%	<5% metro <10% regional
Rates and annual charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents + term deposits	19.35	19.06	78.86	83.31	27.96	32.83	>3 months
Payments from cash flow of operating and financing activities	x 12	x 12	x 12	x 12	x 12	x 12	

Notes:

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

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

Port Macquarie-Hastings Council

General Purpose Audit Reports

for the year ended 30 June 2020



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Port Macquarie-Hastings Council

To the Councillors of Port Macquarie-Hastings Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

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



Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

29 October 2020
SYDNEY



Cr Peta Pinson
Mayor
Port Macquarie-Hastings Council
PO Box 84
PORT MACQUARIE NSW 2444

Contact: Gearoid Fitzgerald
Phone no: 9275 7392
Our ref: D2025248/1778

29 October 2020

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2020
Port Macquarie-Hastings Council**

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

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

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

INCOME STATEMENT

Operating result

	2020	2019	Variance
	\$m	\$m	%
Rates and annual charges revenue	102.8	99.1	3.7
Grants and contributions revenue	60.4	81.5	25.9
Operating result for the year	37.4	71.2	47.5
Net operating result before capital grants and contributions	(5.5)	3.7	248.6

The Council's operating surplus (\$37.4 million including depreciation and amortisation expense of \$51.7 million) was \$33.8 million lower than the 2018–19 result.

Rates and annual charges revenue (\$102.8 million) increased by \$3.7 million (3.7 per cent).

User charges and fees revenue (\$35.2 million) decreased by \$3.3 million (8.5 per cent).

Grants and contributions revenue (\$60.4 million) decreased by \$21.1 million (25.9 per cent) and is largely due to:

- \$5.7 million increase in total grants including:
 - \$5.8 million decrease in airport capital grants (prior year funding related to the upgrade of the Port Macquarie Airport Terminal)
 - \$2.5 million increase in bushfire / disaster recovery operating grants
 - \$3.1 million increase in recreation and culture capital grants (includes funding for the Stuart Park Regional Sporting Facility)
 - \$2.8 million increase in roads and bridges capital grants (various projects)
 - \$2.6 million increase in sewerage services capital grants (includes funding for the Small Towns Sewerage Program)
- \$6.7 million decrease in cash and non-cash developer contributions and a \$20.5 million decrease in subdivision dedications.

Materials and contracts expense (\$43.3 million) increased by \$3.3 million (8.2 per cent).

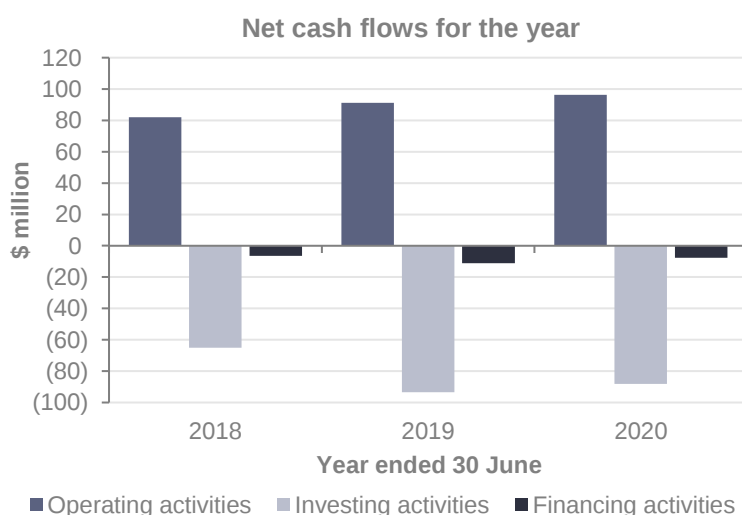
Impairment expense (\$1.8 million) increased by \$1.8 million (6,415 per cent) due to:

- \$0.7 million of infrastructure, property, plant & equipment destroyed by the significant bushfire event of October / November 2019
- \$1.1 million in asset write-downs relating to the sale of the Innes Gardens Memorial Parks Crematorium

Net loss on disposal of assets (\$9.5 million) increased by \$4.7 million (96.0 per cent).

STATEMENT OF CASH FLOWS

- Net cash provided by operating activities increased by \$5.2 million. This is largely due an increase in rates and annual charges, grants and contributions and other revenue received off-set by an increase in materials and contracts.
- Net cash used in investing activities decreased by \$5.3 million. This is due to increased capital expenditure of \$19.3 million and the redemption of investments of \$25.0 million.
- Net cash used in financing activities decreased by \$3.5 million. This is due to a decrease in loan repayments of \$1.1 million, together with new borrowings during the year of \$2.4 million.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	237.6	229.8	• Externally restricted, internally restricted and unrestricted cash and investments have remained relatively stable with the prior year.
Internal restrictions	67.4	64.3	
Unrestricted	8.0	6.2	
Cash and investments	313.0	300.3	• Unrestricted balances provide liquidity for day-to-day operations.

Debt

Council has total overdraft financing facilities available of \$1.0 million which consist of a bank overdraft and purchase card facility, each with an approved drawdown limit of \$0.5 million.

At 30 June 2020, the bank overdraft facility was undrawn and the purchase card facility was drawn by \$0.033 million.

Council has total borrowings of \$50.2 million (\$57.8 million at 30 June 2019). Council continues to repay borrowings in accordance with existing loan agreements and borrowed an additional \$2.4 million during the 2020 financial year.

PERFORMANCE

Performance measures

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

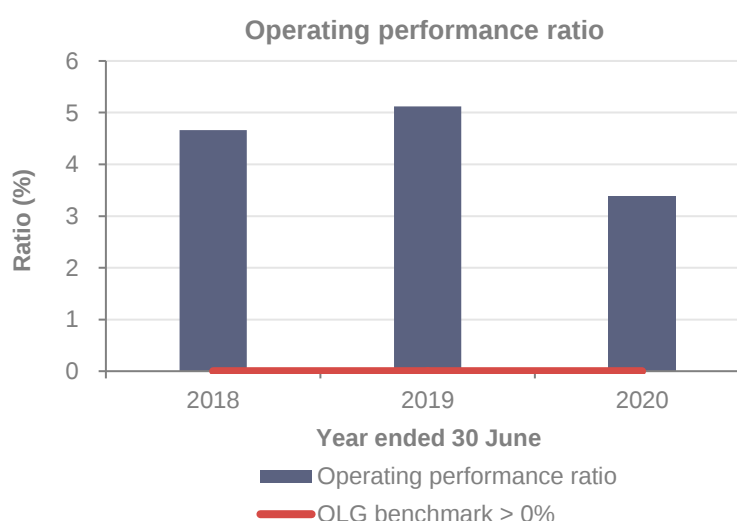
Operating performance ratio

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

The Council exceeded the OLG benchmark for the current reporting period.

A deterioration in the Council's 2019-20 operating result (before all capital items) led to a reduced ratio.

Despite improvement, the general funds ratio continues to be below the benchmark (2020: (1.84)%; 2019: (4.46)%).

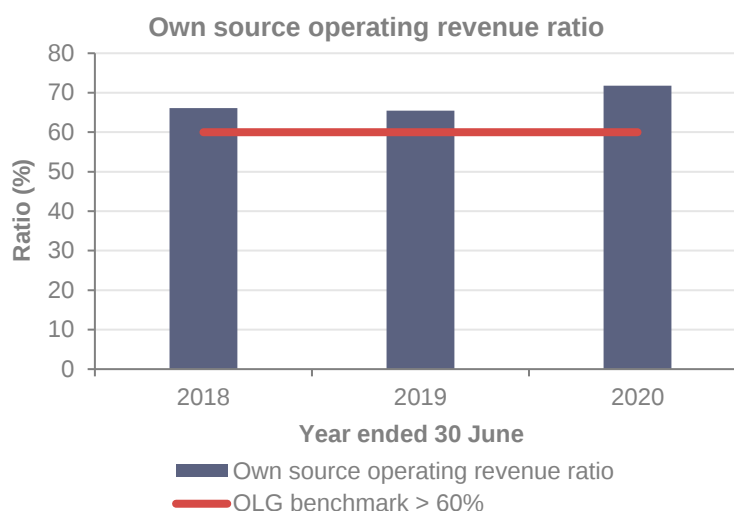


Own source operating revenue ratio

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

The Council exceeded the OLG benchmark for the current reporting period.

The ratio was negatively impacted in 2017-18 and 2018-19 due to higher levels of capital grants and contributions.

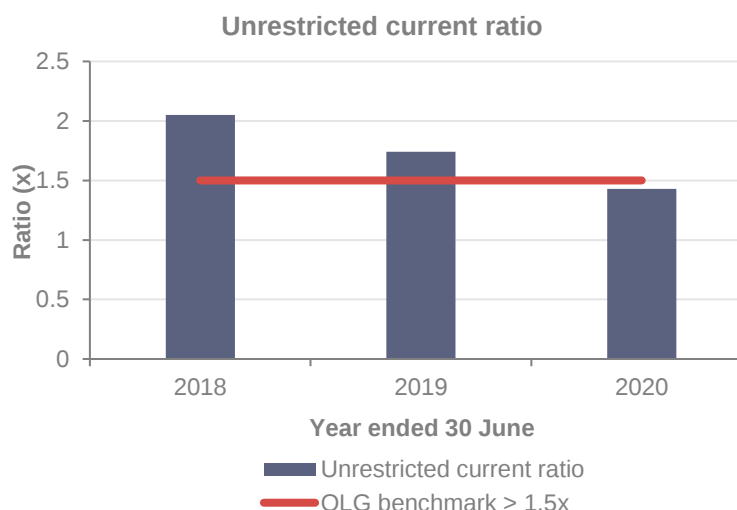


Unrestricted current ratio

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

The Council was slightly below the OLG benchmark for the current reporting period. The decline in Council's ratio is due to a reduction in current assets less all external restrictions of \$2.6 million, together with an increase in current liabilities less specific purpose liabilities of \$4.6 million.

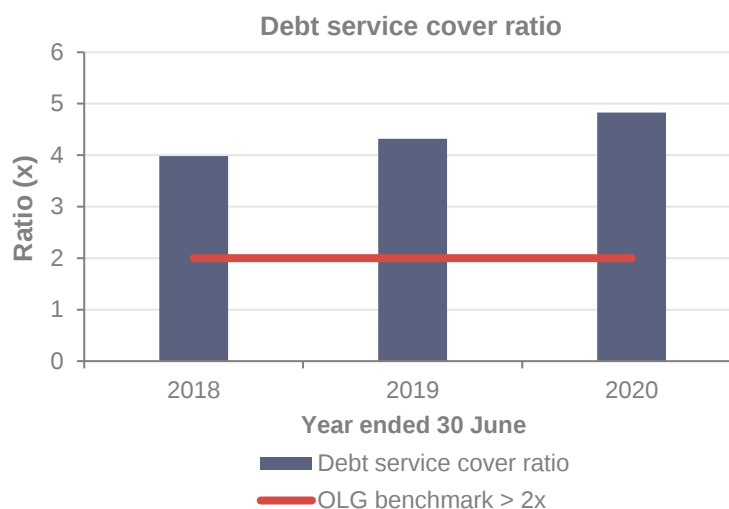
A key driver of the decrease in the ratio is management's decision to invest in term deposits with longer dated maturities to mitigate reinvestment risk associated with COVID-19. This has decreased current investments, and increased non-current investments, by \$25.5 million as at 30 June 2020.



Debt service cover ratio

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

The Council exceeded the OLG benchmark for the current reporting period. The increase in Council's ratio is due to a reduction in loan repayments (principal + borrowing costs).

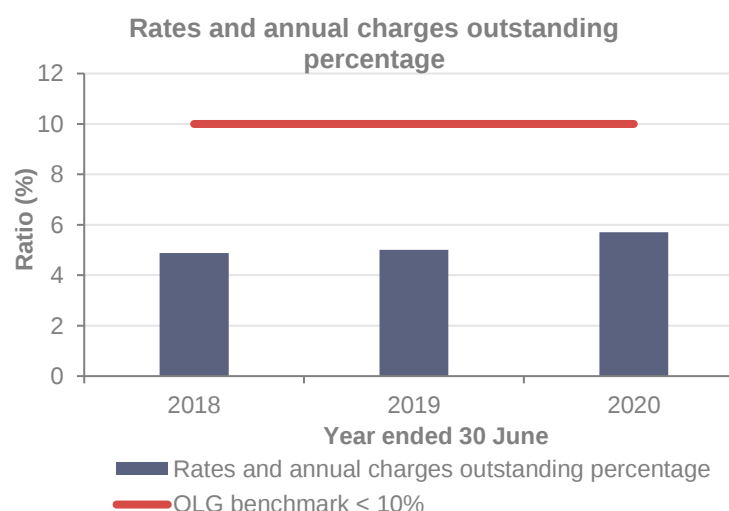


Rates and annual charges outstanding percentage

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

The Council exceeded the OLG benchmark for the current reporting period.

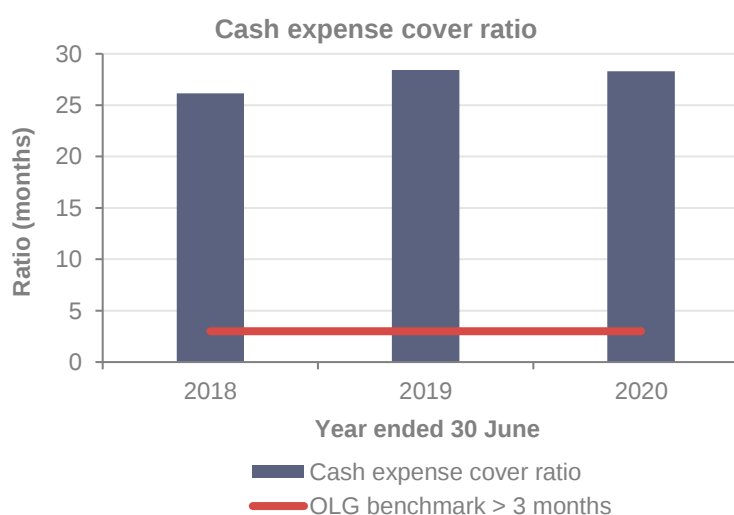
The ratio increased during 2019-20 as a result of COVID-19 and Council's support package measures implemented in response.



Cash expense cover ratio

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

The Council exceeded the OLG benchmark for the current reporting period and the Council's ratio has remained relatively stable on prior years.



Infrastructure, property, plant and equipment renewals

The Council's asset renewal expenditure in the 2019-20 year was \$39.7 million (2018-19 - \$20.9 million). In 2019-20 major renewal projects included Stuart Park Regional Sporting Precinct, Dunbogan Bridge Rehabilitation and Comboyne Road Stabilisation.

OTHER MATTERS

Impact of new accounting standards

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

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

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

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

The Council recognised a \$0.8 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

The Council disclosed the impact of adopting the new Revenue Standards in Note 16.

AASB 16 'Leases'

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

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

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

The Council did not recognise any right-of-use assets or lease liabilities at 1 July 2019 on adoption of AASB 16.

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

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.



Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

cc: Jeffery Sharp, Acting General Manager
Grahame Marchant, Chair of Audit, Risk and Improvement Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment

Port Macquarie - Hastings Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2020

Our Vision

A sustainable high quality life for all

Our Mission

Building the future together - people, place, health, education and technology



**PORT MACQUARIE
HASTINGS**

Port Macquarie - Hastings Council

Special purpose financial statements for the year ended 30 June 2020

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Port Macquarie - Hastings Council

Special Purpose Financial Statements

for the year ended 30 June 2020

Statement by Councillors and Management

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

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

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

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

- present fairly the operating result and financial position for each of Council's declared business activities for the year,
- accord with Council's accounting and other records; and
- present overhead reallocation charges to the 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 on 29 October 2020 in accordance with a resolution of Council made on 12 August 2020.



Peta Pinson
Mayor
29/10/2020



Geoff Hawkins
Councillor
29/10/2020



Jeffery Sharp
Acting General Manager
29/10/2020



Nicole Spencer
Responsible Accounting Officer
29/10/2020

Port Macquarie - Hastings Council

Income Statement of Water Supply business activity for the year ended 30 June 2020

	Actual 2020 \$'000	Actual 2019 \$'000
Income from continuing operations		
Access charges	8,036	8,127
User charges	18,650	19,724
Fees	883	1,323
Interest	2,894	2,872
Grants and contributions provided for non capital purposes	366	366
Other income	251	204
Total income from continuing operations	31,080	32,616
Expenses from continuing operations		
Employee benefits and on-costs	4,171	4,370
Borrowing costs	-	25
Materials and contracts	11,072	6,570
Depreciation, amortisation and impairment	9,958	9,905
Loss on sale of assets	1,843	1,172
Calculated taxation equivalents	158	159
Debt guarantee fee	-	21
Other expenses	1,598	1,003
Total expenses from continuing operations	28,800	23,225
Surplus (deficit) from continuing operations before capital amounts	2,280	9,391
Grants and contributions provided for capital purposes	5,712	8,937
Surplus (deficit) from continuing operations after capital amounts	7,992	18,328
Less Corporate Taxation Equivalent (27.5%) [based on result before capital]	627	2,817
Surplus (deficit) after tax	7,365	15,511
Opening accumulated surplus	274,039	256,558
Adjustments for amounts unpaid		
Taxation equivalent payments	158	159
Debt guarantee fees	-	21
Corporate taxation equivalent	627	2,817
Less: TER Dividend Paid	(104)	(103)
Less: Surplus Dividend Paid	(940)	(924)
Closing accumulated surplus	281,145	274,039
Return on Capital %	0.56%	2.31%
Subsidy from Council	1,466	-
Calculation of Dividend Payable		
Surplus (deficit) after tax	7,365	15,511
Less: Capital grants and contributions (excluding developer contributions)	1,249	2,572
Surplus for dividend calculation purposes	6,116	12,939
Dividend calculated from surplus	3,058	6,469

Port Macquarie - Hastings Council

Income Statement of Sewerage business activity for the year ended 30 June 2020

	Actual 2020 \$'000	Actual 2019 \$'000
Income from continuing operations		
Access charges	27,806	26,589
User charges	1,548	1,508
Fees	63	75
Interest	1,391	1,721
Grants and contributions provided for non capital purposes	350	348
Other income	115	119
Total income from continuing operations	31,273	30,360
Expenses from continuing operations		
Employee benefits and on-costs	4,656	4,921
Borrowing costs	466	590
Materials and contracts	9,317	9,253
Depreciation, amortisation and impairment	9,570	9,380
Loss on sale of assets	258	878
Calculated taxation equivalents	176	172
Debt guarantee fee	234	444
Other expenses	1,800	1,631
Total expenses from continuing operations	26,477	27,269
Surplus (deficit) from continuing operations before capital amounts	4,796	3,091
Grants and contributions provided for capital purposes	7,562	9,480
Surplus (deficit) from continuing operations after capital amounts	12,358	12,571
Less Corporate Taxation Equivalent (27.5%) [based on result before capital]	1,319	927
Surplus (deficit) after tax	11,039	11,644
Opening accumulated surplus	214,496	202,274
Adjustments for amounts unpaid		
Taxation equivalent payments	176	172
Debt guarantee fees	234	444
Corporate taxation equivalent	1,319	927
Less: TER Dividend Paid	(97)	(96)
Less: Surplus Dividend Paid	(873)	(869)
Closing accumulated surplus	226,294	214,496
Return on Capital %	1.81%	1.33%
Subsidy from Council	0	27
Calculation of Dividend Payable		
Surplus (deficit) after tax	11,039	11,644
Less: Capital grants and contributions (excluding developer contributions)	5,689	5,944
Surplus for dividend calculation purposes	5,350	5,700
Dividend calculated from surplus	2,675	2,850

Port Macquarie - Hastings Council

Income Statement of Waste Management business activity for the year ended 30 June 2020

	Actual 2020 \$'000	Actual 2019 \$'000
Income from continuing operations		
Access charges	14,378	13,716
User charges	7,636	8,046
Interest	516	523
Grants and contributions provided for non capital purposes	384	323
Other income	1,182	1,097
Total income from continuing operations	24,096	23,705
Expenses from continuing operations		
Employee benefits and on-costs	2,352	2,424
Borrowing costs	225	623
Materials and contracts	11,423	11,435
Depreciation, amortisation and impairment	899	1,076
Loss on sale of assets	-	3
Calculated taxation equivalents	19	19
Debt guarantee fee (if applicable)	20	35
Other expenses	6,195	6,056
Total expenses from continuing operations	21,133	21,671
Surplus (deficit) from continuing operations before capital amounts	2,963	2,034
Grants and contributions provided for capital purposes	-	-
Surplus (deficit) from continuing operations after capital amounts	2,963	2,034
Less Corporate Taxation Equivalent (27.5%) [based on result before capital]	815	610
Surplus (deficit) after tax	2,148	1,424
Opening accumulated surplus	23,868	22,530
Adjustments for amounts unpaid		
Taxation equivalent payments	19	19
Debt guarantee fees	20	35
Corporate taxation equivalent	815	610
Less: Dividend Paid	(1,882)	(750)
Closing accumulated surplus	24,988	23,868
Return on Capital %	13.10%	11.30%
Subsidy from Council	-	-
Calculation of Dividend Payable		
Surplus (deficit) after tax	2,148	1,424
Less: Capital grants and contributions (excluding developer contributions)	-	-
Surplus for dividend calculation purposes	2,148	1,424
Dividend calculated from surplus	1,882	750

Port Macquarie - Hastings Council

Statement of Financial Position of Water Supply business activity as at 30 June 2020

	Actual 2020 \$'000	Actual 2019 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	2,913	3,052
Investments	38,567	40,076
Receivables	6,756	6,866
Inventories	173	180
Total current assets	48,409	50,174
Non-current assets		
Investments	70,967	57,803
Receivables	375	970
Infrastructure, property, plant and equipment	407,141	406,944
Total non-current assets	478,483	465,717
Total assets	526,892	515,891
LIABILITIES		
Current liabilities		
Payables	598	424
Contract liabilities	74	-
Income received in advance	-	103
Provisions	2,821	2,536
Total current liabilities	3,493	3,063
Non-current liabilities		
Provisions	56	92
Total non-current liabilities	56	92
Total liabilities	3,549	3,155
Net assets	523,343	512,736
EQUITY		
Accumulated surplus	281,145	274,039
Revaluation Reserves	242,198	238,697
Total equity	523,343	512,736

Port Macquarie - Hastings Council

Statement of Financial Position of Sewerage business activity as at 30 June 2020

	Actual 2020 \$'000	Actual 2019 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	1,197	1,519
Investments	15,843	19,946
Receivables	2,194	1,180
Inventories	4	5
Total current assets	19,238	22,650
Non-current assets		
Investments	29,152	28,770
Receivables	297	580
Infrastructure, property, plant and equipment	290,342	276,748
Total non-current assets	319,791	306,098
Total assets	339,029	328,748
LIABILITIES		
Current liabilities		
Payables	148	114
Income received in advance	-	3
Contract liabilities	1	-
Borrowings	3,311	3,202
Provisions	2,283	2,668
Total current liabilities	5,743	5,987
Non-current liabilities		
Borrowings	6,761	10,072
Provisions	59	67
Total non-current liabilities	6,820	10,139
Total liabilities	12,563	16,126
Net assets	326,466	312,622
EQUITY		
Accumulated surplus	226,294	214,496
Revaluation Reserves	100,172	98,126
Total equity	326,466	312,622

Port Macquarie - Hastings Council

Statement of Financial Position of Waste Management business activity as at 30 June 2020

	Actual 2020 \$'000	Actual 2019 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	408	464
Investments	5,399	6,092
Receivables	1,404	1,476
Total current assets	7,211	8,032
Non-current assets		
Investments	9,933	8,788
Receivables	109	133
Infrastructure, property, plant and equipment	24,343	23,513
Total non-current assets	34,385	32,434
Total assets	41,596	40,466
LIABILITIES		
Current liabilities		
Payables	42	9
Income received in advance	2	5
Borrowings	147	142
Provisions	759	818
Total current liabilities	950	974
Non-current liabilities		
Borrowings	814	961
Provisions	3,529	3,348
Total non-current liabilities	4,343	4,309
Total liabilities	5,293	5,283
Net assets	36,303	35,183
EQUITY		
Accumulated surplus	24,988	23,868
Revaluation Reserves	11,315	11,315
Total equity	36,303	35,183

Note 1 Significant accounting policies for the year ended 30 June 2020

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 the Council and Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these special purpose financial statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with the *Local Government Act 1993 (NSW)*, the *'Local Government (General) Regulation 2005'*, and the Local Government Code of Accounting Practice and Financial Reporting.

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

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

National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government. The framework for its application is set out in the June 1996 Government Policy statement on the *'Application of National Competition Policy to Local Government'*. The *'Pricing & Costing for Council Businesses A Guide to Competitive Neutrality'* issued by the 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 of disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents; Council subsidies; return on investments (rate of return and dividends paid).

Declared business activities

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

Category 1 - Business activities with gross operating turnover more than \$2 million

Name	Brief description of Activity
Port Macquarie-Hastings Water Supply	Comprising the whole of the operations and assets of the water supply systems servicing the Port Macquarie-Hastings Council area, which is established as a separate Special Rate Fund. As the total annual operating revenues exceed \$2,000,000, it is defined as a "Category 1" Business activity.

Note 1 Significant accounting policies - continued

Port Macquarie-Hastings Sewerage Services	Comprising the whole of the operations and assets of the sewerage reticulation and treatment systems servicing the Port Macquarie-Hastings Council area, which is established as a separate Special Rate Fund. As the total annual operating revenues exceed \$2,000,000, it is defined as a "Category 1" Business activity.
Port Macquarie-Hastings Waste Management Services	Comprising the whole of the operations and assets of the waste management service carried out by the Port Macquarie-Hastings Council, which is established as a separate Special Rate Fund. Waste management comprises domestic waste management as well as commercial waste operations. As the total annual operating revenues exceed \$2,000,000, it is defined as a "Category 1" Business activity.

(i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs. However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council nominated business activities and are reflected in the special purpose financial statements. For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

	Notional Rate Applied
Corporate Tax Rate	27.5%
Land Tax	Land tax is calculated on the total value of land above the taxable threshold. For 2020 the general threshold is \$734,000. The amount of tax payable for properties below the Premium threshold is \$100 and 1.6% of the land value above the general threshold. For land values above the Premium threshold the tax payable is 2% of the value above the Premium threshold which for 2020 is \$4,488,000 plus \$60,164.
Debt Guarantee fees	2%
Other Taxes for Charges	Adjusted accordingly

In accordance with the Department of Industry (DoI)-Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities. The payment of taxation equivalent charges, referred in the Best Practice Management of Water Supply and Sewerage Guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the Act. Achievement of substantial compliance to the DoI-Water guidelines is not a prerequisite for the payment of the tax equivalent charges; however, the payment must not exceed \$3 per assessment.

Note 1 Significant accounting policies - continued**Income Tax**

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

Income Tax is only applied where a gain 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.

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 that have occurred during the year.

Local government rates and charges

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

Loan and debt guarantee fees

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

(ii) Subsidies

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed. Subsidies occur where Council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for Council to meet its community services obligations. The overall effect of subsidies is contained within the Income Statement of the business activities.

(iii) Return on Investments (rate of return)

The NCP Policy statement requires that councils with category 1 businesses 'would be expected to generate a rate of return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'. Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council's business activities on the Income Statement.

(iv) Dividends

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

A local government water supply and sewerage business is permitted to pay annual dividends from their water supply or sewerage business surpluses. Each dividend must be calculated and approved in accordance with the DoI-Water guidelines and must not exceed 50% of the relevant surplus in any one year, or the number of water supply or sewerage assessments at 30 June 2020 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best Practice Management of Water Supply and Sewer Guidelines, a Dividend Payment form, Statement of Compliance, Unqualified independent Financial Audit Report and Compliance Audit Report are submitted to DoI-Water.



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Port Macquarie-Hastings Council

To the Councillors of Port Macquarie-Hastings Council

Opinion

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

The Declared Business Activities of the Council are:

- Water supply
- Sewerage
- Waste Management.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

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



Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

29 October 2020
SYDNEY

Port Macquarie - Hastings Council

SPECIAL SCHEDULES

for the year ended 30 June 2020

Our Vision

A sustainable high quality life for all

Our Mission

Building the future together - people, place, health, education and technology



**PORT MACQUARIE
HASTINGS**

Port Macquarie - Hastings Council

Special Schedules for the year ended 30 June 2020

Contents

<i>Special Schedules</i>	Page
Permissible Income Calculation	C1
Report on infrastructure assets as at 30 June 2020	C2-C5

Port Macquarie - Hastings Council

Permissible income for general rates

	2020/21 Calculation \$'000	2019/20 Calculation \$'000
Notional General Income Calculation (1)		
Last year notional income yield	52,287	50,327
Plus/minus adjustments (2)	371	591
Notional General Income	52,658	50,918
Permissible Income Calculation		
Special variation (3)		
OR Rate peg	2.60%	2.70%
OR Crown land adjustment incl rate peg		
Less: expiring special variations amount		
Plus: special variation amount		
OR Plus: rate peg amount	1,369	1,375
OR Plus: Crown land adjustment and rate peg amount		
Sub total	54,027	52,293
Plus or minus last year's carry forward total	1	(5)
Less: Valuation objections claimed in previous year	(2)	(2)
Sub total	(1)	(7)
Total Permissible Income	54,026	52,286
Less: Notional Income yield	54,025	52,287
Catch up or (excess) result	2	(2)
Plus: income lost due to valuation objections claimed (4)	2	2
Less: unused catch up (5)		
Carry forward to next year	3	1

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.

Port Macquarie - Hastings Council

Report on Infrastructure Assets as at 30 June 2020

Asset class	Asset category	Estimated cost to bring assets to a satisfactory standard	Estimated cost to bring assets to the agreed level of service set by council \$'000	2019/20 required maintenance (1) \$'000	2019/20 Actual Maintenance \$'000	Net Carrying amount \$'000	Gross replacement cost (GRC) \$'000	Assets in condition as a % of Gross Replacement Cost				
								1	2	3	4	5
Buildings		0	0	872	872	132,725	189,578	51.28%	42.45%	5.79%	0.09%	0.39%
Other Structures				55	55	3,942	6,188	34.25%	43.81%	21.16%	0.22%	0.56%
Roads	Sealed Roads	21,446		4,141	4,121	236,100	341,823	28.64%	68.98%	2.25%	0.12%	0.01%
	Unsealed Roads	26,351		3,743	3,743	12,870	25,520	7.92%	61.14%	30.94%	0.00%	0.00%
	Bridges	4,300		1,300	808	164,009	220,839	56.54%	32.01%	6.65%	0.67%	4.13%
	Footpaths	24		185	185	133,217	185,414	38.82%	50.70%	10.47%	0.01%	0.00%
	Other road assets (incl. Bulk earth works)			596	596	171,475	192,614	71.54%	21.52%	5.88%	0.32%	0.74%
	Sub total	52,121		9,965	9,453	717,671	966,210	44.98%	47.35%	6.31%	0.27%	1.09%
Water Supply Network				4,476	4,476	369,754	596,745	35.22%	45.63%	16.15%	0.18%	2.82%
Sewerage Network				5,431	5,431	240,590	448,490	28.46%	40.95%	22.86%	1.96%	5.77%
Stormwater Drainage		6,564		2,202	977	175,213	254,715	50.04%	37.62%	9.92%	2.42%	0.00%
Open Space/Recreational Assets	Swimming Pools			255	255	7,295	11,216	47.44%	27.72%	6.31%	0.65%	17.88%
	Other Open Space/Recreational Assets			2,180	2,180	25,961	63,946	24.20%	18.04%	39.45%	3.21%	15.10%
	Sub total			2,435	2,435	33,256	75,162	29.30%	20.16%	32.18%	2.65%	15.71%
Other Infrastructure Assets												
Total classes	Total – all assets	58,685	-	25,436	23,699	1,673,151	2,537,088					

Notes:

* The required maintenance identified in Council's asset management plans.

Infrastructure Asset Condition Assessment

Level	Condition	Description
1	Excellent/Very Good	No work required (normal maintenance).
2	Good	Only minor maintenance work required.
3	Satisfactory	Maintenance work required.
4	Poor	Renewal required.
5	Very Poor	Urgent renewal/upgrading required.

Port Macquarie - Hastings Council

Report on Infrastructure Assets as at 30 June 2020

Infrastructure Asset Performance Indicators - Consolidated				
\$'000	Amounts	Current year indicators	2019	Benchmarks
Building and infrastructure renewals ratio #				
Asset renewals	23,444	49.35%	70.22%	>100%
Depreciation, amortisation and impairment	47,503			
Infrastructure backlog ratio #				
Estimated cost to bring to a satisfactory standard	58,685	3.51%	6.66%	<2%
Net carrying amount of infrastructure assets	1,673,152			
Asset maintenance ratio				
Actual asset maintenance	23,699	0.93	1.00	>100%
Required asset maintenance	25,436			
Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed level of service set by council				
Gross replacement cost				

Excludes works in progress

Port Macquarie - Hastings Council

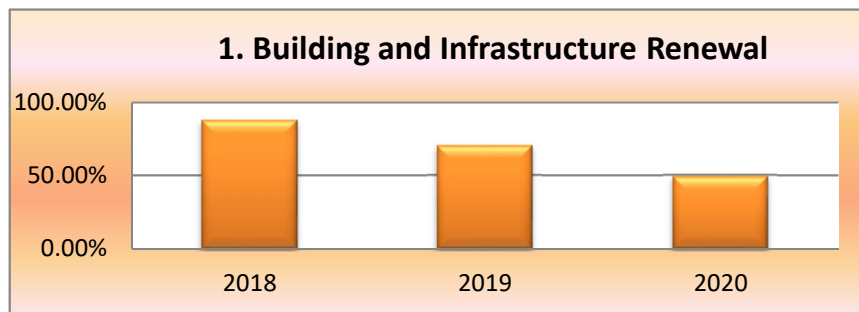
Report on Infrastructure Assets as at 30 June 2020

Infrastructure Asset Performance Indicators - General, Water & Sewer Funds							
Current year \$'000	General		Water		Sewer		Benchmarks
	2020	2019	2020	2019	2020	2019	
Building and infrastructure renewals ratio							
Asset renewals	67.32%	101.66%	18.07%	35.59%	29.13%	19.20%	>100%
Depreciation, amortisation and impairment							
Infrastructure backlog							
Estimated cost to bring to a satisfactory standard	3.51%	6.66%	0.00%	0.00%	0.00%	0.00%	<2%
Net carrying amount of infrastructure assets							
Asset maintenance ratio							
Actual asset maintenance	0.89	1.00	1.00	1.00	1.00	1.00	>100%
Required asset maintenance							
Cost to bring assets to agreed service level							
Estimated cost to bring to satisfactory standard							
Gross replacement cost							

General Fund refers to all Council activities except Water and Sewer.

Report on Infrastructure Assets as at 30 June 2020

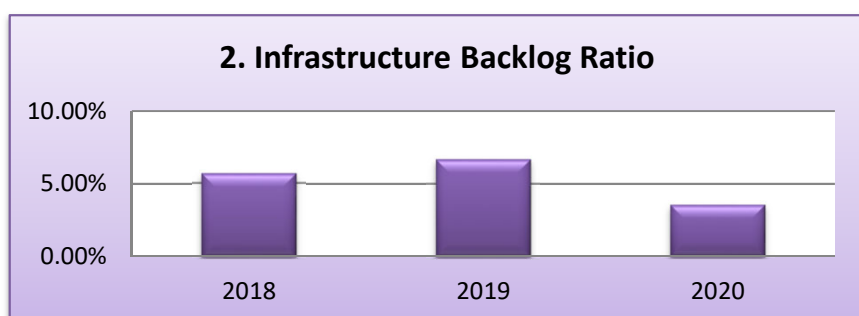
Infrastructure Asset Performance Indicators - Consolidated



Purpose of building and infrastructure renewal ratio

To assess the rate at which these assets are being renewed against the rate at which they are depreciating.

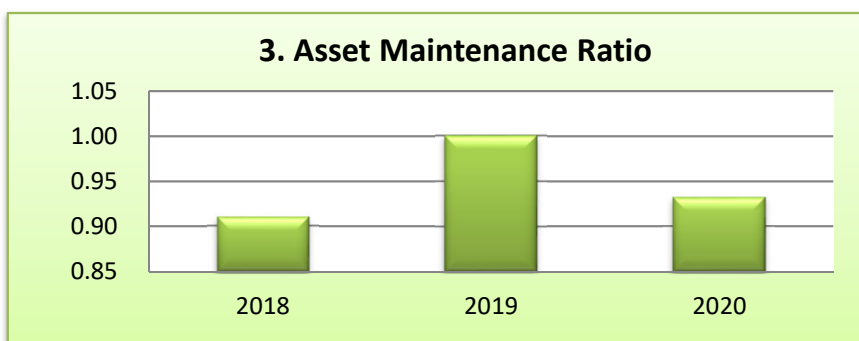
Benchmark greater than 100%



Purpose of infrastructure backlog ratio

This ratio shows what proportion the backlog is against the total value of Council's infrastructure.

Benchmark is less than 2%



Purpose of the asset maintenance ratio

This ratio compares the actual versus required annual asset maintenance. A ratio of above 1.0 indicates that Council is investing enough funds within the year to stop the infrastructure backlog from growing.

Benchmark is greater than 1.0



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Port Macquarie-Hastings Council

To the Councillors of Port Macquarie-Hastings Council

Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Port Macquarie-Hastings Council (the Council) for the year ending 30 June 2021.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

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

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

A handwritten signature in cursive script, reading "Gearoid Fitzgerald". The signature is written in dark ink and is positioned above the printed name and title.

Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

29 October 2020
SYDNEY



Port Macquarie-Hastings Council

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-  pmhcouncil
-  connectpmh
-  chatpmh
-  watchpmh



PORT MACQUARIE
HASTINGS COUNCIL