

**Annual
Financial
Statements**
2017 - 2018



Shoalhaven City Council

GENERAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2018

*We will work together in the Shoalhaven to foster
a safe and attractive community for people to live, work, stay and play;
where sustainable growth, development and environmental protection
are managed to provide a unique and relaxed lifestyle.*

Shoalhaven
City Council

Shoalhaven City Council

General Purpose Financial Statements for the year ended 30 June 2018

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Overview

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

36 Bridge Road
Nowra NSW 2541

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

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

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

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

Shoalhaven City Council

General Purpose Financial Statements for the year ended 30 June 2018

Understanding Council's financial statements

Introduction

Each year, individual local governments across New South Wales are required to present a set of audited financial statements to their council and community.

What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2018.

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

About the Councillor/Management Statement

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

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses.

This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, Property, Plant and Equipment.

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

Council's annual financial statements are required to be audited by the NSW Audit Office. In NSW the auditor provides 2 audit reports:

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

Who uses the financial statements?

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

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

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

Shoalhaven City Council

General Purpose Financial Statements for the year ended 30 June 2018

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 16 October 2018.



Amanda Findley
Mayor
17 October 2018



Patricia White
Councillor
17 October 2018



Russ Pigg
General Manager
17 October 2018



Michael Pennisi
Responsible Accounting Officer
17 October 2018

Shoalhaven City Council

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Income from continuing operations				
Revenue:				
132,808	Rates and annual charges	3a	133,115	120,157
68,320	User charges and fees	3b	76,177	69,204
4,526	Interest and investment revenue	3c	6,339	7,348
3,457	Other revenues	3d	4,167	4,103
19,875	Grants and contributions provided for operating purposes	3e,f	21,026	25,328
10,093	Grants and contributions provided for capital purposes	3e,f	31,136	32,229
Other income:				
–	Fair value increment on investment property	11	10	20
239,079	Total income from continuing operations		271,970	258,389
Expenses from continuing operations				
69,696	Employee benefits and on-costs	4a	77,712	75,144
4,782	Borrowing costs	4b	5,431	4,479
60,564	Materials and contracts	4c	48,372	51,704
57,452	Depreciation and amortisation	4d	59,412	59,213
29,761	Other expenses	4e	32,022	29,413
–	Net losses from the disposal of assets	5	174	1,792
222,255	Total expenses from continuing operations		223,123	221,745
16,824	Operating result from continuing operations		48,847	36,644
16,824	Net operating result for the year		48,847	36,644
16,824	Net operating result attributable to Council		48,847	36,644
6,731	Net operating result for the year before grants and contributions provided for capital purposes		17,711	4,415

Shoalhaven City Council

Statement of Comprehensive Income
for the year ended 30 June 2018

\$ '000	Notes	2018	2017
Net operating result for the year (as per Income Statement)		48,847	36,644
Other comprehensive income:			
Amounts that will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10a	41,988	(13,430)
Total items which will not be reclassified subsequently to the operating result		41,988	(13,430)
Amounts that will be reclassified subsequently to the operating result when specific conditions are met			
Other movements in reserves – inclusion of management committees retained earnings		19	41
Total items which will be reclassified subsequently to the operating result when specific conditions are met		19	41
Total other comprehensive income for the year		42,007	(13,389)
Total comprehensive income for the year		90,854	23,255
Total comprehensive income attributable to Council		90,854	23,255

Shoalhaven City Council

Statement of Financial Position
as at 30 June 2018

\$ '000	Notes	2018	Restated 2017	Restated 1 July 2016
ASSETS				
Current assets				
Cash and cash equivalents	6a	24,856	27,856	25,960
Investments	6b	150,643	127,196	101,763
Receivables	7	22,124	24,703	17,578
Inventories	8	2,922	2,372	4,509
Other	8	582	864	357
Non-current assets classified as 'held for sale'	9	2,548	2,845	4,277
Total current assets		203,675	185,836	154,444
Non-current assets				
Investments	6b	46,000	50,000	38,000
Receivables	7	5,654	7,120	6,576
Inventories	8	5,151	6,610	5,183
Infrastructure, property, plant and equipment	10	2,731,091	2,600,463	2,570,382
Investment property	11	1,565	1,555	1,535
Intangible assets	12	2,927	291	–
Total non-current assets		2,792,388	2,666,039	2,621,676
TOTAL ASSETS		2,996,063	2,851,875	2,776,120
LIABILITIES				
Current liabilities				
Payables	13	26,235	26,901	14,528
Income received in advance	13	7,384	4,429	1,885
Borrowings	13	12,223	9,573	9,624
Provisions	14	30,251	29,555	28,705
Total current liabilities		76,093	70,458	54,742
Non-current liabilities				
Borrowings	13	141,900	94,708	58,282
Provisions	14	4,194	3,687	3,329
Total non-current liabilities		146,094	98,395	61,611
TOTAL LIABILITIES		222,187	168,853	116,353
Net assets		2,773,876	2,683,022	2,659,767
EQUITY				
Accumulated surplus	15	1,539,342	1,475,975	1,439,290
Revaluation reserves	15	1,234,534	1,207,047	1,220,477
Council equity interest		2,773,876	2,683,022	2,659,767
Total equity		2,773,876	2,683,022	2,659,767

Shoalhaven City Council

Statement of Changes in Equity

for the year ended 30 June 2018

\$ '000	Notes	2018	IPP&E	Total equity	2017	IPP&E	Restated
		Accumulated surplus	revaluation reserve		Accumulated surplus	revaluation reserve	Total equity
Opening balance		1,475,975	1,207,047	2,683,022	1,400,413	1,224,528	2,624,941
Correction of prior period errors	15 (b)	–	–	–	38,877	(4,051)	34,826
Restated opening balance		1,475,975	1,207,047	2,683,022	1,439,290	1,220,477	2,659,767
Net operating result for the year		48,847	–	48,847	36,644	–	36,644
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10a	–	41,988	41,988	–	(13,430)	(13,430)
– Other movements – inclusion of management committees retained earnings		19	–	19	41	–	41
Other comprehensive income		19	41,988	42,007	41	(13,430)	(13,389)
Total comprehensive income (c&d)		48,866	41,988	90,854	36,685	(13,430)	23,255
Transfers between equity items		14,501	(14,501)	–	–	–	–
Equity – balance at end of the reporting period		1,539,342	1,234,534	2,773,876	1,475,975	1,207,047	2,683,022

Shoalhaven City Council

Statement of Cash Flows
for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Cash flows from operating activities				
Receipts:				
132,040	Rates and annual charges		132,938	117,876
68,320	User charges and fees		84,631	75,288
5,031	Investment and interest revenue received		6,589	6,811
29,968	Grants and contributions		49,954	46,301
–	Bonds, deposits and retention amounts received		2,409	2,602
3,457	Other		19,591	5,778
Payments:				
(69,696)	Employee benefits and on-costs		(76,576)	(72,972)
(60,949)	Materials and contracts		(67,920)	(54,325)
(5,287)	Borrowing costs		(4,777)	(3,554)
–	Bonds, deposits and retention amounts refunded		(4,054)	–
(29,761)	Other		(31,750)	(26,138)
73,123	Net cash provided (or used in) operating activities	16b	111,035	97,667
Cash flows from investing activities				
Receipts:				
20,000	Sale of investment securities		134,027	127,283
1,800	Sale of real estate assets		2,560	2,678
2,244	Sale of infrastructure, property, plant and equipment		3,958	4,830
–	Deferred debtors receipts		12	329
Payments:				
–	Purchase of investment securities		(153,454)	(164,419)
(186,949)	Purchase of infrastructure, property, plant and equipment		(150,700)	(102,791)
(4,060)	Purchase of real estate assets		(216)	(80)
(166,965)	Net cash provided (or used in) investing activities		(163,813)	(132,170)
Cash flows from financing activities				
Receipts:				
59,262	Proceeds from borrowings and advances		59,262	50,750
Payments:				
(9,556)	Repayment of borrowings and advances		(9,484)	(14,351)
49,706	Net cash flow provided (used in) financing activities		49,778	36,399
(44,136)	Net increase/(decrease) in cash and cash equivalents		(3,000)	1,896
70,142	Plus: cash and cash equivalents – beginning of year	16a	27,856	25,960
26,006	Cash and cash equivalents – end of the year	16a	24,856	27,856
Additional Information:				
	plus: Investments on hand – end of year	6b	196,643	177,196
	Total cash, cash equivalents and investments		221,499	205,052

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 16/10/2018.

Council has the power to amend and reissue these 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.

Basis of preparation

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

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

Full dollars have been used in Note 23 Related party disclosures in relation to the disclosure of specific related party transactions.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts.

Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 21 – Material budget variations

and are clearly marked .

(a) New and amended standards adopted by Council

There have been no new (or amended) accounting standards adopted by Council in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of investment properties –refer Note 11,
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 10,
- (iii) estimated tip remediation provisions – refer Note 14,
- (iv) employee benefit provisions – refer Note 14.

Significant judgements in applying the Council's accounting policies

- (v) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables in Note 7.

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

- General Purpose Operations
- Water Supply
- Sewer Service
- Domestic Waste Services
- Southern Water Services
- Council's S355 Management Committees

(b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and other assets 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 other assets subject to Council's control have been included in these reports.

Goods and Services Tax (GST)

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

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and which have not been applied.

As at the date of authorisation of these financial statements, Council considers that the standards and interpretations listed below will have an impact upon future published financial statements ranging from additional and / or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

Effective for annual reporting periods beginning on or after 1 July 2018

- *AASB 9 Financial Instruments*

This replaces AASB 139 Financial Instruments: Recognition and Measurement, and addresses the classification, measurement and disclosure of financial assets and liabilities.

The standard introduces a new impairment model that requires impairment provisions to be based on expected credit losses, rather than incurred credit losses.

Based on assessments to date, Council expects a small increase to impairment losses however the standard is not expected to have a material impact overall.

Effective for annual reporting periods beginning on or after 1 July 2019

- *AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 Contributions.

Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.

While Council is still reviewing the way that income is measured and recognised to identify whether there will be any material impact arising from these standards, these standards may affect the timing of the recognition of some grants and donations.

- *AASB 16 Leases*

Council is currently a party to leases that are not recognised in the Statement of Financial Position.

It is likely that some of these leases will need to be included in the Statement of Financial Position when this standard comes into effect.

A lease liability will initially be measured at the present value of the lease payments to be made over the lease term.

A corresponding right-of-use asset will also be recognised over the lease term.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).									
	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Buildings and Property	1,275	1,433	8,727	8,726	(7,452)	(7,293)	91	179	117,745	115,430
Commercial Undertakings	30,257	27,868	31,504	28,767	(1,247)	(899)	8	8	129,490	124,965
Community and Culture	2,516	2,769	8,422	7,710	(5,906)	(4,941)	1,474	1,659	27,903	24,748
Economic Development	1,294	999	238	250	1,056	749	–	621	11,478	12,760
Environmental Management	282	476	2,044	3,083	(1,762)	(2,607)	194	371	85,362	87,146
Fire Protection and Emergency Services	851	1,470	2,623	2,514	(1,772)	(1,044)	838	1,469	19,639	18,076
Governance and Civic	25	26	5,884	5,403	(5,859)	(5,377)	–	–	532	413
Internal Corporate Services	100,145	100,650	7,195	12,718	92,950	87,932	13,560	19,273	119,836	115,119
Land Use Planning	971	721	3,246	2,854	(2,275)	(2,133)	–	8	1,432	1,267
Open Space, Sport and Recreation	1,502	1,177	14,644	13,566	(13,142)	(12,389)	175	116	264,616	231,977
Regulatory Services	6,758	6,020	14,501	13,504	(7,743)	(7,484)	176	219	3,218	5,878
Roads and Transport	18,602	13,571	36,562	35,654	(17,960)	(22,083)	13,596	10,901	1,105,214	1,085,189
Waste and Recycling Program	33,493	31,079	31,368	30,014	2,125	1,065	397	463	41,385	37,648
Water and Sewer Services	73,999	70,130	56,165	56,982	17,834	13,148	1,031	1,038	1,068,213	991,259
Total functions and activities	271,970	258,389	223,123	221,745	48,847	36,644	31,540	36,325	2,996,063	2,851,875

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

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

Buildings and Property

Management, operations, maintenance and construction of community, residential, commercial and corporate buildings and property.

Commercial Undertakings

Management, operations, maintenance and construction of the category 1 and category 2 business units: bereavement services, entertainment centre, mechanical services, aquatic recreation facilities, holiday haven tourist parks.

Community and Culture

Community services, arts centre operations and maintenance, family day care, library operations, maintenance and capital and tourism and events.

Economic Development

Promotion of economic development within the Shoalhaven and the construction and sale of industrial land.

Environmental Management

Maintenance and capital expenditure on coastal areas, estuaries, floodplains, natural areas and Noxious weeds.

Fire Protection and Emergency Services

Emergency services levy payment, Rural Fire Service maintenance and station construction and emergency events.

Governance and Civic

General manager's duties, customer service, councillors, council meetings, elections, governance and council donations.

Internal Corporate Services

Asset planning and development management, financial planning and management, internal fleet management, human resources and organisation development, information technology, insurance and risk management and other management and support provided to the organisation.

Land Use Planning

Strategic planning for town planning and social and infrastructure planning.

Open Space, Sport and Recreation

Management, operations, maintenance and construction of recreation areas (active and passive), tree management and beach patrol.

Regulatory Services

Development, building, regulatory compliance (including rangers), companion animals, environmental and public health regulations.

Roads and Transport

Management, operations, maintenance and construction of roads, car parks, footpaths, stormwater, street lighting, streetscapes, traffic management and waterway infrastructure.

Waste and Recycling Program

Domestic waste management and land fill and transfer station operation.

Water and Sewer Services

Management, operations, maintenance and construction of water and sewer infrastructure.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations

\$ '000	2018	2017
(a) Rates and annual charges		
Ordinary rates		
Residential	59,245	51,147
Farmland	2,060	1,913
Business	4,670	4,056
Total ordinary rates	65,975	57,116
Special rates		
Town improvement	14	12
Town planning	952	880
Total special rates	966	892
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	19,430	17,941
Stormwater management services	1,105	1,092
Water supply services	4,170	4,077
Sewerage services	41,283	38,902
Waste management services (non-domestic)	186	137
Total annual charges	66,174	62,149
TOTAL RATES AND ANNUAL CHARGES	133,115	120,157

Council has used 2017 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and annual charges

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. 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.

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.

Shoalhaven City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(b) User charges and fees		
Specific user charges (per s.502 – specific 'actual use' charges)		
Water supply services	17,762	16,639
Sewerage services	3,516	3,268
Waste management services (non-domestic)	10,810	10,165
Total specific user charges	32,088	30,072
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Planning and building regulation	4,684	4,307
Private works	3,545	1,465
Section 10.7 certificates (EPA Act)	844	602
Section 603 certificates	249	284
Total fees and charges – statutory/regulatory	9,322	6,658
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Animal charges	228	145
Cemeteries	1,987	1,685
Communication charges	806	1,015
Entertainment centre	1,532	1,498
Family day care	220	239
Food inspection fees	141	147
Health licence fees	181	145
Hire of council property	910	634
Leaseback fees – Council vehicles	948	938
Library	102	96
Swimming / leisure centres	4,229	4,065
Tourism	520	131
Tourist parks	22,842	21,669
Other	121	67
Total fees and charges – other	34,767	32,474
TOTAL USER CHARGES AND FEES	76,177	69,204

Accounting policy for user charges and fees

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(c) Interest and investment revenue (including losses)		
Interest		
– Overdue rates and annual charges (incl. special purpose rates)	520	547
– Cash and investments	5,648	6,101
Dividend income	155	309
Fair value adjustments		
– Fair valuation movements in investments (at fair value or held for trading)	10	287
Amortisation of premiums and discounts		
– Interest free (and interest reduced) loans provided	6	19
Fair valuation of financial liabilities on recognition		
– Interest free (or favourable) loans and advances received	–	85
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>	<u>6,339</u>	<u>7,348</u>
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	294	320
General Council cash and investments	2,143	2,996
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	909	892
– Section 64	516	473
Water fund operations	850	863
Sewerage fund operations	1,413	1,516
Domestic waste management operations	214	288
Total interest and investment revenue recognised	<u>6,339</u>	<u>7,348</u>

Accounting policy for interest and investment revenue

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Other revenues			
Biobank management fee		–	18
Commissions and agency fees		46	95
Credit card service fees		69	74
Discounts received		16	13
Fines – parking		532	603
Fines – other		995	715
Fuel tax credit		304	279
Insurance claim recoveries		69	293
Insurance rebates		52	117
Legal fees recovery – rates and charges (extra charges)		264	213
Legal fees recovery – other		55	47
Library – other councils		63	59
Miscellaneous sales		7	10
Rental income – investment property	11	119	140
Rental income – other council properties		1,000	891
Waste levy refunds		–	231
Recovery of Bad Debts Written Off		34	–
Recovery of other costs		393	–
Other		149	305
<u>TOTAL OTHER REVENUE</u>		<u>4,167</u>	<u>4,103</u>

Accounting policy for other revenue

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

Fines are recognised as revenue when the penalty has been paid.

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

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

Shoalhaven City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	8,955	12,677	–	–
Financial assistance – local roads component	3,332	4,692	–	–
Other				
Pensioners' rates subsidies – general component	1,178	1,210	–	–
Total general purpose	13,465	18,579	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	517	524	–	–
– Sewerage	515	514	–	–
– Domestic waste management	397	436	–	–
Bushfire and emergency services	796	295	42	1,175
Community care	1,179	1,276	–	–
Community centres	–	–	30	–
Economic development	5	55	2	566
Environmental protection	85	252	22	27
Flood restoration	–	–	–	9
Heritage and cultural	5	20	61	179
Library	277	243	–	30
Library – special projects	–	27	–	140
LIRS subsidy	127	–	–	–
Noxious weeds	176	125	–	–
Recreation and culture	23	49	175	192
Street lighting	254	249	–	–
Transport (roads to recovery)	–	–	1,403	4,843
Transport (other roads and bridges funding)	14	30	11,939	6,078
Other	31	355	–	57
Total specific purpose	4,401	4,450	13,674	13,296
Total grants	17,866	23,029	13,674	13,296
Grant revenue is attributable to:				
– Commonwealth funding	13,420	18,590	2,950	4,937
– State funding	4,405	4,394	10,724	8,350
– Other funding	41	45	–	9
	17,866	23,029	13,674	13,296

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 – EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		–	–	5,269	5,639
S 64 – water supply contributions		–	–	2,047	2,399
S 64 – sewerage service contributions		–	–	2,647	2,958
Total developer contributions – cash		–	–	9,963	10,996
Total developer contributions	24	–	–	9,963	10,996
Other contributions:					
Cash contributions					
Community services		8	–	–	–
Dedications – subdivisions (other than by s7.11)		–	–	–	430
Heritage/cultural		2	–	–	58
Kerb and gutter		–	–	65	89
Other emergency event		320	(236)	1,439	–
Recreation and culture		10	32	353	85
Roads and bridges		561	34	–	37
RMS contributions (regional roads, block grant)		2,252	2,212	391	366
Tourism		–	91	–	–
Other		7	166	171	–
Total other contributions – cash		3,160	2,299	2,419	1,065
Non-cash contributions					
Dedications		–	–	897	–
Sewerage (excl. section 64 contributions)		–	–	2,947	6,648
Water supplies (excl. section 64 contributions)		–	–	1,236	224
Total other contributions – non-cash		–	–	5,080	6,872
Total other contributions		3,160	2,299	7,499	7,937
Total contributions		3,160	2,299	17,462	18,933
TOTAL GRANTS AND CONTRIBUTIONS		21,026	25,328	31,136	32,229

Accounting policy for contributions

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

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

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.

Shoalhaven City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	403	1,035
Add: operating grants recognised in the current period but not yet spent	746	295
Less: operating grants recognised in a previous reporting period now spent	(218)	(927)
Unexpended and held as restricted assets (operating grants)	<u>931</u>	<u>403</u>
Capital grants		
Unexpended at the close of the previous reporting period	1,508	3,702
Add: capital grants recognised in the current period but not yet spent	1,375	1,254
Less: capital grants recognised in a previous reporting period now spent	(1,249)	(3,448)
Unexpended and held as restricted assets (capital grants)	<u>1,634</u>	<u>1,508</u>
Contributions		
Unexpended at the close of the previous reporting period	45,511	39,720
Add: contributions received for the provision of goods and services in a future period	10,291	11,242
Less: contributions recognised in a previous reporting period now spent	(5,907)	(5,451)
Unexpended and held as restricted assets (contributions)	<u>49,895</u>	<u>45,511</u>

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	Notes	2018	2017
(a) Employee benefits and on-costs			
Salaries and wages		60,335	57,365
Employee termination costs		58	82
Travel expenses		27	26
Employee leave entitlements (ELE)		13,245	12,146
Superannuation		7,657	7,061
Workers' compensation insurance		992	611
Workers' compensation provision adjustment		(1)	485
Fringe benefit tax (FBT)		143	232
Payroll tax		785	759
Training costs (other than salaries and wages)		1,008	972
Other		323	233
Total employee costs		84,572	79,972
Less: capitalised costs		(6,860)	(4,828)
TOTAL EMPLOYEE COSTS EXPENSED		77,712	75,144

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a Defined Benefit Plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 19 for more information.

(b) Borrowing costs

(i) Interest bearing liability costs

Interest on loans		5,217	4,268
Interest on advances		32	39
Total interest bearing liability costs expensed		5,249	4,307

(ii) Other borrowing costs

Fair value adjustment on loans (to Council)		64	61
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	14	118	111
Total other borrowing costs		182	172
TOTAL BORROWING COSTS EXPENSED		5,431	4,479

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.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(c) Materials and contracts		
Raw materials and consumables	9,788	9,350
Contractor and consultancy costs	34,713	38,843
Auditors remuneration ⁽²⁾	210	148
Legal expenses:		
– Legal expenses: planning and development	709	449
– Legal expenses: debt recovery	290	230
– Legal expenses: other	281	349
Operating leases:		
– Operating lease rentals: buildings ⁽¹⁾	46	35
– Operating lease rentals: other ⁽¹⁾	12	16
– Operating lease rentals: Motor vehicles ⁽¹⁾	3	–
Fuel	2,320	2,284
TOTAL MATERIALS AND CONTRACTS	48,372	51,704
Operating leases		
Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.		
1. Operating lease payments are attributable to:		
Buildings	46	35
Motor vehicles	3	–
Other	12	16
	61	51
2. Auditor remuneration		
a. The following fees will incurred for services provided by the Auditor-General for the Audit of the 2017/18 Financial Statements: \$106,954		
b. During the year the following fees were paid or payable for services provided by the auditor of Council, related practices and non-related audit firms		
Auditors of the Council – NSW Auditor-General:		
(i) Audit and other assurance services		
Audit and review of financial statements	155	46
Remuneration for audit and other assurance services	155	46
Total Auditor-General remuneration	155	46
Non NSW Auditor-General audit firms:		
(i) Audit and other assurance services		
Other audit and assurance services	3	6
Remuneration for audit and other assurance services	3	6
(ii) Non-assurance services		
Other services	52	96
Remuneration for non-assurance services	52	96
Total remuneration of non NSW Auditor-General audit firms	55	102
Total Auditor remuneration	210	148

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Depreciation, amortisation and impairment			
Depreciation and amortisation			
Plant and equipment		5,127	4,841
Office equipment		920	830
Furniture and fittings		214	184
Land improvements (depreciable)		59	57
Infrastructure:			
– Buildings – non-specialised		106	122
– Buildings – specialised		7,250	6,958
– Other structures		1,322	1,559
– Roads		17,991	17,060
– Bridges		944	1,697
– Footpaths		1,190	1,136
– Stormwater drainage		2,371	2,288
– Water supply network		7,600	7,902
– Sewerage network		9,303	10,196
– Swimming pools		259	257
– Other open space/recreational assets		1,824	1,813
– Other infrastructure		2,530	1,961
Other assets:			
– Library books		336	324
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	10 & 14	28	28
Intangible assets	12	38	–
Total depreciation and amortisation costs		59,412	59,213
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED</u>			
		59,412	59,213

Accounting policy for depreciation, amortisation and impairment expenses

Depreciation and amortisation

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

Impairment of non-financial assets

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

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.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(e) Other expenses		
Advertising	922	1,079
Bad and doubtful debts	102	148
Bank charges	650	567
Computer software, equipment and maintenance	1,880	1,851
Contributions/levies to other levels of government		
– NSW fire brigade levy	431	414
– NSW rural fire service levy	1,007	980
– State Emergency Services levy	162	181
– Waste levy	10,977	8,195
– Other contributions/levies	1,117	1,202
Councillor expenses – mayoral fee	43	40
Councillor expenses – councillors' fees	251	235
Councillors' expenses (incl. mayor) – other (excluding fees above)	223	227
Donations, contributions and assistance to other organisations (Section 356)	914	847
Election expenses	–	516
Insurance	2,993	2,989
Light, power and heating	4,036	4,212
Motor vehicle registrations	370	321
Postage	420	439
Printing and stationery	683	497
Street lighting	1,805	1,734
Subscriptions and publications	1,007	926
Telephone and communications	1,057	966
Valuation fees	414	393
Other	558	454
<u>TOTAL OTHER EXPENSES</u>	<u>32,022</u>	<u>29,413</u>

Accounting policy for other expenses

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	2018	2017
Property (excl. investment property)	10		
Proceeds from disposal – property		869	1,436
Less: carrying amount of property assets sold/written off		(2,797)	(5,107)
Net gain/(loss) on disposal		(1,928)	(3,671)
Plant and equipment	10		
Proceeds from disposal – plant and equipment		2,414	2,703
Less: carrying amount of plant and equipment assets sold/written off		(2,610)	(3,198)
Net gain/(loss) on disposal		(196)	(495)
Real estate assets held for sale	8		
Proceeds from disposal – real estate assets		2,560	2,678
Less: carrying amount of real estate assets sold/written off		(833)	(800)
Net gain/(loss) on disposal		1,727	1,878
Financial assets ⁽¹⁾	6		
Proceeds from disposal/redemptions/maturities – financial assets		134,027	127,283
Less: carrying amount of financial assets sold/redeemed/matured		(134,017)	(127,273)
Net gain/(loss) on disposal		10	10
Non-current assets classified as ‘held for sale’	9		
Proceeds from disposal – non-current assets ‘held for sale’		675	691
Less: carrying amount of ‘held for sale’ assets sold/written off		(462)	(205)
Net gain/(loss) on disposal		213	486
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(174)	(1,792)
1. Financial assets disposals/redemptions include:			
– Net gain/(loss) from financial instruments ‘at fair value through profit and loss’		10	10
Net gain/(loss) on disposal of financial instruments		10	10

Accounting policy for disposal of assets

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 derecognised.

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	9,975	8,341
Cash-equivalent assets		
– Deposits at call	2,930	1,846
– Short-term deposits	11,951	17,669
Total cash and cash equivalents	24,856	27,856

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.

Shoalhaven City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 6(b). Investments

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Investments				
a. 'At fair value through the profit and loss'				
– 'Held for trading'	69,745	–	63,855	–
b. 'Held to maturity'	80,898	46,000	63,341	50,000
Total investments	150,643	46,000	127,196	50,000
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS				
	175,499	46,000	155,052	50,000
Financial assets at fair value through the profit and loss				
Managed funds	38,292	–	26,056	–
NCD's, FRN's (with maturities > 3 months)	31,453	–	37,799	–
Total	69,745	–	63,855	–
Held to maturity investments				
Long term deposits	80,898	46,000	63,341	50,000
Total	80,898	46,000	63,341	50,000

Accounting policy for investments**Classification**

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

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

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

(b) Held to maturity investments

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

Recognition and de-recognition

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

Shoalhaven City Council

Notes to the Financial Statements
for the year ended 30 June 2018

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

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	175,499	46,000	155,052	50,000
attributable to:				
External restrictions (refer below)	122,335	37,863	103,865	41,864
Internal restrictions (refer below)	35,571	8,137	35,601	8,136
Unrestricted	17,593	–	15,586	0
	175,499	46,000	155,052	50,000

\$ '000	2018	2017
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – general	7,896	4,253
Specific purpose unexpended loans – sewer	36,450	24,247
Self insurance claims	1,500	1,501
External restrictions – included in liabilities	45,846	30,001

External restrictions – other

Developer contributions – general	31,764	28,770
Developer contributions – water fund	18,131	16,741
Specific purpose unexpended grants	2,565	1,911
Water supplies	28,513	25,007
Sewerage services	26,235	34,121
Domestic waste management	4,938	7,327
Stormwater management	683	577
Other special levies	1,523	1,274
External restrictions – other	114,352	115,728
Total external restrictions	160,198	145,729

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000	2018	2017
Internal restrictions		
Plant and vehicle replacement	1,818	1,750
Employees leave entitlement	8,137	8,136
Deposits, retentions and bonds	3,841	–
Arts collection	24	24
Committed capital works	5,495	6,185
Communication towers	1,509	815
Critical asset compliance	2,338	2,398
Economic development projects	1,022	1,038
Financial assistance grant	6,217	5,911
General insurance	477	994
Land decontamination	1,532	1,570
Land development reserve	7,362	5,073
North nowra link road	468	490
Plant replacement cemeteries	105	76
S7.11 matching funds	340	341
Sporting facilities	205	233
Strategic projects	2,082	5,563
Strategic property acquisition	291	3,140
Coastal Management	445	–
Total internal restrictions	43,708	43,737
TOTAL RESTRICTIONS	203,906	189,466

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	6,734	3,744	5,388	4,907
Interest and extra charges	629	1,012	532	1,177
User charges and fees	4,524	810	5,165	926
Accrued revenues				
– Interest on investments	1,335	–	1,533	–
– Other income accruals	383	–	567	–
Deferred debtors	22	88	6	110
Government grants and subsidies	6,214	–	9,086	–
Net GST receivable	1,661	–	1,840	–
Other debtors	1,034	–	969	–
Total	22,536	5,654	25,086	7,120
Less: provision for impairment				
Rates and annual charges	(239)	–	(233)	–
User charges and fees	(173)	–	(150)	–
Total provision for impairment – receivables	(412)	–	(383)	–
<u>TOTAL NET RECEIVABLES</u>	<u>22,124</u>	<u>5,654</u>	<u>24,703</u>	<u>7,120</u>
Externally restricted receivables				
Water supply				
– Rates and availability charges	412	140	338	182
– Other	3,434	766	3,097	771
Sewerage services				
– Rates and availability charges	3,904	1,569	3,704	1,818
– Other	2,246	136	2,002	130
Domestic waste management	609	628	346	892
Total external restrictions	10,605	3,239	9,487	3,793
Unrestricted receivables	11,519	2,415	15,216	3,327
<u>TOTAL NET RECEIVABLES</u>	<u>22,124</u>	<u>5,654</u>	<u>24,703</u>	<u>7,120</u>
Movement in provision for impairment of receivables			2018	2017
Balance at the beginning of the year			383	258
– amounts already provided for and written off this year			(41)	(23)
– amounts provided for but recovered during the year			70	148
Balance at the end of the year			412	383

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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

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

Impairment

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

Collectability of receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income statement.

Shoalhaven City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 8. Inventories and other assets

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale (refer below)	1,264	5,151	902	6,610
Stores and materials	1,658	–	1,470	–
Total inventories at cost	2,922	5,151	2,372	6,610
TOTAL INVENTORIES	2,922	5,151	2,372	6,610
(b) Other assets				
Prepayments	576	–	858	–
Other	6	–	6	–
TOTAL OTHER ASSETS	582	–	864	–
Externally restricted assets				
Water				
Stores and materials	1,103	–	941	–
Prepayments	3	–	9	–
Total water	1,106	–	950	–
Total externally restricted assets	1,106	–	950	–
Total unrestricted assets	2,398	5,151	2,286	6,610
TOTAL INVENTORIES AND OTHER ASSETS	3,504	5,151	3,236	6,610

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 8. Inventories and other assets (continued)

\$ '000	Notes	2018		2017	
		Current	Non-current	Current	Non-current
(i) Other disclosures					
(a) Details for real estate development					
Industrial/commercial		1,264	5,151	902	6,610
Total real estate for resale		1,264	5,151	902	6,610
(Valued at the lower of cost and net realisable value)					
Represented by:					
Acquisition costs		1,264	4,855	902	6,530
Development costs		–	296	–	80
Total costs		1,264	5,151	902	6,610
Total real estate for resale		1,264	5,151	902	6,610
Movements:					
Real estate assets at beginning of the year		902	6,610	3,049	5,183
– Purchases and other costs		(21)	237	–	80
– Transfers in from (out to) Note 10		(480)	–	–	–
– WDV of sales (expense)	5	(833)	–	(800)	–
– Transfer between current/non-current		1,696	(1,696)	(1,347)	1,347
Total real estate for resale		1,264	5,151	902	6,610

Accounting policy**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.

Inventory held for distribution

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

Land held for resale/capitalisation of borrowing costs

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9. Non-current assets classified as held for sale (and disposal groups)

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(i) Non-current assets and disposal group assets				
Non-current assets 'held for sale'				
Land	1,150	–	1,447	–
Buildings	1,398	–	1,398	–
Total non-current assets 'held for sale'	2,548	–	2,845	–
TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'				
	2,548	–	2,845	–

(ii) Details of assets and disposal groups

Council has made a decision to sell five parcels of land and one building. Land parcels include:

Land at George Evans Road, Wire Lane, Jacobs Drive, Bryces Road and Pleasant Way (including the buildings)

\$ '000	Assets 'held for sale'	
	2018	2017
(iii) Reconciliation of non-current assets 'held for sale' and disposal groups		
Opening balance	2,845	4,277
Less: carrying value of assets/operations sold	(462)	(205)
Balance still unsold after 12 months:	2,383	4,072
Less: assets no longer classified as 'held for sale'	–	(1,472)
Plus new transfers in:		
– Assets 'held for sale'	165	245
Closing balance of 'held for sale' non-current assets and operations	2,548	2,845

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 continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets; assets arising from employee benefits; financial assets; and investment property 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.

Shoalhaven City Council

Notes to the Financial Statements
for the year ended 30 June 2018

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

Asset class	as at 30/6/2017			Asset movements during the reporting period									as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Tfrs from/(to) 'held for sale' category	Tfrs from/(to) real estate assets (Note 8)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Capital work in progress	64,735	–	64,735	23,212	73,796	–	–	(17,659)	(688)	–	–	–	143,396	–	143,396
Plant and equipment	68,334	32,068	36,266	1,046	8,983	(2,597)	(5,127)	–	67	–	–	–	72,845	34,206	38,639
Office equipment	19,778	15,710	4,068	133	400	(14)	(920)	151	13	–	–	–	21,460	17,629	3,831
Furniture and fittings	4,106	2,044	2,062	284	92	–	(214)	–	4	–	–	–	4,487	2,258	2,229
Land:															
– Operational land	135,935	–	135,935	–	1,880	(435)	–	–	(3,921)	(165)	250	31,658	165,203	–	165,203
– Community land	120,368	–	120,368	–	193	(237)	–	–	3,008	–	–	2,053	125,386	–	125,386
– Land under roads (post 30/6/08)	4,179	–	4,179	–	61	–	–	–	1,429	–	230	–	5,899	–	5,899
Land improvements – non-depreciable	127,183	–	127,183	–	557	–	–	–	–	–	–	–	127,740	–	127,740
Land improvements – depreciable	1,829	1,225	604	–	–	–	(59)	–	–	–	–	–	1,829	1,284	545
Infrastructure:															
– Buildings – non-specialised	12,308	5,351	6,957	–	660	–	(106)	–	896	–	–	–	13,865	5,458	8,407
– Buildings – specialised	445,895	227,002	218,893	944	4,672	(2,110)	(7,250)	884	31	–	–	–	445,960	229,897	216,063
– Other structures	35,901	18,252	17,649	102	255	–	(1,322)	54	53	–	–	–	36,365	19,573	16,792
– Roads	1,033,462	343,807	689,655	11,498	4,711	–	(17,991)	10,679	33	–	–	–	1,060,383	361,797	698,586
– Bridges	97,856	34,855	63,001	–	563	–	(944)	9	–	–	–	–	98,428	35,799	62,629
– Footpaths	66,278	20,354	45,924	530	1,794	–	(1,190)	1,970	103	–	–	–	70,675	21,544	49,131
– Bulk earthworks (non-depreciable)	104,233	–	104,233	1,658	1,503	–	–	–	–	–	–	–	107,394	–	107,394
– Stormwater drainage	186,566	79,939	106,627	1,054	816	–	(2,371)	246	–	–	–	–	188,682	82,310	106,372
– Water supply network	619,493	284,014	335,479	260	2,625	(14)	(7,600)	1,572	36	–	–	6,940	636,698	297,401	339,297
– Sewerage network	703,632	262,770	440,862	584	3,371	–	(9,303)	237	(2,745)	–	–	1,337	693,226	258,883	434,343
– Swimming pools	22,519	12,463	10,056	–	30	–	(259)	–	–	–	–	–	22,549	12,722	9,827
– Other open space/recreational assets	36,922	18,169	18,753	571	1,253	–	(1,824)	1,073	51	–	–	–	39,869	19,995	19,874
– Other infrastructure	89,037	43,149	45,888	2,467	1,751	–	(2,530)	783	23	–	–	–	94,061	45,679	48,382
Other assets:															
– Library books	8,019	7,107	912	–	403	–	(336)	–	–	–	–	–	8,422	7,443	979
Reinstatement, rehabilitation and restoration assets (refer Note 14):															
– Tip assets	2,176	2,002	174	–	–	–	(28)	–	–	–	–	–	2,176	2,029	147
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	4,010,744	1,410,281	2,600,463	44,343	110,370	(5,407)	(59,374)	–	(1,606)	(165)	480	41,988	4,186,998	1,455,907	2,731,091

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Accounting policy for infrastructure, property, plant and equipment

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

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW).

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.

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	10	Playground equipment	4 to 20
Office furniture	10	Benches, seats etc.	10 to 20
Computer equipment	4		
Vehicles	3 to 5	Buildings	
Heavy plant/road making equipment	6	Buildings: heritage	160
Other plant and equipment	10 to 30	Buildings: masonry	60 to 80
		Buildings: other	25 to 60
Water assets		Sewer assets	
Pipes	80	Pipes	40 to 117
Treatment plants	25 to 70	Pumping stations	20 to 100
Reservoirs	100	Treatment works	10 to 50
Dams	100	Other sewer assets	20 to 100
Other water assets	20 to 80		
Transportation assets		Other infrastructure assets	
Roads and carpark pavement	20 to 80	Other structures	5 to 50
Roads and carpark surface	12 to 40	Depreciable land improvements	10 to 50
Traffic facilities	40	Swimming pools	50
Kerb and gutter	70	Other open space/recreational assets	10 to 20
Bus shelters	20	Other infrastructure	10 to 50
Crash barriers and fencing	20 to 40		
Bridges	40 to 80	Stormwater	
Footpaths	35 to 50	Various	60 to 80

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Accounting policy for infrastructure, property, plant and equipment (continued)**Crown reserves**

Crown Reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated. Improvements on Crown Reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Under section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all 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's position remains that it controls and recognises the land and buildings but it doesn't control the plant and equipment. However, following the Audit Office report to Parliament, Council tried to obtain plant and equipment details from RFS for assess the quantity, but the information wasn't forthcoming.

Note 10(b). Externally restricted infrastructure, property, plant and equipment

\$ '000 Class of asset	2018			2017		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	6,625	–	6,625	2,610	–	2,610
Plant and equipment	8,805	3,547	5,258	6,840	3,209	3,631
Office equipment	3,366	2,090	1,276	3,184	1,713	1,471
Furniture and fittings	1,106	297	809	1,101	214	887
Land						
– Operational land	6,749	–	6,749	5,537	–	5,537
– Community land	128	–	128	128	–	128
Buildings	17,818	9,166	8,652	17,838	9,151	8,687
Other structures	831	459	372	435	176	259
Infrastructure	636,697	297,402	339,295	619,493	284,014	335,479
Total water supply	682,125	312,961	369,164	657,166	298,477	358,689
Sewerage services						
WIP	106,475	–	106,475	37,694	–	37,694
Plant and equipment	8,848	4,236	4,612	8,232	3,921	4,311
Office equipment	1,245	949	296	1,088	789	299
Furniture and fittings	139	64	75	139	64	75
Land						
– Operational land	15,637	–	15,637	12,036	–	12,036
– Community land	1,022	–	1,022	778	–	778
Buildings	17,783	6,824	10,959	17,783	6,787	10,996
Other structures	19	3	16	19	1	18
Infrastructure	693,226	258,883	434,343	703,632	262,770	440,862
Total sewerage services	844,394	270,959	573,435	781,401	274,332	507,069
TOTAL RESTRICTED IPP&E	1,526,519	583,920	942,599	1,438,567	572,809	865,758

Shoalhaven City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 11. Investment property

\$ '000	2018	2017
(a) Investment property at fair value		
<u>Investment property on hand</u>	<u>1,565</u>	<u>1,555</u>
Reconciliation of annual movement:		
Opening balance	1,555	1,535
– Net gain/(loss) from fair value adjustments	10	20
CLOSING BALANCE – INVESTMENT PROPERTY	<u>1,565</u>	<u>1,555</u>

(b) Valuation basis

The basis of valuation of investment property is fair value, being the amounts for which the properties could be exchanged between willing parties in arms length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2018 revaluations were based on independent assessments made by:
Darren Austin AAPI, of Walsh & Monaghan Pty Ltd

(c) Leasing arrangements – Council as lessor

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

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

Within 1 year	109	92
Later than 1 year but less than 5 years	92	68
Later than 5 years	26	–
Total minimum lease payments receivable	<u>227</u>	<u>160</u>

Council owns six shops, 37 to 43 Kinghorne St Nowra, which are leased. The leases are either for 2 or 3 years with an optional 2 year extension. The collection of rental payments is managed by a real estate agent and are received monthly. Five of the six properties are leased as at 30 June 2018.

(d) Investment property income and expenditure – summary

Rental income from investment property:		
– Minimum lease payments	117	140
– Other income	2	–
Direct operating expenses on investment property:		
– that generated rental income	(17)	(20)
Net revenue contribution from investment property	<u>102</u>	<u>120</u>
plus:		
Fair value movement for year	<u>10</u>	<u>20</u>
Total income attributable to investment property	<u>112</u>	<u>140</u>

Accounting policy for investment property

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Intangible assets

\$ '000	2018	2017
Intangible assets represent identifiable non-monetary assets without physical substance.		
Intangible assets are as follows:		
Opening values:		
Gross book value (1/7)	291	–
Net book value – opening balance	291	–
Movements for the year		
– Purchases	138	165
– Development costs	2,536	126
– Amortisation charges	(38)	–
Closing values:		
Gross book value (30/6)	2,965	291
Accumulated amortisation (30/6)	(38)	–
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u> ¹	<u>2,927</u>	<u>291</u>

¹ The net book value of intangible assets represent:

– Software	2,927	291
	<u>2,927</u>	<u>291</u>

Accounting policy for intangible assets

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to five years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset.

Shoalhaven City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 13. Payables and borrowings

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Payables				
Goods and services	6,593	–	9,253	–
Accrued expenses:				
– Borrowings	1,635	–	1,163	–
– Salaries and wages	1,617	–	1,567	–
– Other expenditure accruals	12,549	–	9,432	–
Security bonds, deposits and retentions	3,841	–	5,486	–
Total payables	26,235	–	26,901	–
Income received in advance				
Payments received in advance	7,384	–	4,429	–
Total income received in advance	7,384	–	4,429	–
Borrowings				
Loans – secured ¹	12,201	141,535	9,524	94,410
Ratepayers' advances	22	365	49	298
Total borrowings	12,223	141,900	9,573	94,708
TOTAL PAYABLES AND BORROWINGS	45,842	141,900	40,903	94,708

(a) Payables and borrowings relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Water	1,349	–	1,291	–
Sewer	14,631	57,429	11,416	61,417
Domestic waste management	791	–	1,436	–
Payables and borrowings relating to externally restricted assets	16,771	57,429	14,143	61,417
Total payables and borrowings relating to restricted assets	16,771	57,429	14,143	61,417
Total payables and borrowings relating to unrestricted assets	29,071	84,471	26,760	33,291
TOTAL PAYABLES AND BORROWINGS	45,842	141,900	40,903	94,708

¹ Loans are secured over the general rating income of Council

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Payables and borrowings (continued)

\$ '000

(b) Changes in liabilities arising from financing activities

Class of borrowings	2017		Non-cash changes			2018
	Opening balance as at 1/7/17	Cash flows	Acquisition	Fair value changes	Other non-cash movements	Closing balance as at 30/6/18
Loans – secured	103,934	49,802	–	–	–	153,736
Ratepayers' advances	347	40	–	–	–	387
TOTAL	104,281	49,842	–	–	–	154,123

\$ '000

2018

2017

(c) Financing arrangements

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

Bank overdraft facilities ⁽¹⁾	400	400
Credit cards/purchase cards ⁽²⁾	1,050	500
Total financing arrangements	1,450	900
Drawn facilities as at balance date:		
– Credit cards/purchase cards	88	–
Total drawn financing arrangements	88	–
Undrawn facilities as at balance date:		
– Bank overdraft facilities	400	400
– Credit cards/purchase cards	962	500
Total undrawn financing arrangements	1,362	900

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

2. Due to the change in transactional banks, there were two credit card facilities open at 30 June 2018, the facility relating to the previous bank has now been closed.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Payables and borrowings (continued)

Accounting policy for payables and borrowings

Payables

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

Borrowings

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

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

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

Finance leases

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

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

Shoalhaven City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 14. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	5,956	–	5,625	–
Sick leave	11,415	–	11,417	–
Long service leave	12,447	703	11,876	517
Sub-total – aggregate employee benefits	29,818	703	28,918	517
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	2,424	–	2,306
Sub-total – asset remediation/restoration	–	2,424	–	2,306
Other provisions:				
Self insurance – workers compensation	433	1,067	637	864
Sub-total – other provisions	433	1,067	637	864
<u>TOTAL PROVISIONS</u>	<u>30,251</u>	<u>4,194</u>	<u>29,555</u>	<u>3,687</u>

(a) Provisions relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Self insurance	433	1,067	637	864
Provisions relating to externally restricted assets	433	1,067	637	864
Total provisions relating to restricted assets	433	1,067	637	864
Total provisions relating to unrestricted assets	29,818	3,127	28,918	2,823
TOTAL PROVISIONS	<u>30,251</u>	<u>4,194</u>	<u>29,555</u>	<u>3,687</u>

\$ '000	2018	2017
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(b) Current provisions not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	19,215	20,267
	<u>19,215</u>	<u>20,267</u>

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Provisions (continued)

\$ '000

(c) Description of and movements in provisions

2018	ELE provisions			Total
	Annual leave	Sick leave	Long service leave	
At beginning of year	5,625	11,417	12,393	29,435
Additional provisions	6,802	1,514	2,960	11,276
Amounts used (payments)	(6,471)	(1,407)	(2,071)	(9,949)
Remeasurement effects	–	(109)	(132)	(241)
Total ELE provisions at end of year	5,956	11,415	13,150	30,521
2017				
At beginning of year	5,320	11,654	11,847	28,821
Additional provisions	5,367	1,594	2,440	9,401
Amounts used (payments)	(5,062)	(1,195)	(1,557)	(7,814)
Remeasurement effects	–	(636)	(337)	(973)
Total ELE provisions at end of year	5,625	11,417	12,393	29,435

Other provisions

2018	Self-	Asset	Total
	insurance	remediation	
At beginning of year	1,501	2,306	3,807
Changes to provision:			
– Revised costs	(1)	–	(1)
Unwinding of discount	–	118	118
Total other provisions at end of year	1,500	2,424	3,924
2017			
At beginning of year	1,016	2,195	3,211
Changes to provision:			
Additional provisions	485	–	485
Unwinding of discount	–	111	111
Total other provisions at end of year	1,501	2,306	3,807

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate council's waste management land fill sites.

Self-insurance

To recognise liabilities for outstanding claims (uninsured losses) arising from Council's decision to undertake self-insurance for certain risks faced.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Provisions (continued)

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.

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.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Provisions (continued)

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

Restoration

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

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

Rehabilitation

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

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

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

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in rubbish being diverted from land fill. 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 land fill 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.

Self-insurance

Council has decided to self-insure for workers compensation.

A provision for self-insurance has been made to recognise outstanding claims. Council also maintains cash and investments to meet expected future claims; refer to Note 6(c).

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

(b) Correction of errors relating to a previous reporting period

Nature of prior-period error

Recognition of operational and community land that was owned at 1st July 2017 but not recorded in the Asset Register \$3.3M

Recognition of water and sewer infrastructure that was owned at 1st July 2017 but not recorded in the Asset Register (Water \$942K, Sewer \$3M)

Discovery of duplicated, non-existent and abandoned water and sewer infrastructure assets in the Asset Register as at 1st July 2017 (Water -\$9.8M, Sewer -\$2.6M)

Correction of accumulated depreciation resulting from a reporting error in the Asset Register \$2.6M

Correction of accumulated impairment resulting from a reporting error in the Asset Register for Porters Creek Dam wall -\$4M

Recognition of non-specialised and specialised buildings previously not recorded in Asset Register \$24.4M

Recognition of 130 parcels of Crown Land under Council's care, control and management.

The errors identified above have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2016) and taking the adjustment through to accumulated surplus at that date.

Comparatives have been changed to reflect the correction of errors. The impact on each line item is shown in the tables below.

Adjustments to the comparative figures for the year ended 30 June 2017

	Original Balance 30 June, 2017	Impact Increase/ (decrease)	Restated Balance 30 June, 2017
Statement of Financial Position			
Community Land	103,220	17,148	120,368
Operational Land	127,648	8,287	135,935
Water Supply Network	348,412	(12,933)	335,479
Sewerage Network	442,926	(2,064)	440,862
Buildings - non-specialised	2,634	4,323	6,957
Buildings - specialised	198,828	20,065	218,893
Total assets	2,817,049	34,826	2,851,875
Accumulated Surplus	1,437,098	38,877	1,475,975
Revaluation Reserve	1,211,098	(4,051)	1,207,047
Total equity	2,648,196	34,826	2,683,022

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000

(c) Voluntary changes in accounting policies

Nature of changes in accounting policies

Grants received in advance

Council recognises specific purpose grants as reciprocal in nature, this financial year the liability (grants received in advance) have been recognised in the ledger, previously only the debtor was recognised.

The above change/s in accounting policy/ies had an immaterial impact on the Statement of Financial Position at 1 July, 2016.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Statement of cash flows – additional information

\$ '000	Notes	2018	2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	24,856	27,856
Balance as per the Statement of Cash Flows		24,856	27,856
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		48,847	36,644
Adjust for non-cash items:			
Depreciation and amortisation		59,412	59,213
Net losses/(gains) on disposal of assets		174	1,792
Non-cash capital grants and contributions		(5,080)	(7,302)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		(10)	(287)
– investment property		(10)	(20)
– Favourable financial liabilities (i.e. initial recognition at fair value)		–	(85)
– Fair valuation adjustment (re-measurement) of existing loans to Council		64	61
– Other (Management Committees)		19	41
Amortisation of premiums, discounts and prior period fair valuations			
– Interest on all fair value adjusted interest free advances made by Council		(6)	(19)
Unwinding of discount rates on reinstatement provisions		118	111
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		4,010	(8,104)
Increase/(decrease) in provision for doubtful debts		29	125
Decrease/(increase) in inventories		(188)	(10)
Decrease/(increase) in other assets		282	(507)
Increase/(decrease) in payables		(2,660)	1,889
Increase/(decrease) in accrued interest payable		472	753
Increase/(decrease) in other accrued expenses payable		3,167	7,129
Increase/(decrease) in other liabilities		1,310	5,146
Increase/(decrease) in employee leave entitlements		1,086	614
Increase/(decrease) in other provisions		(1)	483
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		111,035	97,667
(c) Non-cash investing and financing activities			
Other dedications		5,080	7,302
Total non-cash investing and financing activities		5,080	7,302

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Interests in other entities

\$ '000

	Council's share of net income		Council's share of net assets	
	2018	2017	2018	2017
Controlled Entities	104	50	809	705
Total	104	50	809	705

(a) Controlled entities (subsidiaries) – being entities and operations controlled by Council

Council's consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with AASB 10 and the accounting policy described in Note 1(c).

Name of operation/entity	Principal activity	Ownership		Voting rights	
		2018	2017	2018	2017
1. Southern Water Services Pty Ltd	Provision of water, sewerage and related services Bridge Road Nowra NSW 2541				
Interests in Subsidiary					
Council's interest in Subsidiary		100%	100%	100%	100%

The nature and extent of significant restrictions relating to the Subsidiary

Southern Water Services is limited by shares under the Corporations Act (2001)

As sole shareholder Council controls full voting rights over Southern Water Services.

Dividends paid by Southern Water Services to Council are restricted by S254T of Corporations Act (2001)

The nature of risks associated with Council's interests in the Subsidiary

Council's liability is limited to the value of its fully paid shares.

Summarised financial information for the Subsidiary

Summarised statement of comprehensive income	2018	2017
Revenue	6	7
Expenses	(1)	(1)
Profit for the period	5	6
Total comprehensive income ⁽¹⁾	5	6
Summarised statement of financial position	2018	2017
Current assets	453	448
Total assets	453	448
Net assets ⁽²⁾	453	448
Summarised statement of cash flows	2018	2017
Cash flows from operating activities	5	4
Net increase (decrease) in cash and cash equivalents	5	4

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Interests in other entities (continued)

\$ '000

(a) Controlled entities (subsidiaries) – being entities and operations controlled by Council (cont'd)

Name of operation/entity	Principal activity	Ownership		Voting rights	
		2018	2017	2018	2017
2. Shoalhaven City Council Management Committees	Use and Management of community land and assets Bridge Road Nowra NSW 2541				
Interests in Subsidiary					
Council's interest in Subsidiary		100%	100%	100%	100%

The nature and extent of significant restrictions relating to the Subsidiary

Established under S355 of the Local Government Act (1993). Management Committees have delegated authority to use and manage community land under S377 of the Local Government Act (1993). Council retains full access to management committee cash, investments and other assets.

The nature of risks associated with Council's interests in the Subsidiary

Council is exposed to the risks and rewards of management committee activities. Council provides low interest loans to management committees in order to fund capital projects. Council provides subsidies in order to maintain committee operations.

Summarised financial information for the Subsidiary

	2018	2017
Summarised statement of comprehensive income		
Revenue	880	482
Expenses	(781)	(438)
Profit for the period	99	44
Total comprehensive income ⁽¹⁾	99	44
Summarised statement of financial position	2018	2017
Current assets	407	270
Non-current assets	6	21
Total assets	413	291
Current liabilities	44	34
Non-current liabilities	13	–
Total liabilities	57	34
Net assets ⁽²⁾	356	257
Summarised statement of cash flows	2018	2017
Cash flows from operating activities	134	92
Cash flows from investing activities	(1)	–
Cash flows from financing activities	(7)	–
Net increase (decrease) in cash and cash equivalents	126	92

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Interests in other entities (continued)

Accounting policy for subsidiaries

Subsidiaries are all entities (including structured entities) over which the Council has control. Control is established when the Council is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

These consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost. Intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements. Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a June financial year end.

Note 18. Commitments for expenditure

\$ '000	2018	2017
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	1,102	398
Plant and equipment	1,550	172
Swimming pools	458	7
Roads	6,383	11,447
Water assets	1,276	2,262
Sewer assets	26,263	66,374
Other	6,593	7,980
Total commitments	43,625	88,640
These expenditures are payable as follows:		
Within the next year	43,625	88,640
Total payable	43,625	88,640
Sources for funding of capital commitments:		
Unrestricted general funds	2,324	20,004
Future grants and contributions	3,789	–
Section 7.11 and 64 funds/reserves	107	–
Unexpended grants	60	–
Externally restricted reserves	2,634	68,636
Internally restricted reserves	8,001	–
Unexpended loans	26,710	–
Total sources of funding	43,625	88,640

Details of capital commitments

Below is a list of projects with large capital commitments

Reclaimed Water Management Scheme (REMS1B) Construction - \$25m
 Construction of civil works at Woollamia Industrial Estate subdivision- \$1.6M
 Rehabilitation of Flinders Road - \$1.2M

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Commitments for expenditure (continued)

\$ '000	2018	2017
(b) Operating lease commitments (non-cancellable)		
a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:		
Within the next year	45	50
Later than one year and not later than 5 years	25	31
Total non-cancellable operating lease commitments	70	81

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

Leased office and workshop in Bomaderry for the Northern Maintenance Unit - expires in December 2018

Leased demountable library space in Sanctuary Point - expired July 2018

Carpark and toilets in Ulladulla - expires February 2021 and December 2022

Conditions relating to operating leases:

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

Note 19. Contingencies and other liabilities/assets not recognised

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council participates in an employer-sponsored defined benefit superannuation scheme and makes contributions as determined by the superannuation scheme's trustees.

Member councils bear responsibility of ensuring there are sufficient funds available to pay out the required benefits as they fall due.

While the scheme's most recent full actuarial review indicated that the net assets of the scheme were sufficient to meet the accrued benefits of the scheme's defined benefit member category, member councils are required to make contributions in future years where the scheme goes into deficit (as has occurred in previous years).

The Local Government Superannuation Scheme however is unable to provide Council with an accurate estimate of any share of the net deficit and accordingly Council has not recorded any net liability from its defined benefit scheme obligations in accordance with AASB 119.

Future planned contributions being made to the defined benefit scheme to rectify past (and projected) deficit positions will be recognised as an expense when they become payable – similar to the accounting for defined contributions plans.

Member councils are treated as Pooled Employers for the purposes of AASB119. Pooled Employers are required to pay standard employer contributions and additional lump sum contributions to the Fund.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Contingencies and other liabilities/assets not recognised (continued)

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

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2017 for 4 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2017. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as 30 June 2017.

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 the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

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

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

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

The plan is a defined benefit plan. However, 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, there is not 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.

The amount of Council employer contributions to the defined benefit section of the Fund and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2018 was \$1,703,500

The last valuation of the Fund was by the Actuary, Mr Richard Boyfield, FIAA on 12 December 2017, relating to the period ended 30 June 2017.

Council's expected contributions to the Fund for the next annual reporting period is \$1,632,175.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2018 is:

Employer reserves only *	\$ millions	Asset Coverage
Assets	1,817.8	
Past Service Liabilities	1,787.5	101.7%
Vested Benefits	1,778.0	102.2%

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

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

Investment return	6.0% per annum
Salary inflation *	3.5% per annum
Increase in CPI	2.5% per annum

* Plus promotional increases

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Contingencies and other liabilities/assets not recognised (continued)

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 2018 triennial review will be completed around December 2018.

Council's additional lump sum contribution is around 1.98% of the total additional lump sum contributions for all Pooled Employers (of \$40m each year from 1 July 2017 to 30 June 2021) provides an indication of the level of participation of Council compared with other employers in the Pooled Employer sub-group.

(ii) Potential Insurance Losses

Council is a multi-purpose organisation providing a large range of building, parks, infrastructure, playgrounds and other facilities accessible to the public. At any time, it is likely that claims will have been made against Council that remain unsettled. Council insures against all known insurable risks using a range of insurance policies, each of which is subject to a deductible insurance excess, the amount of which varies according to the class of insurance.

(iii) Statewide Mutual

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.

Council is a licenced self-insurer for Workers Compensation insurance, however, it has in place re-insurance arrangement for potential claims above a pre-determined retention level.

(iv) Other guarantees

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

2. Other liabilities

(i) Legal Expenses

Council is the planning consent authority for its area under the Environmental Planning & Assessment Act (as amended). Pursuant to that Act, certain persons aggrieved by a planning decision of the Council may appeal to the Land & Environment Court. It is the Court's normal practice that parties bear their own legal costs. At the date of these reports, Council had notice of 1 appeal against planning decisions made prior to reporting date. All known costs have been recognised, but the amount of further costs cannot be known until the appeals are determined.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Contingencies and other liabilities/assets not recognised (continued)

LIABILITIES NOT RECOGNISED (continued):

(ii) 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.

(iii) S7.11 and S64 Developer Contributions Plans

Council levies Section 7.11 and Section 64 Contributions upon various developments 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, Water or Sewer Funds. These future exposures do not qualify as liabilities as of the Reporting Date, but represents Council's intention to spend funds in the manner and timing set out in those plans.

ASSETS NOT RECOGNISED:

(i) Land under roads

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

(ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau. Council's revenue recognition policy for such income is to account for it as revenue on receipt. Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices. Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

(iii) Rural Fire Fighting Assets

Council has vested title to, and is the registered owner of rural fire appliances and associated fire fighting equipment. These assets are under the control of the Rural Fire Services to enable that Department to provide the bushfire protection defences set out in their Service Level Agreement with Council, and accordingly have not been recognised in these reports.

(iv) S7.11 and S64 Developer Contributions

Council calculates the amount of the Developer Contributions applicable for each Development Application at the time of application. Due to the uncertainty of the timing of the payment and the indexation of the contributions, Council recognises this revenue upon receipt.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Financial risk management

\$ '000

Risk management

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

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

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

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

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

	Carrying value		Fair value	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	24,856	27,856	24,856	27,856
Investments				
– 'Held for trading'	69,745	63,855	69,745	63,855
– 'Held to maturity'	126,898	113,341	126,898	113,341
Receivables	27,778	31,823	27,778	31,823
Total financial assets	249,277	236,875	249,277	236,875
Financial liabilities				
Payables	26,235	26,901	26,235	26,901
Loans/advances	154,123	104,281	154,123	104,281
Total financial liabilities	180,358	131,182	180,358	131,182

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) '**at fair value through profit and loss**' or (ii) '**available-for-sale**' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Financial risk management (continued)

\$ '000

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

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

Council has an investment policy which complies with the *Local Government Act 1993* and Ministerial Investment Order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

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

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2018				
Possible impact of a 10% movement in market values	6,975	6,975	(6,975)	(6,975)
Possible impact of a 1% movement in interest rates	2,215	2,215	(2,215)	(2,215)
2017				
Possible impact of a 10% movement in market values	6,386	6,386	(6,386)	(6,386)
Possible impact of a 1% movement in interest rates	2,051	2,051	(2,051)	(2,051)

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Financial risk management (continued)

\$ '000

(b) Credit risk

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

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

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

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

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

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

A profile of Council's receivables credit risk at balance date follows:

	2018 Rates and annual charges	2018 Other receivables	2017 Rates and annual charges	2017 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	34%	79%	55%	73%
Overdue	66%	21%	45%	27%
	100%	100%	100%	100%

(ii) Ageing of receivables – value

Rates and annual charges

	2018	2017
Current	3,555	5,617
< 1 year overdue	3,953	1,189
1 – 2 years overdue	817	993
2 – 5 years overdue	1,177	1,155
> 5 years overdue	976	1,341
	10,478	10,295

Other receivables

	2018	2017
Current	14,065	16,024
0 – 30 days overdue	845	2,687
31 – 60 days overdue	509	726
61 – 90 days overdue	81	419
> 91 days overdue	2,212	2,055
	17,712	21,911

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk by borrowing long term and fixing the interest rate. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and borrowings are set out in the maturity table below:

\$ '000	Weighted average interest rate	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 – 5 Years	> 5 Years		
2018							
Trade/other payables	0.00%	3,841	22,394	–	–	26,235	26,235
Loans and advances	4.31%	–	12,223	47,882	94,329	154,434	154,123
Total financial liabilities		3,841	34,617	47,882	94,329	180,669	180,358
2017							
Trade/other payables	0.00%	5,486	20,601	–	–	26,087	26,901
Loans and advances	4.86%	–	9,573	39,630	55,392	104,595	104,281
Total financial liabilities		5,486	30,174	39,630	55,392	130,682	131,182

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 13 June 2017 and is not required to be audited.

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

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

Note that for variations* of budget to actual :

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

F = Favourable budget variation, **U** = Unfavourable budget variation

\$ '000	2018 Budget	2018 Actual	2018 ----- Variance* -----		
REVENUES					
Rates and annual charges	132,808	133,115	307	0%	F
User charges and fees	68,320	76,177	7,857	12%	F
Due to the drier weather there was an additional \$2.7M in water usage, additional commercial assessments and the drier weather resulted in an additional \$450K in sewer usage, additional water meter connections \$590K and additional effluent and liquid trade waste usage income of \$283K. Private works during the year that wasn't budgeted for resulted in an additional \$2.3M. An additional building hire from the management committees of \$566K, development and regulatory fees \$322K, tourism campaigns and visitors centre \$434K, swim and fitness \$229K.					
Interest and investment revenue	4,526	6,339	1,813	40%	F
Higher investment base for water and sewer resulting in additional interest income of \$625K for Water and \$1.2M for Sewer, this was reported during the quarterly budget reviews					
Other revenues	3,457	4,167	710	21%	F
Additional Building and Regulatory fees \$469K, fuel tax credit \$139K and sundry revenue from management committees \$139K.					
Operating grants and contributions	19,875	21,026	1,151	6%	F
Capital grants and contributions	10,093	31,136	21,043	208%	F
The following items were not included in the budget: contributed assets \$5m, natural disaster funding \$1.44M. Additional developer contributions received \$3.67M and additional capital grants for roads to recovery \$1.2M, roads safety \$9.6M, waterway infrastructure \$940K					
Fair value increment on investment property	–	10	10	0%	F
The change in the fair value of Council's investment property is not included in the budget.					

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Material budget variations (continued)

\$ '000	2018 Budget	2018 Actual	2018 Variance*	
EXPENSES				
Employee benefits and on-costs	69,696	77,712	(8,016)	(12%) U
Due to the allocation of budget for maintenance programs between employee costs and materials. When the total operating expenditure result is compared to budget the variance is 0.4%.				
Borrowing costs	4,782	5,431	(649)	(14%) U
Additional interest was accrued due to the Sewer Loan drawn down earlier than planned.				
Materials and contracts	60,564	48,372	12,192	20% F
Due to the allocation of budget for maintenance programs between employee costs and materials. When the total operating expenditure result is compared to budget the variance is 0.4%.				
Depreciation and amortisation	57,452	59,412	(1,960)	(3%) U
Other expenses	29,761	32,022	(2,261)	(8%) U
Net losses from disposal of assets	–	174	(174)	0% U
Due to the disposal of water and sewer assets. Losses or gains on disposal are not in the original budget.				

Budget variations relating to Council's Cash Flow Statement include:

Cash flows from operating activities	73,123	111,035	37,912	51.8% F
Due to additional income received, please see above explanations.				
Cash flows from investing activities	(166,965)	(163,813)	3,152	(1.9%) F
Cash flows from financing activities	49,706	49,778	72	0.1% F

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement

\$ '000

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

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

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

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

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

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

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

Cost Approach: A valuation technique that reflects the amount what would be required to replace the service capacity of an asset (current replacement cost).

Income Approach: Valuation technique that converts future amounts (cash flows inflows/outflows) to signal the current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about these future amounts.

Market Approach: A valuation technique that uses prices and other relevant information, generated by market transactions involving identical or comparable (similar) assets, liabilities or a group of assets and liabilities such as a business.

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values:

2018	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments					
– 'Held for trading'	30/06/18	–	–	69,745	69,745
Total financial assets		–	–	69,745	69,745
Investment property					
Shops, 37-43 Kinghorne Street, Nowra	30/06/18	–	1,565	–	1,565
Total investment property		–	1,565	–	1,565

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

\$ '000

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values (continued):

2018	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/18	–	–	38,639	38,639
Office equipment	30/06/18	–	–	3,831	3,831
Furniture and fittings	30/06/18	–	–	2,229	2,229
Operational land	30/06/18	–	–	165,203	165,203
Community land	30/06/18	–	–	125,386	125,386
Land under roads (post 30/06/08)	30/06/14	–	–	5,899	5,899
Land improvements – non-depreciable	30/06/16	–	–	127,740	127,740
Land improvements – depreciable	30/06/16	–	–	545	545
Buildings – non-specialised	30/06/14	–	8,407	–	8,407
Buildings – specialised	30/06/14	–	–	216,063	216,063
Other structures	30/06/16	–	–	16,792	16,792
Roads	30/06/15	–	–	698,586	698,586
Bridges	30/06/15	–	–	62,629	62,629
Footpaths	30/06/15	–	–	49,131	49,131
Bulk earthworks (non-depreciable)	30/06/15	–	–	107,394	107,394
Stormwater drainage	30/06/15	–	–	106,372	106,372
Water supply network	30/06/18	–	–	339,297	339,297
Sewerage network	30/06/18	–	–	434,343	434,343
Swimming pools	30/06/16	–	–	9,827	9,827
Other open space / recreational assets	30/06/16	–	–	19,874	19,874
Other infrastructure	30/06/16	–	–	48,382	48,382
Library books	30/06/18	–	–	979	979
Tip asset	30/06/12	–	–	147	147
Total infrastructure, property, plant and equipment		–	8,407	2,579,288	2,587,695
Non-recurring fair value measurements					
Non-current assets classified as ‘held for sale’					
Operational Land	30/06/18	–	–	1,150	1,150
Buildings	30/06/14	–	–	1,398	1,398
Total NCA’s classified as ‘held for sale’		–	–	2,548	2,548
2017					
Recurring fair value measurements					
Financial assets					
Investments – ‘Held for trading’	30/06/17	–	–	63,855	63,855
Total financial assets		–	–	63,855	63,855
Investment property					
Shops, 37-43 Kinghorne Street, Nowra	30/06/17	–	1,555	–	1,555
Total investment property		–	1,555	–	1,555

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement

\$ '000

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values (continued):

2017	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/17	–	–	36,266	36,266
Office equipment	30/06/17	–	–	4,068	4,068
Furniture and fittings	30/06/17	–	–	2,062	2,062
Operational land	30/06/13	–	–	135,935	135,935
Community land	30/06/15	–	–	120,368	120,368
Land under roads (post 30/06/08)	30/06/14	–	–	4,179	4,179
Land improvements – non-depreciable	30/06/16	–	–	127,183	127,183
Land improvements – depreciable	30/06/16	–	–	604	604
Buildings – non-specialised	30/06/14	–	6,957	–	6,957
Buildings – specialised	30/06/14	–	–	218,893	218,893
Other structures	30/06/16	–	–	17,649	17,649
Roads	30/06/15	–	–	689,655	689,655
Bridges	30/06/15	–	–	63,001	63,001
Footpaths	30/06/15	–	–	45,924	45,924
Bulk earthworks (non-depreciable)	30/06/15	–	–	104,233	104,233
Stormwater drainage	30/06/15	–	–	106,627	106,627
Water supply network	30/06/17	–	–	335,479	335,479
Sewerage network	30/06/17	–	–	440,862	440,862
Swimming pools	30/06/16	–	–	10,056	10,056
Other open space / recreational assets	30/06/16	–	–	18,753	18,753
Other infrastructure	30/06/16	–	–	45,888	45,888
Library books	30/06/17	–	–	912	912
Tip asset	30/06/12	–	–	174	174
Total infrastructure, property, plant and equipment		–	6,957	2,528,771	2,535,728
Non-recurring fair value measurements					
Non-current assets classified as ‘held for sale’					
Operational Land	30/06/13	–	–	1,447	1,447
Buildings	30/06/14	–	–	1,398	1,398
Total NCA’s classified as ‘held for sale’		–	–	2,845	2,845

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

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

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

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

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

Financial assets

Investment - "At fair value through profit or loss" is represented by: Macquarie Investment Managed Fund, TCorp IM Cash Fund and Floating Rate Notes. Council obtains valuations from its Safe Custody Operations on a monthly basis and at the end of each reporting period to ensure that the financial statements reflect the most up-to-date valuation.

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

Investment property

Council obtains independent valuations at least every three (3) years for all investment properties. The last full valuation was undertaken by Mr Peter Adlington, AAPI, of Walsh & Monaghan Pty Ltd as at 30 June 2016. A desktop valuation was completed as at 30 June 2018 by Mr Darren Austin, AAPI, of Walsh & Monaghan Pty Ltd.

The valuation has been determined by the "capitalisation of net rental" approach where the net market rental of the property is capitalised at an appropriate market rate determined from the analysis of comparable sales. This result was compared to the "rate per square metre of building area" method of similar building sales.

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

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

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

Examples of assets within these classes are as follows:

- Plant and Equipment - Graders, trucks, rollers, tractors and motor vehicles.
- Office Equipment - Computers, photocopiers, calculators, etc.
- Furniture & Fittings - Chairs, desks and display boards.

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

Operational Land

This asset class comprises all of Council's land and Council managed land classified as Operational Land under the NSW Local Government Act 1993. The key unobservable input to the valuation is the price per square metre. The last valuation was undertaken by Mr James Sharpe, FAPI CPV, of Opteon Property Group Pty Ltd effective 30th June 2018.

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset, the remaining useful life and condition of the asset; and cash flows from the future use and disposal.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

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

Community Land

Valuations of all Council's Community Land and Council managed land were based on either the land values provided by the Valuer-General or an average unit rate based on the land values for similar properties where the Valuer-General did not provide a land value having regard to the highest and best use for this land. As these rates were not considered to be observable market evidence they have been classified as level 3.

The last valuation was undertaken effective 30th June 2018.

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

Land Under Roads

Council has elected to recognise Land Under Roads where the road was acquired on or after 1 July 2008. 'Land under Roads' have been valued using the square metres rates applicable for nearby or adjacent Community Land having regard to the highest and best use for this land.

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

Land Improvements - depreciable and non-depreciable

This asset class comprises land improvements such as spectator mounds, swales, berms, gardens, mulched areas, streetscaping and landscaping. These assets may be located on parks, reserves and also within road reserves. 'Land Improvements' were valued in-house using the cost approach by experienced Council engineers and asset management staff.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using level 3 valuation inputs.

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

Buildings – Non specialised and Specialised

The fair value of buildings were determined by independent valuer, Scott Fullerton Valuations Pty Ltd effective 30 June 2014. Where there is a market for Council building assets, fair value has been derived from the sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach were price per square metre.

Where Council buildings are of a specialist nature and there is no active market for the assets, fair value has been determined on the basis of replacement with a new asset having similar service potential including allowances for preliminaries and professional fees. The gross current values have been derived from reference to market data for recent projects and costing guides issued by the Australian Institute of Quantity Surveyors, Rawlinson's (Australian Construction Handbook). Where a depth in market can be identified, the net current value of a building asset is the difference between the market value of the asset as a whole (including land) and the market value of the land component. Where there is no depth of market, the net current value of a building asset is the gross current value less accumulated depreciation to reflect the consumed or expired service potential of the asset.

In determining the level of accumulated depreciation the asset has been disaggregated into significant components which exhibit useful lives. Allowance has been made for the typical asset life cycle and renewal treatments of each component, residual value at the time the asset is considered to be no longer available for use and the condition of the asset. Condition was assessed taking into account both physical characteristics as well as holistic factors such as functionality, capability, utilisation and obsolescence.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

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

Other Structures

This asset class comprises Boardwalks, Viewing platforms, Floodlighting Systems, Pedestrian bridges and fencing.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using level 3 valuation inputs.

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

Roads

Roads comprise road carriageway, roadside shoulders & kerb & gutter. The cost approach using level 3 inputs was used to value this asset class. Valuations for this asset class were undertaken in-house based on actual costs and assumptions from Council's Engineering Department. No market based evidence (level 2) inputs are available therefore level 3 valuation inputs were used for this asset class.

The last full valuation of road infrastructure was undertaken effective 30 June 2015.

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

Bridges

The last full valuation of bridges was undertaken effective 30th June 2015.

Each bridge was assessed individually, with the valuation varying according to the material type used for construction, the deck area, condition and size. Construction estimates were determined on a similar basis to roads.

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

Footpaths

Council's footpath register consists of all pedestrian walkways and cycleways within the Council area.

Council's Engineering Department completed the valuation of the Footpath assets internally based on actual costs and assumptions and the last valuation was completed effective 30th June 2015.

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

Bulk earthworks (non-depreciable)

The 'Cost Approach' estimated the replacement cost for each asset.

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

Stormwater Drainage

Assets within this class comprise pits, pipes, open channels, headwalls and various types of water quality devices.

The cost approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar could be supported from market evidence (level 2) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

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

Water Supply Network

Assets within this class comprise dams, treatment works, pumping stations and water mains.

The cost approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence (level 2) other inputs (such as estimates of pattern of consumption and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. These assets are indexed each year in line with the NSW Reference Rates Manual as published by the Office of Water (Department of Primary Industries). According to this manual, the calculation of sewerage projects within NSW, supplemented by published rates for water supply, sewerage and stormwater works and also rates obtained from a number of Local Water Utilities and other agencies".

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

Sewerage Network

Assets within this class comprise treatment works, pumping stations and, sewerage mains.

The cost approach estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence (level 2) other inputs (such as estimates of pattern of consumption and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. These assets are indexed each year in line with the NSW Reference Rates Manual as published by the Office of Water (Department of Primary Industries). According to this manual, the calculation of reference rates is based on "competitive contract prices obtained by NSW Public Works for water supply and sewerage projects within NSW, supplemented by published rates for water supply, sewerage and stormwater works and also rates obtained from a number of Local Water Utilities and other agencies".

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

Swimming Pools

Assets within this class comprise Council's rock pools, outdoor swimming pools and indoor swimming pools (component of Aquatic Centre). The swimming pools were valued in-house by experienced staff in Council's Engineering Department using the cost approach. The approach estimated the replacement cost for each pool by componentising its significant parts.

While some elements of gross replacement values may be supported from market evidence (level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

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

Other Open Space / Recreational Assets

Assets within this class include playground equipment, BBQs and outdoor fitness facilities.

These were valued in-house by experienced staff in Council's Engineering Department using the cost approach. The approach estimated the replacement cost for asset by componentising its significant parts.

While some elements of gross replacement values may be supported from market evidence (level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

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

Other Infrastructure

Assets within this class include jetties, boat ramps, sea/rock/retaining walls.

These were valued in-house by experienced staff in Council's Engineering Department using the cost approach. The approach estimated the replacement cost for asset by componentising its significant parts.

While some elements of gross replacement values may be supported from market evidence (level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

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

Library Books

Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

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

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

Non-current assets classified as 'held for sale'

This comprises operational land and specialised building.

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

\$ '000

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

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

	Investments	IPPE	Held for sale	Total
Opening balance – 1/7/16	34,507	2,496,557	4,277	2,535,341
Transfers from/(to) another asset class	–	1,227	(1,227)	–
Purchases (GBV)	34,328	81,310	–	115,638
Disposals (WDV)	(5,257)	(8,305)	(205)	(13,767)
Depreciation and impairment	–	(59,091)	–	(59,091)
FV gains – Income Statement ¹	277	–	–	277
Asset revaluation reserve	–	(13,430)	–	(13,430)
Prior period adjustments - Note 15b	–	30,503	–	30,503
Closing balance – 30/6/17	63,855	2,528,771	2,845	2,595,471
Transfers from/(to) another asset class	–	(1,499)	165	(1,334)
Purchases (GBV)	21,536	74,702	–	96,238
Disposals (WDV)	(15,656)	(5,407)	(462)	(21,525)
Depreciation and impairment	–	(59,268)	–	(59,268)
FV gains – Income Statement ¹	10	–	–	10
Asset revaluation reserve	–	41,988	–	41,988
Closing balance – 30/6/18	69,745	2,579,288	2,548	2,651,581
¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total:				
YE 16/17	277	–	–	277
YE 17/18	10	–	–	10

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

Transfer of a Non-Specialised Building (Level 2) to a specialised building (Level 3)

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

\$ '000

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

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

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

Class	Fair value (30/6/18) \$'000	Valuation technique/s	Unobservable inputs
Financial assets			
Investments	69,745	Advisor Reports	<ul style="list-style-type: none"> Unit price
IPP&E			
Plant and equipment	38,639	Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value
Office equipment	3,831	Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value
Furniture and fittings	2,229	Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value
Operational land	165,203	External Valuer	<ul style="list-style-type: none"> Land value (price per square metre)
Community land	125,386	Land values obtained from the NSW Valuer-General and External Valuer where Valuer-General values were not available	<ul style="list-style-type: none"> Land value (price per square metre)
Land under roads (post 30/06/08)	5,899	Valuation of road segments at the average unit value of properties adjoining the relevant road segment	<ul style="list-style-type: none"> Average value of the land adjoining the relevant road segment in the Shoalhaven Council area
Land improvements and other infrastructure	176,667	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value Asset condition
Buildings – specialised	216,063	External Valuer - Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value Asset condition
Other structures	16,792	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> Gross replacement cost Remaining useful life Residual value Asset condition

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

\$ '000

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

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

Class	Fair value (30/6/18) \$'000	Valuation technique/s	Unobservable inputs
IPP&E (continued)			
Roads	698,586	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Bridges	62,629	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Footpaths	49,131	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Bulk earthworks (non-depreciable)	107,394	Cost approach	<ul style="list-style-type: none"> • Replacement cost
Stormwater drainage	106,372	Unit rate per m2 or length	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Water supply network	339,297	Unit rate per m2 or length	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life
Sewerage network	434,343	Unit rate per m2 or length	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life
Swimming pools – other open space / recreational assets	29,701	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Library books	979	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Tip asset	147	Present value of future expenditures expected to be incurred on waste depot sites restoration	<ul style="list-style-type: none"> • Estimated restoration costs
Non-current assets classified as 'held for sale'			
Operational Land	1,150	External Valuer	<ul style="list-style-type: none"> • Land value (price per square metre)
Buildings	1,398	External Valuer - Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Fair value measurement (continued)

\$ '000

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

d. The valuation process for level 3 fair value measurements

Valuation Decision

- the whole valuation process is undertaken with all the relevant staff consulted. This includes: Asset Management Units (Assets and Works and Shoalhaven Water) , Finance and the Asset Custodians
- each asset class is investigated as to whether there is any evidence to suggest that the carrying value does not materially reflect the fair value at the reporting date.
- an asset class will be revalued if there is evidence identified or if the asset class is required to be revalued due to it being more than five years since the previous revaluation.

Valuation Process

- obtain a full list of assets to be valued, in consultation with the Asset Management Units, Finance and the Asset Custodians
- decide if the valuation will be performed internally or externally, this is dependant if Council has the resources, knowledge, skills and measurement base available.
- External Valuations
 - request a quotation or tender based on the expected cost of the valuation, following Council's procurement procedure
 - evaluate and engage to successful valuer
 - meet the valuer to discuss their approach and inspection schedule
 - receive weekly updates from the valuer during the process
 - Finance receives and reviews the valuation report and working papers with the relevant Council staff
 - any concerns are communicated back to the valuer
 - the values in the asset registers are amended according to the final reports received
- Internal Valuations
 - review unit rates, considering cost of constructing new assets since the previous revaluation
 - apply these unit rates to the assets and amend the value accordingly in the asset registers
- the valuation movements are analysed by the Asset Accountant, Finance Manager and other staff with expertise in that Asset category

(5). Highest and best use

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

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Related party transactions

\$ '000

a. Key management personnel

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

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

Compensation:	2018	2017
Short-term benefits	4,359	3,775
Post-employment benefits	296	259
Other long-term benefits	212	175
Termination benefits	82	24
Total	4,949	4,233

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Related party transactions (continued)

b. Other transactions with KMP and their related parties

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

Nature of the transaction		Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for doubtful debts outstanding	Doubtful debts expense recognised
	Ref	Actual \$	Actual \$		Actual \$	Actual \$
2018						
Council rates	3(a)	1,000	–	Due 30th June 2018	–	–
Water rates	3(a)	1,000	–	30 days	–	–
Development applications	3(b)(i)	4,000	–	On Application	–	–
Additional/relocated metered service	3b	1,000	–	On Application	–	–
Swimming pool compliance	3(b)(1)	–	–	On Application	–	–
Amend a condition of consent	3(b)(i)	1,000	–	On Application	–	–
2017						
Disability employment services	4 (c)	61,000	5,000	30 days end of month	–	–
Travel & accomodation	3(a)	10,000	1,000	30 days end of month	–	–
Kerb & gutter	3(f)	7,000	–	On Application	–	–
Council rates	3(a)	3,000	1,000	Due 30th June 2017	–	–
Water rates	3(a)	3,000	–	30 days	–	–
Development applications	3(b)(i)	1,000	–	On Application	–	–
Memorial garden plaque	3(b)(ii)	1,000	–	On Application	–	–
Additional/relocated metered service	3b	847	–	On Application	–	–

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Related party transactions (continued)

c. Other related party transactions

Nature of the transaction		Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for doubtful debts outstanding	Doubtful debts expense recognised
	Ref	Actual \$	Actual \$		Actual \$	Actual \$
2018						
Management committee subsidy	4 (e)	164,000	–	Management committees are paid a subsidy to assist in operating and maintaining the facility they are managing	–	–
2017						
Management committee subsidy	4 e	135,000	–	Management committees are paid a subsidy to assist in operating and maintaining the facility they are managing	–	–

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 24. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	252	41	–	16	–	–	309	–
Roads	3,953	647	–	181	(497)	–	4,284	–
Parking	1,184	(38)	–	29	(198)	–	977	–
Open space	1,575	807	–	56	–	–	2,438	–
Community facilities	8,780	1,554	–	266	(504)	–	10,096	–
Active recreation	12,769	1,768	–	360	(1,659)	–	13,238	–
Other	257	490	–	1	(326)	–	422	–
S7.11 contributions – under a plan	28,770	5,269	–	909	(3,184)	–	31,764	–
Total S7.11 and S7.12 revenue under plans	28,770	5,269	–	909	(3,184)	–	31,764	–
S64 contributions	16,741	4,694	–	516	(3,820)	–	18,131	–
Total contributions	45,511	9,963	–	1,425	(7,004)	–	49,895	–

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 24. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

Shoalhaven Contributions Plan

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	252	41	–	16	–	–	309	–
Roads	3,953	647	–	181	(497)	–	4,284	–
Parking	1,184	(38)	–	29	(198)	–	977	–
Open space	1,575	807	–	56	–	–	2,438	–
Community facilities	8,780	1,554	–	266	(504)	–	10,096	–
Active recreation	12,769	1,768	–	360	(1,659)	–	13,238	–
Other	257	490	–	1	(326)	–	422	–
Total	28,770	5,269	–	909	(3,184)	–	31,764	–

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 25. Financial result and financial position by fund

Income Statement by fund			
\$ '000	2018	2018	2018
Continuing operations	Water	Sewer	General¹
Income from continuing operations			
Rates and annual charges	4,336	41,893	87,743
User charges and fees	24,229	5,775	58,619
Interest and investment revenue	1,872	1,413	5,274
Other revenues	80	28	4,059
Grants and contributions provided for operating purposes	517	515	19,994
Grants and contributions provided for capital purposes	3,282	5,594	22,260
Other income			
Fair value increment on investment property	–	–	10
Total income from continuing operations	34,316	55,218	197,959
Expenses from continuing operations			
Employee benefits and on-costs	8,505	10,545	65,201
Borrowing costs	–	3,989	1,947
Materials and contracts	4,903	6,109	41,430
Depreciation and amortisation	8,783	9,855	40,774
Other expenses	3,769	4,805	26,142
Net losses from the disposal of assets	45	31	98
Total expenses from continuing operations	26,005	35,334	175,592
Operating result from continuing operations	8,311	19,884	22,367
Net operating result attributable to each council fund	8,311	19,884	22,367
Net operating result for the year before grants and contributions provided for capital purposes	5,029	14,290	107

¹ General fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are consolidated within each fund – that is, they include internal charges and recoveries made between the funds but don't include internal charges and recoveries made within the fund.

Due to the dividend/tax equivalent paid to General Fund from the Water and Sewer Fund, the sum of the operating result of the funds will not equal the consolidated income statement.

Shoalhaven City Council

Notes to the Financial Statements

as at 30 June 2018

Note 25. Financial result and financial position by fund (continued)

Statement of Financial Position by fund			
\$ '000	2018	2018	2018
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	5,265	7,038	12,553
Investments	20,628	54,147	75,868
Receivables	5,492	6,150	12,128
Inventories	1,103	–	1,819
Other	3	–	579
Non-current assets classified as 'held for sale'	–	–	2,548
Total current assets	32,491	67,335	105,495
Non-current assets			
Investments	20,751	1,500	23,749
Receivables	6,186	1,705	3,043
Inventories	–	–	5,151
Infrastructure, property, plant and equipment	369,164	573,435	1,788,492
Investment property	–	–	1,565
Intangible assets	272	33	2,622
Total non-current assets	396,373	576,673	1,824,622
TOTAL ASSETS	428,864	644,008	1,930,117
LIABILITIES			
Current liabilities			
Payables	970	7,812	17,453
Income received in advance	379	348	6,657
Borrowings	–	7,345	6,524
Provisions	–	–	30,251
Total current liabilities	1,349	15,505	60,885
Non-current liabilities			
Borrowings	–	110,225	36,955
Provisions	–	–	4,194
Total non-current liabilities	–	110,225	41,149
TOTAL LIABILITIES	1,349	125,730	102,034
Net assets	427,515	518,278	1,828,083
EQUITY			
Accumulated surplus	227,723	393,332	918,287
Revaluation reserves	199,792	124,946	909,796
Total equity	427,515	518,278	1,828,083

¹ General Fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal receivables and payables between the funds.

Shoalhaven City Council

Notes to the Financial Statements

as at 30 June 2018

Note 25. Financial result and financial position by fund (continued)

 \$ '000

Details of individual internal loans for the year ended 30 June 2018

(in accordance with s410(3) of the *Local Government Act 1993*)

Details of individual internal loans	MIN9.542	MIN9.542
Borrower (by purpose)	General Fund	Sewer Fund
Lender (by purpose)	Water Fund	Water Fund
Date of minister's approval	11/06/2009	11/06/2009
Date raised	30/06/2009	30/06/2009
Term (years)	10	15
Dates of maturity	30/06/2019	30/06/2024
Rate of interest	6.07%	6.28%
Amount originally raised	5,895	12,000
Total repaid during year (principal and interest)	807	1,247
Principal outstanding at end of year	772	6,153

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000	Amounts 2018	Indicator 2018	Prior periods 2017	2016	Benchmark
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>17,865</u>	7.42%	2.61%	3.79%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	240,814				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>219,788</u>	80.82%	77.70%	78.66%	> 60.00%
Total continuing operating revenue ⁽¹⁾	271,950				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	<u>69,629</u>	1.76x	2.02x	2.14x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	39,674				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>82,708</u>	5.55x	3.70x	4.99x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	14,915				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	<u>11,880</u>	8.16%	8.90%	7.51%	10%
Rates, annual and extra charges collectible	145,670				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	<u>151,754</u>	9.36 mths	9.9 mths	8.9 mths	> 3 mths
Monthly payments from cash flow of operating and financing activities	16,213				

Notes

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

⁽²⁾ Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

⁽³⁾ Refer to Notes 13 and 14.

⁽⁴⁾ Refer to Note 13(b) and 14(b) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 26(b). Statement of performance measures – by fund

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund							
1. Operating performance ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	0.35%	-3.64%	15.98%	14.57%	28.23%	23.71%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
2. Own source operating revenue ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	78.65%	84.37%	88.93%	89.17%	88.94%	81.85%	> 60.00%
Total continuing operating revenue ⁽¹⁾							
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾	1.70x	1.91x	16.70x	19.28x	1.99x	3.11x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)							

Notes

(1) - (4) Refer to Notes at Note 26a above.

(5) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Shoalhaven City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 26(b). Statement of performance measures – by fund (continued)

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	5.45x	2.50x	0.00x	2,121.00x	2.98x	3.60x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	5.81%	6.39%	13.87%	12.87%	12.10%	13.17%	< 10% regional & rural
Rates, annual and extra charges collectible							
Excluding Water and Sewer Accounts not yet due			7.74%	6.83%	5.76%	6.52%	
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	6.07	6.39	43.50	27.93	5.50	12.92	> 3 months
Monthly payments from cash flow of operating and financing activities	months	months	months	months	months	months	

Notes

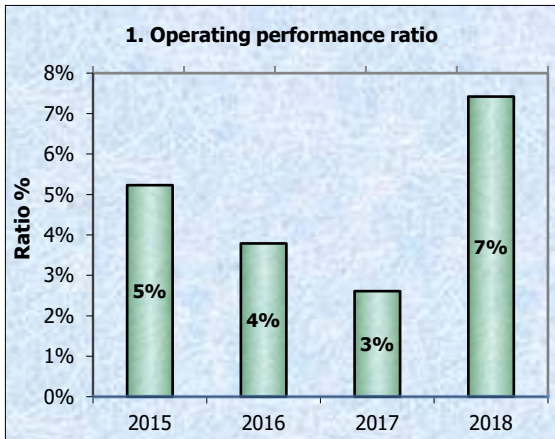
(1) Refer to Notes at Note 26a above.

(5) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Shoalhaven City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 26(c). Statement of performance measures – consolidated results (graphs)



Purpose of operating performance ratio

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



Commentary on 2017/18 result

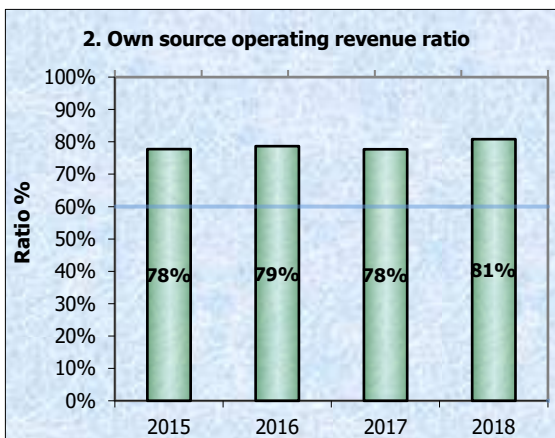
2017/18 ratio 7.42%

Council's operating performance ratio is above the benchmark of 0% and has improved on the previous year due to additional rates and water revenue received.

Benchmark: ——— Minimum >=0.00%

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

 Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of own source operating revenue ratio

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



Commentary on 2017/18 result

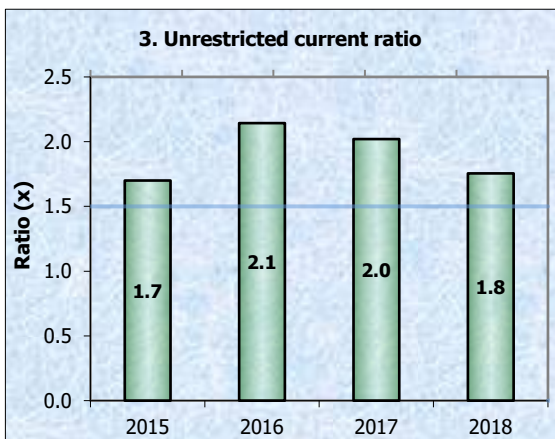
2017/18 ratio 80.82%

Council's Own Source Operating Revenue ratio has remained above the benchmark of >60%. Council has sufficient level of fiscal flexibility, in the event of being face with unforeseen events.

Benchmark: ——— Minimum >=60.00%

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

 Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of unrestricted current ratio

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



Commentary on 2017/18 result

2017/18 ratio 1.76x

This ratio indicated that Council currently projects to have \$1.76 (excluding restricted funds such as S94, Water, Sewer and grant monies) available to service every \$1 of debt as it falls due at the end of the year. This ratio has decreased due to additional loans taken during the year and an increase in leave provisions.

Benchmark: ——— Minimum >=1.50

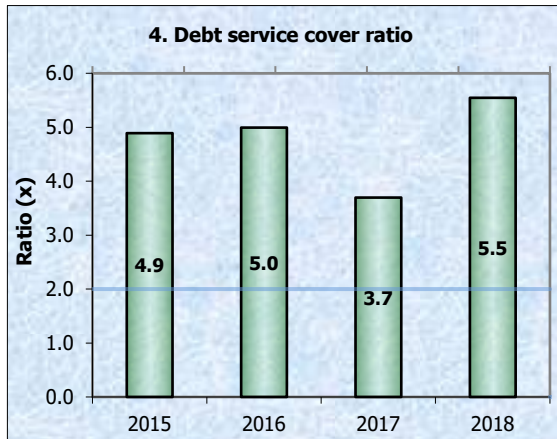
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

 Ratio achieves benchmark
 Ratio is outside benchmark

Shoalhaven City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 26(c). Statement of performance measures – consolidated results (graphs)



Purpose of debt service cover ratio

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

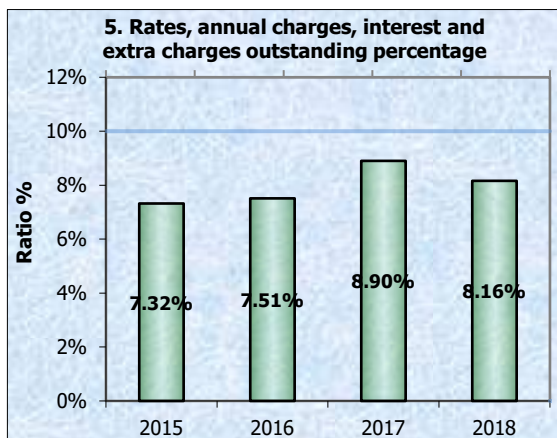
Commentary on 2017/18 result

2017/18 ratio 5.55x

With a ratio of 5.55x, Council's ability to generate sufficient cash to cover its debt is sound and in excess of the benchmark of 2x.

Benchmark: ——— Minimum ≥ 2.00
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Purpose of rates and annual charges outstanding ratio

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

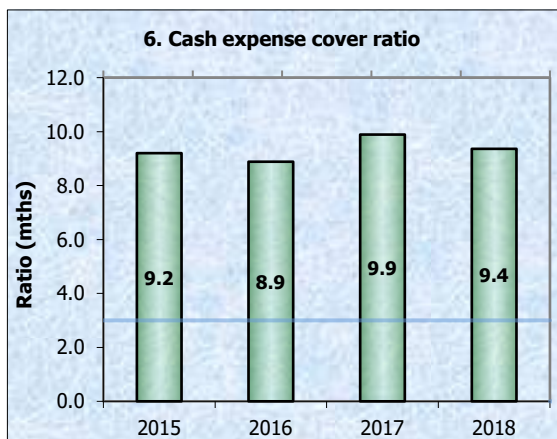
Commentary on 2017/18 result

2017/18 ratio 8.16%

The percentage of outstanding rates and annual charges has decrease to 8.16%. Please note that this ratio includes water and sewer account balances that were invoiced in June and were not due until after the reporting date, excluding these accounts the ratio would be 5.86%.

Benchmark: ——— Maximum $< 10.00\%$
Source for Benchmark: Code of Accounting Practice and Financial Reporting #26

■ Ratio is within Benchmark
■ Ratio is outside Benchmark



Purpose of cash expense cover ratio

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

Commentary on 2017/18 result

2017/18 ratio 9.36 mths

Council's Cash Expense Ratio is again above the benchmark, indicating Council's ability to pay for its immediate expenses without additional cashflow. Council has enough cash to fund 9.36 months of operating expenditure.

Benchmark: ——— Minimum ≥ 3.00
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

■ Ratio achieves benchmark
■ Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial report
Shoalhaven City Council

To the Councillors of the Shoalhaven City Council

Opinion

I have audited the accompanying financial report of Shoalhaven City Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, 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 report 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 Report' section of my report.

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

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

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

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

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

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

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report 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 report 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 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Report

The Councillors are responsible for the preparation and fair presentation of the financial report 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 report that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report 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 financial report.

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

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 21 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in cursive script, appearing to read 'D Ryan'.

Dominika Ryan
Director, Financial Audit Services

5 November 2018
SYDNEY

Councillor Amanda Findley
Mayor
Shoalhaven City Council
PO Box 42
NOWRA NSW 2541

Contact: Dominika Ryan
Phone no: 02 9275 7336
Our ref: D1826860/1785

5 November 2018

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2018
Shoalhaven City Council**





I have audited the general purpose financial statements of the Shoalhaven City Council (the Council) for the year ended 30 June 2018 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2018 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2018	2017	Variance
	\$m	\$m	%
Rates and annual charges revenue	133.1	120.2	 10.7
Grants and contributions revenue	52.2	57.6	 9.4
Operating result for the year	48.8	36.6	 33.3
Net operating result before capital amounts	17.7	4.4	 302

Council’s operating result for the year was a \$48.8 million surplus, \$12.2 million higher than the 2016–17 result. The improvement was attributable to:

- \$12.9 million increase in rates and annual charges primarily due to 2017–18 special rate variation
- \$7.0 million increase in user charges and fees. The primary contributors of which being water usage (\$1.1 million), private works (2.1 million) and tourist parks (\$1.2 million)
- total expenses from continuing operations of \$223 million was largely consistent with 2016–17.

These were also the key factors contributing to the \$13.2 million increase in the net operating result before capital grants and contributions. Capital grants and contributions remained stable with a \$5.9 million increase in roads and bridge funding offset by a \$3.7 million decrease in non-cash contributions related to sewerage.

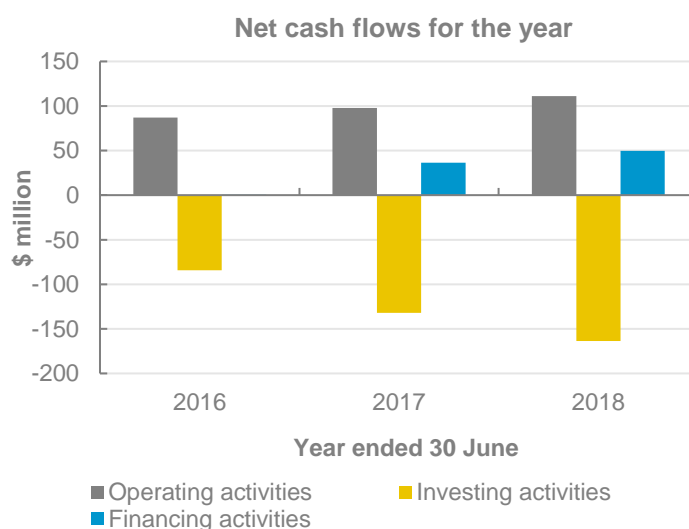
Grants and contributions revenue of \$52.2 million was \$5.4 million less than \$57.6 million in 2016–17. This is largely the result of the Financial Assistance Grant decreasing by \$5.1 million as a result of the extra instalments received then with the June 2017 advance payment.

STATEMENT OF CASH FLOWS

Net cash provided by operating activities increased as growth in rates, annual and user charges exceeded the growth in payments made.

Net cash used in investing activities increased by \$31.6 million. This was mainly due to \$47.9 million increase in purchase of infrastructure, property, plant and equipment.

Net cash provided by financing activities improved by \$13.4 million primarily due further TCorp drawdowns coming on line in 2017–18.



FINANCIAL POSITION

Cash and Investments

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	160.2	145.7	Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council’s externally restricted cash and investments increased mainly due to sewer loans (for the REMS schemes) increasing by \$12.2 million as TCorp drawdowns continued in 2017–18.
Internal restrictions	43.7	43.7	
Unrestricted	17.6	15.6	
Cash and investments	221.5	205.0	Internally restricted cash and investments are restricted in their use by resolution or policy of Council. Council’s unrestricted cash and investments increased by \$2.0 million which is consistent with the increase in cash from operations such as rates, annual charges and user charges.

Debt

Council borrowings increased from \$104.3 million in 2016–17 to \$154.1 million. This increase is the result of \$57.7 million in government advances from TCorp commencing in March 2018. These loans relate to capital works of which \$50.0 million is for Reclaimed Effluent Management Scheme Stage 1B.

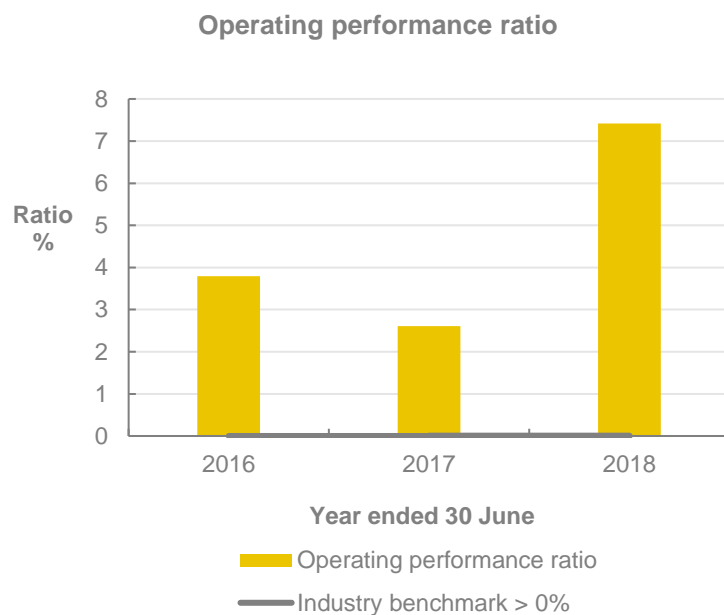
At the end of the financial year, the Council has unrestricted access to a \$1.5 million line of credit (2017: \$0.9 million), which consists of \$400,000 in bank overdraft facilities and \$1.1 million in credit or purchase cards (2017: \$400,000 in bank overdraft facilities and \$500,000 in credit or purchase cards). Total drawdowns at the end of the year, consisted of \$90,000 payable on credit or purchase cards (2017: nil).

PERFORMANCE RATIOS

Operating performance ratio

Council's operating performance ratio at 7.4 per cent in 2017–18 continues to exceed the industry benchmark. The ratio increased mainly due to increase in operating revenue from rates and annual chargers, and user charges and fees.

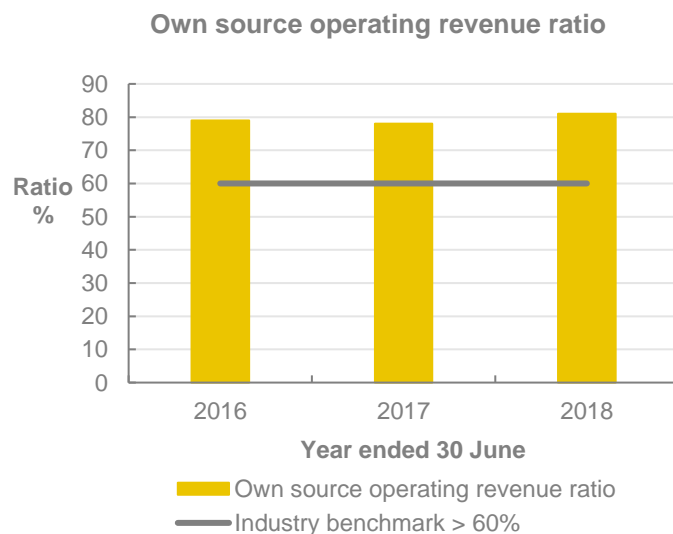
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



Own source operating revenue ratio

Council's own source operating ratio of 80.8 per cent reflects a low level of reliance on grant revenue and exceeds the industry benchmark. The ratio has remained stable over the last three years.

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

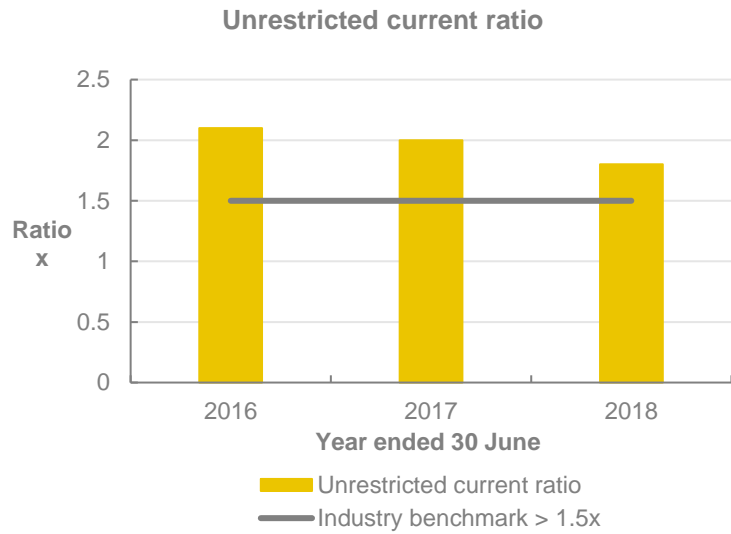


Unrestricted current ratio

The ratio indicates the Council has \$1.76 available to service every \$1.0 of unrestricted current liabilities. This reflects a sufficient operating buffer for use in Council's operations and exceeds the industry benchmark.

The ratio decreased in 2017–18 as additional loan facilities were drawn down.

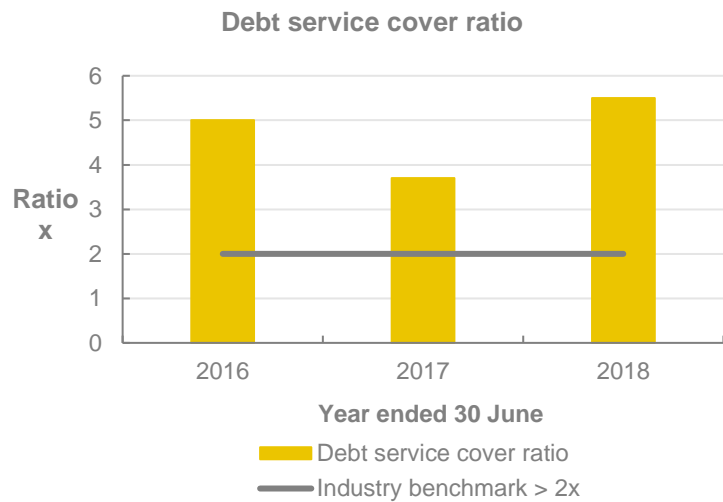
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

The Council's debt service cover ratio of 5.6 times continues to exceed the industry benchmark. The ratio is higher than the previous year due to increase in operating result before capital.

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

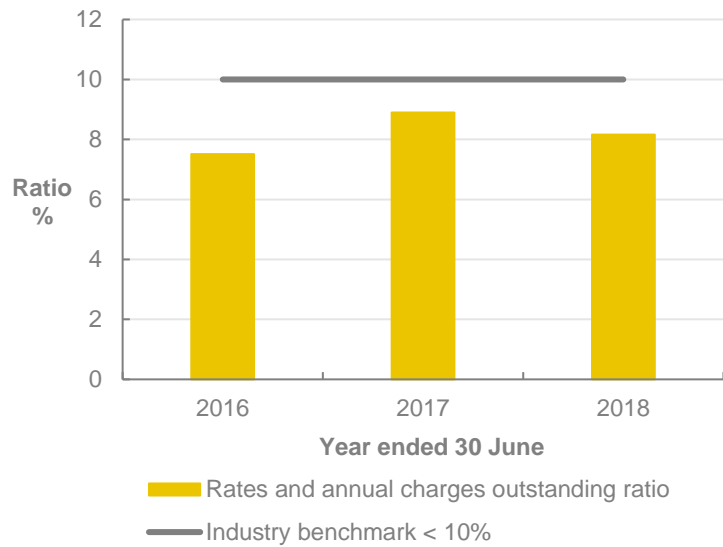


Rates and annual charges outstanding ratio

Council's outstanding rates and charges ratio met the benchmark for non-metropolitan councils in the past three years. A contributing factor to the 2017–18 ratio is water and sewer annual charge instalments issued in June that were not due and payable until after the reporting date.

The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts.

Rates and annual charges outstanding ratio

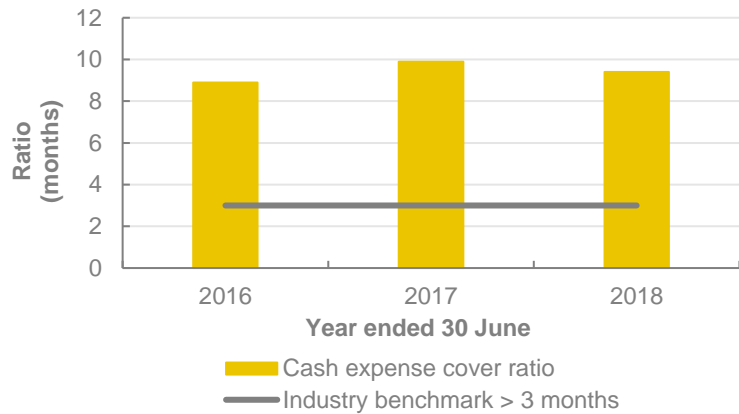


Cash expense cover ratio

The Council's cash expense cover ratio was 9.4 months, which is above the industry benchmark. This indicates that Council had the capacity to cover 9.4 months of operating cash expenditure without additional cash inflows.

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.

Cash expense cover ratio



OTHER MATTERS

New accounting standards implemented

AASB 2016-2 'Disclosure Initiative – Amendments to AASB 107'

Effective for annual reporting periods beginning on or after 1 January 2017

This Standard requires entities to provide disclosures that enable users of financial statements to evaluate changes (both cash flows and non-cash changes) in liabilities arising from financing activities.

Council's disclosure of the changes in their liabilities arising from financing activities is disclosed in Note 13.

AASB 2016-4 'Recoverable Amount of Non-Cash Generating Specialised Assets of Not-for-Profit Entities' – Amendment to AASB 136

Effective for annual reporting periods beginning on or after 1 January 2017

This Standard no longer requires not-for-profit entities to consider AASB 136 Impairment of Assets for non-cash-generating specialised assets at fair value.

It is expected for not-for-profit entities holding non-cash-generating specialised assets, the recoverable amount of these assets is expected to be materially the same as fair value, determined under AASB 113 Fair Value Measurement.

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 reports. The Council's:

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



Dominika Ryan
Director, Financial Audit Services

cc: Mr Russ Pigg, General Manager
Dr Phillip Ross, Chair of Audit, Risk and Improvement Committee
Mr Tim Hurst, Chief Executive of the Office of Local Government

Shoalhaven City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2018

*We will work together in the Shoalhaven to foster
a safe and attractive community for people to live, work, stay and play;
where sustainable growth, development and environmental protection
are managed to provide a unique and relaxed lifestyle.*

Shoalhaven
City Council

Shoalhaven City Council

Special Purpose Financial Statements

for the year ended 30 June 2018

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Income Statement – Other Business Activities	5
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Statement of Financial Position – Other Business Activities	10
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Background

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

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Shoalhaven City Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Statement by Councillors and Management

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

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

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

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

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on 16 October 2018.



Amanda Findley

Mayor

17 October 2018



Patricia White

Councillor

17 October 2018



Russ Pigg

General manager

17 October 2018



Michael Pennisi

Responsible accounting officer

17 October 2018

Shoalhaven City Council

Income Statement of Council's Water Supply Business Activity for the year ended 30 June 2018

\$ '000	2018	2017
Income from continuing operations		
Access charges	4,336	4,078
User charges	18,415	16,655
Fees	5,814	3,066
Interest	1,872	1,933
Grants and contributions provided for non-capital purposes	517	524
Other income	80	168
Total income from continuing operations	31,034	26,424
Expenses from continuing operations		
Employee benefits and on-costs	8,505	6,812
Materials and contracts	4,903	4,414
Depreciation, amortisation and impairment	8,783	8,877
Loss on sale of assets	45	2,033
Calculated taxation equivalents	114	84
Other expenses	3,769	2,387
Total expenses from continuing operations	26,119	24,607
Surplus (deficit) from continuing operations before capital amounts	4,915	1,817
Grants and contributions provided for capital purposes	3,282	2,622
Surplus (deficit) from continuing operations after capital amounts	8,197	4,439
Surplus (deficit) from all operations before tax	8,197	4,439
Less: corporate taxation equivalent (30%) [based on result before capital]	(1,475)	(545)
SURPLUS (DEFICIT) AFTER TAX	6,723	3,894
Plus opening retained profits	212,288	209,313
Plus/less: prior period adjustments	8,694	-
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	114	84
– Corporate taxation equivalent	1,475	545
Less:		
– Tax equivalent dividend paid	(84)	(98)
– Surplus dividend paid	(1,486)	(1,450)
Closing retained profits	227,723	212,288
Return on capital %	1.3%	0.5%
Subsidy from Council	4,794	6,622
Calculation of dividend payable:		
Surplus (deficit) after tax	6,723	3,894
Less: capital grants and contributions (excluding developer contributions)	(2,046)	(223)
Surplus for dividend calculation purposes	4,677	3,671
Potential dividend calculated from surplus	2,338	1,835

Shoalhaven City Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2018

\$ '000	2018	2017
Income from continuing operations		
Access charges	41,893	38,906
User charges	3,044	2,759
Liquid trade waste charges	487	509
Fees	2,244	1,912
Interest	1,413	1,516
Grants and contributions provided for non-capital purposes	515	514
Other income	28	28
Total income from continuing operations	49,624	46,144
Expenses from continuing operations		
Employee benefits and on-costs	10,545	10,565
Borrowing costs	3,989	2,873
Materials and contracts	6,109	6,439
Depreciation, amortisation and impairment	9,855	10,745
Loss on sale of assets	31	2,000
Calculated taxation equivalents	311	220
Other expenses	4,805	4,360
Total expenses from continuing operations	35,645	37,202
Surplus (deficit) from continuing operations before capital amounts	13,979	8,942
Grants and contributions provided for capital purposes	5,594	9,606
Surplus (deficit) from continuing operations after capital amounts	19,573	18,548
Surplus (deficit) from all operations before tax	19,573	18,548
Less: corporate taxation equivalent (30%) [based on result before capital]	(4,194)	(2,683)
SURPLUS (DEFICIT) AFTER TAX	15,379	15,865
Plus opening retained profits	361,220	343,953
Plus/less: prior period adjustments	12,373	–
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	311	220
– Corporate taxation equivalent	4,194	2,683
Less:		
– Tax equivalent dividend paid	(145)	(150)
– Surplus dividend paid	–	(1,351)
Closing retained profits	393,332	361,220
Return on capital %	3.1%	2.4%
Calculation of dividend payable:		
Surplus (deficit) after tax	15,379	15,865
Less: capital grants and contributions (excluding developer contributions)	(2,647)	(6,648)
Surplus for dividend calculation purposes	12,732	9,217
Potential dividend calculated from surplus	6,366	4,609

Shoalhaven City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

\$ '000	Holiday Haven Tourist Parks Category 1		Bereavement Services Category 1	
	2018	2017	2018	2017
Income from continuing operations				
User charges	22,855	21,684	1,984	1,664
Other income	1,674	1,605	24	9
Total income from continuing operations	24,529	23,289	2,008	1,673
Expenses from continuing operations				
Employee benefits and on-costs	1,288	1,068	862	820
Borrowing costs	303	350	8	11
Materials and contracts	7,814	7,310	276	213
Depreciation, amortisation and impairment	2,326	2,026	254	225
Loss on sale of assets	301	1	1	–
Calculated taxation equivalents	70	60	65	10
Other expenses	6,062	5,703	424	396
Total expenses from continuing operations	18,164	16,518	1,890	1,675
Surplus (deficit) from continuing operations before capital amounts	6,365	6,771	118	(2)
Surplus (deficit) from continuing operations after capital amounts	6,365	6,771	118	(2)
Surplus (deficit) from all operations before tax	6,365	6,771	118	(2)
Less: corporate taxation equivalent (30%) [based on result before capital]	(1,910)	(2,031)	(35)	–
SURPLUS (DEFICIT) AFTER TAX	4,456	4,740	83	(2)
Plus opening retained profits	34,069	31,978	535	527
Plus/less: prior period adjustments	2,379	–	–	–
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	70	60	65	10
– Corporate taxation equivalent	1,910	2,031	35	–
Less:				
– Dividend paid	(4,455)	(4,740)	–	–
Closing retained profits	38,428	34,069	718	535
Return on capital %	13.9%	16.0%	1.0%	0.1%
Subsidy from Council	–	–	194	206

Shoalhaven City Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

	Mechanical Services		Shoalhaven Entertainment Centre	
	Category 1		Category 2	
\$ '000	2018	2017	2018	2017
Income from continuing operations				
User charges	40	50	1,532	1,497
Profit from the sale of assets	–	–	1	–
Other income	3,045	3,310	350	144
Total income from continuing operations	3,085	3,360	1,883	1,641
Expenses from continuing operations				
Employee benefits and on-costs	1,732	1,944	1,219	1,048
Borrowing costs	–	–	320	402
Materials and contracts	468	388	896	1,106
Depreciation, amortisation and impairment	18	12	676	664
Loss on sale of assets	6	–	–	–
Calculated taxation equivalents	94	106	109	96
Other expenses	705	774	1,125	934
Total expenses from continuing operations	3,023	3,224	4,345	4,250
Surplus (deficit) from continuing operations before capital amounts	62	136	(2,462)	(2,609)
Surplus (deficit) from continuing operations after capital amounts	62	136	(2,462)	(2,609)
Surplus (deficit) from all operations before tax	62	136	(2,462)	(2,609)
Less: corporate taxation equivalent (30%) [based on result before capital]	(19)	(41)	–	–
SURPLUS (DEFICIT) AFTER TAX	43	95	(2,462)	(2,609)
Plus opening retained profits	2,143	1,901	2,278	4,791
Plus/less: prior period adjustments	5	–	–	–
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments	94	106	109	96
– Corporate taxation equivalent	19	41	–	–
Add:				
– Subsidy paid/contribution to operations	–	–	75	–
Closing retained profits	2,304	2,143	–	2,278
Return on capital %	8.5%	9.6%	-7.6%	-7.7%
Subsidy from Council	–	–	2,885	2,886

Shoalhaven City Council

Income Statement of Council's Other Business Activities
for the year ended 30 June 2018Aquatic Recreation
Facilities
Category 1

\$ '000	2018	2017
Income from continuing operations		
User charges	4,212	4,077
Grants and contributions provided for non-capital purposes	8	8
Other income	2	3
Total income from continuing operations	4,222	4,088
Expenses from continuing operations		
Employee benefits and on-costs	4,268	4,023
Borrowing costs	126	159
Materials and contracts	1,003	1,004
Depreciation, amortisation and impairment	1,245	1,205
Loss on sale of assets	21	–
Calculated taxation equivalents	263	246
Other expenses	1,859	1,902
Total expenses from continuing operations	8,785	8,539
Surplus (deficit) from continuing operations before capital amounts	(4,563)	(4,451)
Surplus (deficit) from continuing operations after capital amounts	(4,563)	(4,451)
Surplus (deficit) from all operations before tax	(4,563)	(4,451)
SURPLUS (DEFICIT) AFTER TAX	(4,563)	(4,451)
Plus/less: prior period adjustments	697	–
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	263	246
Add:		
– Subsidy paid/contribution to operations	3,603	4,205
Return on capital %	-12.0%	-11.6%
Subsidy from Council	5,407	5,173

Shoalhaven City Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2018

\$ '000	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	5,265	4,600
Investments	20,628	21,009
Receivables	5,492	4,983
Inventories	1,103	941
Other	3	9
Total current assets	32,491	31,542
Non-current assets		
Investments	20,751	16,059
Receivables	6,186	7,878
Infrastructure, property, plant and equipment	369,164	365,093
Intangible assets	272	–
Total non-current assets	396,373	389,030
TOTAL ASSETS	428,864	420,572
LIABILITIES		
Current liabilities		
Payables	970	1,329
Income received in advance	379	250
Total current liabilities	1,349	1,579
Non-current liabilities		
Nil		
TOTAL LIABILITIES	1,349	1,579
NET ASSETS	427,515	418,993
EQUITY		
Accumulated surplus	227,723	212,288
Revaluation reserves	199,792	206,705
Council equity interest	427,515	418,993
TOTAL EQUITY	427,515	418,993

Shoalhaven City Council

Statement of Financial Position – Council's Sewerage Business Activity
as at 30 June 2018

\$ '000	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	7,038	10,364
Investments	54,147	47,325
Receivables	6,150	5,706
Total current Assets	67,335	63,395
Non-current assets		
Investments	1,500	679
Receivables	1,705	1,948
Infrastructure, property, plant and equipment	573,435	498,084
Intangible assets	33	–
Total non-current assets	576,673	500,711
TOTAL ASSETS	644,008	564,106
LIABILITIES		
Current liabilities		
Payables	7,812	6,891
Income received in advance	348	348
Borrowings	7,345	5,346
Total current liabilities	15,505	12,585
Non-current liabilities		
Borrowings	110,225	67,570
Total non-current liabilities	110,225	67,570
TOTAL LIABILITIES	125,730	80,155
NET ASSETS	518,278	483,951
EQUITY		
Accumulated surplus	393,332	361,220
Revaluation reserves	124,946	122,731
Council equity interest	518,278	483,951
TOTAL EQUITY	518,278	483,951

Shoalhaven City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

	Holiday Haven Tourist Parks Category 1		Bereavement Services Category 1	
	2018	2017	2018	2017
\$ '000				
ASSETS				
Current assets				
Receivables	110	40	192	21
Total Current Assets	110	40	192	21
Non-current assets				
Receivables	–	–	–	180
Infrastructure, property, plant and equipment	48,114	44,555	12,178	9,039
Other	4,919	5,258	–	–
Total non-current assets	53,033	49,813	12,178	9,219
TOTAL ASSETS	53,143	49,853	12,370	9,240
LIABILITIES				
Current liabilities				
Payables	1,894	1,809	7	16
Borrowings	1,193	1,154	26	51
Total current liabilities	3,087	2,963	33	67
Non-current liabilities				
Borrowings	6,163	7,356	85	111
Other Liabilities	–	–	9,071	6,458
Total non-current liabilities	6,163	7,356	9,156	6,569
TOTAL LIABILITIES	9,250	10,319	9,189	6,636
NET ASSETS	43,893	39,534	3,181	2,604
EQUITY				
Accumulated surplus	38,428	34,069	718	535
Revaluation reserves	5,465	5,465	2,463	2,069
Council equity interest	43,893	39,534	3,181	2,604
TOTAL EQUITY	43,893	39,534	3,181	2,604

Shoalhaven City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

\$ '000	Mechanical Services		Shoalhaven Entertainment Centre	
	Category 1		Category 2	
	2018	2017	2018	2017
ASSETS				
Current assets				
Receivables	11	4	145	111
Total Current Assets	11	4	145	111
Non-current assets				
Receivables	–	9	–	20
Infrastructure, property, plant and equipment	728	1,419	28,258	28,542
Other	1,571	711	–	–
Total non-current assets	2,299	2,139	28,258	28,562
TOTAL ASSETS	2,310	2,143	28,403	28,673
LIABILITIES				
Current liabilities				
Payables	6	–	335	457
Borrowings	–	–	631	588
Total current liabilities	6	–	966	1,045
Non-current liabilities				
Borrowings	–	–	4,033	4,664
Other Liabilities	–	–	23,076	20,686
Total non-current liabilities	–	–	27,109	25,350
TOTAL LIABILITIES	6	–	28,075	26,395
NET ASSETS	2,304	2,143	328	2,278
EQUITY				
Accumulated surplus	2,304	2,143	–	2,278
Revaluation reserves	–	–	328	–
Council equity interest	2,304	2,143	328	2,278
TOTAL EQUITY	2,304	2,143	328	2,278

Shoalhaven City Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

Aquatic Recreation
Facilities
Category 1

\$ '000	2018	2017
ASSETS		
Current assets		
Receivables	243	202
Total Current Assets	243	202
Non-current assets		
Receivables	–	8
Infrastructure, property, plant and equipment	36,897	37,005
Total non-current assets	36,897	37,013
TOTAL ASSETS	37,140	37,215
LIABILITIES		
Current liabilities		
Payables	117	289
Borrowings	468	456
Total current liabilities	585	745
Non-current liabilities		
Borrowings	3,171	3,639
Other Liabilities	27,856	27,562
Total non-current liabilities	31,027	31,201
TOTAL LIABILITIES	31,612	31,946
NET ASSETS	5,528	5,269
EQUITY		
Revaluation reserves	5,528	5,269
Council equity interest	5,528	5,269
TOTAL EQUITY	5,528	5,269

Shoalhaven City Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	14
2	Water Supply Business Best-Practice Management disclosure requirements	18
3	Sewerage Business Best-Practice Management disclosure requirements	20

Shoalhaven City Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

Note 1. Significant accounting policies

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

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

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

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

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

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

A complete trial balance is not maintained for the following business activities:

- Holiday Haven Tourist Parks
- Bereavement Services
- Mechanical Services
- Shoalhaven Entertainment Centre
- Aquatic Recreation Facilities

The accounts that are maintained have been reported accordingly. Total assets are determined by reference to the accumulated surplus / (deficit) brought forward in the Income Statements by business activity and adjusted accordingly.

National Competition Policy

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

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

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

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

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

Shoalhaven City Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Declared business activities

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

Category 1

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

a. Shoalhaven Water

Water Supply

b. Shoalhaven Water

Sewer Services

c. Holiday Haven Tourist Parks

Caravan Park Operations

d. Shoalhaven Mechanical Services

Mechanical Services

e. Aquatic Recreation Facilities

Swimming Pools and Aquatic Centres

Category 2

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

a. Bereavement Services

Cemetery and Crematorium Services

b. Shoalhaven Entertainment Centre

Venue for entertainment, hire and community activities

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by Crown Lands and Water (CLAW), the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

(i) Taxation-equivalent charges

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

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

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

Shoalhaven City Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first \$629,000 of combined land values attracts 0%. For the combined land values in excess of \$629,001 up to \$3,846,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$3,846,000 a premium marginal rate of 2.0% applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$750,000.

In accordance with Crown Lands and Water (CLAW), a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewer business activities.

The payment of taxation equivalent charges, referred to in the NSW Office of Water Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the NSW Office of Water Guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

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 30%.

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

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

The rate applied of 30% is the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

Local government rates and charges

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

(ii) Subsidies

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

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

Shoalhaven City Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

$$\frac{\text{Operating result before capital income + interest expense}}{\text{Written down value of I,PP\&E as at 30 June}}$$

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.63% at 30/6/18.

(iv) Dividends

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

Local government water supply and sewer businesses are permitted to pay an annual dividend from its water supply or sewer business surplus.

Each dividend must be calculated and approved in accordance with the DPIW guidelines and must not exceed:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewer assessments at 30 June 2018 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the DPIW guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the DPIW.

END OF AUDITED SPECIAL PURPOSE FINANCIAL STATEMENTS

Shoalhaven City Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 2. Water supply business best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	113,722
(ii)	Number of assessments multiplied by \$3/assessment	159,456
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	113,722
(iv)	Amounts actually paid for tax equivalents	84,000

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	2,338,250
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	1,480,838
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016	10,107,900

2018 Surplus	4,676,500	2017 Surplus	3,670,900	2016 Surplus	4,653,500
		2017 Dividend	1,450,000	2016 Dividend	1,443,000

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	1,480,838
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	1,485,720
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? ^a	YES

3. Required outcomes for 6 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	– Complying charges [item 2 (b) in table 1]	YES
	– DSP with commercial developer charges [item 2 (e) in table 1]	YES
	– If dual water supplies, complying charges [item 2 (g) in table 1]	YES
(iii)	Sound water conservation and demand management implemented	YES
(iv)	Sound drought management implemented	YES
(v)	Complete performance reporting form (by 15 September each year)	YES
(vi)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	YES

Shoalhaven City Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 2. Water supply business best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	30,577
NWI F4	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	76.76%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	361,821
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	15,234
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	14,236
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	1.78%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	–

- Notes:
1. References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
 2. The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
 - a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Shoalhaven City Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 3. Sewerage business best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	310,887
(ii)	Number of assessments multiplied by \$3/assessment	159,582
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	159,582
(iv)	Amounts actually paid for tax equivalents	144,906

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	6,366,150
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	1,436,238
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016	29,099,900

2018 Surplus	12,732,300	2017 Surplus	9,217,400	2016 Surplus	9,777,200
		2017 Dividend	1,351,000	2016 Dividend	1,276,000

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	1,436,238
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the sewer business fair and reasonable? ^a	YES

3. Required outcomes for 4 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	Complying charges	
	(a) Residential [item 2 (c) in table 1]	YES
	(b) Non-residential [item 2 (c) in table 1]	YES
	(c) Trade waste [item 2 (d) in table 1]	YES
	DSP with commercial developer charges [item 2 (e) in table 1]	YES
	Liquid trade waste approvals and policy [item 2 (f) in table 1]	YES
(iii)	Complete performance reporting form (by 15 September each year)	YES
(iv)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	YES

Shoalhaven City Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	53,956
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	568,452
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	21,412
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	111,681
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	3.96%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	–

**National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)**

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	84,457
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.22%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	125,917
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	3.10%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	1,486
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	5.36%

Shoalhaven City Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	<input type="text" value="0.87%"/>
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): <input type="text" value="29,248"/> Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: <input type="text" value="930"/> Interest expense (w4a + s4a) – interest income (w9 + s10)		<input type="text" value="31"/>
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	<input type="text" value="27,737"/>
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	<input type="text" value="1,032"/>

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
 - refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial report

Shoalhaven City Council

To the Councillors of the Shoalhaven City Council

Opinion

I have audited the accompanying special purpose financial report (the financial report) of Shoalhaven City Council's (the Council) Declared Business Activities, which comprise the Income Statement of each Declared Business Activity for the year ended 30 June 2018, the Statement of Financial Position of each Declared Business Activity as at 30 June 2018, notes comprising a summary of Significant accounting policies and other explanatory information for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- water supply
- sewerage
- other business.

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2018, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (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 Report' section of my report.

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report 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 report 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 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Report

The Councillors are responsible for the preparation and fair presentation of the financial report and for determining that the accounting policies, described in Note 1 to the financial report, 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 report that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report 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 financial report.

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

My opinion does not provide assurance:

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

A handwritten signature in cursive script that reads "D. Ryan".

Dominika Ryan
Director, Financial Audit Services

5 November 2018
SYDNEY

Shoalhaven City Council

SPECIAL SCHEDULES

for the year ended 30 June 2018

*We will work together in the Shoalhaven to foster
a safe and attractive community for people to live, work, stay and play;
where sustainable growth, development and environmental protection
are managed to provide a unique and relaxed lifestyle.*

Shoalhaven
City Council

Shoalhaven City Council

Special Schedules

for the year ended 30 June 2018

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¹ Special Schedules are not audited (with the exception of Special Schedule 2).

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water (NOW), and
 - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

Shoalhaven City Council

Special Schedule 1 – Net Cost of Services
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	1,685	–	–	(1,685)
Administration	13,044	5,071	5,269	(2,704)
Public order and safety				
Fire service levy, fire protection, emergency services	2,623	(242)	1,481	(1,384)
Beach control	427	–	–	(427)
Enforcement of local government regulations	1,959	946	–	(1,013)
Animal control	309	346	–	37
Other	12	–	–	(12)
Total public order and safety	5,330	1,050	1,481	(2,799)
Health	1,427	368	–	(1,059)
Environment				
Noxious plants and insect/vermin control	421	240	–	(181)
Other environmental protection	7,547	777	22	(6,748)
Solid waste management	32,280	33,591	–	1,311
Street cleaning	644	–	–	(644)
Drainage	23	56	–	33
Stormwater management	100	1,111	–	1,011
Total environment	41,015	35,775	22	(5,218)
Community services and education				
Administration and education	556	32	–	(524)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	180	66	–	(114)
Children's services	1,867	1,423	–	(444)
Total community services and education	2,603	1,521	–	(1,082)
Housing and community amenities				
Public cemeteries	1,897	2,011	–	114
Public conveniences	1,632	–	(88)	(1,720)
Street lighting	1,835	254	–	(1,581)
Town planning	2,413	1,944	–	(469)
Other community amenities	450	445	–	(5)
Total housing and community amenities	8,227	4,654	(88)	(3,661)
Water supplies	21,663	19,739	3,282	1,358
Sewerage services	33,469	44,404	5,594	16,529

Shoalhaven City Council

Special Schedule 1 – Net Cost of Services (continued)
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	2,569	596	–	(1,973)
Museums	–	–	–	–
Art galleries	535	95	–	(440)
Community centres and halls	3,576	1,668	66	(1,842)
Performing arts venues	3,916	1,882	–	(2,034)
Other performing arts	–	–	–	–
Other cultural services	157	(2)	–	(159)
Sporting grounds and venues	220	1,788	210	1,778
Swimming pools	9,006	4,272	–	(4,734)
Parks and gardens (lakes)	10,501	987	182	(9,332)
Other sport and recreation	756	905	311	460
Total recreation and culture	31,236	12,191	769	(18,276)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	8,615	4,448	–	(4,167)
Other mining, manufacturing and construction	–	–	–	–
Total mining, manufacturing and const.	8,615	4,448	–	(4,167)
Transport and communication				
Urban roads (UR) – local	12,071	1,076	5,397	(5,598)
Urban roads – regional	565	425	32	(108)
Sealed rural roads (SRR) – local	8,191	27	3,079	(5,085)
Sealed rural roads (SRR) – regional	786	2,146	1,715	3,075
Unsealed rural roads (URR) – local	5,042	138	1,395	(3,509)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	326	–	1,240	914
Bridges on SRR – local	490	–	–	(490)
Bridges on URR – local	312	–	–	(312)
Bridges on regional roads	14	–	14	–
Parking areas	435	33	–	(402)
Footpaths	1,499	–	1,145	(354)
Aerodromes	–	–	–	–
Other transport and communication	3,350	1,180	750	(1,420)
Total transport and communication	33,081	5,025	14,767	(13,289)
Economic affairs				
Camping areas and caravan parks	17,717	22,054	27	4,364
Other economic affairs	4,011	2,657	13	(1,341)
Total economic affairs	21,728	24,711	40	3,023
Totals – functions	223,123	158,957	31,136	(33,030)
General purpose revenues ⁽¹⁾		81,877		81,877
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	223,123	240,834	31,136	48,847

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

Shoalhaven City Council

Special Schedule 2 – Permissible income for general rates
for the year ended 30 June 2019

\$'000		Calculation 2018/19	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	69,190	60,542
Plus or minus adjustments ⁽²⁾	b	541	612
Notional general income	c = (a + b)	69,731	61,154
Permissible income calculation			
Special variation percentage ⁽³⁾	d	17.10%	13.20%
Or rate peg percentage	e	0.00%	0.00%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	(7,113)	–
Plus special variation amount	h = d x (c – g)	10,708	8,072
Or plus rate peg amount	i = c x e	–	–
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
Sub-total	k = (c + g + h + i + j)	73,326	69,226
Plus (or minus) last year's carry forward total	l	31	52
Less valuation objections claimed in the previous year	m	–	(6)
Sub-total	n = (l + m)	31	46
Total permissible income	o = k + n	73,356	69,273
Less notional general income yield	p	73,335	69,190
Catch-up or (excess) result	q = o – p	21	83
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	–	–
Less unused catch-up ⁽⁵⁾	s	–	(52)
Carry forward to next year	t = q + r – s	21	31

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 2 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Shoalhaven City Council

To the Councillors of the Shoalhaven City Council

Opinion

I have audited the accompanying Special Schedule 2 – Permissible Income for general rates (the Schedule) of the Shoalhaven City Council (the Council) for the year ending 30 June 2019.

In my opinion, the Schedule of the Council for the year ending 30 June 2019 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter – Basis of Accounting

Without modifying my opinion, I draw attention to the special purpose framework used to prepare the Schedule. The Schedule had 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

Other information comprises the information included in the Council's annual report for the year ended 30 June 2019, other than 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 the Special Schedules excluding Special Schedule 2 (the other Schedules).

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in cursive script that reads "D. Ryan".

Dominika Ryan
Director, Financial Audit Services

5 November 2018
SYDNEY

Shoalhaven City Council

Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	5,108	4,796
b. Engineering and supervision	1,878	1,903
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	195	210
b. Maintenance expenses	43	43
– Mains		
c. Operation expenses	1,461	1,183
d. Maintenance expenses	1,440	1,424
– Reservoirs		
e. Operation expenses	181	202
f. Maintenance expenses	46	80
– Pumping stations		
g. Operation expenses (excluding energy costs)	117	183
h. Energy costs	799	816
i. Maintenance expenses	140	194
– Treatment		
j. Operation expenses (excluding chemical costs)	1,199	1,263
k. Chemical costs	743	633
l. Maintenance expenses	687	649
– Other		
m. Operation expenses	1,041	919
n. Maintenance expenses	129	–
o. Purchase of water	27	29
3. Depreciation expenses		
a. System assets	8,302	8,452
b. Plant and equipment	482	425
4. Miscellaneous expenses		
a. Interest expenses	–	–
b. Revaluation decrements	–	–
c. Other expenses	–	–
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	84	98
5. Total expenses	24,102	23,502

Shoalhaven City Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	2017
Income		
6. Residential charges		
a. Access (including rates)	3,586	3,510
b. Usage charges	11,845	11,344
7. Non-residential charges		
a. Access (including rates)	750	737
b. Usage charges	6,569	5,958
8. Extra charges	75	79
9. Interest income	1,797	1,854
10. Other income	3,952	3,331
10a. Aboriginal Communities Water and Sewerage Program	–	–
11. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	517	524
c. Other grants	–	–
12. Contributions		
a. Developer charges	2,047	2,399
b. Developer provided assets	1,236	224
c. Other contributions	–	–
13. Total income	32,374	29,960
14. Gain (or loss) on disposal of assets	(45)	(2,033)
15. Operating result	8,227	4,425
15a. Operating result (less grants for acquisition of assets)	8,227	4,425

Shoalhaven City Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	4,148	9,034
b. New assets for growth	1,869	779
c. Renewals	5,740	5,405
d. Plant and equipment	2,479	1,615
17. Repayment of debt	–	6
18. Totals	14,236	16,839
Non-operating funds employed		
19. Proceeds from disposal of assets	247	364
20. Borrowing utilised	–	–
21. Totals	247	364
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	47,404	46,798
b. Residential (unoccupied, ie. vacant lot)	1,597	1,598
c. Non-residential (occupied)	3,993	3,768
d. Non-residential (unoccupied, ie. vacant lot)	158	160
23. Number of ETs for which developer charges were received	311 ET	364 ET
24. Total amount of pensioner rebates (actual dollars)	\$ 922,491	\$ 964,544

Shoalhaven City Council

Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2018

\$'000	Current	Non-current	Total
ASSETS			
25. Cash and investments			
a. Developer charges	9,591	8,540	18,131
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	16,302	12,211	28,513
26. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	412	140	552
c. User charges	3,324	721	4,045
d. Other	1,756	5,325	7,081
27. Inventories	1,103	–	1,103
28. Property, plant and equipment			
a. System assets	–	361,823	361,823
b. Plant and equipment	–	7,613	7,613
29. Other assets	3	–	3
30. Total assets	32,491	396,373	428,864
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	1,349	–	1,349
33. Borrowings	–	–	–
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
35. Total liabilities	1,349	–	1,349
36. NET ASSETS COMMITTED	31,142	396,373	427,515
EQUITY			
37. Accumulated surplus			227,723
38. Asset revaluation reserve			199,792
39. Other reserves			–
40. TOTAL EQUITY			427,515
Note to system assets:			
41. Current replacement cost of system assets			668,848
42. Accumulated current cost depreciation of system assets			(307,027)
43. Written down current cost of system assets			361,821

Shoalhaven City Council

Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	6,601	7,031
b. Engineering and supervision	1,878	1,903
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	1,931	1,915
b. Maintenance expenses	373	275
– Pumping stations		
c. Operation expenses (excluding energy costs)	1,946	2,057
d. Energy costs	594	614
e. Maintenance expenses	850	998
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	2,921	3,028
g. Chemical costs	248	294
h. Energy costs	574	647
i. Effluent management	128	114
j. Biosolids management	904	681
k. Maintenance expenses	872	1,160
– Other		
l. Operation expenses	1,583	1,016
m. Maintenance expenses	9	17
3. Depreciation expenses		
a. System assets	9,343	10,246
b. Plant and equipment	512	499
4. Miscellaneous expenses		
a. Interest expenses	3,989	2,873
b. Revaluation decrements	–	–
c. Other expenses	47	205
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	145	150
5. Total expenses	35,448	35,723

Shoalhaven City Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	2017
Income		
6. Residential charges (including rates)	38,643	36,291
7. Non-residential charges		
a. Access (including rates)	3,959	3,752
b. Usage charges	2,384	2,222
8. Trade waste charges		
a. Annual fees	100	80
b. Usage charges	387	428
c. Excess mass charges	–	–
d. Re-inspection fees	–	–
9. Extra charges	151	147
10. Interest income	1,262	1,369
11. Other income	2,223	1,932
11a. Aboriginal Communities Water and Sewerage Program	–	–
12. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	515	514
c. Other grants	–	–
13. Contributions		
a. Developer charges	2,647	2,958
b. Developer provided assets	2,947	6,648
c. Other contributions	–	–
14. Total income	55,218	56,341
15. Gain (or loss) on disposal of assets	(31)	(2,000)
16. Operating result	19,739	18,618
16a. Operating result (less grants for acquisition of assets)	19,739	18,618

Shoalhaven City Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	79,001	20,943
b. New assets for growth	5,908	12,032
c. Renewals	25,818	9,057
d. Plant and equipment	954	442
18. Repayment of debt	5,346	3,957
19. Totals	117,027	46,431
Non-operating funds employed		
20. Proceeds from disposal of assets	157	268
21. Borrowing utilised	50,000	44,000
22. Totals	50,157	44,268
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	48,634	43,961
b. Residential (unoccupied, ie. vacant lot)	1,425	1,418
c. Non-residential (occupied)	2,977	2,777
d. Non-residential (unoccupied, ie. vacant lot)	158	146
24. Number of ETs for which developer charges were received	317 ET	354 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 909,448	\$ 948,125

Shoalhaven City Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2018

\$'000	Current	Non-current	Total
ASSETS			
26. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	36,450	–	36,450
e. Sinking fund	–	–	–
f. Other	24,735	1,500	26,235
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	3,904	1,569	5,473
c. User charges	2,016	44	2,060
d. Other	230	92	322
28. Inventories	–	–	–
29. Property, plant and equipment			
a. System assets	–	568,452	568,452
b. Plant and equipment	–	5,016	5,016
30. Other assets	–	–	–
31. Total assets	67,335	576,673	644,008
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	8,160	–	8,160
34. Borrowings	7,345	110,225	117,570
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
36. Total liabilities	15,505	110,225	125,730
37. NET ASSETS COMMITTED	51,830	466,448	518,278
EQUITY			
38. Accumulated surplus			393,332
39. Asset revaluation reserve			124,946
40. Other reserves			–
41. TOTAL EQUITY			518,278
Note to system assets:			
42. Current replacement cost of system assets			834,162
43. Accumulated current cost depreciation of system assets			(265,710)
44. Written down current cost of system assets			568,452

Shoalhaven City Council

Notes to Special Schedules 3 and 5

for the year ended 30 June 2018

Administration ⁽¹⁾

(item 1a of Special Schedules 3 and 5) comprises the following:

- Administration staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Meter reading
- Bad and doubtful debts
- Other administrative/corporate support services

Engineering and supervision ⁽¹⁾

(item 1b of Special Schedules 3 and 5) comprises the following:

- Engineering staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Other technical and supervision staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.

Operational expenses (item 2 of Special Schedules 3 and 5) comprise the day to day operational expenses excluding maintenance expenses.

Maintenance expenses (item 2 of Special Schedules 3 and 5) comprise the day to day repair and maintenance expenses. (Refer to Section 5 of the Local Government Asset Accounting Manual regarding capitalisation principles and the distinction between capital and maintenance expenditure).

Other expenses (item 4c of Special Schedules 3 and 5) includes all expenses not recorded elsewhere.

Revaluation decrements (item 4b of Special Schedules 3 and 5) is to be used when I,PP&E decreases in FV.

Impairment losses (item 4d and 4e of Special Schedules 3 and 5) are to be used when the carrying amount of an asset exceeds its recoverable amount (refer to page D-31).

Aboriginal Communities Water and Sewerage Program (item 4f of Special Schedules 3 and 5) is to be used when operation and maintenance work has been undertaken on behalf of the Aboriginal Communities Water and Sewerage Program. Similarly, income for item 11a of Special Schedule 3 and item 12a of Special Schedule 5 are for services provided to the Aboriginal Communities Water and Sewerage Program and is not part of Council's water supply and sewerage revenue.

Residential charges ⁽²⁾ (items 6a, 6b and item 6 of Special Schedules 3 and 5 respectively) include all income from residential charges. Item 6 of Schedule 3 should be separated into 6a access charges (including rates if applicable) and 6b usage charges.

Non-residential charges ⁽²⁾ (items 7a, 7b of Special Schedules 3 and 5) include all income from non-residential charges separated into 7a access charges (including rates if applicable) and 7b usage charges.

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a annual fees, 8b usage charges and 8c excess mass charges and 8d re-inspection fees.

Other income (items 10 and 11 of Special Schedules 3 and 5 respectively) include all income not recorded elsewhere.

Other contributions (items 12c and 13c of Special Schedules 3 and 5 respectively) including capital contributions for water supply or sewerage services received by Council under Section 565 of the *Local Government Act*.

Notes:

⁽¹⁾ Administration and engineering costs for the development of capital works projects should be reported as part of the capital cost of the project and not as part of the recurrent expenditure (ie. in item 16 for water supply and item 17 for sewerage, and **not** in items 1a and 1b).

⁽²⁾ To enable accurate reporting of **residential revenue from usage charges**, it is essential for councils to accurately separate their residential (item 6) charges and non-residential (item 7) charges.

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings	5,748	4,598	7,100	6,307	224,470	459,825	33%	37%	26%	3%	1%
	Sub-total	5,748	4,598	7,100	6,307	224,470	459,825	33.0%	37.0%	26.0%	3.0%	1.0%
Other structures	Other structures	636	364	630	457	16,792	36,365	44%	31%	19%	5%	1%
	Sub-total	636	364	630	457	16,792	36,365	44.0%	31.0%	19.0%	5.0%	1.0%
Roads	Sealed roads	12,660	-	5,600	4,990	477,449	723,446	32%	36%	25%	7%	0%
	Unsealed roads	819	106	1,800	1,640	4,596	10,574	40%	35%	20%	4%	1%
	Bridges	3,937	2,953	960	588	62,629	98,428	26%	38%	23%	10%	3%
	Footpaths	4,947	4,947	690	356	49,131	70,675	21%	33%	25%	14%	7%
	Other road assets	11,423	13,055	3,640	3,256	216,541	326,364	26%	39%	25%	6%	4%
	Bulk earthworks	537	1,074	150	-	107,394	107,394	99%	0%	0%	0%	1%
	Sub-total	34,324	22,134	12,840	10,830	917,740	1,336,881	35.0%	33.8%	22.8%	6.8%	1.7%

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Water supply network	Water supply network	4,174	9	9,860	9,860	339,297	636,698	19%	63%	16%	2%	0%
	Sub-total	4,174	9	9,860	9,860	339,297	636,698	19.0%	63.0%	16.0%	2.0%	0.0%
Sewerage network	Sewerage network	11,425	18	14,570	14,566	434,343	693,226	24%	57%	13%	5%	1%
	Sub-total	11,425	18	14,570	14,566	434,343	693,226	24.0%	57.0%	13.0%	5.0%	1.0%
Stormwater drainage	Stormwater drainage	5,189	-	3,450	1,675	106,372	188,682	42%	21%	26%	11%	0%
	Sub-total	5,189	-	3,450	1,675	106,372	188,682	42.0%	21.0%	26.0%	11.0%	0.0%
Open space/recreational assets	Swimming pools	4,002	4,284	320	248	9,827	22,549	38%	3%	7%	33%	19%
	Other open space / Recreational Assets	797	797	2,310	1,599	19,874	39,869	24%	39%	31%	4%	2%
	Sub-total	4,800	5,082	2,630	1,847	29,701	62,418	29.1%	26.0%	22.3%	14.5%	8.1%
Other infrastructure assets	Other infrastructure assets	2,116	2,822	5,420	4,281	48,382	94,061	20%	25%	49%	3%	3%
	Sub-total	2,116	2,822	5,420	4,281	48,382	94,061	20.0%	25.0%	49.0%	3.0%	3.0%

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
	TOTAL – ALL ASSETS	68,412	35,027	56,500	49,823	2,117,097	3,508,156	29.6%	43.0%	20.9%	5.3%	1.2%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018

	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Infrastructure asset performance indicators * consolidated					
1. Buildings and infrastructure renewals ratio					
Asset renewals ⁽¹⁾	<u>49,760</u>	94.44%	71.69%	59.36%	>= 100%
Depreciation, amortisation and impairment	<u>52,690</u>				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	<u>67,875</u>	3.38%	3.05%	1.89%	< 2.00%
Net carrying amount of infrastructure assets	<u>2,009,703</u>				
3. Asset maintenance ratio					
Actual asset maintenance	<u>49,823</u>	88.18%	88.45%	87.80%	> 100%
Required asset maintenance	<u>56,500</u>				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	<u>35,027</u>	1.00%	1.51%	0.92%	
Gross replacement cost	<u>3,508,156</u>				

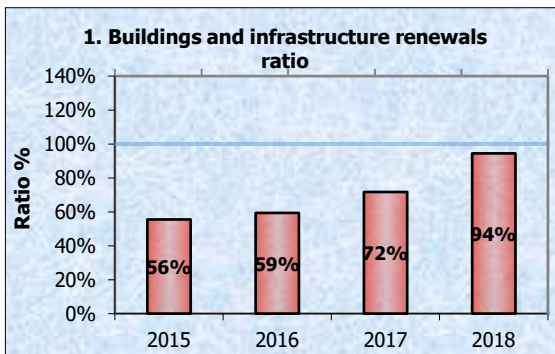
Notes

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

⁽¹⁾ Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2018



Benchmark: —— Minimum $\geq 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of asset renewals ratio

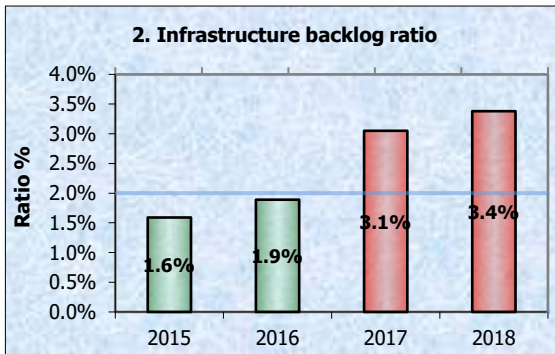
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2017/18 result

2017/18 Ratio 94.44%

This ratio has improved due to Council's commitment to asset renewal. Council has further allocated resources towards maintaining the service levels of existing assets.

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Benchmark: —— Maximum $< 2.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of infrastructure backlog ratio

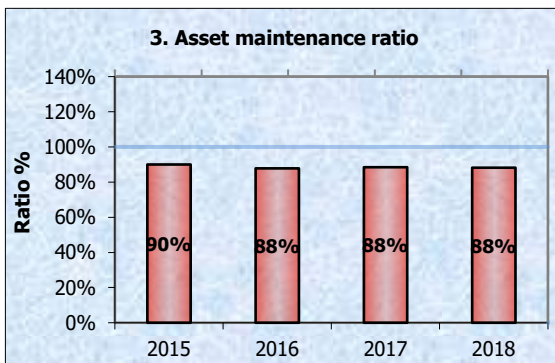
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2017/18 result

2017/18 Ratio 3.38%

Council's Infrastructure Backlog Ratio has increased during the year due to some assets dropping a condition rating. Council is continuing to focus on appropriate asset standards for renewal and maintenance

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Benchmark: —— Minimum $> 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of asset maintenance ratio

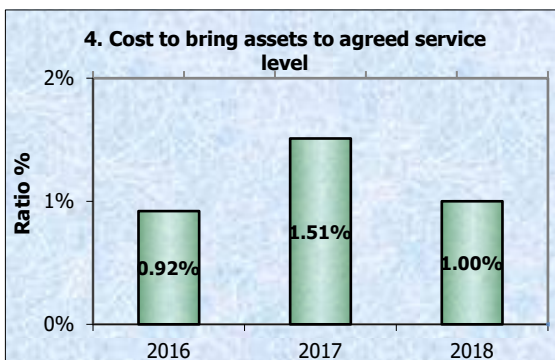
Compares actual vs. required annual asset maintenance. A ratio above 100% indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2017/18 result

2017/18 Ratio 88.18%

Council's Asset Maintenance Ratio has remained constant but is lower than the benchmark of 1.00x, which indicates that the level of expenditure on the maintenance of infrastructure assets is not sufficient to prevent the infrastructure backlog from growing.

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Purpose of agreed service level ratio

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

Commentary on 2017/18 result

2017/18 Ratio 1.00%

The Cost to Bring Assets to Agreed Service Level has decreased due to the renewal of assets previously with a condition of 5.

Shoalhaven City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018

	General indicators ⁽¹⁾		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Infrastructure asset performance indicators by fund							
1. Buildings and infrastructure renewals ratio ⁽²⁾							
Asset renewals ⁽³⁾	76.59%	67.70%	64.22%	68.11%	187.62%	88.01%	>= 100%
Depreciation, amortisation and impairment							
2. Infrastructure backlog ratio ⁽²⁾							
Estimated cost to bring assets to a satisfactory standard	4.30%	4.99%	1.20%	0.29%	2.57%	0.00%	< 2.00%
Net carrying amount of infrastructure assets							
3. Asset maintenance ratio							
Actual asset maintenance	78.85%	79.32%	99.97%	100.10%	100.00%	99.94%	> 100%
Required asset maintenance							
4. Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council	1.63%	2.49%	0.00%	0.00%	0.00%	0.00%	
Gross replacement cost							

Notes

- (1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.
- (2) Excludes Work In Progress (WIP)
- (3) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.