

Annual Financial Statements 2019 - 2020



Shoalhaven City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



General Purpose Financial Statements

for the year ended 30 June 2020

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Overview

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.

General Purpose Financial Statements

for the year ended 30 June 2020

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2020.

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

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

Who uses the Financial Statements?

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

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

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

General Purpose Financial Statements

for the year ended 30 June 2020

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

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

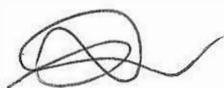
- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

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

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

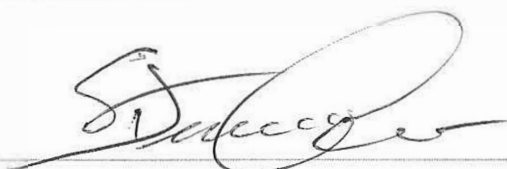
Signed in accordance with a resolution of Council made on 24 November 2020.



Amanda Findley
Mayor
24 November 2020



Greg Watson
Deputy Mayor
24 November 2020



Stephen Dunshea
Chief Executive Officer
24 November 2020



Olena Tulubinska
Chief Financial Officer
24 November 2020

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Income from continuing operations				
147,025	Rates and annual charges	3a	148,819	142,417
79,816	User charges and fees	3b	72,139	73,857
3,830	Other revenues	3c	6,175	4,492
20,723	Grants and contributions provided for operating purposes	3d,3e	19,370	20,170
19,360	Grants and contributions provided for capital purposes	3d,3e	34,683	27,092
5,193	Interest and investment income	4	5,020	7,061
–	Fair value increment on investment properties	12	–	135
275,947	Total income from continuing operations		286,206	275,224
Expenses from continuing operations				
83,230	Employee benefits and on-costs	5a	87,023	83,694
6,143	Borrowing costs	5b	6,115	6,604
65,625	Materials and contracts	5c	61,790	56,320
64,229	Depreciation and amortisation	5d	66,190	63,595
33,477	Other expenses	5e	49,526	32,706
–	Net losses from the disposal of assets	6	272	1,283
–	Fair value decrement on investment properties	12	50	–
–	Revaluation decrement / impairment of IPP&E	5d	–	1,574
252,704	Total expenses from continuing operations		270,966	245,776
23,243	Operating result from continuing operations		15,240	29,448
23,243	Net operating result for the year		15,240	29,448
23,243	Net operating result attributable to council		15,240	29,448
3,883	Net operating result for the year before grants and contributions provided for capital purposes		(19,443)	2,356

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

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

Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
Net operating result for the year (as per Income Statement)		15,240	29,448
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	11(a)	2,199	66,156
Total items which will not be reclassified subsequently to the operating result		2,199	66,156
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Gain/(loss) on revaluation of equity instruments at fair value through other comprehensive income		–	(393)
Other movements		24	35
Total items which will be reclassified subsequently to the operating result when specific conditions are met		24	(358)
Total other comprehensive income for the year		2,223	65,798
Total comprehensive income for the year		17,463	95,246
 Total comprehensive income attributable to Council		 17,463	 95,246

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

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

Statement of Financial Position

as at 30 June 2020

\$ '000	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	16,883	51,858
Investments	7(b)	135,368	116,046
Receivables	8	21,428	20,071
Inventories	9a	3,522	3,207
Other	9b	1,103	845
Non-current assets classified as 'held for sale'	10	–	586
Total current assets		178,304	192,613
Non-current assets			
Investments	7(b)	36,000	42,665
Receivables	8	6,044	5,488
Inventories	9a	4,916	6,687
Infrastructure, property, plant and equipment	11(a)	2,865,175	2,829,516
Investment property	12	1,650	1,700
Intangible Assets	13	8,331	5,545
Right of use assets	15a	222	–
Total non-current assets		2,922,338	2,891,601
Total assets		3,100,642	3,084,214
LIABILITIES			
Current liabilities			
Payables	16	21,548	20,779
Income received in advance	16	–	5,633
Contract liabilities	14a	7,922	–
Lease liabilities	15b	146	–
Borrowings	16	12,277	13,826
Provisions	17	47,000	33,204
Total current liabilities		88,893	73,442
Non-current liabilities			
Lease liabilities	15b	84	–
Borrowings	16	125,808	138,023
Provisions	17	6,408	6,751
Total non-current liabilities		132,300	144,774
Total liabilities		221,193	218,216
Net assets		2,879,449	2,865,998
EQUITY			
Accumulated surplus	18	1,576,560	1,565,701
Revaluation reserves	18	1,302,889	1,300,690
Other reserves	18	–	(393)
Council equity interest		2,879,449	2,865,998
Total equity		2,879,449	2,865,998

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

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

Statement of Changes in Equity

for the year ended 30 June 2020

\$ '000	Notes	as at 30/06/20				as at 30/06/19			
		Accumulated surplus	IPP&E revaluation reserve	Financial assets at FVOCI	Total equity	Accumulated surplus	IPP&E revaluation reserve	Financial assets at FVOCI	Total equity
Opening balance		1,565,701	1,300,690	(393)	2,865,998	1,535,160	1,234,534	–	2,769,694
Adoption of new accounting standards – not retrospective		–	–	–	–	1,058	–	–	1,058
Changes due to AASB 1058 and AASB 15 adoption	18	(4,012)	–	–	(4,012)	–	–	–	–
Changes due to AASB 16 adoption		–	–	–	–	–	–	–	–
Restated opening balance		1,561,689	1,300,690	(393)	2,861,986	1,536,218	1,234,534	–	2,770,752
Net operating result for the year		15,240	–	–	15,240	29,448	–	–	29,448
Other comprehensive income									
– Gain (loss) on revaluation of IPP&E	11(a)	–	2,199	–	2,199	–	66,156	–	66,156
– Gain/(loss) on revaluation of equity instruments at fair value through other comprehensive income		–	–	–	–	–	–	(393)	(393)
– Other movements – inclusion of management committees retained earnings		24	–	–	24	35	–	–	35
Other comprehensive income		24	2,199	–	2,223	35	66,156	(393)	65,798
Total comprehensive income		15,264	2,199	–	17,463	29,483	66,156	(393)	95,246
Transfers between equity items		(393)	–	393	–	–	–	–	–
Equity – balance at end of the reporting year		1,576,560	1,302,889	–	2,879,449	1,565,701	1,300,690	(393)	2,865,998

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

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

Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Cash flows from operating activities				
Receipts:				
146,526	Rates and annual charges		150,980	142,166
81,570	User charges and fees		72,194	75,823
4,968	Investment and interest revenue received		5,489	6,322
40,546	Grants and contributions		44,937	45,321
–	Bonds, deposits and retention amounts received		1,496	2,316
3,830	Other		20,321	20,299
Payments:				
(83,230)	Employee benefits and on-costs		(86,250)	(80,486)
(67,816)	Materials and contracts		(76,465)	(70,347)
(6,143)	Borrowing costs		(6,167)	(6,640)
–	Bonds, deposits and retention amounts refunded		(1,929)	(2,669)
(33,757)	Other		(41,930)	(38,990)
86,494	Net cash provided from (or used in) operating activities	19b	82,676	93,115
Cash flows from investing activities				
Receipts:				
15,000	Sale of investment securities		147,652	123,978
2,050	Sale of real estate assets		–	821
3,032	Sale of infrastructure, property, plant and equipment		7,592	2,504
–	Deferred debtors receipts		17	17
Payments:				
–	Purchase of investment securities		(160,183)	(122,695)
–	Purchase of investment property		(50)	–
(97,369)	Purchase of infrastructure, property, plant and equipment		(95,423)	(100,374)
(3,370)	Purchase of real estate assets		(371)	(1,792)
–	Purchase of intangible assets		(3,085)	(2,696)
–	Deferred debtors and advances made		(44)	(52)
(80,657)	Net cash provided (or used in) investing activities		(103,895)	(100,289)
Cash flows from financing activities				
Receipts:				
4,362	Proceeds from borrowings and advances		–	9,875
Payments:				
(14,251)	Repayment of borrowings and advances		(13,764)	(12,149)
–	Lease liabilities (principal repayments)		8	–
(9,889)	Net cash flow provided (used in) financing activities		(13,756)	(2,274)
(4,052)	Net increase/(decrease) in cash and cash equivalents		(34,975)	(9,448)
–	Plus: cash and cash equivalents – beginning of year	19a	51,858	61,306
(4,052)	Cash and cash equivalents – end of the year	19a	16,883	51,858
–	plus: Investments on hand – end of year	7(b)	171,368	158,711
(4,052)	Total cash, cash equivalents and investments		188,251	210,569

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 24 November 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the Office of Local Government directs Council to amend the financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting.

Council is a not-for-profit entity.

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

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

- Income statement
- Statement of cash flows
- Note 24 – Material budget variations

and are clearly marked.

Impact of Bushfires, Floods and COVID-19 Pandemic

The 2019/20 financial results of the Shoalhaven City Council were significantly impacted by two natural disasters (Currowan bushfire, and February floods) and the ongoing COVID-19 pandemic.

The COVID-19 pandemic has seen Council businesses temporarily close, staff working from home and the organisation adjusting to new ways of doing business. Whilst some Council businesses remain closed (Shoalhaven Entertainment Centre for example), other businesses have reopened with assorted changes (reduced operating hours at the library or customer limits in public halls or leisure centres). Not only does this have an impact on our community which we serve, but also to the direct and indirect revenue streams of Council.

Tourist Parks lost \$6 million of revenue and Swim Sport and Fitness lost \$1.5 million of revenue due to COVID-19 pandemic. Other revenue streams such as bereavement services, venue and rooms hire lost \$2 million of revenue in total.

Council has received the insurance claim in relation to business interruption of Tourist Parks operations due to bushfires \$1.7 million in 2019/20 financial year. Further compensation is expected to be received and recognised in 2020/21 financial year (section 44 claim, DRFA claims, etc.).

In addition, as disclosed in Note 11, Council has recognised \$5 million of impairment loss during the reporting period due to the bushfire incidence and floods that damaged infrastructure assets during the year.

Council is not aware of any post balance sheet events which would result in separate disclosures or adjustments to the 30 June 2020 financial results. Hence, 30 June 2020 financial statements were prepared on a going concern basis.

COVID-19 Financial Assistance to Ratepayers

At the Ordinary Meeting of Council held on 26 May 2020, Council resolved to provide relief to ratepayers of \$300 per property in the 2020-2021 financial year. 46,705 (80%) out of 58,386 ratepayers applied for the financial assistance.

The financial impact of COVID-19 financial assistance on the 2019/20 financial results is outlined below:

Fund	'000
Domestic Waste	\$1,963
Water	\$3,076
Sewer	\$2,601
General Fund (unrestricted cash)	\$6,334
Total:	\$13,974

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

In accordance with the Australian Accounting Standard, AASB 137 – Provisions, Contingent Liabilities and Contingent Assets, the \$14 million of the COVID-19 financial assistance was booked as a provision (disclosed in Note 17 of the Financial Statements) and recognised as Other Expenditure (Note 5e). The \$6.3 million of the general fund component was quarantined in the special reserve (Note 7c).

Ongoing commitments

Council continues to provide ongoing support to the Community with the extension of rent relief to occupants of Council's properties, discount of Developer application fees and discount on development activities to encourage more development in the next financial year.

(a) Historical cost convention

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

(b) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of investment properties – refer Note 12
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 11
- (iii) estimated tip remediation provisions – refer Note 17
- (iv) employee benefit provisions – refer Note 17.

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables
- (ii) assessment of asset impairment - refer note 11
- (iii) estimated tip remediation provisions - refer Note 17
- (iv) employee benefit provisions - refer Note 17.

Monies and other assets received by Council

(a) The Consolidated Fund

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

The Consolidated Fund has been included in the financial statements of Shoalhaven City Council.

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

- general purpose operations
- water service
- sewer service
- domestic waste management
- southern water services
- Council's S355 management committees

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

(b) The Trust Fund

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

Trust monies and property subject to Council's control have been included in these reports.

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

Goods and Services Tax (GST)

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

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

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

Volunteer services

Council has about 800 volunteers who work across several Council departments including bush care, park committees, community care, cultural heritage and tourism, and library services. Their services are vital to the success of Shoalhaven City Council with many Council programs and initiatives relying heavily on assistance from local volunteers. The volunteer service provided about 7,300 hours at an estimated cost of \$220,000 for the year ended 30 June 2020.

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2020 reporting period.

Council has elected not to apply any of these pronouncements in these financial statements before their operative dates.

As at the date of authorisation of these financial statements Council does not consider that any of these new (and still to be applied) standards and interpretations are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

New accounting standards adopted during the year

During the year Council adopted the following accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective from 1 July 2019:

- AASB 16 Leases
- AASB 15 Revenue from contracts with customers and associated amending standards.
- AASB 1058 Income of Not-for-profit entities

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 18.

Revenue stream	Impact (\$'000)
Developer application fees	1,581
Prepaid grants	2,431
Total	4,012

The adoption of AASB 16 resulted in the recognition of lease liability of \$361k and right of use asset of \$361k. The lease liability will be amortized while the ROU asset will be depreciated over the contract period.

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Functions or activities										
Buildings and Property	1,656	1,305	8,972	10,872	(7,316)	(9,567)	133	113	139,232	127,837
Commercial Undertakings	25,771	33,155	32,654	36,119	(6,883)	(2,964)	–	–	149,495	149,309
Community and Culture	2,480	1,644	8,639	6,638	(6,159)	(4,994)	1,966	2,340	29,437	29,910
Economic Development	357	204	585	604	(228)	(400)	65	–	12,501	11,719
Environmental Management	722	2,067	2,048	4,235	(1,326)	(2,168)	717	2,039	85,938	86,071
Fire Protection and Emergency Services	1,170	1,270	5,744	2,811	(4,574)	(1,541)	923	1,272	19,702	19,464
Governance and Civic	26	68	7,004	6,091	(6,978)	(6,023)	–	–	691	612
Internal Corporate Services	112,234	100,352	16,730	15,348	95,504	85,004	14,339	12,785	113,013	127,027
Land Use Planning	712	717	3,035	3,114	(2,323)	(2,397)	6	–	1,366	1,411
Open Space, Sport and Recreation	5,053	3,842	16,167	15,813	(11,114)	(11,971)	4,102	2,880	292,212	287,985
Regulatory Services	7,287	6,611	16,982	15,862	(9,695)	(9,251)	162	170	3,275	2,965
Roads and Transport	13,778	15,370	41,177	36,998	(27,399)	(21,628)	10,652	11,955	1,100,477	1,098,322
Waste and Recycling Program	38,466	35,886	37,423	30,025	1,043	5,861	518	789	49,077	50,352
Water and Sewer Services	76,494	72,340	73,806	61,246	2,688	11,094	–	–	1,104,226	1,091,230
Other	–	393	–	–	–	393	–	–	–	–
Total functions and activities	286,206	275,224	270,966	245,776	15,240	29,448	33,583	34,343	3,100,642	3,084,214

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations

\$ '000	AASB	2020	2019
(a) Rates and annual charges			
Ordinary rates			
Residential	15 (1)	69,014	65,188
Farmland	15 (1)	2,100	2,055
Business	15 (1)	5,204	4,935
Less: pensioner rebates (mandatory)	15 (1)	(2,129)	(2,140)
Rates levied to ratepayers		74,189	70,038
Pensioner rate subsidies received	1058 (1)	1,173	1,179
Total ordinary rates		75,362	71,217
Special rates			
Town improvement	15 (1)	16	15
Town planning	15 (1)	957	957
Rates levied to ratepayers		973	972
Total special rates		973	972
Annual charges			
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services	15 (1)	21,691	20,015
Stormwater management services	15 (1)	1,137	1,123
Water supply services	15 (1)	4,777	4,597
Sewerage services	15 (1)	45,348	43,851
Waste management services (non-domestic)	15 (1)	876	1,284
Less: pensioner rebates (mandatory)	15 (1)	(2,747)	(2,064)
Annual charges levied		71,082	68,806
Pensioner subsidies received:			
– Water	15 (1)	517	522
– Sewerage	15 (1)	497	509
– Domestic waste management	15 (1)	388	391
Total annual charges		72,484	70,228
TOTAL RATES AND ANNUAL CHARGES		148,819	142,417

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue:

- 15 (1)** indicates income recognised under AASB 15 “at a point in time”,
15 (2) indicates income recognised under AASB 15 “over time”,
1058 (1) indicates income recognised under AASB 1058 “at a point in time”, while
1058 (2) indicates income recognised under AASB 1058 “over time”.

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

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts which is the beginning of the rating period to which they relate.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

2019 accounting policy

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

\$ '000	AASB	2020	2019
(b) User charges and fees			
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Water supply services	15 (1)	17,919	16,848
Sewerage services	15 (1)	3,184	3,308
Waste management services (non-domestic)	15 (1)	13,258	11,059
Total specific user charges		34,361	31,215
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Planning and building regulation	15 (1)	4,896	4,244
Private works	15 (1)	1,480	1,223
Section 10.7 certificates (EPA Act)	15 (1)	566	468
Section 603 certificates	15 (1)	221	199
Total fees and charges – statutory/regulatory		7,163	6,134
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Cemeteries	15 (1)	1,796	1,728
Communication charges	15 (1)	1,240	1,408
Entertainment centre	15 (1)	1,018	1,485
Family day care	15 (1)	170	221
Health licence fees	15 (1)	109	199
Leaseback fees – Council vehicles	15 (1)	1,326	1,049
Library	15 (1)	64	91
Tourism	15 (1)	192	207
Animal charges	15 (1)	156	171
Swimming / leisure centres	15 (2)	3,625	4,161
Food inspection fees	15 (1)	83	143
Hire of council property	15 (1)	623	977
Tourist parks	15 (1)	20,013	24,134
Other	15 (1)	200	534
Total fees and charges – other		30,615	36,508
TOTAL USER CHARGES AND FEES		72,139	73,857

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue:

15 (1) indicates income recognised under AASB 15 “at a point in time”,

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1058 (1) indicates income recognised under AASB 1058 “at a point in time”, while

1058 (2) indicates income recognised under AASB 1058 “over time”.

Accounting policy for user charges and fees

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service or in some cases such as caravan parks, the customer is required to pay on arrival. There is no material obligation for Council in relation to refunds or returns.

Where an upfront fee is charged such as membership fees for the leisure centre the fee is recognised on a straight-line basis over the expected life of the membership. Licences granted by Council are all either short-term or low value and all revenue from licences is recognised at the time that the licence is granted rather than the term of the licence.

2019 accounting policy

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

\$ '000	AASB	2020	2019
(c) Other revenues			
Fines – parking	15 (1)	422	575
Fines – other	15 (1)	1,425	1,079
Discounts received	15 (1)	17	17
Legal fees recovery – rates and charges (extra charges)	15 (1)	152	223
Commissions and agency fees	15 (1)	22	29
Insurance claims recoveries	15 (1)	1,747	33
Legal fees recovery – other	15 (1)	19	25
Miscellaneous sales	15 (1)	10	5
Recovery of Bad Debts Written Off	15 (1)	1	30
Credit card service fees	15 (1)	71	71
Recovery of other costs	15 (1)	308	410
Rental income – investment property	15 (1)	85	117
Rental income – other council properties	15 (1)	1,136	1,035
Fuel tax credit	15 (1)	317	284
Insurance rebates	15 (1)	–	2
Library – other councils	15 (1)	60	55
Other	15 (1)	383	502
<u>TOTAL OTHER REVENUE</u>		<u>6,175</u>	<u>4,492</u>

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue:

15 (1) indicates income recognised under AASB 15 “at a point in time”,

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1058 (2) indicates income recognised under AASB 1058 “over time”.

Accounting policy for other revenue

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

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

2019 accounting policy:

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(d) Grants					
General purpose (untied)					
Current year allocation					
Financial assistance – general component	1058 (1)	4,474	4,361	–	–
Financial assistance – local roads component	1058 (1)	1,705	1,714	–	–
Payment in advance - future year allocation					
Financial assistance – general component	1058 (1)	4,738	4,522	–	–
Financial assistance – local roads component	1058 (1)	1,811	1,777	–	–
Total general purpose		12,728	12,374	–	–
Specific purpose					
Bushfire and emergency services	1058 (2)	301	377	601	1,109
Community care	15 (1)	1,210	1,310	112	–
Community centres	1058 (2)	–	–	38	21
Economic development	1058 (2)	50	120	226	10
Environmental programs	15 (1)	277	1,771	322	50
Heritage and cultural	15 (1)	32	96	–	32
Library	15 (1)	318	300	–	–
Library – special projects		9	–	–	–
LIRS subsidy	15 (1)	134	136	–	–
Noxious weeds	15 (1)	169	240	–	–
Recreation and culture	1058 (2)	328	83	5,348	2,845
Storm/flood damage	15 (1)	560	593	–	–
Street lighting	15 (1)	265	259	–	–
Transport (other roads and bridges funding)	1058 (2)	2	–	8,262	9,362
Transport (roads to recovery)	15 (1)	–	–	2,133	2,261
Other	15 (1)	158	213	–	781
Total specific purpose		3,813	5,498	17,042	16,471
Total grants		16,541	17,872	17,042	16,471
Grant revenue is attributable to:					
– Commonwealth funding		14,457	13,660	4,644	7,925
– State funding		1,971	4,003	12,383	8,542
– Other funding		113	209	15	4
		16,541	17,872	17,042	16,471

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue:

15 (1) indicates income recognised under AASB 15 “at a point in time”,

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1058 (1) indicates income recognised under AASB 1058 “at a point in time”, while

1058 (2) indicates income recognised under AASB 1058 “over time”.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	Notes	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(e) Contributions						
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):						
Cash contributions						
S 7.11 – contributions towards amenities/services		1058 (1)	–	–	4,307	2,912
S 64 – water supply contributions		1058 (1)	–	–	1,828	1,252
S 64 – sewerage service contributions		1058 (1)	–	–	2,049	1,487
Total developer contributions – cash			–	–	8,184	5,651
Total developer contributions	28		–	–	8,184	5,651
Other contributions:						
Cash contributions						
Kerb and gutter		1058 (1)	–	–	3	108
RMS contributions (regional roads, block grant)		1058 (1)	2,562	2,298	–	–
Other		1058 (1)	267	–	238	1,028
Total other contributions – cash			2,829	2,298	241	1,136
Non-cash contributions						
Dedications – subdivisions (other than by s7.11)		1058 (1)	–	–	6,227	792
Sewerage (excl. section 64 contributions)		1058 (1)	–	–	1,216	1,697
Water supplies (excl. section 64 contributions)		1058 (1)	–	–	1,773	1,345
Total other contributions – non-cash			–	–	9,216	3,834
Total other contributions			2,829	2,298	9,457	4,970
Total contributions			2,829	2,298	17,641	10,621
TOTAL GRANTS AND CONTRIBUTIONS			19,370	20,170	34,683	27,092

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue:

15 (1) indicates income recognised under AASB 15 “at a point in time”,

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1058 (1) indicates income recognised under AASB 1058 “at a point in time”, while

1058 (2) indicates income recognised under AASB 1058 “over time”.

Accounting policy for grants and contributions**Accounting policy from 1 July 2019****Grant income under AASB 15**

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

The performance obligations are varied based on the agreement but include [provide details of performance obligations within AASB 15 grants e.g. events, vaccinations]. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

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

Grant income

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

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

Capital grants

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

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

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

Contributions

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

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

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

Accounting policy prior to 1 July 2019

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

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

Operating grants

Unexpended at the close of the previous reporting period	669	931
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	–	340
Add: operating grants received for the provision of goods and services in a future period	520	–
Less: operating grants recognised in a previous reporting period now spent (2019 only)	–	(602)
Less: operating grants received in a previous reporting period now spent and recognised as income	(669)	–
Unexpended and held as externally restricted assets (operating grants)	520	669

There are 30 operating grants unspent as at 30 June 2020, the largest amount outstanding relates to a three year grant for riverbank restoration.

Capital grants

Unexpended at the close of the previous reporting period	2,618	1,634
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	–	2,082
Add: capital grants received for the provision of goods and services in a future period	1,149	–
Less: capital grants recognised in a previous reporting period now spent (2019 only)	–	(1,098)
Less: capital grants received in a previous reporting period now spent and recognised as income	(2,124)	–
Unexpended and held as externally restricted assets (capital grants)	1,643	2,618

There are 41 capital grants unspent, with the largest (\$417K) for Far North Collector Road land acquisitions, followed by \$342K for the shared path bridge at Chris Creek and \$209K for drainage and irrigation at six sporting fields.

Contributions

Unexpended at the close of the previous reporting period	28,883	49,895
Add: contributions recognised as income in the current period but not yet spent	2,634	–
Add: contributions received for the provision of goods and services in a future period	–	7,191
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate (2019 only)	–	–
Less: contributions recognised in a previous reporting period now spent	–	(28,203)
Unexpended and held as externally restricted assets (contributions)	31,517	28,883

The unexpended contributions relate to developer contributions, refer to Note 28 for more details.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4. Interest and investment income

\$ '000	2020	2019
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	543	553
– Cash and investments	4,231	6,151
Dividend income (other)	199	150
Fair value adjustments		
– Movements in investments at fair value through profit and loss	43	203
Amortisation of premiums and discounts		
– Interest free (and interest reduced) loans provided	4	4
Total Interest and investment income	5,020	7,061

Interest revenue is attributable to:

Unrestricted investments/financial assets:

Overdue rates and annual charges (general fund)	226	276
General Council cash and investments	1,993	2,493

Restricted investments/funds - external:

Development contributions		
– Section 7.11	227	976
– Section 64	401	564
Water fund operations	1,202	962
Sewerage fund operations	744	1,532
Domestic waste management operations	227	258

Total interest and investment revenue	5,020	7,061
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Accounting policy for interest and investment revenue

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

\$ '000	2020	2019
(a) Employee benefits and on-costs		
Salaries and wages	68,496	64,791
Employee termination costs	39	3
Travel expenses	169	103
Employee leave entitlements (ELE)	13,544	13,337
Employee leave entitlement discounting adjustment	1,810	2,179
Superannuation	8,420	7,834
Workers' compensation insurance	601	1,207
Workers' compensation provision adjustment	196	17
Fringe benefit tax (FBT)	111	150
Payroll tax	1,045	889
Training costs (other than salaries and wages)	1,183	1,292
Other	327	435
Total employee costs	95,941	92,237
Less: capitalised costs	(8,918)	(8,543)
TOTAL EMPLOYEE COSTS EXPENSED	87,023	83,694

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 22 for more information.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	Notes	2020	2019
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on leases		8	–
Interest on loans		6,037	6,406
Interest on advances		20	18
Total interest bearing liability costs		6,065	6,424
Total interest bearing liability costs expensed		6,065	6,424
(ii) Other borrowing costs			
Fair value adjustments on recognition of advances and deferred debtors			
– Interest free (or favourable) loans and advances made by Council		48	56
– Remediation liabilities	17	2	124
Total other borrowing costs		50	180
TOTAL BORROWING COSTS EXPENSED		6,115	6,604

Accounting policy for borrowing costs

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

\$ '000	2020	2019
(c) Materials and contracts		
Raw materials and consumables	12,456	10,564
Contractor and consultancy costs	44,779	41,644
Auditors remuneration ²	164	188
Legal expenses:		
Expenses from leases of low value assets (2020 only)	534	–
– Legal expenses: planning and development	596	283
– Legal expenses: debt recovery	167	244
– Legal expenses: other	379	684
Operating leases expense (2019 only):		
– Operating lease rentals: buildings	–	42
– Operating lease rentals: other	–	27
– Operating lease rentals: Motor vehicles ¹	–	78
Fuel	2,715	2,566
Total materials and contracts	61,790	56,320
TOTAL MATERIALS AND CONTRACTS	61,790	56,320

Accounting policy for materials and contracts

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

Operating leases (2019 only)

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
1. Operating lease payments are attributable to:		
Buildings	—	42
Motor vehicles	—	78
Other	—	27
2. Auditor remuneration		
a. The following fees will be incurred for services provided by the NSW Auditor-General for the Audit of the 2019/20 Financial Statements: \$123,600		
b. During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms		
Auditors of the Council - NSW Auditor-General:		
(i) Audit and other assurance services		
Audit and review of financial statements	124	139
Remuneration for audit and other assurance services	124	139
Total Auditor-General remuneration	124	139
Non NSW Auditor-General audit firms		
(ii) Non-assurance services		
Other services	40	49
Remuneration for non-assurance services	40	49
Total remuneration of non NSW Auditor-General audit firms	40	49
Total Auditor remuneration	164	188

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	Notes	2020	2019
(d) Depreciation, amortisation and impairment of non-financial assets			
Depreciation and amortisation			
Plant and equipment		6,745	5,525
Office equipment		1,034	936
Furniture and fittings		530	267
Land improvements (depreciable)		59	59
Infrastructure:	11(a)		
– Buildings – non-specialised		92	349
– Buildings – specialised		7,530	8,449
– Other structures		1,469	1,367
– Roads		19,562	18,915
– Bridges		997	950
– Footpaths		1,340	1,316
– Stormwater drainage		2,488	2,431
– Water supply network		8,212	7,940
– Sewerage network		10,149	9,726
– Swimming pools		261	259
– Other open space/recreational assets		1,988	1,872
– Other infrastructure		2,993	2,757
Other assets:			
– Library books		380	371
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	17,11(a)	62	28
Intangible assets	13	299	78
Total gross depreciation and amortisation costs		66,190	63,595
Total depreciation and amortisation costs		66,190	63,595
Impairment / revaluation decrement of IPP&E			
Land Under Roads (post 01/07/2008)		–	1,574
Total gross IPP&E impairment / revaluation decrement costs / (reversals)		–	1,574
Total IPP&E impairment / revaluation decrement costs / (reversals) charged to Income Statement		–	1,574
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR NON-FINANCIAL ASSETS		66,190	65,169

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

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

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

Impairment of non-financial assets

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

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

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

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

\$ '000	2020	2019
(e) Other expenses		
Advertising	1,013	1,052
Bad and doubtful debts	619	35
Bank charges	710	672
Computer software, equipment and maintenance	2,565	2,924
Contributions/levies to other levels of government		
– NSW fire brigade levy	469	427
– NSW rural fire service levy	1,230	978
– State Emergency Services levy	160	138
– Waste levy	11,317	9,316
– Other contributions/levies	937	1,385
Councillor expenses – mayoral fee	45	42
Councillor expenses – councillors' fees	265	256
Councillors' expenses (incl. mayor) – other (excluding fees above)	152	253
Donations, contributions and assistance to other organisations (Section 356)	958	972
Insurance	2,995	2,654
Light, power and heating	5,474	5,347
Motor vehicle registrations	434	398
Postage	365	388
Printing and stationery	759	771
Street lighting	1,866	1,931
Subscriptions and publications	1,061	641
Telephone and communications	1,223	1,168
Valuation fees	429	572
Other	506	386
COVID-19 financial assistance to ratepayers ¹	13,974	–
Total other expenses	49,526	32,706
TOTAL OTHER EXPENSES	49,526	32,706

Accounting policy for other expenses

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

(1) Please refer to Note 1 for the disclosures of COVID-19 financial assistance to ratepayers.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
Property (excl. investment property)	11(a)		
Proceeds from disposal – property		2,875	59
Less: carrying amount of property assets sold/written off		(3,203)	(2,324)
Net gain/(loss) on disposal		(328)	(2,265)
Plant and equipment	11(a)		
Proceeds from disposal – plant and equipment		2,063	1,945
Less: carrying amount of plant and equipment assets sold/written off		(2,707)	(1,751)
Net gain/(loss) on disposal		(644)	194
Investments	7(b)		
Proceeds from disposal/redemptions/maturities – investments		147,652	123,978
Less: carrying amount of investments sold/redeemed/matured		(147,569)	(123,986)
Net gain/(loss) on disposal		83	(8)
Non-current assets classified as ‘held for sale’	10		
Proceeds from disposal – non-current assets ‘held for sale’		632	1,321
Less: carrying amount of ‘held for sale’ assets sold/written off		(15)	(525)
Net gain/(loss) on disposal		617	796
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(272)	(1,283)

Accounting policy for disposal of assets

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
Cash and cash equivalents		
Cash on hand and at bank	12,769	16,488
Cash-equivalent assets		
– Deposits at call	4,114	8,945
– Managed funds	–	26,425
Total cash and cash equivalents	16,883	51,858

Accounting policy for cash and cash equivalents

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

Note 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Investments				
a. 'Financial assets at fair value through profit and loss'				
– 'Held for trading'	49,451	–	46,245	–
b. 'Financial assets at amortised cost'	85,917	36,000	69,801	42,000
c. 'Financial assets at fair value through other comprehensive income'	–	–	–	665
Total Investments	135,368	36,000	116,046	42,665
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	152,251	36,000	167,904	42,665
Financial assets at fair value through the profit and loss				
NCD's, FRN's (with maturities > 3 months)	49,451	–	46,245	–
Total	49,451	–	46,245	–
Financial assets at amortised cost				
Long term deposits	85,917	36,000	69,801	42,000
Total	85,917	36,000	69,801	42,000
Financial assets at fair value through other comprehensive income				
Unlisted equity securities	–	–	–	665
Total	–	–	–	665

Financial assets designated as at fair value through other comprehensive income

The investments shown below are designated as financial assets as at fair value through other comprehensive income because these financial assets represent investments that the Council intends to hold for the long-term for strategic purposes.

No strategic investments were disposed of during 2020, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

Accounting policy for investments

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

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

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Fair value through other comprehensive income – equity instruments

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

These investments were carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve).

On disposal any balance in the financial asset reserve is transferred to accumulated surplus and is not reclassified to profit or loss. In FY2019/20, Council sold these investments and the net gains excluding dividends were recognised in Other Comprehensive Income Statement.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Total cash, cash equivalents and investments	152,251	36,000	167,904	42,665
attributable to:				
External restrictions	81,694	36,000	93,821	34,545
Internal restrictions	61,477	–	55,039	8,120
Unrestricted	9,080	–	19,044	–
	152,251	36,000	167,904	42,665

\$ '000	2020	2019
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	166	–
Specific purpose unexpended loans – general	4,156	11,273
Specific purpose unexpended loans – sewer	1,815	1,797
Self insurance claims	1,713	1,517

External restrictions – included in liabilities

	7,850	14,587
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External restrictions – other

Developer contributions – general	12,875	10,241
Developer contributions – water fund	18,642	18,642
Specific purpose unexpended grants (recognised as revenue) – general fund	1,997	3,287
Water supplies	36,907	33,542
Sewerage services	29,080	35,867
Stormwater management	382	1,125
Other special levies	2,218	3,255
Domestic waste management	7,743	7,820

External restrictions – other

	109,844	113,779
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Total external restrictions

	117,694	128,366
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Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020	2019
Internal restrictions		
Plant and vehicle replacement	2,486	2,310
Employees leave entitlement	7,924	8,120
Deposits, retentions and bonds	3,018	3,440
Arts collection	62	47
Committed capital works	2,670	2,441
Communication towers	879	1,564
Critical asset compliance	1,454	2,127
Economic development projects	1,693	846
Financial assistance grant	6,549	6,299
General insurance	469	409
Land decontamination	392	969
Land development reserve	5,582	6,210
North Nowra link road	28	38
Plant replacement cemeteries	138	131
S7.11 matching funds	311	311
Sporting facilities	162	148
Strategic projects	1,109	1,002
Strategic property acquisition	1,302	1,265
Coastal Management	690	873
S7.11 recoupment funds ¹	23,369	24,590
Jetty Licensing	19	19
Shoalhaven Foreshore Development	1,171	—
Total internal restrictions	61,477	63,159
TOTAL RESTRICTIONS	179,171	191,525

(1) S7.11 recoupment funds are the balances from S7.11 projects that are no longer in the S7.11 contributions plan or contributions received on projects that have already been completed and the works were funded from the General Fund. The S7.11 recoupment funds are used as Council's matching funds on S7.11 construction projects.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Purpose				
Rates and annual charges	8,129	3,559	7,280	3,226
Interest and extra charges	268	1,749	256	1,699
User charges and fees	6,443	678	4,660	490
Accrued revenues				
– Interest on investments	975	–	1,553	–
– Other income accruals	362	–	370	–
Deferred debtors	18	58	20	73
Government grants and subsidies	3,952	–	4,321	–
Net GST receivable	1,267	–	1,183	–
Other debtors	722	–	831	–
Total	22,136	6,044	20,474	5,488
Less: provision of impairment				
Rates and annual charges	(38)	–	(16)	–
User charges and fees	(670)	–	(387)	–
Total provision for impairment – receivables	(708)	–	(403)	–
<u>TOTAL NET RECEIVABLES</u>	<u>21,428</u>	<u>6,044</u>	<u>20,071</u>	<u>5,488</u>
Externally restricted receivables				
Water supply				
– Rates and availability charges	535	40	399	30
– Other	2,568	665	3,279	810
Sewerage services				
– Rates and availability charges	3,905	752	4,294	827
– Other	1,434	457	1,220	403
Domestic waste management	788	711	587	530
Total external restrictions	9,230	2,625	9,779	2,600
Unrestricted receivables	12,198	3,419	10,292	2,888
<u>TOTAL NET RECEIVABLES</u>	<u>21,428</u>	<u>6,044</u>	<u>20,071</u>	<u>5,488</u>

\$ '000	2020	2019
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	403	412
+ new provisions recognised during the year	321	35
– amounts already provided for and written off this year	(15)	(11)
– amounts provided for but recovered during the year	(1)	(33)
Balance at the end of the year	708	403

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

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

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

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

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

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

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

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

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are over 2 years past due, whichever occurs first.

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

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

Rates and annual charges outstanding are secured against the property.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	1,668	4,916	1,548	6,687
Stores and materials	1,852	–	1,655	–
Other	2	–	4	–
Total inventories at cost	3,522	4,916	3,207	6,687
<u>TOTAL INVENTORIES</u>	<u>3,522</u>	<u>4,916</u>	<u>3,207</u>	<u>6,687</u>

(b) Other assets

Prepayments	1,103	–	845	–
<u>TOTAL OTHER ASSETS</u>	<u>1,103</u>	<u>–</u>	<u>845</u>	<u>–</u>

Externally restricted assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Water				
Stores and materials	1,237	–	1,117	–
Prepayments	–	–	52	–
Total water	1,237	–	1,169	–
Total externally restricted assets	1,237	–	1,169	–
Total unrestricted assets	3,388	4,916	2,883	6,687
TOTAL INVENTORIES AND OTHER ASSETS	4,625	4,916	4,052	6,687

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets (continued)

(i) Other disclosures

\$ '000	Notes	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Details for real estate development					
Industrial/commercial		1,668	4,916	1,548	6,687
Total real estate for resale		1,668	4,916	1,548	6,687
(Valued at the lower of cost and net realisable value)					
Represented by:					
Acquisition costs		100	180	100	180
Development costs		1,568	4,736	1,448	6,507
Total costs		1,668	4,916	1,548	6,687
Total real estate for resale		1,668	4,916	1,548	6,687
Movements:					
Real estate assets at beginning of the year		1,548	6,687	1,264	5,151
– Purchases and other costs		135	236	978	814
– Transfers in from (out to) Note 11	11(a)(i)	–	–	–	388
– WDV of sales (expense)	6	(15)	15	(360)	–
– Transfer between current/non-current		–	–	(334)	334
Transfer out to IPPE		–	(2,022)	–	–
Total real estate for resale		1,668	4,916	1,548	6,687

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

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

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.

Notes to the Financial Statements

for the year ended 30 June 2020

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

(i) Non-current assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Non-current assets 'held for sale'				
Land	—	—	586	—
Total non-current assets 'held for sale'	—	—	586	—
<u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u>	<u>—</u>	<u>—</u>	<u>586</u>	<u>—</u>

(ii) Reconciliation of non-current assets 'held for sale'

\$ '000	2020 Assets 'held for sale'	2019 Assets 'held for sale'
Opening balance	586	2,548
Less: carrying value of assets/operations sold	—	(165)
Balance still unsold after 12 months:	586	2,383
Less: assets no longer classified as 'held for sale'	(586)	(2,083)
Plus new transfers in:		
– Assets 'held for sale'	—	286
Closing balance of 'held for sale' non-current assets	—	586

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

	as at 30/06/19			Asset movements during the reporting period									as at 30/06/20		
	Gross carrying amount Restated	Accumulated depreciation	Net carrying amount Restated	Additions renewals ⁽¹⁾	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Tfrs from/(to) 'held for sale' category	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000															
Capital work in progress	169,119	–	169,119	44,775	30,655	–	–	(60,679)	1,249	–	–	–	185,119	–	185,119
Plant and equipment	79,180	(37,091)	42,089	–	9,203	(2,443)	(6,745)	1,560	(56)	–	–	–	68,728	(25,120)	43,608
Office equipment	22,353	(18,522)	3,831	–	625	(410)	(1,034)	83	–	–	–	–	14,460	(11,365)	3,095
Furniture and fittings	4,926	(2,526)	2,400	–	288	(12)	(530)	551	2	–	–	–	4,842	(2,143)	2,699
Land:															
– Operational land	167,758	–	167,758	20	6,687	(1,579)	–	34	(37)	586	–	–	173,469	–	173,469
– Community land	125,548	–	125,548	–	3,773	(132)	–	–	37	–	–	–	129,226	–	129,226
– Land under roads (post 30/6/08)	1,609	–	1,609	–	98	–	–	1	–	–	–	–	1,708	–	1,708
Land improvements – non-depreciable	127,740	–	127,740	–	–	–	–	–	–	–	–	–	127,740	–	127,740
Land improvements – depreciable	1,829	(1,342)	487	–	–	–	(59)	–	–	–	–	–	1,829	(1,401)	428
Infrastructure:															
– Buildings – non-specialised	2,035	–	2,035	–	–	–	(92)	–	–	–	–	–	2,035	(92)	1,943
– Buildings – specialised	388,954	(115,109)	273,845	290	2,313	(287)	(7,530)	16,990	63	–	(54)	–	408,100	(122,470)	285,630
– Other structures	38,872	(21,022)	17,850	–	94	(25)	(1,469)	331	–	–	–	–	39,216	(22,435)	16,781
– Roads	1,077,395	(380,713)	696,682	–	595	–	(19,562)	20,641	–	–	(7)	–	1,098,631	(400,282)	698,349
– Bridges	101,005	(36,750)	64,255	–	–	–	(997)	2,008	–	–	(4,338)	–	103,014	(42,086)	60,928
– Footpaths	72,175	(22,860)	49,315	–	–	–	(1,340)	709	–	–	(5)	–	72,883	(24,204)	48,679
– Bulk earthworks (non-depreciable)	109,674	–	109,674	–	–	–	–	22	–	–	–	–	109,696	–	109,696
– Stormwater drainage	191,127	(84,740)	106,387	–	–	–	(2,488)	2,299	–	–	–	–	193,426	(87,228)	106,198
– Water supply network	652,961	(309,335)	343,626	–	1,082	(295)	(8,212)	1,861	19	–	–	2,971	661,031	(319,979)	341,052
– Sewerage network	712,351	(272,282)	440,069	–	1,216	(738)	(10,149)	3,461	(21)	–	(494)	4,126	721,518	(284,048)	437,470
– Swimming pools	22,618	(12,982)	9,636	–	–	–	(261)	–	(30)	–	–	–	22,588	(13,243)	9,345
– Other open space/recreational assets	41,831	(21,867)	19,964	9	1,241	–	(1,988)	2,805	(3)	–	–	–	45,883	(23,855)	22,028
– Other infrastructure	100,713	(48,445)	52,268	–	1,241	–	(2,993)	6,938	23	–	–	–	108,915	(51,438)	57,477
Other assets:															
– Library books	8,816	(7,814)	1,002	–	–	–	(380)	385	–	–	–	–	9,201	(8,194)	1,007
Reinstatement, rehabilitation and restoration assets (refer Note 17):															
– Tip assets	3,589	(1,262)	2,327	–	–	–	(62)	–	(765)	–	–	–	2,824	(1,324)	1,500
Total Infrastructure, property, plant and equipment	4,224,178	(1,394,662)	2,829,516	45,094	59,111	(5,921)	(65,891)	–	481	586	(4,898)	7,097	4,306,082	(1,440,907)	2,865,175

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

	as at 30/06/18			Asset movements during the reporting period											as at 30/06/19		
	Gross carrying amount	Accumulated depreciation ²	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss / revaluation decrements (recognised in P/L)	WIP transfers	Adjustments and transfers	Tfrs from/(to) 'held for sale' category	Tfrs from/(to) real estate assets (Note 9)	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation ²	Net carrying amount
\$ '000																	
Capital work in progress	143,396	—	143,396	12,428	41,535	—	—	—	(28,027)	(213)	—	—	—	—	169,119	—	169,119
Plant and equipment	72,438	(34,056)	38,382	5,801	3,173	(1,750)	(5,525)	—	957	1,051	—	—	—	—	79,180	(37,091)	42,089
Office equipment	21,460	(17,629)	3,831	110	829	(19)	(936)	—	17	(1)	—	—	—	—	22,353	(18,522)	3,831
Furniture and fittings	4,487	(2,258)	2,229	247	174	—	(267)	—	9	8	—	—	—	—	4,926	(2,526)	2,400
Land:																	
– Operational land	165,588	—	165,588	—	3,056	(54)	—	—	15	(116)	399	(1,130)	—	—	167,758	—	167,758
– Community land	125,386	—	125,386	—	182	—	—	—	—	(20)	—	—	—	—	125,548	—	125,548
– Land under roads (post 30/6/08)	2,867	—	2,867	—	316	—	—	(1,574)	—	—	—	—	—	—	1,609	—	1,609
Land improvements – non-depreciable	127,740	—	127,740	—	—	—	—	—	—	—	—	—	—	—	127,740	—	127,740
Land improvements – depreciable	1,829	(1,284)	545	—	1	—	(59)	—	—	—	—	—	—	—	1,829	(1,342)	487
Infrastructure:																	
– Buildings – non-specialised	13,865	(5,458)	8,407	1	354	(612)	(349)	—	2	(5,755)	—	—	(13)	—	2,035	—	2,035
– Buildings – specialised	446,621	(230,055)	216,566	1,894	2,726	(646)	(8,449)	—	3,168	2,762	1,398	—	—	54,426	388,954	(115,109)	273,845
– Other structures	36,365	(19,573)	16,792	267	515	—	(1,367)	—	290	1,353	—	—	—	—	38,872	(21,022)	17,850
– Roads	1,060,383	(361,797)	698,586	10,738	1,478	—	(18,915)	—	4,795	—	—	—	—	—	1,077,395	(380,713)	696,682
– Bridges	98,428	(35,799)	62,629	664	365	—	(950)	—	1,547	—	—	—	—	—	101,005	(36,750)	64,255
– Footpaths	70,675	(21,544)	49,131	81	1,039	—	(1,316)	—	363	17	—	—	—	—	72,175	(22,860)	49,315
– Bulk earthworks (non-depreciable)	107,394	—	107,394	617	234	—	—	—	1,429	—	—	—	—	—	109,674	—	109,674
– Stormwater drainage	188,682	(82,310)	106,372	981	405	—	(2,431)	—	862	—	—	198	—	—	191,127	(84,740)	106,387
– Water supply network	635,705	(297,144)	338,561	1,466	2,836	(490)	(7,940)	—	4,200	(43)	—	—	—	5,036	652,961	(309,335)	343,626
– Sewerage network	691,695	(258,397)	433,298	832	2,781	(504)	(9,726)	—	6,717	(36)	—	—	—	6,707	712,351	(272,282)	440,069
– Swimming pools	22,549	(12,722)	9,827	68	—	—	(259)	—	—	—	—	—	—	—	22,618	(12,982)	9,636
– Other open space/recreational assets	39,869	(19,995)	19,874	1,126	757	—	(1,872)	—	251	(172)	—	—	—	—	41,831	(21,867)	19,964
– Other infrastructure	94,061	(45,679)	48,382	2,035	2,087	—	(2,757)	—	3,405	(1,428)	—	544	—	—	100,713	(48,445)	52,268
Other assets:																	
– Library books	8,423	(7,443)	980	—	393	—	(371)	—	—	—	—	—	—	—	8,816	(7,814)	1,002
Reinstatement, rehabilitation and restoration assets (refer Note 17):																	
– Tip assets	2,176	(2,029)	147	—	—	—	(28)	—	—	2,208	—	—	—	—	3,589	(1,262)	2,327
Total Infrastructure, property, plant and equipment	4,182,082	(1,455,172)	2,726,910	39,356	65,236	(4,075)	(63,517)	(1,574)	—	(385)	1,797	(388)	(13)	66,169	4,224,178	(1,394,662)	2,829,516

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11(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 comprehensive valuations are performed on a periodic basis and the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value.

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

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

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

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

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

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Benches, seats etc.	10 to 20
Computer equipment	4		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Water and sewer assets		Stormwater assets	
Dams and reservoirs	80 to 100	Drains	80 to 100
Bores	20 to 40	Culverts	50 to 80
Reticulation pipes: PVC	70 to 80	Flood control structures	80 to 100
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	20	Bulk earthworks	20
Sealed roads: structure	50	Swimming pools	50
Unsealed roads	20	Unsealed roads	20
Bridge: concrete	100	Other open space/recreational assets	20
Bridge: other	50	Other infrastructure	20
Road pavements	60		
Kerb, gutter and footpaths	40		

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

Land under roads

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

Crown reserves

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

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

Rural Fire Service assets

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

Council's position remains that it controls and recognises the land and buildings but it doesn't control the plant and equipment.

Note 11(b). Externally restricted infrastructure, property, plant and equipment

	as at 30/06/20			as at 30/06/19		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount Restated	Accumulated depn. and impairment	Net carrying amount Restated
\$ '000						
Water supply						
WIP	10,084	—	10,084	4,850	—	4,850
Plant and equipment	7,036	2,516	4,520	9,300	4,116	5,184
Office equipment	2,567	1,689	878	3,420	2,355	1,065
Furniture and fittings	906	450	456	1,136	382	754
Land						
— Operational land	8,331	—	8,331	6,826	—	6,826
— Community land	128	—	128	128	—	128
Buildings	16,763	5,356	11,407	16,706	5,081	11,625
Other structures	1,668	987	681	1,069	731	338
Infrastructure	661,031	319,977	341,054	652,961	309,335	343,626
Total water supply	708,514	330,975	377,539	696,396	322,000	374,396
Sewerage services						
WIP	150,152	—	150,152	133,077	—	133,077
Plant and equipment	8,377	4,129	4,248	8,903	4,530	4,373
Office equipment	1,001	728	273	1,310	993	317
Furniture and fittings	80	—	80	139	64	75
Land						
— Operational land	16,775	—	16,775	16,746	—	16,746
— Community land	1,022	—	1,022	1,022	—	1,022
Buildings	17,531	4,615	12,916	17,659	4,414	13,245
Other structures	105	90	15	119	61	58
Infrastructure	721,466	266,177	455,289	712,351	272,282	440,069
Total sewerage services	916,509	275,739	640,770	891,326	282,344	608,982
TOTAL RESTRICTED IPP&E	1,625,023	606,714	1,018,309	1,587,722	604,344	983,378

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11(c). Infrastructure, property, plant and equipment – current year impairments

Council has recognised impairment losses during the reporting period due to the bushfire incidence and flood during the year. Impairment loss was attributed to the following classes of assets:

Assets	\$
Bridges	4,338,031
Buildings	54,406
Footpaths	4,613
Road	6,905
Sewerage	494,117
Total	4,898,072

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Investment properties

\$ '000	2020	2019
Owned investment property		
Investment property on hand at fair value	1,650	1,700
Total owned investment property	1,650	1,700

(a) Reconciliation – owned investment property

Reconciliation of annual movement:

Opening balance	1,700	1,565
– Net gain/(loss) from fair value adjustments	(50)	135
CLOSING BALANCE – OWNED INVESTMENT PROPERTY	1,650	1,700

(b) Valuation basis

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

The 2019 revaluations were based on independent assessments made by:
Adam Hopcroft AAPI, of Walsh & Monaghan Pty Ltd

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

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

\$ '000	2020	2019
(d) Leasing arrangements – Council as lessor (2019 only)		
The investment properties are leased to tenants under long-term operating leases with rentals payable monthly.		
Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:		
Within 1 year	–	114
Later than 1 year but less than 5 years	–	45
Later than 5 years	–	17
Total minimum lease payments receivable	–	176

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Investment properties (continued)

\$ '000	2020	2019
(e) Investment property income and expenditure – summary		
Rental income from investment property:		
– Minimum lease payments	85	114
– Other income	–	3
Direct operating expenses on investment property:		
– that generated rental income	(19)	(24)
Net revenue contribution from investment property	66	93
plus:		
Fair value movement for year	(50)	135
Total income attributable to investment property	16	228

Accounting policy for investment property

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

Properties that are under construction for future use as investment properties are regarded as investment property. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Intangible assets

Intangible assets are as follows:

\$ '000	2020	2019
Software		
Opening values at 1 July		
Gross book value	5,660	2,965
Accumulated amortisation	(115)	(38)
Net book value – opening balance	5,545	2,927
Movements for the year		
– Purchases	699	1,021
– Development costs	2,386	1,675
– Amortisation charges	(299)	(78)
Closing values at 30 June		
Gross book value	8,745	5,660
Accumulated amortisation	(414)	(115)
Total software – net book value	8,331	5,545
TOTAL INTANGIBLE ASSETS – NET BOOK VALUE	8,331	5,545

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Contract assets and liabilities

\$ '000	Notes	2020 Current	2020 Non-current
(a) Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	1,643	—
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	520	—
Total grants received in advance		2,163	—
User fees and charges received in advance:			
Deposits received in advance of services provided		5,759	—
Total user fees and charges received in advance		5,759	—
Total contract liabilities		7,922	—

Notes

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

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

(iii) Upfront membership fees for the leisure centre meets the definition of a performance obligation and therefore the funds received are recorded as a contract liability on receipt and recognised as revenue over the expected average membership life.

\$ '000	2020 Current	2020 Non-current
(i) Contract liabilities relating to restricted assets		
Externally restricted assets		
Unspent grants held as contract liabilities (excl. Water & Sewer)	166	—
Contract liabilities relating to externally restricted assets	166	—
Total contract liabilities relating to restricted assets	166	—
Total contract liabilities relating to unrestricted assets	7,756	—
Total contract liabilities	7,922	—

Significant changes in contract assets and liabilities

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

Accounting policy for contract assets and liabilities

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Contract assets and liabilities (continued)

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

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

(b) Contract cost assets

(i) The contract cost asset relates to the costs to recruit employees for specific grant programs and material developed to promote the program.

Accounting policy for contract cost assets

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

Costs to fulfill a contract

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

Note 15. Leases

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

(i) Council as a lessee

Council has leases building assets. Information relating to the leases in place and associated balances and transactions is provided below.

Terms and conditions of leases

Depot building: 3 years lease

Mobile building: 2 years lease

Buildings

Council leases buildings during the year; the leases are generally between 2 - 3 years and some of them include renewal option to allow Council to renew for up to twice the noncancellable lease term at their discretion.

The building leases contains an annual pricing mechanism based on either fixed or CPI movements at each anniversary of the lease inception.

\$ '000	Buildings	Total
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	222	222
RIGHT OF USE ASSETS	222	222

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Leases (continued)

\$ '000	2020 Current	2020 Non-current
(b) Lease liabilities		
Lease liabilities	146	84
TOTAL LEASE LIABILITIES	146	84

(i) The maturity analysis

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

\$ '000	< 1 year	1 – 5 years	> 5 years	Total	Total per Statement of Financial Position
Cash flows	146	84	–	230	230

\$ '000	2020
---------	------

(c) Income Statement

Interest on lease liabilities	8
Expenses relating to low-value leases	534
	542

Accounting policy

Accounting policies under AASB 16 – applicable from 1 July 2019

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Leases (continued)

Exceptions to lease accounting

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

Leases at significantly below market value / concessionary leases

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

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

Refer to Note 5c and Note 16.

(ii) Council as a lessor**(d) Operating leases**

Council leases out a number of properties and /or plant and equipment to community groups; these leases have been classified as operating leases for financial reporting purposes and the assets are included as investment property (refer note 12).

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

\$ '000	2020
(i) Operating lease expenses	
Investment properties	
Direct operating expenses that generated rental income	19
Total expenses relating to operating leases	19
(ii) Maturity analysis of contractual lease income	
< 1 year	85

Accounting policy

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Payables				
Goods and services	5,312	—	6,190	—
Accrued expenses:				
– Borrowings	1,441	—	1,543	—
– Salaries and wages	2,624	—	1,781	—
– Other expenditure accruals	5,795	—	7,777	—
Security bonds, deposits and retentions	3,055	—	3,488	—
Prepaid rates	3,321	—	—	—
Total payables	21,548	—	20,779	—
Income received in advance (2019 only)				
Payments received in advance	—	—	5,633	—
Total income received in advance	—	—	5,633	—
Borrowings				
Loans – secured ¹	12,218	125,473	13,748	137,644
Ratepayers' advances	59	335	78	379
Total borrowings	12,277	125,808	13,826	138,023
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>33,825</u>	<u>125,808</u>	<u>40,238</u>	<u>138,023</u>

(1) Loans are secured over the general rating income of Council. Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 20.

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	3,908	—	1,886	—
Sewer	13,008	90,965	14,449	98,140
Domestic waste management	2,643	—	157	—
Payables and borrowings relating to externally restricted assets	19,559	90,965	16,492	98,140
Total payables and borrowings relating to restricted assets	19,559	90,965	16,492	98,140
Total payables and borrowings relating to unrestricted assets	14,266	34,843	23,746	39,883
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>33,825</u>	<u>125,808</u>	<u>40,238</u>	<u>138,023</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Payables and borrowings (continued)

(b) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	151,392	(13,749)	–	48	–	–	137,691
Ratepayers' advances	457	(63)	–	–	–	–	394
Lease liabilities	–	230	–	–	–	–	230
TOTAL	151,849	(13,582)	–	48	–	–	138,315

\$ '000	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement	Closing balance
Loans – secured	153,736	(2,344)	–	–	–	151,392
Ratepayers' advances	387	70	–	–	–	457
TOTAL	154,123	(2,274)	–	–	–	151,849

\$ '000	2020	2019
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(c) Financing arrangements

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

Credit cards/purchase cards	550	550
Total financing arrangements	550	550

Drawn facilities as at balance date:

– Credit cards/purchase cards	90	94
Total drawn financing arrangements	90	94

Undrawn facilities as at balance date:

– Credit cards/purchase cards	460	456
Total undrawn financing arrangements	460	456

Additional financing arrangements information

Breaches and defaults

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

Security over loans

Loans are secured by a charge on the income of Council pursuant to Section 623 of the Local Government Act and clause 229 of the Local Government Regulations.

Accounting policy for payables and borrowings

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Payables and borrowings (continued)

Payables

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

Borrowings

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Provisions

\$ '000	Notes	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Provisions					
Employee benefits					
Annual leave		8,277	–	6,237	–
Sick leave		10,867	–	12,729	–
Long service leave		13,503	1,082	13,788	928
Sub-total – aggregate employee benefits		32,647	1,082	32,754	928
Asset remediation/restoration:					
Asset remediation/restoration (future works)		–	3,992	–	4,756
Sub-total – asset remediation/restoration		–	3,992	–	4,756
Other provisions					
Self insurance – workers compensation		379	1,334	450	1,067
COVID-19 financial assistance to ratepayers	1	13,974	–	–	–
Sub-total – other provisions		14,353	1,334	450	1,067
<u>TOTAL PROVISIONS</u>		<u>47,000</u>	<u>6,408</u>	<u>33,204</u>	<u>6,751</u>

(a) Provisions relating to restricted assets

Externally restricted assets

Self insurance	379	1,334	450	1,067
Provisions relating to externally restricted assets	379	1,334	450	1,067
Total provisions relating to restricted assets	379	1,334	450	1,067
Total provisions relating to unrestricted assets	46,621	5,074	32,754	5,684
<u>TOTAL PROVISIONS</u>	<u>47,000</u>	<u>6,408</u>	<u>33,204</u>	<u>6,751</u>

\$ '000	2020	2019
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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	17,653	21,942
	<u>17,653</u>	<u>21,942</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Provisions (continued)

(c) Description of and movements in provisions

\$ '000	ELE provisions			Total
	Annual leave	Sick leave	Long service leave	
2020				
At beginning of year	6,237	12,729	14,716	33,682
Additional provisions	9,265	2,674	1,691	13,630
Amounts used (payments)	(7,372)	(4,456)	(2,064)	(13,892)
Remeasurement effects	147	(80)	242	309
Total ELE provisions at end of year	8,277	10,867	14,585	33,729
2019				
At beginning of year	5,956	11,415	13,150	30,521
Additional provisions	8,085	3,222	2,754	14,061
Amounts used (payments)	(7,804)	(3,294)	(1,981)	(13,079)
Remeasurement effects	–	1,386	793	2,179
Total ELE provisions at end of year	6,237	12,729	14,716	33,682

\$ '000	Other provisions		Total
	Self insurance	Asset remediation	
2020			
At beginning of year	1,517	4,756	6,273
Changes to provision:			
– Revised costs	196	(766)	(570)
Unwinding of discount	–	2	2
Total other provisions at end of year	1,713	3,992	5,705
2019			
At beginning of year	1,500	2,424	3,924
– Revised costs	17	–	17
Other	–	2,332	2,332
Total other provisions at end of year	1,517	4,756	6,273

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the 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.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Provisions (continued)

of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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

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

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

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

Restoration

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

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

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Provisions (continued)

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

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

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

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 7(c).

Notes to the Financial Statements

for the year ended 30 June 2020

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

Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

Fair value through other comprehensive income reserve (FVOCI)

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

(i) AASB 15 and AASB 1058

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

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

Costs incurred in fulfilling customer contracts

Prior to adopting AASB 15 Council would recognise direct costs associated with fulfilling customer contracts as expenses when incurred, as they did not qualify for recognition as assets under any other accounting standards. Under AASB 15, as these costs relate directly to the contracts, generate resources used in satisfying the contracts, and are expected to be recovered, they are capitalised as 'costs to fulfil a contract' assets and released through profit and loss on the same basis as the revenue is recognised.

Upfront fees – Council leisure centre

Prior to adopting AASB 15, the Council recognised membership joining fees on receipt. Under AASB 15, since the fees do not relate to a performance obligation, they are combined with other goods and services transferred to the customer and therefore they are now spread over the expected life of the contract with the customer (i.e the membership life).

Revenue recognition from contract modifications

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

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

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

Principal v agent

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

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

Licences

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

Prepaid rates

Under AASB 1004, rates were recorded as revenue at the earliest of receipt of the funds from the ratepayer and the beginning of the rating period. Under AASB 1058, prepaid rates are recognised as a financial liability until the beginning of the rating period.

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Grants – capital

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

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

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

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur-e ment	Carrying amount under previous revenue standards	Notes
Current liabilities					
Contract liabilities	7,922	–	(4,012)	3,910	
Total current liabilities	88,893	–	(4,012)	84,881	
Net assets	2,879,449	–	4,012	2,883,461	
Equity					
Accumulated surplus	1,576,560	–	4,012	1,580,572	
Revaluation reserves	1,302,889	–	–	1,302,889	
Council equity interest	2,879,449	–	4,012	2,883,461	
Total equity	2,879,449	–	4,012	2,883,461	

There has been a change in the revenue recognition standards between previous standards and AASB 15/AASB 1058. In the current year this difference of \$4 million arising from change in accounting standards have been adjusted in the opening retained earnings.

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
<u>Income from continuing operations</u>					
Rates and annual charges	148,819	—	—	148,819	
User charges and fees	72,139	—	1,747	73,886	
Other revenues	6,175	—	—	6,175	
Grants and contributions provided for operating purposes	19,370	—	520	19,890	
Grants and contributions provided for capital purposes	34,683	—	1,643	36,326	
Interest and investment income	5,020	—	—	5,020	
Total Income from continuing operations	286,206	—	3,910	290,116	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	87,023	—	—	87,023	
Borrowing costs	6,115	—	—	6,115	
Materials and contracts	61,790	—	—	61,790	
Depreciation and amortisation	66,190	—	—	66,190	
Other expenses	49,526	—	—	49,526	
Net losses from the disposal of assets	272	—	—	272	
Fair value decrement on investment properties	50	—	—	50	
Total Expenses from continuing operations	270,966	—	—	270,966	
Total Operating result from continuing operations	15,240	—	3,910	19,150	
Net operating result for the year	15,240	—	3,910	19,150	
Total comprehensive income	17,463	—	—	17,463	

There has been a change in the revenue recognition standards between previous standards and AASB 15/AASB 1058. In the current year this difference of \$4 million arising from change in accounting standards have been adjusted in the opening retained earnings.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Statement of cash flow information

\$ '000	Notes	2020	2019
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	16,883	51,858
Balance as per the Statement of Cash Flows		16,883	51,858

(b) Step 6(ii) - Reconciliation of Operating Result

Net operating result from Income Statement	15,240	29,448
Adjust for non-cash items:		
Depreciation and amortisation	66,190	63,595
Net losses/(gains) on disposal of assets	272	1,283
Non-cash capital grants and contributions	(9,217)	(3,834)
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investments classified as 'at fair value' or 'held for trading'	(43)	(203)
– Investment property	50	(135)
– Interest-free advances made by Council (deferred debtors)	48	56
– Revaluation decrements / impairments of IPP&E direct to P&L	–	1,574
– Other (Management Committees)	24	35
Amortisation of premiums, discounts and prior period fair valuations		
– Interest on all fair value adjusted interest free advances made by Council	(4)	(4)
– Financial asset at fair value through other comprehensive income / available for sale (2018)	–	1,058
Unwinding of discount rates on reinstatement provisions	2	–
+/- Movement in operating assets and liabilities and other cash items:		
Decrease/(increase) in receivables	(2,235)	2,211
Increase/(decrease) in provision for impairment of receivables	305	(9)
Decrease/(increase) in inventories	(195)	(1)
Decrease/(increase) in other current assets	(258)	(263)
Increase/(decrease) in payables	(878)	(403)
Increase/(decrease) in accrued interest payable	(102)	(92)
Increase/(decrease) in other accrued expenses payable	(1,139)	(4,608)
Increase/(decrease) in other liabilities	(2,745)	(2,104)
Increase/(decrease) in contract liabilities	3,910	–
Increase/(decrease) in provision for employee benefits	47	3,161
Increase/(decrease) in other provisions	13,404	2,349
Net cash provided from/(used in) operating activities from the Statement of Cash Flows	82,676	93,114

(c) Non-cash investing and financing activities

Other dedications	9,217	3,834
Total non-cash investing and financing activities	9,217	3,834

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Interests in other entities

\$ '000	Council's share of net income		Council's share of net assets	
	2020	2019	2020	2019
Controlled Entities	(205)	19	720	886

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 below.

Name of Operation/Entity	Principal activity
Southern Water Services Pty Ltd	Provision of water, sewerage and related services

Interests in Subsidiary \$ '000	Ownership 2020	Ownership 2019	Voting rights 2020	Voting rights 2019
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

\$ '000	2020	2019
Summarised statement of comprehensive income		
Revenue	6	6
Expenses	(1)	(1)
Profit for the period	5	5
Total comprehensive income	5	5
Summarised statement of financial position		
Current assets	465	458
Total assets	465	458
Net assets	465	458
Summarised statement of cash flows		
Cash flows from operating activities	5	5
Net increase (decrease) in cash and cash equivalents	5	5

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Interests in other entities (continued)

Name of Operation/Entity	Principal activity
Shoalhaven City Council Management Committees	Use and management of community land and assets

Interests in Subsidiary \$ '000	Ownership 2020	Ownership 2019	Voting rights 2020	Voting rights 2019
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

\$ '000	2020	2019
Summarised statement of comprehensive income		
Revenue	371	710
Expenses	(581)	(696)
Profit for the period	(210)	14
Total comprehensive income	(210)	14
Summarised statement of financial position		
Current assets	264	472
Non-current assets	1	4
Total assets	265	476
Current liabilities	10	39
Non-current liabilities	–	9
Total liabilities	10	48
Net assets	255	428
Summarised statement of cash flows		
Cash flows from operating activities	(172)	62
Cash flows from investing activities	3	1
Cash flows from financing activities	(13)	(9)
Net increase (decrease) in cash and cash equivalents	(182)	54

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Commitments

\$ '000	2020	2019
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(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	1,723	545
Plant and equipment	1,978	1,377
Swimming pools	26	51
Roads	8,183	5,007
Water assets	2,299	1,237
Sewer assets	2,172	8,053
Other	4,652	3,864
Total commitments	21,033	20,134

These expenditures are payable as follows:

Within the next year	21,033	20,134
Total payable	21,033	20,134

Sources for funding of capital commitments:

Unrestricted general funds	2,873	2,529
Future grants and contributions	4,137	2,617
Section 7.11 and 64 funds/reserves	298	52
Externally restricted reserves	6,133	9,608
Internally restricted reserves	7,009	3,849
Unexpended loans	583	1,479
Total sources of funding	21,033	20,134

Details of capital commitments

Below is a list of projects with large capital commitments

Reclaimed Water Management Scheme - \$617k

LED Streetlight Upgrade Strategy - \$1M

\$ '000	2020	2019
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(b) Non-cancellable operating lease commitments (2019 only)

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

Within the next year	—	76
Later than one year and not later than 5 years	—	117
Total non-cancellable operating lease commitments	—	193

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

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

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

Leased office in Bomaderry for Assets & Works - expires in May 2022

Conditions relating to finance and operating leases:

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Contingencies

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits for the following reasons:

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

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

Description of the funding arrangements.

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Contingencies (continued)

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2020 was \$ \$1,542,718.80. The last valuation of the Scheme was performed by Richard Boyfield FIAA (AFS Licence #411770) on 31 December 2019, and covers the period ended 30 June 2020.

Council's expected contribution to the plan for the next annual reporting period is \$1,401,522.24.

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

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

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

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

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

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

Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Funds Actuary, the final end of year review will be completed around November/December 2020.

Council's past service contribution per annum is around 2.0% as a percentage of the total past service contributions for all Pooled Employers (of \$40m each year from 1 July 2019 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) Statewide Limited

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

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

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

(iii) 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.

(iv) Other guarantees

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Contingencies (continued)

2. Other liabilities

(i) Legal Expenses

Council is the planning consent authority for its area under the Environmental Planning and Assessment Act (as amended). Pursuant to that Act, certain persons aggrieved by a planning decision of the Council may appeal to the Land and Environmental 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 three appeals against planning decisions made prior to the reporting date. All known costs have been recognised, but the amount of further costs cannot be known until the appeals are determined.

(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.

Contingent Assets: Council has an estimate of \$2.4 million in Insurance claims yet to be finalized as at 30 June 2020.

Contingent liabilities: Council has estimated the sum of \$673,940 as a potential liability that could arise due to ongoing legal cases with different parties. Council believes that the liabilities are 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 and Council recognises this revenue over a period of time.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Financial risk management

Risk management

Council's activities expose it to a variety of financial risks including **(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.

The fair value of Council's financial assets and financial liabilities approximates their carrying amount.

\$ '000	Carrying value 2020	Carrying value 2019	Fair value 2020	Fair value 2019
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	16,883	—	16,883	—
Receivables	27,472	24,376	27,472	24,376
Investments				
– 'Financial assets at amortised cost'	121,917	111,801	121,917	111,801
Fair value through other comprehensive income				
Investments				
– 'Financial assets at fair value through other comprehensive income'	—	665	—	665
Fair value through profit and loss				
Cash and cash equivalents	—	26,425	—	26,425
Investments				
– 'Held for trading'	49,451	46,245	49,451	46,245
Total financial assets	215,723	209,512	215,723	209,512
Financial liabilities				
Payables	18,227	17,029	18,227	17,029
Loans/advances	138,085	151,849	138,085	151,849
Lease liabilities	230	—	230	—
Total financial liabilities	156,542	168,878	156,542	168,878

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.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Financial risk management (continued)

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order 625. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance as required by Local Government regulations.

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of 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 impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2020				
Possible impact of a 10% movement in market values	4,945	4,945	(4,945)	(4,945)
Possible impact of a 1% movement in interest rates	2,173	2,173	(2,173)	(2,173)
2019				
Possible impact of a 10% movement in market values	4,625	4,625	(4,625)	(4,625)
Possible impact of a 1% movement in interest rates	2,095	2,095	(2,095)	(2,095)

(b) Credit risk

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

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures.

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

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

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance. The balances of receivables that remain within initial terms (as detailed in the table) are considered to be of high credit quality.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Financial risk management (continued)

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

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

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

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2020						
Gross carrying amount	2,615	4,547	1,607	1,464	1,455	11,688
2019						
Gross carrying amount	2,893	4,587	883	1,156	987	10,506

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2020						
Gross carrying amount	12,411	654	183	220	3,024	16,492
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	14.34%	2.63%
ECL provision	–	–	–	–	434	434
2019						
Gross carrying amount	11,814	584	163	196	2,699	15,456
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	14.34%	2.50%
ECL provision	–	–	–	–	387	387

(c) Liquidity risk

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Financial risk management (continued)

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

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

\$ '000	Weighted average interest rate	Subject to no maturity	payable in: ≤ 1 Year	1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2020							
Trade/other payables	0.00%	3,055	15,172	—	—	18,227	18,227
Loans and advances	4.07%	—	12,277	43,990	81,818	138,085	138,085
Lease liabilities	0.00%	—	146	84	—	230	230
Total financial liabilities		3,055	27,595	44,074	81,818	156,542	156,542
2019							
Trade/other payables	0.00%	3,488	13,541	—	—	17,029	17,029
Loans and advances	4.27%	—	12,875	43,674	85,714	142,263	151,849
Lease liabilities	0.00%	—	—	—	—	—	—
Total financial liabilities		3,488	26,416	43,674	85,714	159,292	168,878

Loan agreement breaches

There have been no breaches in loan agreements during the 2019/20 financial year.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Material budget variations

Council's original financial budget for 19/20 was adopted by the Council on 30/06/2019 and is unaudited.

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

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
REVENUES				
Rates and annual charges	147,025	148,819	1,794	1% F
User charges and fees	79,816	72,139	(7,677)	(10)% U
User charges and fees were directly impacted by COVID-19 and Bushfires. Main unfavourable variances are: Holiday Haven Tourist Parks (\$6M) and decrease in other revenue streams such as Swim Sport & Fitness, Shoalhaven Entertainment Centre and venue hire fees.				
Other revenues	3,830	6,175	2,345	61% F
The favourable variance in other revenue is mainly due to insurance (\$1.8M) and other compensations received during financial year.				
Operating grants and contributions	20,723	19,370	(1,353)	(7)% U
Capital grants and contributions	19,360	34,683	15,323	79% F
The positive variance is mainly due to non-cash contributions received from developers (\$9.2M) and higher than budget S64 and S7.11 Contributions received.				
Interest and investment revenue	5,193	5,020	(173)	(3)% U
EXPENSES				
Employee benefits and on-costs	83,230	87,023	(3,793)	(5)% U
Borrowing costs	6,143	6,115	28	0% F
Materials and contracts	65,625	61,790	3,835	6% F
Depreciation and amortisation	64,229	66,190	(1,961)	(3)% U
Other expenses	33,477	49,526	(16,049)	(48)% U
The main driver of this variation is the financial assistance provided to ratepayers provision which was booked in the 19/20 accounts. \$6M in General Fund, \$3M in Water Fund, \$2.6M in Sewer Fund. The other large movement is related to Domestic Waste Management \$1.8M for landfill operations.				
Net losses from disposal of assets	–	272	(272)	∞ U
Fair value decrement on investment property	–	50	(50)	∞ U

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Material budget variations

	2020	2020	2020	
\$ '000	Budget	Actual	Variance	

STATEMENT OF CASH FLOWS

Cash flows from operating activities	86,494	82,676	(3,818)	(4)%	U
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Cash flows from investing activities	(80,657)	(103,895)	(23,238)	29%	U
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Cash inflow from investing activities is lower than budgeted due to higher than anticipated investment purchases (mainly term deposits).

Cash flows from financing activities	(9,889)	(13,756)	(3,867)	39%	U
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The variance is due to less than expected cash received from new borrowings. Less borrowings were taken up this year because some of the loan funded capital projects such as LED Streetlight Upgrade, Tourist Parks development etc. were delayed due to natural disasters.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement

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

- Infrastructure, property, plant and equipment
- Investment property
- Financial assets
- Non-current assets classified as 'held for sale'

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 that would be required to replace the service capacity of an asset (current replacement cost)

Income Approach: Valuation technique that converts future amounts (cash 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 business.

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

2020		Fair value measurement hierarchy				
	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
\$ '000						
Recurring fair value measurements						
Financial assets						
Investments						
– 'Fair value through profit and loss' / 'Held for trading'		30/06/20	–	–	49,451	49,451
– 'Financial assets at fair value through other comprehensive income' / 'Available for sale'		30/06/19	–	–	–	–
Total financial assets			–	–	49,451	49,451
Investment property						
Shops, 37-43 Kinghorne Street, Nowra		30/06/20	–	1,650	–	1,650
Total investment property			–	1,650	–	1,650

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

2020		Fair value measurement hierarchy				
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobserv-able inputs	Total
\$ '000	Notes					
Infrastructure, property, plant and equipment		11(a)				
Plant and equipment		30/06/20	—	—	43,608	43,608
Office equipment		30/06/20	—	—	3,095	3,095
Furniture and fittings		30/06/20	—	—	2,699	2,699
Operational land		30/06/18	—	—	173,469	173,469
Community land		30/06/18	—	—	129,226	129,226
Land under roads (post 30/06/08)		30/06/20	—	—	1,708	1,708
Land improvements – non-depreciable		30/06/16	—	—	127,740	127,740
Land improvements – depreciable		30/06/16	—	—	428	428
Buildings – non-specialised		30/06/19	—	1,943	—	1,943
Buildings – specialised		30/06/19	—	—	285,630	285,630
Other structures		30/06/16	—	—	16,781	16,781
Roads		30/06/15	—	—	698,349	698,349
Bridges		30/06/15	—	—	60,928	60,928
Footpaths		30/06/15	—	—	48,679	48,679
Bulk earthworks (non-depreciable)		30/06/15	—	—	109,696	109,696
Stormwater drainage		30/06/15	—	—	106,198	106,198
Water supply network		30/06/20	—	—	341,052	341,052
Sewerage network		30/06/20	—	—	437,470	437,470
Swimming pools		30/06/16	—	—	9,345	9,345
Other open space / recreational assets		30/06/16	—	—	22,028	22,028
Other infrastructure		30/06/16	—	—	57,477	57,477
Library books		30/06/20	—	—	1,007	1,007
Tip asset		30/06/20	—	—	1,500	1,500
Total infrastructure, property, plant and equipment			—	1,943	2,678,113	2,680,056
Non-current assets classified as ‘held for sale’						
Operational Land		30/06/20	—	—	—	—
Total NCA’s classified as ‘held for sale’			—	—	—	—
2019		Fair value measurement hierarchy				
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobserv-able inputs Restated	Total
\$ '000	Notes					
Recurring fair value measurements						
Financial assets						
Investments						
– ‘Fair value through profit and loss’ / ‘Held for trading’		30/06/19	—	—	46,245	46,245
– ‘Financial assets at fair value through other comprehensive income’ / ‘Available for sale’		30/06/19	—	—	665	665
Total financial assets			—	—	46,910	46,910
Investment property						
Shops, 37-43 Kinghorne Street, Nowra		30/06/19	—	1,700	—	1,700
Total investment property			—	1,700	—	1,700

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

2019		Fair value measurement hierarchy				Total
		Date of latest valuation	Level 1 Quoted prices in active mkt	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs Restated	
\$ '000	Notes					
Infrastructure, property, plant and equipment	11(a)					
Plant and equipment		30/06/19	—	—	42,089	42,089
Office equipment		30/06/19	—	—	3,831	3,831
Furniture and fittings		30/06/19	—	—	2,400	2,400
Operational land		30/06/18	—	—	167,758	167,758
Community land		30/06/18	—	—	125,548	125,548
Land under roads (post 30/06/08)		30/06/19	—	—	1,609	1,609
Land improvements – non-depreciable		30/06/16	—	—	127,740	127,740
Land improvements – depreciable		30/06/16	—	—	487	487
Buildings – non-specialised		30/06/19	—	2,035	—	2,035
Buildings – specialised		30/06/19	—	—	273,845	273,845
Other structures		30/06/16	—	—	17,850	17,850
Roads		30/06/15	—	—	696,682	696,682
Bridges		30/06/15	—	—	64,255	64,255
Footpaths		30/06/15	—	—	49,315	49,315
Bulk earthworks (non-depreciable)		30/06/15	—	—	109,674	109,674
Stormwater drainage		30/06/15	—	—	106,387	106,387
Water supply network		30/06/19	—	—	343,626	343,626
Sewerage network		30/06/19	—	—	440,069	440,069
Swimming pools		30/06/16	—	—	9,636	9,636
Other open space / recreational assets		30/06/16	—	—	19,964	19,964
Other infrastructure		30/06/16	—	—	52,268	52,268
Library books		30/06/19	—	—	1,002	1,002
Tip asset		30/06/19	—	—	2,327	2,327
Total infrastructure, property, plant and equipment			—	2,035	2,658,362	2,660,397
Non-current assets classified as 'held for sale'						
Operational Land		30/06/19	—	—	586	586
Total NCA's classified as 'held for sale'			—	—	586	586

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

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

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

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

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

Investments - "At fair value through profit or loss" is represented by 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Investment property

Council obtains independent valuations every year for all investment properties. The valuation for this financial year was undertaken by Mr Darren Austin, AAPI, of Walsh & Monaghan Pty Ltd as at 30 June 2020.

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.

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 all of the valued land within the Shoalhaven local government area and a discount for restricted use applied. This was the first year that the discount has been applied and has resulted in a revaluation decrement to the income statement.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

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, APV Valuers and Asset Management effective 30 June 2019. 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 cost of the modern equivalent (or cost of reproduction where relevant) and then adjusting for the level of consumed future economic benefit and impairment. To assess the level of remaining service potential, the separate components of the building are assessed considering both holistic factors (functionality, capacity, utilisation, obsolescence) and component specific factors such as physical condition.

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.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

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

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. Council's Engineering Department completed the valuation 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.

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.

Council's Engineering Department completed the valuation 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.

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".

The last full valuation of the water supply network was undertaken effective 30 June 2018.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

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".

The last full valuation of the sewerage network was undertaken effective 30 June 2018.

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.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

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.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

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

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

\$ '000	Notes	Investments	IPP&E	Held for Sale	Total
2019					
Opening balance		33,295	2,575,106	2,548	2,610,949
Adoption of AASB 9		1,058	–	–	1,058
Transfers from/(to) level 2 FV hierarchy	26 4(b)	–	5,755	–	5,755
Transfers from/(to) another asset class		–	1,238	(1,797)	(559)
Purchases (GBV)		17,600	78,300	–	95,900
Disposals (WDV)		(4,853)	(3,463)	(165)	(8,481)
Depreciation and impairment		–	(63,168)	–	(63,168)
FV gains – other comprehensive income		(393)	–	–	(393)
FV gains – Income Statement ¹		203	(1,574)	–	(1,371)
Asset revaluation reserve		–	66,169	–	66,169
Rounding		–	(1)	–	(1)
Closing balance		46,910	2,658,362	586	2,705,858
2020					
Opening balance		46,910	2,658,362	586	2,705,858
Purchases (GBV)		10,642	111,283	–	121,925
Disposals (WDV)		(8,151)	(5,910)	(586)	(14,647)
Depreciation and impairment		–	(65,891)	–	(65,891)
FV gains – Income Statement ¹		50	–	–	50
Asset revaluation reserve		–	(2,199)	–	(2,199)
Closing balance		49,451	2,695,645	–	2,745,096

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

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

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

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
Financial assets			
Investments	49,451	Advisor Reports	<ul style="list-style-type: none"> • Unit price
Infrastructure, property, plant and equipment			
Plant and equipment	43,608	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value
Office equipment	3,095	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value
Furniture and fittings	2,699	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value
Operational land	173,469	External Valuer	<ul style="list-style-type: none"> • Land value (price per square metre)
Community land	129,226	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)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
Land under roads (post 30/06/08)	1,708	Valuation of road segments at the average unit value of valued land within the Shoalhaven local government area with a discount for restricted use	<ul style="list-style-type: none"> • Average value of valued land within the Shoalhaven local government area • discount rate for restricted use
Land improvements and other infrastructure	128,168	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	285,630	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	16,781	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Roads	698,349	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Bridges	60,928	Replacement Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Footpaths	48,679	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 (nondepreciable)	109,696	Cost approach	<ul style="list-style-type: none"> • Replacement cost
Stormwater drainage	106,198	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	341,052	Unit rate per m2 or length	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life
Sewerage network	437,470	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	9,345	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	1,007	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross replacement cost • Remaining useful life • Residual value • Asset condition
Tip asset	1,500	Present value of future expenditures expected to be incurred on waste depot sites restoration	<ul style="list-style-type: none"> • Estimated restoration costs
Other open space / recreational assets	22,028		
Other infrastructure	57,447		
Non-current assets classified as 'held for sale'			
Operational Land	–	External Valuer	<ul style="list-style-type: none"> • Land value (price per square metre)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
Buildings	–	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

c. 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Related party disclosures

(a) Key management personnel

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

(a) Mayor, (b) Councillors, (c) CEO (d) Directors and (e) Senior Managers

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

\$ '000	2020	2019
Compensation:		
Short-term benefits	5,502	4,342
Post-employment benefits	336	269
Other long-term benefits	446	303
Termination benefits	284	43
Total	6,568	4,957

(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 impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000	Ref					
2020						
Council rates	3(a)	17	4	Due 30th June 2019	–	–
Water rates	3(a)	22	4	30 days	–	–
Development applications	3(b)(i)	6	–	On application	–	–
Additional/relocated metered service	3(b)	1	–	On application	–	–
Amend a condition of consent	3(b)(i)	1	–	On application	–	–
Travel & accommodation	3(a)	–	–	30 days end of month	–	–
Memberships	3(a)	1	1	30 days end of month	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Related party disclosures (continued)

Nature of the transaction		Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000	Ref					
2019						
Council rates	3(a)	14	6	Due 30th June 2019	—	—
Water rates	3(a)	1	—	30 days	—	—
Development applications	3(b)(i)	16	—	On application	—	—
Additional/relocated metered service	3(b)	—	—	On application	—	—
Amend a condition of consent	3(b)(i)	1	—	On application	—	—
Travel & accommodation	3(a)	7	—	30 days end of month	—	—
Memberships	3(a)	2	1	30 days end of month	—	—

(c) Other related party transactions

2020

Management committee subsidy		26	5	Management Committees are paid a subsidy to assist in operating and maintaining the facility they are managing	—	—
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2019

Management committee subsidy		127	18	Management Committees are paid a subsidy to assist in operating and maintaining the facility they are managing	—	—
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Note 27. Events occurring after the reporting date

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/06/19	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000								
Drainage	174	11	–	4	(11)	–	178	–
Roads	3,968	1,101	–	87	(545)	–	4,611	–
Parking	1,004	63	–	21	–	–	1,088	–
Open space	1,750	224	–	37	(25)	–	1,986	–
Community facilities	3,037	960	–	67	(478)	–	3,586	–
Other	302	488	–	–	(439)	–	351	–
Active recreation	6	1,460	–	11	(402)	–	1,075	–
S7.11 contributions – under a plan	10,241	4,307	–	227	(1,900)	–	12,875	–
Total S7.11 and S7.12 revenue under plans	10,241	4,307	–	227	(1,900)	–	12,875	–
S64 contributions	18,642	–	–	–	–	–	18,642	–
Total contributions	28,883	4,307	–	227	(1,900)	–	31,517	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Statement of developer contributions (continued)

	as at 30/06/19	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000								
S7.11 Contributions – under a plan								
Shoalhaven Contributions Plan								
Drainage	174	11	–	4	(11)	–	178	–
Roads	3,968	1,101	–	87	(545)	–	4,611	–
Parking	1,004	63	–	21	–	–	1,088	–
Open space	1,750	224	–	37	(25)	–	1,986	–
Community facilities	3,037	960	–	67	(478)	–	3,586	–
Active recreation	6	1,460	–	11	(402)	–	1,075	–
Other	302	488	–	–	(439)	–	351	–
Total	10,241	4,307	–	227	(1,900)	–	12,875	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29. Result by fund

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	99,382	4,843	45,319
User charges and fees	53,420	24,232	5,746
Interest and investment revenue	4,151	1,519	744
Other revenues	5,683	300	192
Grants and contributions provided for operating purposes	19,370	–	–
Grants and contributions provided for capital purposes	26,312	5,105	3,266
Net gains from disposal of assets	977	–	–
Total income from continuing operations	209,295	35,999	55,267
Expenses from continuing operations			
Employee benefits and on-costs	71,656	9,883	10,738
Borrowing costs	1,455	–	4,660
Materials and contracts	49,912	6,469	9,139
Depreciation and amortisation	44,246	10,854	11,090
Other expenses	41,911	3,353	7,262
Net losses from the disposal of assets	–	420	829
Fair value decrement on investment property	50	–	–
Total expenses from continuing operations	209,230	30,979	43,718
Operating result from continuing operations	65	5,020	11,549
Net operating result for the year	65	5,020	11,549
Net operating result attributable to each council fund	65	5,020	11,549
Net operating result for the year before grants and contributions provided for capital purposes	(26,247)	(85)	8,283

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29. Result by fund (continued)

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	9,130	4,982	2,771
Investments	73,208	39,944	22,216
Receivables	12,986	4,092	5,339
Inventories	2,285	1,237	–
Other	1,103	–	–
Total current assets	98,712	50,255	30,326
Non-current assets			
Investments	19,469	10,623	5,908
Receivables	4,130	4,066	1,209
Inventories	4,916	–	–
Infrastructure, property, plant and equipment	1,864,747	377,524	622,904
Investment property	1,650	–	–
Intangible assets	5,625	2,674	32
Right of use assets	222	–	–
Total non-current assets	1,900,759	394,887	630,053
TOTAL ASSETS	1,999,471	445,142	660,379
LIABILITIES			
Current liabilities			
Payables	13,413	2,302	5,833
Income received in advance	–	1,606	–
Contract liabilities	6,316	–	–
Lease liabilities	146	–	–
Borrowings	5,102	–	8,164
Provisions	47,000	–	–
Total current liabilities	71,977	3,908	13,997
Non-current liabilities			
Lease liabilities	84	–	–
Borrowings	34,843	–	94,326
Provisions	6,408	–	–
Total non-current liabilities	41,335	–	94,326
TOTAL LIABILITIES	113,312	3,908	108,323
Net assets	1,886,159	441,234	552,056
EQUITY			
Accumulated surplus	930,981	229,956	415,623
Revaluation reserves	955,178	211,278	136,433
Council equity interest	1,886,159	441,234	552,056
Total equity	1,886,159	441,234	552,056

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29. Result by fund (continued)

Details of individual internal loans for the year ended 30 June 2020

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

Details of individual internal loans	Min9/542
Borrower (by purpose)	Sewer Fund
Lender (by purpose)	Water Fund
Date of minister's approval	11/06/2009
Date raised	30/06/2009
Term (years)	15
Dates of maturity	30/06/2024
Rate of interest	6.28%
Amount originally raised	12,000
Total repaid during year (principal and interest)	930
Principal outstanding at end of year	4,350

Notes to the Financial Statements

for the year ended 30 June 2020

Note 30(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior periods 20192018		Benchmark
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(19,164)	(7.62)%	1.97%	7.42%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	251,480				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	232,110	81.11%	82.81%	80.82%	>60.00%
Total continuing operating revenue ¹	286,163				
3. Unrestricted current ratio					
Current assets less all external restrictions	86,143	1.68x	2.54x	1.76x	>1.50x
Current liabilities less specific purpose liabilities	51,136				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	53,141	2.67x	4.00x	5.55x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	19,871				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	13,667	8.44%	8.03%	8.16%	<10.00%
Rates, annual and extra charges collectible	161,959				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	138,800	7.35	9.30	11.61	>3.00
Monthly payments from cash flow of operating and financing activities	18,875	mths	mths	mths	mths

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 30(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2020	2019	2020	2019	2020	2019	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	(12.54)%	(4.36)%	(8.87)%	6.69%	12.52%	24.58%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	76.95%	80.20%	85.82%	92.21%	94.09%	94.20%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	1.67x	2.48x	8.09x	15.31x	2.17x	2.32x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	2.53x	4.32x	∞	∞	2.05x	2.48x	>2.00x
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	7.60%	6.41%	10.23%	10.49%	9.96%	10.94%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	5.28	7.15	32.09	23.48	6.73	10.39	>3.00
Payments from cash flow of operating and financing activities	mths	mths	mths	mths	mths	mths	mths

(1) - (2) Refer to Notes at Note 30a above.

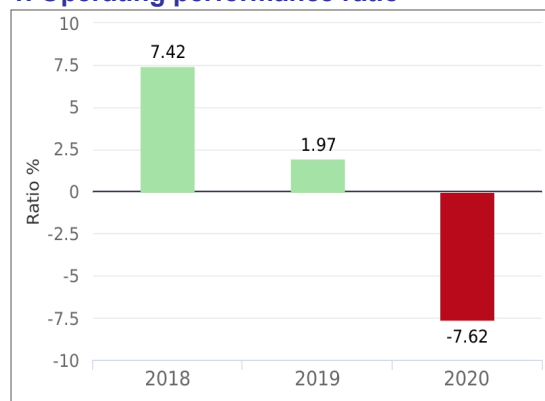
(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 30(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

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

Commentary on 2019/20 result

2019/20 ratio (7.62)%

Council's operating performance ratio deteriorated mainly due to \$14M of additional expenses recognized for COVID-19 financial assistance to ratepayers and decrease of revenue as a result of bush fires and COVID-19 pandemic.

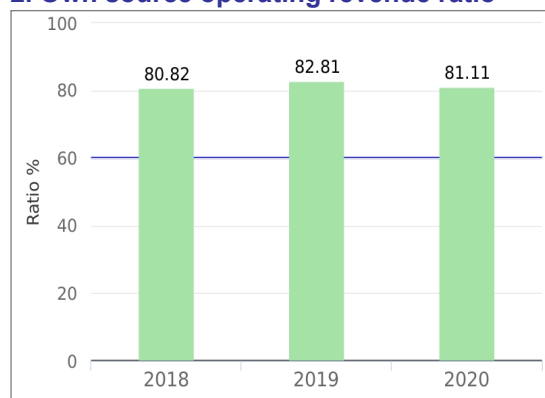
Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

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

Commentary on 2019/20 result

2019/20 ratio 81.11%

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 faced with unforeseen events.

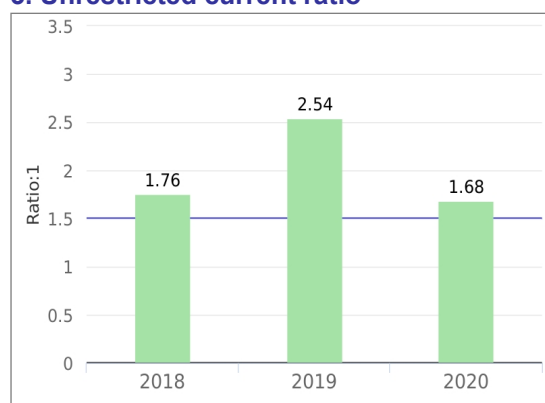
Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

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

Commentary on 2019/20 result

2019/20 ratio 1.68x

The ratio indicated that Council currently projects to have \$1.71 (excluding restricted funds such as developer contribution, Water, Sewer and Grant monies) available to service every \$1 of debt as it falls due at the end of the year.

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio achieves benchmark

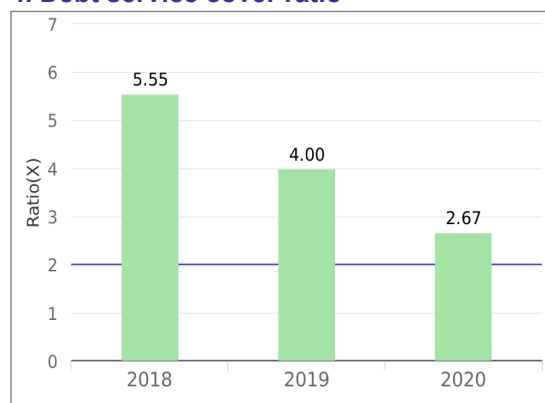
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2020

Note 30(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

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

Commentary on 2019/20 result

2019/20 ratio 2.67x

There has been a decrease in the ratio from 4.00x to 2.67x due to the impact of the Bushfire and COVID 19 during the year which impacted Council's operating cash. However, Council was still able to generate sufficient cash to cover its debt with a ratio of 2.67x higher than the benchmark of 2x.

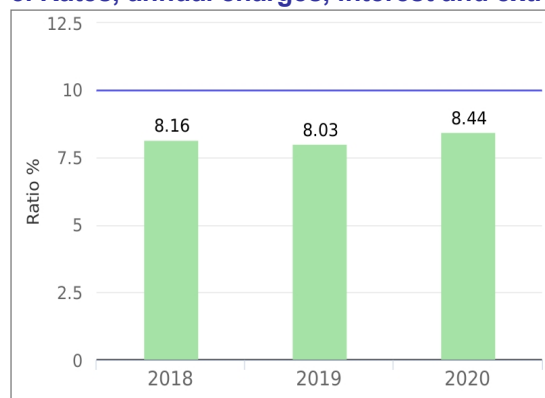
Benchmark: — > 2.00x

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio achieves benchmark

Ratio is outside benchmark

5. Rates, annual charges, interest and extra charges outstanding percentage



Purpose of rates, annual charges, interest and extra charges outstanding

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

Commentary on 2019/20 result

2019/20 ratio 8.44%

The percentage of outstanding rates and annual charges has slightly increased from 8.03x to 8.44x and is under the benchmark of 10%.

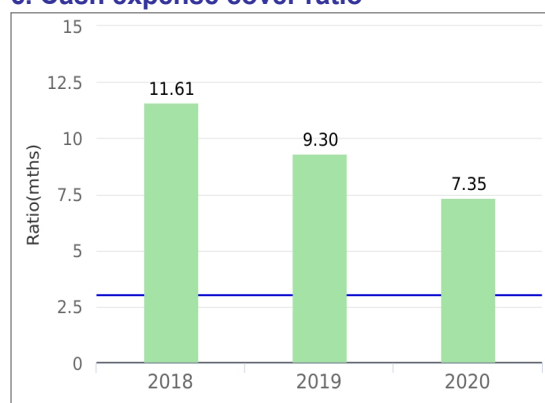
Benchmark: — < 10.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

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

Commentary on 2019/20 result

2019/20 ratio 7.35 mths

Council's cash expense ratio is above the benchmark indicating Council's ability to pay for its immediate expenses without additional cashflow. Council has enough cash to fund 7.30 months of operating expenditure, which is above the benchmark of 3 months.

Benchmark: — > 3.00mths

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio achieves benchmark

Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT

Report on the General Purpose Financial Statements

Shoalhaven City Council

To the Councillors of Shoalhaven City Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

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



Dominika Ryan
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

27 November 2020
SYDNEY



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

Contact: Dominika Ryan
Phone no: 02 9275 7336
Our ref: D2027377/1785

27 November 2020

Dear Mayor

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

Shoalhaven City Council

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

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

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

INCOME STATEMENT

Operating result

	2020 \$m	2019 \$m	Variance %
Rates and annual charges revenue	148.9	142.4	4.6
Grants and contributions revenue	54.1	47.3	14.4
Operating result from continuing operations	15.2	29.4	48.3
Net operating result before capital grants and contributions	(19.4)	2.4	908.3

Rates and annual charges revenue (\$148.9 million) increased by \$6.5 million mainly due to the increase in the special rate variation by five per cent from 17.1 per cent in 2018–19 to 22.1 per cent in 2019–20.

Council's operating result of \$15.2 million includes the effect of depreciation and amortisation expense of \$66.2 million. The result, excluding capital grants, is \$21.8 million lower than 2018–19. This was driven by:

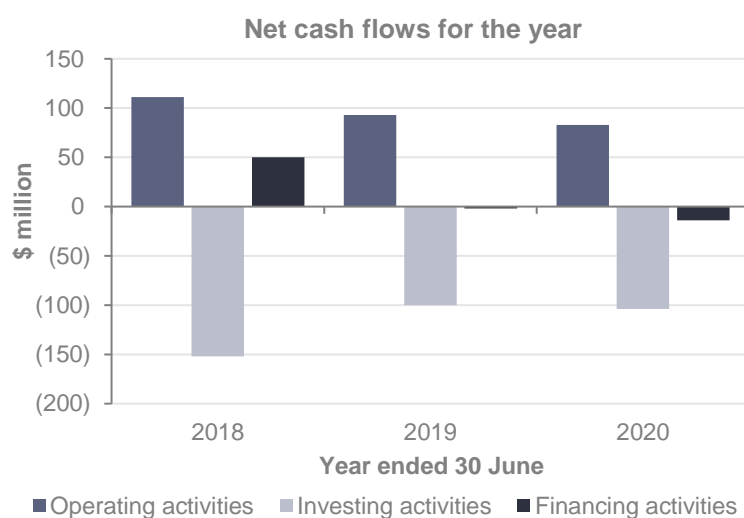
- increase of \$5.5 million in materials and contracts expense due to repairs of roads and traffic facilities which were affected by the Currowan fire
- increase of \$16.8 million in other expenses primarily due to the provision of financial assistance to ratepayers to alleviate the effect of COVID-19 pandemic
- increase of \$3.3 million in employee benefits and on-costs mainly due to 2.5 per cent increase from remuneration review.

STATEMENT OF CASH FLOWS

While payments by the Council increased by 6.8 per cent to \$213 million, receipts remained generally steady in the past two years. This resulted to decrease in net cash provided by operating activities.

Net cash used in investing activities increased by 3.6 percent largely due to increase in purchase of investment securities.

The Council had no proceeds from borrowings and advances in 2019-20 due to delays in capital projects, decreasing net cash provided by financing activities.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	119.7	128.4	Council's cash and investments at 30 June 2020 were lower by \$22.3 million compared to previous year largely due to repairs to roads and traffic facilities affected by the Currowan fire. The Council also had no proceeds from borrowings due to the re-phasing of capital works.
Internal restrictions	61.5	63.2	
Unrestricted	7.1	19.0	
Cash and investments	188.3	210.6	

Externally restricted balances, which include unexpended specific loans, developer contributions, water supplies and sewerage services, decreased by \$8.7 million mainly due to significantly lower receipts for sewerage services and unexpended loans.

Balances are internally restricted due to Council policy or decisions for forward plans including works program. Internal restrictions decreased by \$1.7 million due to lower section 7.11 recoupment funds used by the Council and land development reserve.

Unrestricted balances provide liquidity for day-to-day operations.

Debt

At 30 June 2020, Council had external borrowings of \$138 million (30 June 2019: \$151 million). The loans are secured over Council's general rating income.

It had unrestricted access to a \$550,000 line of credit through credit or purchase cards. Total drawdowns at the end of the year amounted to \$90,000.

PERFORMANCE

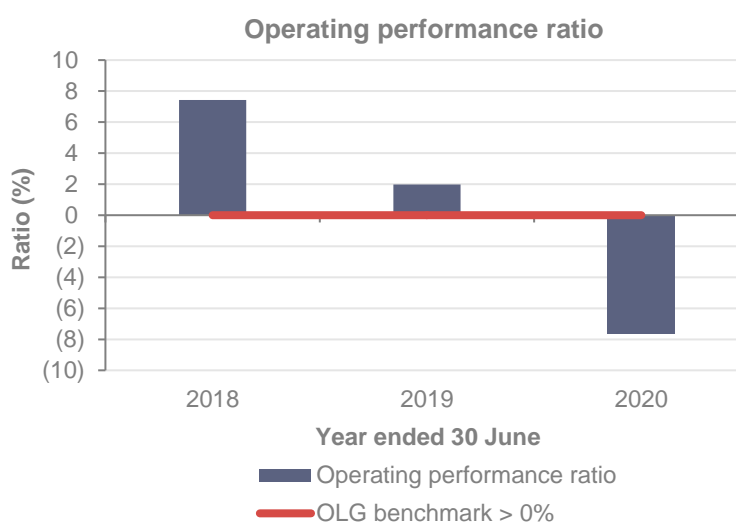
Performance measures

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

Operating performance ratio

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

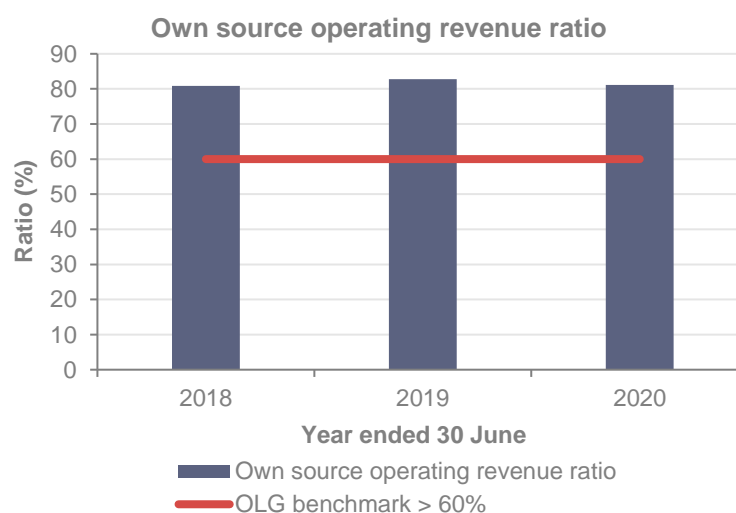
The Council did not meet the OLG benchmark for the current reporting period mainly due to the provision of financial assistance to ratepayers to alleviate the effect of COVID-19 pandemic.



Own source operating revenue ratio

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

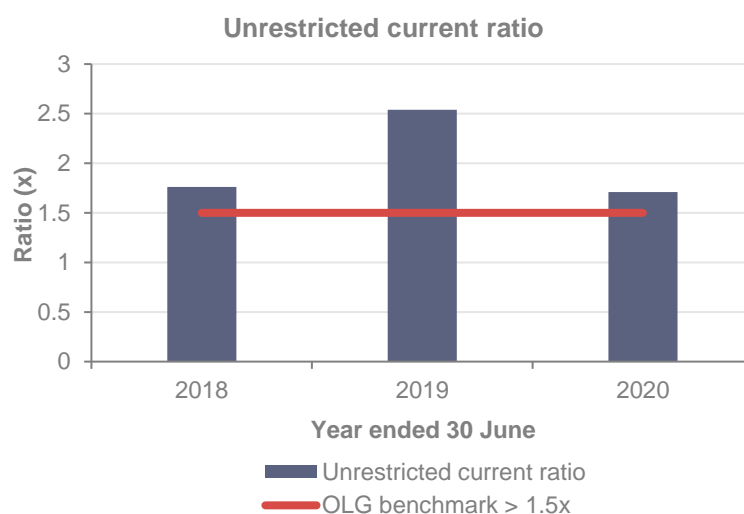
The Council met the OLG benchmark for the current reporting period.



Unrestricted current ratio

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

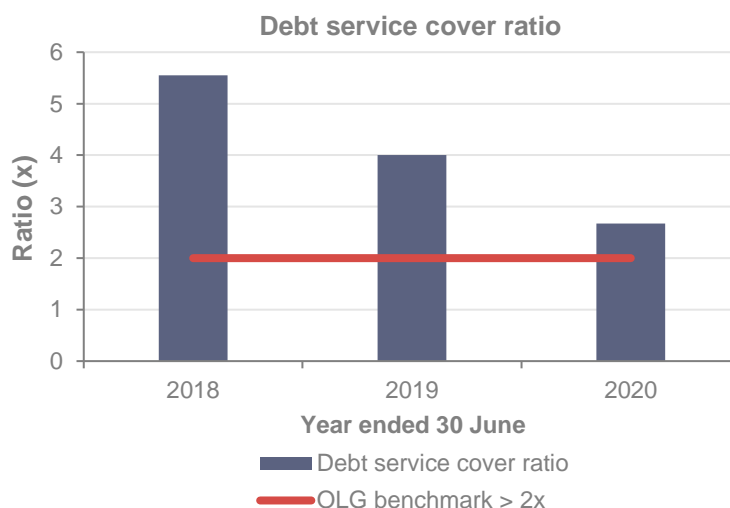
The Council met the OLG benchmark for the current reporting period.



Debt service cover ratio

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

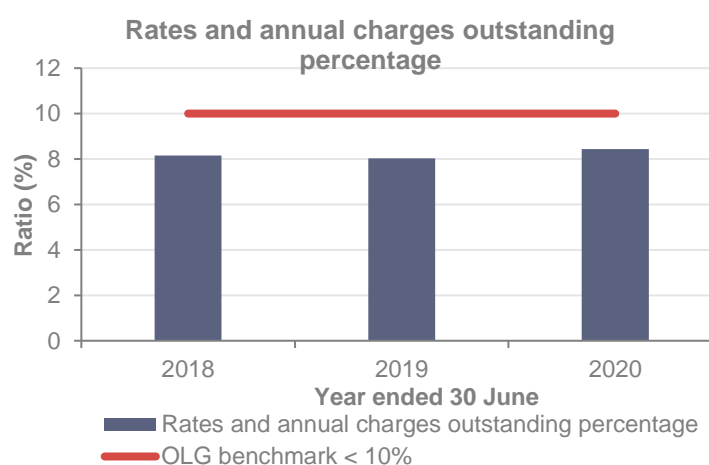
The Council met the OLG benchmark for the current reporting period.



Rates and annual charges outstanding percentage

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

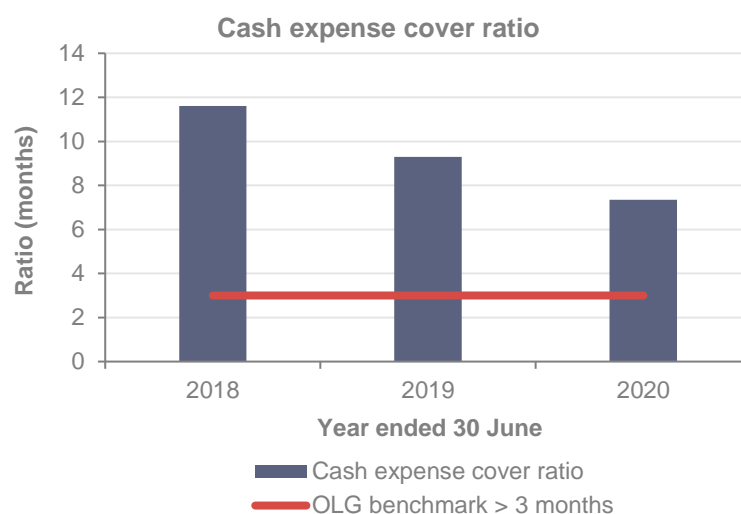
The Council met the OLG benchmark for the current reporting period.



Cash expense cover ratio

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

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



Infrastructure, property, plant and equipment renewals

Infrastructure, property, plant and equipment renewals for 2019–20 amounted to \$45.1 million (2019: \$39.4 million). The increase was mainly due to the net effect of the following:

- increase in capital work in progress of \$32.3 million
- decrease in the combined renewals for plant and equipment, buildings, roads, water supply network and other infrastructure of \$21.9 million.

OTHER MATTERS

Impact of new accounting standards

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

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

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

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

The Council recognised a \$4.0 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

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

AASB 16 'Leases'

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

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

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

The Council recognised right-of-use assets of \$361,000 and lease liabilities of \$361,000 at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 1.

Legislative compliance

My audit procedures identified that Council did not perform a full comprehensive revaluation for the roads, bridges, footpaths, earthworks and stormwater drainage asset classes, which means that it has been more than five years since the assets in these classes were subject to a comprehensive revaluation. This will be reported in the Management Letter.

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the General Purpose Financial Statements
- staff provided all accounting records and information relevant to the audit.



Dominika Ryan
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

cc: Mr Stephen Dunshea, Chief Executive Officer
Mr Peter McLean, Chair of Audit, Risk and Improvement Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment

Shoalhaven City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



Special Purpose Financial Statements

for the year ended 30 June 2020

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Background

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

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Special Purpose Financial Statements
for the year ended 30 June 2020

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

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

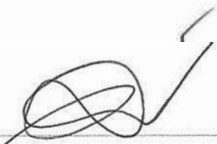
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government';
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality';
- the Local Government Code of Accounting Practice and Financial Reporting,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

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

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

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


Signed in accordance with a resolution of Council made on 24 November 2020.




Amanda Findley
Mayor
24 November 2020



Greg Watson
Deputy Mayor
24 November 2020



Stephen Dunshea
Chief Executive Officer
24 November 2020



Olena Tulubinska
Chief Financial Officer
24 November 2020

Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	4,843	5,267
User charges	18,062	17,047
Fees	6,170	5,836
Interest	1,519	1,935
Other income	300	638
Total income from continuing operations	30,894	30,723
Expenses from continuing operations		
Employee benefits and on-costs	9,883	8,806
Materials and contracts	6,469	5,971
Depreciation, amortisation and impairment	10,854	9,617
Loss on sale of assets	420	536
Calculated taxation equivalents	105	112
Other expenses	3,353	4,275
COVID-19 financial assistance to ratepayers	3,076	–
Total expenses from continuing operations	34,160	29,317
Surplus (deficit) from continuing operations before capital amounts	(3,266)	1,406
Grants and contributions provided for capital purposes	5,105	2,597
Surplus (deficit) from continuing operations after capital amounts	1,839	4,003
Surplus (deficit) from all operations before tax	1,839	4,003
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(387)
SURPLUS (DEFICIT) AFTER TAX	1,839	3,616
Plus accumulated surplus	229,507	227,723
Plus/less: prior period adjustments	(248)	(737)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	105	112
– Corporate taxation equivalent	–	387
Less:		
– Tax equivalent dividend paid	(111)	(114)
– Surplus dividend paid	(1,136)	(1,480)
Closing accumulated surplus	229,956	229,507
Return on capital %	(0.9)%	0.4%
Subsidy from Council	6,588	3,536
Calculation of dividend payable:		
Surplus (deficit) after tax	1,839	3,616
Less: capital grants and contributions (excluding developer contributions)	(3,277)	(1,345)
Surplus for dividend calculation purposes	–	2,271
Potential dividend calculated from surplus	–	1,136

Income Statement – Sewerage Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	45,319	44,006
User charges	2,904	2,961
Liquid trade waste charges	334	364
Fees	2,508	2,078
Interest	744	1,532
Other income	192	1,266
Total income from continuing operations	52,001	52,207
Expenses from continuing operations		
Employee benefits and on-costs	10,738	11,086
Borrowing costs	4,660	5,040
Materials and contracts	9,139	6,811
Depreciation, amortisation and impairment	11,090	10,665
Loss on sale of assets	829	830
Calculated taxation equivalents	356	329
Other expenses	7,262	5,770
COVID-19 financial assistance to ratepayers	2,601	—
Total expenses from continuing operations	46,675	40,531
Surplus (deficit) from continuing operations before capital amounts	5,326	11,676
Grants and contributions provided for capital purposes	3,266	3,214
Surplus (deficit) from continuing operations after capital amounts	8,592	14,890
Surplus (deficit) from all operations before tax	8,592	14,890
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(1,465)	(3,211)
SURPLUS (DEFICIT) AFTER TAX	7,127	11,679
Plus accumulated surplus	407,547	393,332
Plus/less: prior period adjustments	(667)	(844)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	356	329
– Corporate taxation equivalent	1,465	3,211
Less:		
– Tax equivalent dividend paid	(205)	(160)
Closing accumulated surplus	415,623	407,547
Return on capital %	1.6%	2.7%
Subsidy from Council	—	—
Calculation of dividend payable:		
Surplus (deficit) after tax	7,127	11,679
Less: capital grants and contributions (excluding developer contributions)	(1,217)	(1,727)
Surplus for dividend calculation purposes	5,910	9,952
Potential dividend calculated from surplus	2,955	4,976

Income Statement – Holiday Haven Tourist Parks

for the year ended 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
Income from continuing operations		
User charges	20,022	24,146
Other income	1,517	1,661
Total income from continuing operations	21,539	25,807
Expenses from continuing operations		
Employee benefits and on-costs	1,227	1,222
Borrowing costs	299	253
Materials and contracts	8,047	8,389
Depreciation, amortisation and impairment	3,292	2,849
Loss on sale of assets	130	135
Calculated taxation equivalents	67	67
Other expenses	5,524	3,693
Total expenses from continuing operations	18,586	16,608
Surplus (deficit) from continuing operations before capital amounts	2,953	9,199
Surplus (deficit) from continuing operations after capital amounts	2,953	9,199
Surplus (deficit) from all operations before tax	2,953	9,199
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(812)	(2,530)
SURPLUS (DEFICIT) AFTER TAX	2,141	6,669
Plus accumulated surplus	41,024	38,428
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	67	67
– Corporate taxation equivalent	812	2,530
Less:		
– Dividend paid	(2,141)	(6,670)
Closing accumulated surplus	41,903	41,024
Return on capital %	4.7%	13.9%

Income Statement – Bereavement Services

for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
User charges	1,794	1,723
Other income	30	19
Total income from continuing operations	1,824	1,742
Expenses from continuing operations		
Employee benefits and on-costs	1,138	947
Borrowing costs	7	7
Materials and contracts	331	241
Depreciation, amortisation and impairment	277	271
Calculated taxation equivalents	61	63
Other expenses	525	332
Total expenses from continuing operations	2,339	1,861
Surplus (deficit) from continuing operations before capital amounts	(515)	(119)
Surplus (deficit) from continuing operations after capital amounts	(515)	(119)
Surplus (deficit) from all operations before tax	(515)	(119)
SURPLUS (DEFICIT) AFTER TAX	(515)	(119)
Plus accumulated surplus	662	718
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	61	63
Closing accumulated surplus	208	662
Return on capital %	(4.1)%	(0.9)%
Subsidy from Council	618	278

Income Statement – Mechanical Services

for the year ended 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
Income from continuing operations		
User charges	16	34
Other income	3,262	3,139
Total income from continuing operations	3,278	3,173
Expenses from continuing operations		
Employee benefits and on-costs	2,014	1,945
Materials and contracts	529	485
Depreciation, amortisation and impairment	22	17
Calculated taxation equivalents	110	106
Other expenses	802	699
Total expenses from continuing operations	3,477	3,252
Surplus (deficit) from continuing operations before capital amounts	(199)	(79)
Surplus (deficit) from continuing operations after capital amounts	(199)	(79)
Surplus (deficit) from all operations before tax	(199)	(79)
SURPLUS (DEFICIT) AFTER TAX	(199)	(79)
Plus accumulated surplus	2,331	2,304
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	110	106
Closing accumulated surplus	2,242	2,331
Return on capital %	(3.6)%	(1.4)%
Subsidy from Council	89	153

Income Statement – Shoalhaven Entertainment Centre

for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
User charges	1,025	1,481
Other income	180	149
Total income from continuing operations	1,205	1,630
Expenses from continuing operations		
Employee benefits and on-costs	1,308	1,438
Borrowing costs	275	275
Materials and contracts	624	821
Depreciation, amortisation and impairment	494	699
Calculated taxation equivalents	112	121
Other expenses	895	1,047
Total expenses from continuing operations	3,708	4,401
Surplus (deficit) from continuing operations before capital amounts	(2,503)	(2,771)
Surplus (deficit) from continuing operations after capital amounts	(2,503)	(2,771)
Surplus (deficit) from all operations before tax	(2,503)	(2,771)
SURPLUS (DEFICIT) AFTER TAX	(2,503)	(2,771)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	112	121
Add:		
– Subsidy paid/contribution to operations	2,391	2,650
Closing accumulated surplus	–	–
Return on capital %	(8.4)%	(9.3)%
Subsidy from Council	2,625	2,851

Income Statement – Aquatic Recreation Facilities

for the year ended 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
Income from continuing operations		
User charges	3,632	4,168
Other income	2	–
Total income from continuing operations	3,634	4,168
Expenses from continuing operations		
Employee benefits and on-costs	4,636	4,553
Borrowing costs	109	109
Materials and contracts	1,076	1,285
Depreciation, amortisation and impairment	1,209	1,295
Loss on sale of assets	37	3
Calculated taxation equivalents	281	279
Other expenses	2,247	1,215
Total expenses from continuing operations	9,595	8,739
Surplus (deficit) from continuing operations before capital amounts	(5,961)	(4,571)
Surplus (deficit) from continuing operations after capital amounts	(5,961)	(4,571)
Surplus (deficit) from all operations before tax	(5,961)	(4,571)
SURPLUS (DEFICIT) AFTER TAX	(5,961)	(4,571)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	281	279
Add:		
– Subsidy paid/contribution to operations	5,680	4,292
Closing accumulated surplus	–	–
Return on capital %	(16.7)%	(12.3)%
Subsidy from Council	6,160	4,941

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	4,982	12,892
Investments	39,944	28,850
Receivables	4,092	4,608
Inventories	1,237	1,117
Other	–	52
Total current assets	50,255	47,519
Non-current assets		
Investments	10,623	10,442
Receivables	4,066	5,190
Infrastructure, property, plant and equipment	377,524	374,396
Intangible assets	2,674	2,154
Total non-current assets	394,887	392,182
TOTAL ASSETS	445,142	439,701
LIABILITIES		
Current liabilities		
Payables	2,302	998
Income received in advance	1,606	888
Total current liabilities	3,908	1,886
TOTAL LIABILITIES	3,908	1,886
NET ASSETS	441,234	437,815
EQUITY		
Accumulated surplus	229,956	229,507
Revaluation reserves	211,278	208,308
TOTAL EQUITY	441,234	437,815

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	2,771	9,305
Investments	22,216	20,823
Receivables	5,339	5,514
Total current assets	30,326	35,642
Non-current assets		
Investments	5,908	7,536
Receivables	1,209	1,230
Infrastructure, property, plant and equipment	622,904	613,819
Intangible assets	32	45
Total non-current assets	630,053	622,630
TOTAL ASSETS	660,379	658,272
LIABILITIES		
Current liabilities		
Payables	5,833	9,335
Borrowings	8,164	6,044
Total current liabilities	13,997	15,379
Non-current liabilities		
Borrowings	94,326	102,490
Total non-current liabilities	94,326	102,490
TOTAL LIABILITIES	108,323	117,869
NET ASSETS	552,056	540,403
EQUITY		
Accumulated surplus	415,623	407,547
Revaluation reserves	136,433	132,856
TOTAL EQUITY	552,056	540,403

Statement of Financial Position – Holiday Haven Tourist Parks

as at 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
ASSETS		
Current assets		
Receivables	112	141
Total current assets	112	141
Non-current assets		
Infrastructure, property, plant and equipment	69,021	67,966
Other	6,615	6,134
Total non-current assets	75,636	74,100
TOTAL ASSETS	75,748	74,241
LIABILITIES		
Current liabilities		
Payables	1,062	2,783
Borrowings	1,370	1,232
Total current liabilities	2,432	4,015
Non-current liabilities		
Borrowings	7,143	4,931
Total non-current liabilities	7,143	4,931
TOTAL LIABILITIES	9,575	8,946
NET ASSETS	66,173	65,295
EQUITY		
Accumulated surplus	41,903	41,025
Revaluation reserves	24,270	24,270
TOTAL EQUITY	66,173	65,295

Statement of Financial Position – Bereavement Services

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Receivables	119	136
Total current assets	119	136
Non-current assets		
Receivables	158	–
Inventories	–	176
Infrastructure, property, plant and equipment	12,504	12,578
Total non-current assets	12,662	12,754
TOTAL ASSETS	12,781	12,890
LIABILITIES		
Current liabilities		
Payables	5	2
Borrowings	28	27
Total current liabilities	33	29
Non-current liabilities		
Borrowings	167	195
Other Liabilities	9,661	9,292
Total non-current liabilities	9,828	9,487
TOTAL LIABILITIES	9,861	9,516
NET ASSETS	2,920	3,374
EQUITY		
Accumulated surplus	208	662
Revaluation reserves	2,712	2,712
TOTAL EQUITY	2,920	3,374

Statement of Financial Position – Mechanical Services

as at 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
ASSETS		
Current assets		
Receivables	22	23
Total current assets	22	23
Non-current assets		
Infrastructure, property, plant and equipment	5,469	5,623
Total non-current assets	5,469	5,623
TOTAL ASSETS	5,491	5,646
LIABILITIES		
Current liabilities		
Payables	–	3
Total current liabilities	–	3
Non-current liabilities		
Other Liabilities	690	753
Total non-current liabilities	690	753
TOTAL LIABILITIES	690	756
NET ASSETS	4,801	4,890
EQUITY		
Accumulated surplus	2,242	2,331
Revaluation reserves	2,559	2,559
TOTAL EQUITY	4,801	4,890

Statement of Financial Position – Shoalhaven Entertainment Centre

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Receivables	32	113
Total current assets	32	113
Non-current assets		
Receivables	–	21
Infrastructure, property, plant and equipment	26,682	26,906
Total non-current assets	26,682	26,927
TOTAL ASSETS	26,714	27,040
LIABILITIES		
Current liabilities		
Payables	46	386
Borrowings	630	676
Total current liabilities	676	1,062
Non-current liabilities		
Borrowings	2,726	3,357
Other Liabilities	23,312	22,621
Total non-current liabilities	26,038	25,978
TOTAL LIABILITIES	26,714	27,040
NET ASSETS	–	–

Statement of Financial Position – Aquatic Recreation Facilities

as at 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
ASSETS		
Current assets		
Receivables	82	175
Total current assets	82	175
Non-current assets		
Inventories	–	2
Infrastructure, property, plant and equipment	34,948	36,287
Total non-current assets	34,948	36,289
TOTAL ASSETS	35,030	36,464
LIABILITIES		
Current liabilities		
Payables	135	308
Borrowings	494	481
Total current liabilities	629	789
Non-current liabilities		
Borrowings	2,196	2,690
Other Liabilities	27,184	27,964
Total non-current liabilities	29,380	30,654
TOTAL LIABILITIES	30,009	31,443
NET ASSETS	5,021	5,021
EQUITY		
Revaluation reserves	5,021	5,021
TOTAL EQUITY	5,021	5,021

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

Note 1. Significant Accounting Policies

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

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

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

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 2093 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

- 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

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

Note 1. Significant Accounting Policies (continued)

b. Shoalhaven Entertainment Centre

Venue for entertainment, hire and community activities

Monetary amounts

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

(i) Taxation equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – **27.5%**

Land tax – the first \$734,000 of combined land values attracts **0%**. For the combined land values in excess of \$734,001 up to \$4,488,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$4,488,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$1,000,000.

In accordance with the Department of Industry (DoI) – Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the DoI – Water guidelines 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 DoI – 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 27.5%.

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

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

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

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

Note 1. Significant Accounting Policies (continued)

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 0.88% at 30/6/20.

(iv) Dividends

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

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

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2020 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

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



INDEPENDENT AUDITOR'S REPORT

Report on the Special Purpose Financial Statements

Shoalhaven City Council

To the Councillors of Shoalhaven City Council

Opinion

I have audited the accompanying Special Purpose Financial Statements (the financial statements) of Shoalhaven City Council's (the Council) Declared Business Activities, which comprise the Statement by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2020, the Statement of Financial Position of each Declared Business Activity as at 30 June 2020 and Note 1 Significant Accounting Policies for the Business Activities declared by Council.

The Declared Business Activities of the Council are:

- Water Supply
- Sewerage
- Holiday Haven Tourist Parks
- Bereavement Services
- Mechanical Services
- Shoalhaven Entertainment Centre
- Aquatic Recreation Facilities.

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

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

Basis for Opinion

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

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

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

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

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

- providing that only Parliament, and not the executive government, can remove an Auditor-General

- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

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



Dominika Ryan
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

27 November 2020
SYDNEY

Shoalhaven City Council

SPECIAL SCHEDULES
for the year ended 30 June 2020



Special Schedules
for the year ended 30 June 2020

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Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2019/20
Notional general income calculation ¹			
Last year notional general income yield	a	77,640	73,335
Plus or minus adjustments ²	b	387	610
Notional general income	$c = a + b$	78,027	73,945
Permissible income calculation			
Special variation percentage ³	d	5.00%	5.00%
Plus special variation amount	$h = d \times (c + g)$	3,901	3,697
Sub-total	$k = (c + g + h + i + j)$	81,928	77,642
Plus (or minus) last year's carry forward total	l	2	22
Sub-total	$n = (l + m)$	2	22
Total permissible income	$o = k + n$	81,930	77,664
Less notional general income yield	p	79,547	77,640
Catch-up or (excess) result	$q = o - p$	2,383	24
Less unused catch-up ⁵	s	—	(22)
Carry forward to next year ⁶	$t = q + r + s$	2,384	2

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.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Local Government Act 1993. The OLG will extract these amounts from Council's Permissible income for general rates Statement in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Shoalhaven City Council

To the Councillors of Shoalhaven City Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the General Purpose Financial Statements and the Special Purpose Financial Statements.

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

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

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

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

Dominika Ryan
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

27 November 2020
SYDNEY

Report on Infrastructure Assets

as at 30 June 2020

Asset Class	Asset Category	Estimated cost	Estimated cost	2019/20	2019/20	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		to bring assets to satisfactory standard ^a	to bring to the agreed level of service set by Council ^{b, bl.}	Required maintenance ^c	Actual maintenance			1 ¹	2 ²	3 ³	4 ⁴	5 ⁵
		\$ '000	\$ '000	\$ '000	\$ '000							
(a) Report on Infrastructure Assets												
Buildings	Buildings	4,101	3,486	11,370	10,104	287,573	410,135	27.0%	40.0%	30.0%	2.0%	1.0%
	Sub-total	4,101	3,486	11,370	10,104	287,573	410,135	27.0%	40.0%	30.0%	2.0%	1.0%
Other structures	Other structures	475	322	766	557	16,781	39,216	45.0%	31.0%	18.0%	5.0%	1.0%
	Sub-total	475	322	766	557	16,781	39,216	45.0%	31.0%	18.0%	5.0%	1.0%
Roads	Sealed roads	14,447	2,520	6,521	5,815	486,119	760,354	32.0%	26.0%	34.0%	7.0%	1.0%
	Unsealed roads	129	89	1,106	1,006	2,872	10,680	40.0%	35.0%	20.0%	4.0%	1.0%
	Bridges	3,085	2,081	793	487	60,928	103,014	26.0%	38.0%	23.0%	9.0%	4.0%
	Footpaths	2,522	1,968	646	336	48,679	72,883	23.0%	33.0%	25.0%	13.0%	6.0%
	Other road assets	8,583	6,617	4,882	4,366	209,358	327,597	26.0%	38.0%	26.0%	7.0%	3.0%
	Bulk earthworks	—	—	—	99	109,696	109,696	99.0%	1.0%	0.0%	0.0%	0.0%
	Sub-total	28,766	13,275	13,948	12,109	917,652	1,384,224	35.0%	28.2%	28.0%	6.9%	1.9%
Water supply network	Water supply network	7,509	3,636	13,237	13,231	341,052	661,031	18.0%	59.0%	20.0%	2.0%	1.0%
	Sub-total	7,509	3,636	13,237	13,231	341,052	661,031	18.0%	59.0%	20.0%	2.0%	1.0%
Sewerage network	Sewerage network	8,189	3,968	19,409	19,403	437,470	721,518	18.0%	59.0%	20.0%	2.0%	1.0%
	Sub-total	8,189	3,968	19,409	19,403	437,470	721,518	18.0%	59.0%	20.0%	2.0%	1.0%
Stormwater drainage	Stormwater drainage	2,940	3,366	7,670	3,723	106,198	193,426	43.0%	21.0%	25.0%	10.0%	1.0%
	Sub-total	2,940	3,366	7,670	3,723	106,198	193,426	43.0%	21.0%	25.0%	10.0%	1.0%
Open space / recreational assets	Swimming pools	1,188	1,088	4,469	3,473	9,345	22,588	38.0%	3.0%	7.0%	33.0%	19.0%
	Other open space / Recreational Assets	817	679	966	668	22,028	45,883	28.0%	38.0%	28.0%	4.0%	2.0%
	Sub-total	2,005	1,767	5,435	4,141	31,373	68,471	31.3%	26.5%	21.1%	13.6%	7.6%
Other infrastructure assets	Other infrastructure assets	2,026	2,810	864	682	57,477	108,915	26.0%	22.0%	46.0%	3.0%	3.0%
	Sub-total	2,026	2,810	864	682	57,477	108,915	26.0%	22.0%	46.0%	3.0%	3.0%
TOTAL - ALL ASSETS		56,011	32,630	72,699	63,950	2,195,576	3,586,936	27.7%	40.8%	25.3%	4.6%	1.5%

(1) Excellent (normal maintenance)

Report on Infrastructure Assets (continued)

as at 30 June 2020

- (2) Good (Only minor maintenance work required)
- (3) Satisfactory (Maintenance work required)
- (4) Poor (renewal required)
- (5) Very poor (urgent renewal/upgrading required)
- (a) Satisfactory standard - Estimated cost to bring assets to a satisfactory standard is the amount of money that is required to be spent on an asset that is currently not at the condition determined to be satisfactory by the council and community.
- (b) Agreed level of service - Estimated cost to renew or rehabilitate existing assets that have reached the condition-based intervention level adopted by council.
- (bi.) In making decisions regarding intervention levels, councils gave consideration to matters including, but not limited to:
 - i. the impacts on the whole-of-life costs of sustaining the asset, or asset component.
 - ii. the risk to the community, safety, the environment, financial sustainability, and council's reputation
 - iii. the affordability of managing the overall suite of assets under council's control.
- (c) Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

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

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	44,775	78.44%	58.85%	94.44%	>=100.00%
Depreciation, amortisation and impairment	57,081				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	56,011	2.55%	3.17%	3.38%	<2.00%
Net carrying amount of infrastructure assets	2,195,576				
Asset maintenance ratio					
Actual asset maintenance	63,950	87.97%	88.55%	88.18%	>100.00%
Required asset maintenance	72,699				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	32,630	0.91%	0.94%	1.00%	
Gross replacement cost	3,586,936				

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

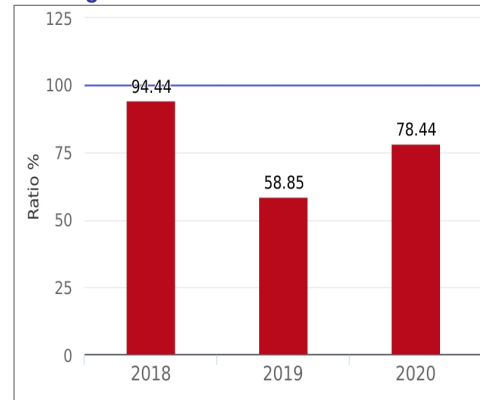
(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2020

Buildings and infrastructure renewals ratio



Buildings and infrastructure renewals ratio

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

Commentary on result

19/20 ratio 78.44%

Council's budgeted Buildings and Infrastructure Renewals Ratio for 2019/20 was 78.44%. The actual ratio was lower due to a 5% increase in depreciation resulting from additional capitalization as well as water and sewer asset revaluations.

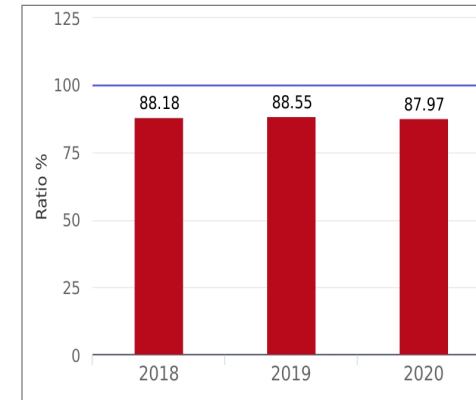
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on result

19/20 ratio 87.97%

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

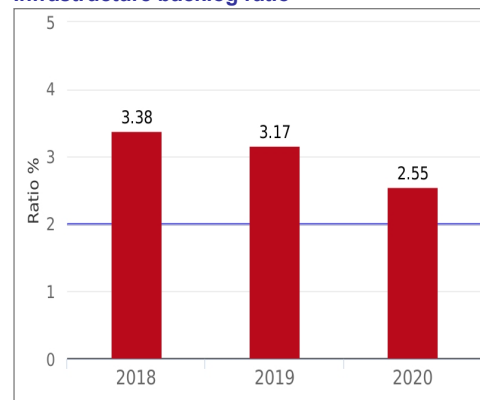
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

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

Commentary on result

19/20 ratio 2.55%

Council's Infrastructure Backlog Ratio is above the benchmark of 2%. Council continues to focus on appropriate asset standards for renewal and maintenance.

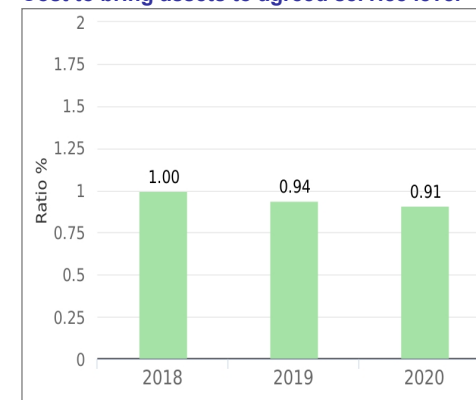
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

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 result

19/20 ratio 0.91%

The cost to bring assets to agreed service level has decreased due to the renewal of assets previously in poor conditions.

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2020	2019	2020	2019	2020	2019	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²	81.31%	55.85%	59.93%	32.53%	86.61%	92.79%	>=100.00%
Depreciation, amortisation and impairment							
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard	2.90%	4.11%	2.13%	1.85%	1.82%	1.57%	<2.00%
Net carrying amount of infrastructure assets							
Asset maintenance ratio							
Actual asset maintenance	78.19%	80.41%	99.95%	99.93%	99.97%	99.99%	>100.00%
Required asset maintenance							
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council	1.14%	1.55%	0.55%	0.03%	0.55%	0.01%	
Gross replacement cost							

(1) Excludes Work In Progress (WIP)

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



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