



INVERELL
SHIRE COUNCIL

2017-2018

General Purpose Financial Statements Special Purpose Financial Statements & Special Schedules



A community for everyone

Inverell Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018



Inverell Shire Council

General Purpose Financial Statements for the year ended 30 June 2018

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Overview

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

Administration Building
144 Otho Street, Inverell

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.inverell.nsw.gov.au.

Inverell Shire Council

General Purpose Financial Statements for the year ended 30 June 2018

Understanding Council's financial statements

Overview

These financial statements are the General Purpose Financial Statements for 2017/2018 and cover the consolidated operations for Inverell Shire Council.

Council is constituted as a Local Government area by proclamation and is duly empowered by the Local Government Act (LGA) 1993 of NSW. Council's Statutory Charter is detailed in Paragraph 8 of the LGA and includes giving Council;

- The ability to provide goods, services & facilities, and to carry out activities appropriate to the current & future needs of the local community and of the wider public; and
- The responsibility for administering regulatory requirements under the LGA and a role in the management, improvement and development of the resources in the area.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b). All figures presented in these financial statements are presented in Australian Dollars, rounded to the nearest one thousand dollars.

These financial statements were authorised by the Council on 24th October 2018. Council has the power to amend and reissue these financial statements. Council's Auditor will be in attendance at Council's Ordinary Meeting on 28th November 2018 to present their 2017/2018 Independent Audit Report on these Financial Statements.

Understanding Council's Financial Statements

Each year Council is required to prepare and present a complete set of audited Financial Statements to their Council & Community.

The Financial Statements set out the financial performance, financial position & cash flows of Council for the financial year ended 30 June 2018.

The format of the Financial Statements is standardised across all NSW Councils and complies with both the accounting & reporting requirements of Australian Accounting Standards and requirements as set down by the NSW Office of Local Government.

The Financial Statements must be certified by the Mayor, one other Councillor, the General Manager and Council's Responsible Accounting Officer, as "presenting fairly" the Council's financial results for the year, and are required to be adopted by Council.

The financial statements include five primary Financial Statements including the following:

- **Income Statement**
Summarises Council's financial performance for the year, listing all income & expenses. This statement also displays Council's original adopted budget, to provide a comparison between what was projected and what actually occurred during the year;
- **Statement of Comprehensive Income**
Primarily records changes in the fair values of Council's Infrastructure, Property, Plant & Equipment for the year;
- **Statement of Financial Position**
This is a year end snapshot of Council's financial position indicating its Assets, Liabilities & Equity;
- **Statement of Changes in Equity**
Shows the overall change for the year (in Australian dollars) of Council's Equity; and
- **Statement of Cash Flows**
This statement indicates where Council's cash came from and where it was spent during the year. This statement also displays Council's original adopted budget, to provide a comparison between what was projected and what actually occurred during the year.

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

The Financial Statements also include a range of Financial Performance Indicators at Note 28a, Note 28b and Special Schedule No. 7.

A commentary is provided in respect of Council's financial performance for 2017/2018 and its performance against the industry in the Independent Auditors Report which is included in the Financial Statements.

Inverell Shire Council

General Purpose Financial Statements for the year ended 30 June 2018

Understanding Council's financial statements (continued)

About the Notes to the Financial Statements

The Notes to the financial statements provide greater detail and additional information on the 5 primary financial statements.

Independent External Audit

Council's Financial Statements are required to be independently audited by an External Auditor. Council's current External Auditor is Forsyths Business Services Pty Ltd of Armidale.

Forsyths have extensive experience in the conduct of Local Government Audits.

The Auditor provides two Audit Reports:

- An opinion on whether the Financial Statements present fairly the Council's financial performance & position and
- Their observations on the conduct of the Audit including commentary on the Council's financial performance & financial position.

Presentation of the Audited Financial Statements

The financial statements are a publicly available document & must be presented at a Council meeting between 1 week & 5 weeks after the date of the Auditors Report. Submissions from the public can be made to Council up to 7 days prior to the public presentation of the Financial Statements to Council by the Auditor.

Council is required to forward a copy of the audited Financial Statements to the Office of Local Government by 31 October 2018.

Council has met this deadline.

Inverell Shire Council

General Purpose Financial Statements for the year ended 30 June 2018

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 24 October 2018.



Paul Harmon
Mayor
24 October 2018



Anthony Michael
Councillor
24 October 2018



Paul Henry
General Manager
24 October 2018



Scott Norman
Responsible Accounting Officer
24 October 2018

Inverell Shire Council

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Income from continuing operations				
Revenue:				
18,473	Rates and annual charges	3a	18,411	17,395
3,446	User charges and fees	3b	5,448	5,340
1,027	Interest and investment revenue	3c	1,475	1,598
423	Other revenues	3d	834	810
9,964	Grants and contributions provided for operating purposes	3e,f	12,528	14,246
926	Grants and contributions provided for capital purposes	3e,f	2,465	1,620
Other income:				
196	Net gains from the disposal of assets	5	30	—
—	Fair value increment on investment property	11	555	—
34,455	Total income from continuing operations		41,746	41,009
Expenses from continuing operations				
13,312	Employee benefits and on-costs	4a	12,012	12,446
182	Borrowing costs	4b	284	301
5,847	Materials and contracts	4c	7,891	7,628
8,226	Depreciation and amortisation	4d	8,532	7,694
4,198	Other expenses	4e	3,009	3,275
—	Net losses from the disposal of assets	5	—	1,359
31,765	Total expenses from continuing operations		31,728	32,703
2,690	Net operating result for the year		10,018	8,306
2,690	Net operating result attributable to Council		10,018	8,306
Net operating result for the year before grants and contributions provided for capital purposes				
1,764			7,553	6,686

Inverell Shire Council

Statement of Comprehensive Income
for the year ended 30 June 2018

\$ '000	Notes	2018	2017
Net operating result for the year (as per Income Statement)		10,018	8,306
Other comprehensive income:			
Amounts that will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10a	6,224	4,120
Total items which will not be reclassified subsequently to the operating result		6,224	4,120
Total other comprehensive income for the year		6,224	4,120
Total comprehensive income for the year		16,242	12,426
Total comprehensive income attributable to Council		16,242	12,426

Inverell Shire Council

Statement of Financial Position
as at 30 June 2018

\$ '000	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	6a	3,604	3,174
Investments	6b	53,500	53,000
Receivables	7	5,239	3,348
Inventories	8	506	509
Other	8	182	194
Non-current assets classified as 'held for sale'	9	481	481
Total current assets		63,512	60,706
Non-current assets			
Investments	6b	—	1,000
Receivables	7	24	309
Infrastructure, property, plant and equipment	10	637,405	623,321
Investment property	11	3,280	2,725
Total non-current assets		640,709	627,355
TOTAL ASSETS		704,221	688,061
LIABILITIES			
Current liabilities			
Payables	12	2,285	1,904
Income received in advance	12	668	584
Borrowings	12	576	552
Provisions	13	3,894	4,234
Total current liabilities		7,423	7,274
Non-current liabilities			
Borrowings	12	3,564	4,140
Provisions	13	2,146	1,801
Total non-current liabilities		5,710	5,941
TOTAL LIABILITIES		13,133	13,215
Net assets		691,088	674,846
EQUITY			
Accumulated surplus	14	520,402	510,384
Revaluation reserves	14	170,686	164,462
Total equity		691,088	674,846

Inverell Shire Council

Statement of Changes in Equity

for the year ended 30 June 2018

\$ '000	Notes	2018	IPP&E	Total	2017	IPP&E	Total
		Accumulated surplus	revaluation reserve	equity	Accumulated surplus	revaluation reserve	equity
Opening balance		510,384	164,462	674,846	502,078	160,342	662,420
Net operating result for the year		10,018	–	10,018	8,306	–	8,306
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10a	–	6,224	6,224	–	4,120	4,120
Other comprehensive income		–	6,224	6,224	–	4,120	4,120
Total comprehensive income (c&d)		10,018	6,224	16,242	8,306	4,120	12,426
Equity – balance at end of the reporting period		520,402	170,686	691,088	510,384	164,462	674,846

Inverell Shire Council

Statement of Cash Flows
for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Cash flows from operating activities				
Receipts:				
18,473	Rates and annual charges		18,376	17,379
3,446	User charges and fees		6,058	5,945
1,027	Investment revenue and interest		1,477	1,450
10,890	Grants and contributions		13,433	16,181
–	Bonds, deposits and retention amounts received		37	637
423	Other		2,284	3,583
Payments:				
(13,312)	Employee benefits and on-costs		(12,480)	(12,197)
(5,847)	Materials and contracts		(9,543)	(9,439)
(182)	Borrowing costs		(178)	(201)
–	Bonds, deposits and retention amounts refunded		(47)	(1,274)
(4,198)	Other		(2,960)	(3,653)
10,720	Net cash provided (or used in) operating activities	15b	16,457	18,411
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		8,000	12,000
–	Sale of real estate assets		–	54
436	Sale of infrastructure, property, plant and equipment		900	534
–	Deferred debtors receipts		6	–
Payments:				
–	Purchase of investment securities		(7,500)	(17,958)
(11,378)	Purchase of infrastructure, property, plant and equipment		(16,881)	(13,162)
(10,942)	Net cash provided (or used in) investing activities		(15,475)	(18,532)
Cash flows from financing activities				
Receipts:				
Nil				
Payments:				
(552)	Borrowings and advances		(552)	(529)
(552)	Net cash flow provided (used in) financing activities		(552)	(529)
(774)	Net increase/(decrease) in cash and cash equivalents		430	(650)
3,824	Cash and cash equivalents – beginning of year	15a	3,174	3,824
3,050	Cash and cash equivalents – end of the year	15a	3,604	3,174
Additional Information:				
plus:	Investments on hand – end of year	6b	53,500	54,000
	Total cash, cash equivalents and investments		57,104	57,174

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 24/10/2018.

Council has the power to amend and reissue these financial statements.

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

Basis of preparation

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

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

Full dollars have been used in Note 22 Related party disclosures in relation to the disclosure of specific related party transactions.

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

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

- Income statement
- Statement of cash flows
- Note 20 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

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

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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

- (i) estimated fair values of investment properties –refer Note 11,
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 10,
- (iii) estimated garbage tip and gravel pit remediation provisions – refer Note 13,
- (iv) employee benefit provisions – refer Note 13.

Significant judgements in applying the Council's accounting policies

- (v) Impairment of receivables

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

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

- General Purpose Operations
- Water Supply
- Sewerage Service
- Main Street Program
- Mayor's Drug Advisory Committee
- Youth Indent Committee

(b) The Trust Fund

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

The following Trust monies and other assets are held by Council but are not considered to be under the control of Council and therefore are excluded from these financial statements:

- Proceeds from sale of land for unpaid Rates
- Inverell Investment Fund monies

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations issued not yet effective

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

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

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

- AASB 9 *Financial Instruments*

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

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

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

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

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

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

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

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

Inverell Shire Council

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

Note 1. Basis of preparation (continued)

- AASB 16 *Leases*

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

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).									
	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Leadership	18,440	20,038	2,808	2,504	15,632	17,534	3,886	5,482	65,511	63,370
Community	1,402	906	3,779	3,720	(2,377)	(2,814)	1,068	466	25,440	22,524
Environment	4,059	3,639	3,954	5,082	105	(1,443)	331	247	29,078	28,681
Economy	1,160	507	1,261	1,217	(101)	(710)	30	32	9,541	10,032
Services / Infrastructure	16,685	15,919	19,926	20,180	(3,241)	(4,261)	6,167	5,989	574,651	563,454
Total functions and activities	41,746	41,009	31,728	32,703	10,018	8,306	11,482	12,216	704,221	688,061

Inverell Shire Council

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

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

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

Leadership

Includes costs relating to Council's role as a component of democratic government, including elections, member fees and expenses; subscription to local authorities; meeting of Council and policy making committees and area representation and public disclosure and compliance together with related administration cost and other support services, engineering works; public disclosure (eg GIPA) and any Council legislative policy compliance.

Community

Includes Council's fire and emergency services levy, fire protection; emergency services; enforcement of Local Government Regulations; health matters; administration and education; social protection (welfare); migrant, aboriginal and other community services administration; youth services; aged and disabled persons services; children services; childcare and other family and children services; public cemeteries; public conveniences; street lighting; town planning; other community amenities; public libraries; museums; art galleries; public halls; other cultural services and building control.

Environment

Includes costs relating to Noxious plants and vermin control; environmental protection matters, solid waste management, street cleaning, drainage and stormwater management.

Economy

Includes camping areas and caravan parks; tourism and area promotion; industrial development promotion; real estate development; and other business undertakings.

Services / Infrastructure

Includes Water supply; Sewerage services; sporting grounds and venues; swimming pools; parks; gardens; lakes; other sporting recreational services; quarries and pits; sealed and unsealed roads and bridges on urban, local, and regional roads; footpaths; parking areas; aerodromes and other transport and communications.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations

\$ '000	2018	2017
(a) Rates and annual charges		
Ordinary rates		
Residential	5,172	4,811
Farmland	3,683	3,470
Business	2,275	1,889
Total ordinary rates	11,130	10,170
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	2,020	1,994
Stormwater management services	146	140
Water supply services	2,062	2,049
Sewerage services	2,419	2,413
Waste management services (non-domestic)	634	629
Total annual charges	7,281	7,225
TOTAL RATES AND ANNUAL CHARGES	18,411	17,395

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and annual charges

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules.

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

Inverell Shire Council

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

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(b) User charges and fees		
Specific user charges (per s.502 – specific ‘actual use’ charges)		
Domestic waste management services	9	9
Water supply services	2,530	1,974
Waste management services (non-domestic)	685	537
Other	11	11
Total specific user charges	3,235	2,531
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Building services – other	92	114
Inspection services	3	4
Planning and building regulation	117	145
Private works – section 67	263	239
Registration fees	49	24
Section 149 certificates (EPA Act)	36	38
Section 603 certificates	36	32
Total fees and charges – statutory/regulatory	596	596
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Aerodrome	4	–
Caravan park	54	58
Quarry revenues	33	20
RMS (formerly RTA) charges (state roads not controlled by Council)	1,481	2,087
Sportsgrounds	33	27
Town hall	12	21
Total fees and charges – other	1,617	2,213
TOTAL USER CHARGES AND FEES	5,448	5,340

Accounting policy for user charges and fees

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(c) Interest and investment revenue (including losses)		
Interest		
– Overdue rates and annual charges (incl. special purpose rates)	56	56
– Cash and investments	1,419	1,505
– Deferred debtors	–	5
Fair value adjustments		
– Fair valuation movements in investments (at fair value or held for trading)	–	32
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>	<u>1,475</u>	<u>1,598</u>
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	56	56
General Council cash and investments	1,110	1,542
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	12	–
Water fund operations	182	–
Sewerage fund operations	115	–
<u>Total interest and investment revenue recognised</u>	<u>1,475</u>	<u>1,598</u>

Accounting policy for interest and investment revenue

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Other revenues			
Rental income – investment property	11	8	8
Rental income – other council properties		213	148
Fines		10	14
Legal fees recovery – rates and charges (extra charges)		45	20
Aged disabled and youth and other community services		22	19
Bushfire / SES sundry income		10	10
Cemetery		95	129
Commissions and agency fees		2	2
Insurance claim recoveries		33	67
Insurance / workers compensation premium adjustment		82	106
Library		19	23
Parental leave reimbursement		3	47
Rural addressing		–	1
Sale of dogs / microchipping		3	3
Sale of old materials		130	36
Sulo bin sales		15	13
Sundry health services		14	14
Tourism		95	93
Other		35	57
<u>TOTAL OTHER REVENUE</u>		<u>834</u>	<u>810</u>

Accounting policy for other revenue

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

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	1,838	3,453	–	–
Financial assistance – local roads component	1,001	1,916	–	–
Payment in advance – future year allocation				
Financial assistance – general component	1,879	1,789	–	–
Financial assistance – local roads component	1,029	983	–	–
Other				
Pensioners' rates subsidies – general component	168	168	–	–
Total general purpose	5,915	8,309	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	66	67	–	–
– Sewerage	55	56	–	–
– Domestic waste management	57	59	–	–
Aged, disabled, youth and other community services	332	268	–	–
Bushfire and emergency services	148	(19)	365	40
Economic development – Energise Enterprise Fund	–	16	–	–
Economic development – Back to business week	–	5	–	–
Economic development – Foundation for	–	–	–	–
Rural and Regional Renewal	–	11	–	–
Economic development – Growing	–	–	–	–
Local Economies	25	–	–	–
Economic development – Small	–	–	–	–
Business Month	5	–	–	–
Employment schemes / apprentice subsidy	4	2	–	–
Environmental protection	38	41	–	19
Heritage and cultural	16	14	–	–
Library	87	32	30	26
Library – special projects	3	–	–	–
LIRS subsidy	93	105	–	–
Mental Health Association - Prenatal Week	–	1	–	–
Noxious weeds	236	128	–	–
OLG Grant - Fire & Emergency Services Levy	1	72	–	–
PAMP program	–	–	70	–
Public halls	24	–	–	–
Recreation and culture	–	–	–	11
RMS-Walking Communities Infrastructure Program	–	–	–	9
Ross Hill Reserve	6	44	–	–
Safety around schools program	–	–	–	29
Sport and recreation	–	6	330	250
Street lighting	59	58	–	–
Transport (other roads and bridges funding)	–	–	152	–
Transport – bike week	–	2	–	–
Transport – RESTART Grant-Fixing Country Roads	–	80	277	23
Transport – Timber Bridges Program	–	–	391	109
Transport (3x3, roads to recovery, flood etc.)	2,697	2,343	–	–
Total specific purpose	3,952	3,391	1,615	516
Total grants	9,867	11,700	1,615	516

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants (continued)					
Grant revenue is attributable to:					
– Commonwealth funding		8,439	10,324	–	–
– State funding		1,428	1,365	1,615	516
– Other funding		–	11	–	–
		9,867	11,700	1,615	516
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 – EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		–	–	16	103
S 64 – water supply contributions		–	–	187	354
S 64 – sewerage service contributions		–	–	63	52
Total developer contributions – cash		–	–	266	509
Total developer contributions	23	–	–	266	509
Other contributions:					
Cash contributions					
Community services		21	–	23	–
Roads and bridges		13	11	54	49
RMS contributions (regional roads, block grant)		2,510	2,461	481	471
Sport and recreation		117	74	10	75
Tourism		–	–	16	–
Total other contributions – cash		2,661	2,546	584	595
Total other contributions		2,661	2,546	584	595
Total contributions		2,661	2,546	850	1,104
TOTAL GRANTS AND CONTRIBUTIONS		12,528	14,246	2,465	1,620

Accounting policy for contributions

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	5,168	1,730
Add: operating grants recognised in the current period but not yet spent	3,531	4,907
Less: operating grants recognised in a previous reporting period now spent	(4,276)	(1,469)
Unexpended and held as restricted assets (operating grants)	4,423	5,168
Capital grants		
Unexpended at the close of the previous reporting period	10	388
Add: capital grants recognised in the current period but not yet spent	21	10
Less: capital grants recognised in a previous reporting period now spent	(10)	(388)
Unexpended and held as restricted assets (capital grants)	21	10
Contributions		
Unexpended at the close of the previous reporting period	748	759
Add: contributions recognised in the current period but not yet spent	471	370
Less: contributions recognised in a previous reporting period now spent	(510)	(381)
Unexpended and held as restricted assets (contributions)	709	748

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	Notes	2018	2017
(a) Employee benefits and on-costs			
Salaries and wages		11,118	10,914
Travel expenses		208	248
Employee leave entitlements (ELE)		1,563	1,817
Superannuation		1,313	1,330
Workers' compensation insurance		267	260
Fringe benefit tax (FBT)		138	157
Payroll tax		80	76
Training costs (other than salaries and wages)		167	209
Protective clothing		30	27
Employment costs		40	39
Total employee costs		14,924	15,077
Less: capitalised costs		(2,912)	(2,631)
TOTAL EMPLOYEE COSTS EXPENSED		12,012	12,446
Number of 'full-time equivalent' employees (FTE) at year end		195	192

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, when 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 18 for more information.

(b) Borrowing costs

(i) Interest bearing liability costs

Interest on loans	178	201
Total interest bearing liability costs expensed	178	201

(ii) Other borrowing costs

Discount adjustments relating to movements in provisions (other than ELE)

– Remediation liabilities	13	106	100
Total other borrowing costs		106	100
TOTAL BORROWING COSTS EXPENSED		284	301

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.

Inverell Shire Council

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

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(c) Materials and contracts		
Raw materials and consumables	6,845	6,688
Contractor and consultancy costs	942	855
Auditors remuneration ⁽¹⁾	52	44
Legal expenses:		
– Legal expenses: planning and development	–	4
– Legal expenses: debt recovery	43	22
– Legal expenses: other	9	15
<u>TOTAL MATERIALS AND CONTRACTS</u>	<u>7,891</u>	<u>7,628</u>

1. Auditor remuneration

During the year the following fees were paid or payable for services provided by the auditor of Council, related practices and non-related audit firms

Non NSW Auditor-General audit firms:**(i) Audit and other assurance services**

Audit and review of financial statements	52	44
Remuneration for audit and other assurance services	<u>52</u>	<u>44</u>
Total remuneration of non NSW Auditor-General audit firms	<u>52</u>	<u>44</u>
Total Auditor remuneration	<u>52</u>	<u>44</u>

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Depreciation, amortisation and impairment			
Depreciation and amortisation			
Plant and equipment		1,522	1,555
Office equipment		232	207
Furniture and fittings		31	33
Infrastructure:			
– Buildings – non-specialised		195	192
– Buildings – specialised		129	127
– Other structures		209	205
– Roads		2,331	2,259
– Bridges		1,190	1,187
– Footpaths		74	71
– Stormwater drainage		307	307
– Water supply network		1,478	850
– Sewerage network		918	681
– Swimming pools		82	81
– Other open space/recreational assets		260	221
Other assets:			
– Library books		84	105
– Other		7	7
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	10 & 13	20	28
– Quarry assets	10 & 13	8	–
Total gross depreciation and amortisation costs		9,077	8,116
Less: capitalised costs		(545)	(422)
Total depreciation and amortisation costs		8,532	7,694
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED			
		8,532	7,694

Accounting policy for depreciation, amortisation and impairment expenses**Depreciation and amortisation**

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

Impairment of non-financial assets

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(e) Other expenses		
Advertising	66	100
Bad and doubtful debts	(28)	12
Bank charges	53	48
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	340	334
– Other contributions/levies	55	77
Councillor expenses – mayoral fee	25	25
Councillor expenses – councillors' fees	106	105
Councillors' expenses (incl. mayor) – other (excluding fees above)	27	43
Donations, contributions and assistance to other organisations (Section 356)	129	110
Election expenses	–	102
Electricity and heating	999	980
Insurance	623	683
Postage	66	77
Printing and stationery	74	79
Street lighting	173	168
Subscriptions and publications	8	16
Telephone and communications	155	212
Valuation fees	89	61
Other	49	43
<u>TOTAL OTHER EXPENSES</u>	<u>3,009</u>	<u>3,275</u>

Accounting policy for other expenses

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

Inverell Shire Council

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

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	2018	2017
Property (excl. investment property)	10		
Proceeds from disposal – property		23	2
Less: carrying amount of property assets sold/written off		(1)	–
Net gain/(loss) on disposal		22	2
Plant and equipment	10		
Proceeds from disposal – plant and equipment		805	532
Less: carrying amount of plant and equipment assets sold/written off		(658)	(327)
Net gain/(loss) on disposal		147	205
Infrastructure	10		
Proceeds from disposal – infrastructure		72	–
Less: carrying amount of infrastructure assets sold/written off		(211)	(1,515)
Net gain/(loss) on disposal		(139)	(1,515)
Real estate assets held for sale	8		
Proceeds from disposal – real estate assets		–	54
Less: carrying amount of real estate assets sold/written off		–	(105)
Net gain/(loss) on disposal		–	(51)
Financial assets ⁽¹⁾	6		
Proceeds from disposal/redemptions/maturities – financial assets		8,000	12,000
Less: carrying amount of financial assets sold/redeemed/matured		(8,000)	(12,000)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		30	(1,359)

Accounting policy for disposal of assets

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	2,604	2,174
Cash-equivalent assets		
– Deposits at call	1,000	1,000
Total cash and cash equivalents	3,604	3,174

Accounting policy for cash and cash equivalents

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

Note 6(b). Investments

\$ '000	2018 Current	2018 Non-current	2017 Current	2017 Non-current
Investments				
a. 'Held to maturity'	53,500	–	53,000	1,000
Total investments	53,500	–	53,000	1,000
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	57,104	–	56,174	1,000
Held to maturity investments				
Long term deposits	53,500	–	53,000	1,000
Total	53,500	–	53,000	1,000

Accounting policy for investments

Classification

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

(a) Held to maturity investments

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

Recognition and de-recognition

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

Inverell Shire Council

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

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

\$ '000	2018	2018	2017	2017
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	57,104	–	56,174	1,000
attributable to:				
External restrictions (refer below)	21,266	–	19,869	1,000
Internal restrictions (refer below)	24,854	–	22,374	–
Unrestricted	10,984	–	13,931	–
	57,104	–	56,174	1,000

\$ '000	2018	2017
---------	------	------

Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – sewer	155	635
Bonds and deposits	101	111
External restrictions – included in liabilities	256	746

External restrictions – other

Developer contributions – general	505	478
RMS contributions	204	270
Specific purpose unexpended grants	4,444	5,178
Water supplies	9,217	7,677
Sewerage services	6,640	6,520
External restrictions – other	21,010	20,123
Total external restrictions	21,266	20,869

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000	2018	2017
Internal restrictions		
Aerodrome	306	306
Administration building	1,995	2,158
Baths improvement	2,905	2,590
Computer	1,107	1,107
Connections plant and equipment	72	72
Copeton northern foreshores	49	49
Economic Development / Growth Assets	4,210	2,500
Employees leave entitlement	1,337	1,337
Equipment upgrade / emergency management	211	211
Future capital works / land purchase	450	650
Garbage depot	169	169
Garbage degradation / rehab.	695	445
Gravel pit restoration	237	191
Gravel pit roadworks	175	128
Industrial development	1,149	1,149
Industrial / tourism promotion	94	94
Insurance excess reserve	210	210
Library	202	202
Plant replacement	3,638	4,246
Residential development	7	7
Road resumptions	20	20
SES plant replacement	104	104
Special capital projects	5	5
Sports ground – hockey facility	450	450
Strategic development fund	756	490
Town hall upgrade	100	100
Waste infrastructure	2,686	2,504
Waste – externally sustainability	447	177
Workers compensation insurance	936	703
Employee Training (Statutory Requirements)	132	–
Total internal restrictions	24,854	22,374
TOTAL RESTRICTIONS	46,120	43,243

Inverell Shire Council

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

Note 7. Receivables

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	1,022	–	1,016	–
Interest and extra charges	114	–	111	–
User charges and fees	429	24	602	309
Private works	–	–	1	–
Accrued revenues				
– Interest on investments	636	–	641	–
– Other income accruals	924	–	461	–
Deferred debtors	–	–	6	–
Government grants and subsidies	1,840	–	366	–
Net GST receivable	303	–	201	–
Total	5,268	24	3,405	309
Less: provision for impairment				
Rates and annual charges	(22)	–	(51)	–
User charges and fees	(7)	–	(6)	–
Total provision for impairment – receivables	(29)	–	(57)	–
<u>TOTAL NET RECEIVABLES</u>	<u>5,239</u>	<u>24</u>	<u>3,348</u>	<u>309</u>
Externally restricted receivables				
Water supply				
– Rates and availability charges	110	–	117	–
– Other	789	–	571	–
Sewerage services				
– Rates and availability charges	132	–	135	–
– Other	63	–	74	–
Domestic waste management	–	–	141	–
Total external restrictions	1,094	–	1,038	–
Unrestricted receivables	4,145	24	2,310	309
TOTAL NET RECEIVABLES	5,239	24	3,348	309

Movement in provision for impairment of receivables

	2018	2017
Balance at the beginning of the year	57	46
+ new provisions recognised during the year	–	11
– amounts provided for but recovered during the year	(28)	–
Balance at the end of the year	29	57

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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

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

Impairment

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

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

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

Inverell Shire Council

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

Note 8. Inventories and other assets

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(a) Inventories				
Inventories at cost				
Real estate for resale (refer below)	54	–	54	–
Stores and materials	452	–	455	–
Total inventories at cost	506	–	509	–
<u>TOTAL INVENTORIES</u>	<u>506</u>	<u>–</u>	<u>509</u>	<u>–</u>
(b) Other assets				
Prepayments	182	–	194	–
<u>TOTAL OTHER ASSETS</u>	<u>182</u>	<u>–</u>	<u>194</u>	<u>–</u>
Externally restricted assets				
Water				
Stores and materials	126	–	116	–
Prepayments	3	–	–	–
Total water	129	–	116	–
Sewerage				
Stores and materials	15	–	18	–
Total sewerage	15	–	18	–
Total externally restricted assets	144	–	134	–
Total unrestricted assets	544	–	569	–
TOTAL INVENTORIES AND OTHER ASSETS	<u>688</u>	<u>–</u>	<u>703</u>	<u>–</u>

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 8. Inventories and other assets (continued)

\$ '000	Notes	2018		2017	
		Current	Non-current	Current	Non-current

(i) Other disclosures

(a) Details for real estate development

Residential		54	—	54	—
Total real estate for resale		54	—	54	—

(Valued at the lower of cost and net realisable value)

Represented by:

Other properties – book value		54	—	54	—
Total costs		54	—	54	—
Total real estate for resale		54	—	54	—

Movements:

Real estate assets at beginning of the year		54	—	159	—
– WDV of sales (expense)	5	—	—	(105)	—
Total real estate for resale		54	—	54	—

(b) Current assets not anticipated to be settled within the next 12 months

The following inventories and other assets, even though classified as current are not expected to be recovered in the next 12 months;

	2018	2017
Real estate for resale	54	54
	54	54

Accounting policy**Raw materials and stores, work in progress and finished goods**

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

Land held for resale

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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000	2018	2018	2017	2017
	Current	Non-current	Current	Non-current
Non-current assets and disposal group assets				
Non-current assets 'held for sale'				
Vacant land – Brissett Street Inverell	34	–	34	–
Vacant land – Corner Evans and Otho Street Inverell	202	–	202	–
Vacant land – Rosenstein estate Inverell	245	–	245	–
Total non-current assets 'held for sale'	481	–	481	–
<u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u>	<u>481</u>	<u>–</u>	<u>481</u>	<u>–</u>

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Asset class	as at 30/6/2017			Asset movements during the reporting period								as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000														
Capital work in progress	5,969	–	5,969	4,519	–	–	–	(4,133)	–	–	–	6,355	–	6,355
Plant and equipment	23,760	14,756	9,004	2,396	1,274	(658)	(1,522)	–	–	–	–	25,963	15,469	10,494
Office equipment	1,894	965	929	246	4	(1)	(232)	–	–	–	–	1,771	825	946
Furniture and fittings	706	573	133	15	–	–	(31)	–	–	–	–	721	604	117
Land:														
– Operational land	12,646	–	12,646	–	–	–	–	–	–	–	68	12,714	–	12,714
– Community land	9,559	–	9,559	–	–	–	–	–	–	(1,194)	–	8,365	–	8,365
Infrastructure:														
– Buildings – non-specialised	22,327	2,018	20,309	57	45	(20)	(195)	34	–	–	3,502	26,749	3,017	23,732
– Buildings – specialised	11,248	1,421	9,827	160	–	–	(129)	3	–	–	442	14,180	3,877	10,303
– Other structures	14,326	1,460	12,866	152	59	(87)	(209)	25	–	(731)	–	13,626	1,551	12,075
– Roads	217,639	44,749	172,890	4,802	–	–	(2,331)	3,190	–	–	–	225,631	47,080	178,551
– Bridges	124,536	29,778	94,758	1,177	–	–	(1,190)	132	–	–	–	125,845	30,968	94,877
– Footpaths	6,506	1,421	5,085	66	–	–	(74)	–	–	–	–	6,572	1,495	5,077
– Bulk earthworks (non-depreciable)	106,043	–	106,043	503	–	–	–	–	–	–	–	106,546	–	106,546
– Stormwater drainage	30,710	8,328	22,382	399	–	–	(307)	–	–	–	–	31,109	8,635	22,474
– Water supply network	114,249	30,215	84,034	249	–	(9)	(1,478)	–	–	–	1,733	116,878	32,349	84,529
– Sewerage network	66,359	25,970	40,389	15	–	(6)	(918)	–	–	–	829	67,755	27,446	40,309
– Swimming pools	3,947	946	3,001	85	–	–	(82)	–	–	–	199	4,560	1,357	3,203
– Other open space/recreational assets	13,771	1,613	12,158	603	556	(89)	(260)	749	–	–	326	16,433	2,390	14,043
Other assets:														
– Heritage collections	85	–	85	2	–	–	–	–	–	–	–	87	–	87
– Library books	1,213	856	357	94	–	–	(84)	–	–	–	–	653	286	367
– Other	86	45	41	–	–	–	(7)	–	–	–	–	86	52	34
Reinstatement, rehabilitation and restoration assets (refer Note 13):														
– Tip assets	863	138	725	–	–	–	(20)	–	366	–	671	1,742	–	1,742
– Quarry assets	334	203	131	–	–	–	(8)	–	(37)	–	379	465	–	465
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	788,776	165,455	623,321	15,540	1,938	(870)	(9,077)	–	329	(1,925)	8,149	814,806	177,401	637,405

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

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

Plant and equipment	Years	Other equipment	Years
Office equipment	4 to 20	Playground equipment	5 to 15
Office furniture	5 to 25	Benches, seats etc.	10 to 20
Computer equipment	3 to 25		
Vehicles	5 to 6	Buildings	
Heavy plant/road making equipment	5 to 10	Buildings	50 to 100
Other plant and equipment	5 to 20	Other structures	10 to 100
Water Assets		Sewer Assets	
Water - Dams	100	Sewer Pump Wells	70
Water Bores	30	Sewer Motors & Electrical Equipment	30
Water Building / Civil Structures	70	Sewer Pumps & Mechanical Equipment	30
Water Reservoirs Walls	100	Sewer Effluent, Oxidation & maturation	
Water Reservoir Roofs	55	Ponds	Infinite
Water Motor & Electrical Equipment	35 to 60	Sewer Sludge Lagoons	100
Water Pumps & Mechanical Equipment	35 to 60	Sewer Treatment Plant Siteworks	50
Water Mains	50 to 100	Sewer Aeration Tank Structural	50
Water Meters	10 to 15	Sewer Aeration Tank Electrical	45
		Sewer Aeration Tank Mechanical	45
		Sewer Pipes-Long Life Component	150
		Sewer Pipes-Short Life Component	100
Transportation assets		Other infrastructure assets	
Sealed roads: surface	10 to 100	Bulk earthworks	Infinite
Sealed roads: structure	120 to 170	Swimming pools	10 to 150
Unsealed roads	50 to 66	Other open space/recreational assets	5 to 125
Roundabouts	40	Other infrastructure	25 to 50
Kerb and Gutter	70	Drainage Assets	80 to 100
Bridge: concrete	100 to 125	Culverts / Causeways	100
Bridge: steel	100		
Bridge: timber	60 to 100		
Carparks: Sealed	50 to 100		
Carparks: Unsealed	100		
Footpaths	50 to 100		
Cycleways	50 to 100		

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income statement.

Land under roads

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

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

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

Crown reserves

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

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

Rural Fire Service assets

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

Until such time as discussions on this matter have concluded and the legislation changed, Council will continue to recognise rural fire service assets including land, buildings, plant and vehicles.

Inverell Shire Council

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

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

\$ '000 Class of asset	2018			2017		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	34	—	34	26	—	26
Plant and equipment	84	70	14	84	66	18
Office equipment	13	13	—	13	13	—
Land						
– Operational land	514	—	514	500	—	500
– Community land	41	—	41	240	—	240
Buildings	270	—	270	190	—	190
Infrastructure	116,878	32,349	84,529	114,249	30,215	84,034
Total water supply	117,834	32,432	85,402	115,302	30,294	85,008
Sewerage services						
WIP	2,332	—	2,332	1,391	—	1,391
Plant and equipment	157	157	—	157	157	—
Land						
– Operational land	532	—	532	516	—	516
Infrastructure	67,755	27,446	40,309	66,360	25,969	40,391
Total sewerage services	70,776	27,603	43,173	68,424	26,126	42,298
Domestic waste management						
Plant and equipment	462	91	371	462	66	396
Land						
– Operational land	908	9	899	884	—	884
Buildings	1,009	116	893	1,059	90	969
Other structures	1,103	90	1,013	1,326	114	1,212
Total DWM	3,482	306	3,176	3,731	270	3,461
TOTAL RESTRICTED IPP&E	192,092	60,341	131,751	187,457	56,690	130,767

Inverell Shire Council

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

Note 11. Investment property

\$ '000	2018	2017
(a) Investment property at fair value		
<u>Investment property on hand</u>	<u>3,280</u>	<u>2,725</u>
Reconciliation of annual movement:		
Opening balance	2,725	2,725
– Net gain/(loss) from fair value adjustments	555	–
CLOSING BALANCE – INVESTMENT PROPERTY	<u>3,280</u>	<u>2,725</u>

(b) Valuation basis

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

The 2018 revaluations were based on independent assessments made by:
APV Valuers and Asset Management in their valuation undertaken in 2017/2018 Financial year.

(c) Leasing arrangements – Council as lessor

The investment property 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	8	8
Later than 1 year but less than 5 years	22	24
Later than 5 years	167	169
Total minimum lease payments receivable	<u>197</u>	<u>201</u>

(d) Investment property income and expenditure – summary

Rental income from investment property:		
– Minimum lease payments	8	8
Direct operating expenses on investment property:		
– that generated rental income	(37)	(33)
– that did not generate rental income	(7)	(8)
Net revenue contribution from investment property	<u>(36)</u>	<u>(33)</u>
plus:		
Fair value movement for year	<u>555</u>	<u>–</u>
Total income attributable to investment property	<u>519</u>	<u>(33)</u>

Accounting policy for investment property

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

Inverell Shire Council

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

Note 12. Payables and borrowings

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Payables				
Goods and services – operating expenditure	1,741	–	1,348	–
Accrued expenses:				
– Salaries and wages	225	–	237	–
– Other expenditure accruals	218	–	208	–
Security bonds, deposits and retentions	101	–	111	–
Total payables	2,285	–	1,904	–
Income received in advance				
Payments received in advance	668	–	584	–
Total income received in advance	668	–	584	–
Borrowings				
Loans – secured ¹	576	3,564	552	4,140
Total borrowings	576	3,564	552	4,140
TOTAL PAYABLES AND BORROWINGS	3,529	3,564	3,040	4,140

(a) Payables and borrowings relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Water	227	878	239	1,083
Sewer	191	1,225	185	1,410
Domestic waste management	185	1,461	–	–
Other	101	–	111	–
Payables and borrowings relating to externally restricted assets	704	3,564	535	2,493
Total payables and borrowings relating to restricted assets	704	3,564	535	2,493
Total payables and borrowings relating to unrestricted assets	2,825	–	2,505	1,647
TOTAL PAYABLES AND BORROWINGS	3,529	3,564	3,040	4,140

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 19.

Inverell Shire Council

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

Note 12. Payables and borrowings (continued)

\$ '000

(b) Changes in liabilities arising from financing activities

Class of borrowings	2017	Non-cash changes				2018
	Opening balance as at 1/7/17	Cash flows	Acquisition	Fair value changes	Other non-cash movements	Closing balance as at 30/6/18
Loans – secured	4,692	(552)	–	–	–	4,140
TOTAL	4,692	(552)	–	–	–	4,140

\$ '000

2018

2017

(c) Financing arrangements

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

Bank overdraft facilities ⁽¹⁾	200	200
Credit cards/purchase cards	75	75
Total financing arrangements	275	275
Undrawn facilities as at balance date:		
– Bank overdraft facilities	200	200
– Credit cards/purchase cards	75	75
Total undrawn financing arrangements	275	275

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

Accounting policy for payables and borrowings

Payables

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

Borrowings

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

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

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

Inverell Shire Council

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

Note 13. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	1,502	–	1,494	–
Sick leave	–	72	–	135
Long service leave	2,260	–	2,634	–
Sub-total – aggregate employee benefits	3,762	72	4,128	135
Asset remediation/restoration:				
Asset remediation/restoration (future works)	132	2,074	106	1,666
Sub-total – asset remediation/restoration	132	2,074	106	1,666
<u>TOTAL PROVISIONS</u>	<u>3,894</u>	<u>2,146</u>	<u>4,234</u>	<u>1,801</u>

(a) Provisions relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Water	295	–	275	–
Sewer	114	–	131	–
Domestic waste management	178	–	–	–
Provisions relating to externally restricted assets	587	–	406	–
Total provisions relating to restricted assets	587	–	406	–
Total provisions relating to unrestricted assets	3,307	2,146	3,828	1,801
<u>TOTAL PROVISIONS</u>	<u>3,894</u>	<u>2,146</u>	<u>4,234</u>	<u>1,801</u>

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

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

Provisions – employees benefits	2,634	3,030
	<u>2,634</u>	<u>3,030</u>

Inverell Shire Council

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

Note 13. Provisions (continued)

\$ '000

(c) Description of and movements in provisions

2018	ELE provisions			Total
	Annual leave	Sick leave	Long service leave	
At beginning of year	1,494	135	2,634	4,263
Additional provisions	865	9	295	1,169
Amounts used (payments)	(857)	(63)	(669)	(1,589)
Total ELE provisions at end of year	1,502	72	2,260	3,834
2017				
At beginning of year	1,368	132	2,556	4,056
Additional provisions	915	3	437	1,355
Amounts used (payments)	(789)	–	(359)	(1,148)
Total ELE provisions at end of year	1,494	135	2,634	4,263

2018	Other provisions	
	Asset remediation	Total
At beginning of year	1,772	1,772
Changes to provision:		
– Revised costs	328	328
Unwinding of discount	106	106
Total other provisions at end of year	2,206	2,206
2017		
At beginning of year	1,672	1,672
Changes to provision:		
Unwinding of discount	100	100
Total other provisions at end of year	1,772	1,772

Nature and purpose of non-employee benefit provisions

Asset remediation

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Provisions (continued)

Accounting policy for provisions

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

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Provisions (continued)

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

Rehabilitation

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

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

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

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

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

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Revaluation reserves

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.

Note 15. Statement of cash flows – additional information

\$ '000	Notes	2018	2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	3,604	3,174
Balance as per the Statement of Cash Flows		3,604	3,174
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		10,018	8,306
Adjust for non-cash items:			
Depreciation and amortisation		8,532	7,694
Net losses/(gains) on disposal of assets		(30)	1,359
Non-cash capital grants and contributions		(381)	–
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		–	(32)
– investment property		(555)	–
Unwinding of discount rates on reinstatement provisions		106	100
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(1,584)	1,367
Increase/(decrease) in provision for doubtful debts		(28)	11
Decrease/(increase) in inventories		3	(9)
Decrease/(increase) in other assets		12	(111)
Increase/(decrease) in payables		393	(15)
Increase/(decrease) in other accrued expenses payable		(2)	68
Increase/(decrease) in other liabilities		74	(534)
Increase/(decrease) in employee leave entitlements		(429)	207
Increase/(decrease) in other provisions		328	–
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		16,457	18,411
(c) Non-cash investing and financing activities			
Bushfire grants		365	–
Other non-cash items (Inverell Transport Museum)		16	–
Total non-cash investing and financing activities		381	–

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Interests in other entities

Council has no interest in any controlled entities, joint arrangements or associates.

The following Council operations / committees have not been recognised in this financial report.

Name of entity/operation	Principal activity/type of entity
Inverell Sport Council	Advisory committee on Inverell sporting fields and facilities Section 355 advisory committee

Reasons for non-recognition

The committee has a minimal bank account balance and does not own or control any other assets. All other assets are held by Council and included in these financial statements

Inverell Sapphire Floral Festival	Co-ordinate annual Inverell festival Section 355 specific event comm
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Reasons for non-recognition

The committee has a minimal bank account balance and does not own or control any other assets. All other assets are held by Council and included in these financial statements

Great Inland Fishing Festival	Co-ordinate annual fishing festival Section 355 specific event comm
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Reasons for non-recognition

The committee has a minimal bank account balance and does not own or control any other assets. All other assets are held by Council and included in these financial statements

Equestrian Council	Management of Equestrian centre Section 355 management comm
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Reasons for non-recognition

The committee has a minimal bank account balance and does not own or control any other assets. All other assets are held by Council and included in these financial statements

Delungra District Development Council	Co-ordinate events in Delungra Section 355 specific event comm
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Reasons for non-recognition

The committee has a minimal bank account balance and does not own or control any other assets. All other assets are held by Council and included in these financial statements

Hall Management Committees	Management of respective halls Section 355 Management Comm
Bonshaw Hall	Mt Russell Hall
Delungra Hall	Yetman Hall
Graman Hall	

Reasons for non-recognition

The above section 355 committee's have not been recognised because it is considered that there transactions are immaterial either by amount or nature (Where actual figures are not known, best estimates have been applied)

Sporting Facility Committees	Management of respective sporting facilities Section 355 Management Comm
Bukkulla Recreation Ground	
Graman Recreation Reserve	
Oakwood Recreation Area	
Sporting Areas on Part Res 1571	
Tennis Courts on Section 19	
Yetman Tennis Club	

Reasons for non-recognition

The above section 355 committee's have not been recognised because it is considered that there transactions are immaterial either by amount or nature (Where actual figures are not known, best estimates have been applied)

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Commitments for expenditure

\$ '000	2018	2017
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	–	210
Plant and equipment	260	1,108
Sewerage Treatment plant	–	790
Bridges	40	407
Other Structures	–	60
Total commitments	300	2,575
These expenditures are payable as follows:		
Within the next year	300	2,575
Total payable	300	2,575
Sources for funding of capital commitments:		
Unrestricted general funds	–	117
Future grants and contributions	40	560
Externally restricted reserves	–	155
Internally restricted reserves	260	1,108
Unexpended loans	–	635
Total sources of funding	300	2,575

Details of capital commitments

Light Truck \$84k; Light Vehicles x 2 \$108k; Fuel Tank \$17k; Bridges & culverts \$40K; CCTV System \$51K.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Contingencies and other assets/liabilities not recognised

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

Local Government Superannuation Scheme

“The Local Government Superannuation Scheme – Pool B (the Scheme) is a defined benefit plan that has been deemed to be a “multi-employer fund” for purposes of AASB 119. Sufficient information under AASB119 is not available to account for the Scheme as a defined benefit plan, because the assets to the Scheme are pooled together for all Councils.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30th June 2018 was \$295,791.44. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 12th December 2017 and covers the period ended 30th June 2017.

However this position is monitored annually and the actuary has estimated that as at 30th June 2018 a deficit still exists. Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit.

The amount of additional contributions included in the total employer contribution advised above is \$146,000.00.

Council’s expected contributions to the plan for the next annual reporting period is \$256,061.24

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$429,000 as at 30th June 2018.

These additional Contributions are estimated to remain in place until 30th June 2021 (ie \$429,000 additional contribution remaining). The Trustee has extended the additional contribution period in order to build up a satisfactory surplus to allow the fund to transition to a less risky investment portfolio. This results in a lower assumed long term investment return. It is estimated that Inverell Shire Council participation in the scheme compared with other participating entities is approximately 0.36%.

Council share of this deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils.

For this reason, no liability for the deficiency has been recognised in Councils accounts. Council has however, disclosed a contingent liability in Note 19 to reflect the possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

Inverell Shire Council

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

Note 19. Financial risk management

\$ '000

Risk management

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

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

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

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

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

	Carrying value		Fair value	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	3,604	3,174	3,604	3,174
Investments				
– 'Held to maturity'	53,500	54,000	53,500	54,000
Receivables	5,263	3,657	5,263	3,657
Total financial assets	62,367	60,831	62,367	60,831
Financial liabilities				
Payables	2,285	1,904	2,285	1,904
Loans/advances	4,140	4,692	4,140	4,692
Total financial liabilities	6,425	6,596	6,425	6,596

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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Financial risk management (continued)

\$ '000

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

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

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

The risks associated with the investments held are:

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

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

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

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2018				
Possible impact of a 1% movement in interest rates	535	535	(535)	(535)
2017				
Possible impact of a 1% movement in interest rates	550	550	(550)	(550)

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

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

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

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

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

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

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

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

	2018 Rates and annual charges	2018 Other receivables	2017 Rates and annual charges	2017 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	0%	91%	0%	72%
Overdue	100%	9%	100%	28%
	100%	100%	100%	100%
(ii) Ageing of receivables – value			2018	2017
Rates and annual charges				
< 1 year overdue			424	401
1 – 2 years overdue			195	237
2 – 5 years overdue			139	216
> 5 years overdue			264	162
			1,022	1,016
Other receivables				
Current			3,889	1,937
0 – 30 days overdue			17	290
31 – 60 days overdue			2	2
61 – 90 days overdue			4	167
> 91 days overdue			358	302
			4,270	2,698

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk by borrowing long term and fixing the interest rate on a 4-year renewal basis. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in:		Total cash outflows	Actual carrying values
				1 – 5 Years	> 5 Years		
2018							
Trade/other payables	0.00%	101	2,184	–	–	2,285	2,285
Loans and advances	4.19%	–	734	2,871	1,120	4,725	4,140
Total financial liabilities		101	2,918	2,871	1,120	7,010	6,425
2017							
Trade/other payables	0.00%	111	1,793	–	–	1,904	1,904
Loans and advances	4.19%	–	734	2,936	1,789	5,459	4,692
Total financial liabilities		111	2,527	2,936	1,789	7,363	6,596

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 28 June 2017 and is not required to be audited.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2018 Budget	2018 Actual	2018 Variance* -----	
REVENUES				
Rates and annual charges	18,473	18,411	(62)	(0%) U
Council general rate revenue increased by \$295K due to the implementation of the wind farms within the shire. Councils stormwater, domestic waste, annual water and sewer charges had small increases during the year \$31K. These increases have been offset by the rates elimination of Councils rates (\$405K). Other unfavourable minor variances totaled \$17K.				
User charges and fees	3,446	5,448	2,002	58% F
This favourable variance is mainly associated with extra funding becoming available during the year from RMS for maintenance and construction works on State Highway 12, \$1.046M, additional Waste Managements fees \$341K additional water sales \$535K and other minor increases across a range of functions such as Caravan Park Fees, Construction Certificates, companion Animals.				
Interest and investment revenue	1,027	1,475	448	44% F
The actual amount of interest received on an accrual basis was over budget by \$448k. This favourable increase was the result of reducing the original budget to reflect anticipated downward movement in interest rates. Council had also invested unexpended loan funds for Sewer Fund which generated additional returns.				
Other revenues	423	834	411	97% F
This favourable variance is due to higher incomes in a range of areas including , OSSM-Approvals (\$14K) insurance proceeds (\$40K), rental income (\$63K), LTC sundry income (\$20K), workers comp reimbursement (\$42K) waste income (\$125K), tourism sales (\$20K), and other minor increase across a range of Council revenue streams				
Operating grants and contributions	9,964	12,528	2,564	26% F
This favourable variance is due to higher incomes in a range of areas including , Weeds Program (\$152K) Roads to Recovery Grant (\$1.576M), Youth Services (\$330K), Transport Grants (\$50K), Library Services (\$54K) Interest Rate Subsidy (\$55K), Healthy River Programs (\$38K), ACRD (\$73K), Copeton Northern Foreshores (\$63K) and other small grants (\$63K). Unfavourable - Block Grant (\$13K), RFS (\$55K)				
Capital grants and contributions	926	2,465	1,539	166% F
This favourable variance is due to higher incomes in a range of areas including , Contribution to Works (\$103K) Section 94 Contributions (\$17K), Water Contributions (\$36K), Sewer Contributions (\$47K), PAMP (\$70K) Timber Bridge Program (\$391), Restart Grant (\$277K), Safer Roads Program (\$152K)				
Net gains from disposal of assets	196	30	(166)	(85%) U
Council only budgets for a gain on the sale of Plant & Equipment. The amount is lower than budgeted due to a number of fleet items not being delivered before June 2018.				
Fair value increment on investment property	–	555	555	0% F
Council Investment properties were revalued in 2018 with an increase in valuation of \$555k. This revaluation adjustment were put through the Income Statement. No budget allocation was allocated for this in 2018.				

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Material budget variations (continued)

\$ '000	2018 Budget	2018 Actual	2018 ----- Variance* -----	
EXPENSES				
Employee benefits and on-costs	13,312	12,012	1,300	10% F
This favourable variance is primarily a result of additional salary being capitalised due to Council current expanded capital works program (\$300K). Other saving were made in employee leave entitlements (\$352K), staff training (\$130K) and workers compensation (\$186) which have been transfer to IRA/Provisions. Staff turnover and vacant positions has also resulted in additional savings when compared to budget				
Borrowing costs	182	284	(102)	(56%) U
The variation of \$102k resulted from Council underestimating its borrowing cost in relation to amortisation of discounts and premiums for 2018.				
Materials and contracts	5,847	7,891	(2,044)	(35%) U
This unfavourable variance is primarily a result of additional costs associated with community services and costs associated with extra grant funds for maintenance, repairs and construction work on Council Assets.				
Depreciation and amortisation	8,226	8,532	(306)	(4%) U
This unfavourable variance is from an increase in depreciation for Water and Sewer following the 2017 revaluation of Water and Sewer Assets				
Other expenses	4,198	3,009	1,189	28% F
This favourable variance is due to saving in a wide range of Council services including reduced energy costs (General Fund \$46K, Water Fund \$106K, Sewer Fund \$22K) reduced insurance premiums (\$97K) reduced streets lighting (\$44K), reduced bulk water purchases (\$41K), and a range of other smaller savings (<\$10K each) across Council's entire budget				

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

Cash flows from operating activities	10,720	16,457	5,737	53.5% F
This variation relates to the following favourable (F) and unfavourable (U) variances in income and expenditure, rates and annual charges \$97K (U), user charges and fees \$2612 (F), interest revenue \$450 (F), grants and contributions \$2543K (F), other revenue \$1861K (F), employee costs \$832K (F), borrowing costs \$4K (F) materials and contracts \$3904 (F), bonds and deposits \$10K (U), other expenses \$1446K (F)				
Cash flows from investing activities	(10,942)	(15,475)	(4,533)	41.4% U
The unfavourable variations to an decrease in investments of \$500K (F), increase in capitals works projects as a result of Councils FFF backlog program \$5503K (U), addition sales of IPP&E \$464 (F) and repayment of deferred debtors \$6K (F)				
Cash flows from financing activities	(552)	(552)	—	0.0% F

Inverell Shire Council

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

Note 21. Fair value measurement

\$ '000

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

- Infrastructure, property, plant and equipment – Investment property

During the reporting period, Council will measure non-current assets classified as "Held for Sale at fair value on a non recurring basis if their carrying amount is higher than their value and therefore the asset needs to be written down to fair value. They are measured at the lower of their carrying amount and fair value less costs to sell. During the current reporting period, there were no assets measured at fair value on a non-recurring basis.

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

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

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

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

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

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

Fair value measurements		Fair value measurement hierarchy			
2018		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Investment property					
Commerical offices and vacant land	30/06/18	—	3,280	—	3,280
Total investment property		—	3,280	—	3,280
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/18	—	—	10,494	10,494
Office equipment	30/06/18	—	—	946	946
Furniture and fittings	30/06/18	—	—	117	117
Operational land	30/06/18	—	12,714	—	12,714
Community land	30/06/18	—	8,365	—	8,365
Buildings – non-specialised	30/06/18	—	—	23,732	23,732
Buildings – specialised	30/06/18	—	—	10,303	10,303
Other structures	30/06/18	—	—	12,075	12,075
Roads	30/06/15	—	—	178,551	178,551
Bridges	30/06/15	—	—	94,877	94,877
Footpaths	30/06/15	—	—	5,077	5,077
Bulk earthworks (non-depreciable)	30/06/15	—	—	106,546	106,546
Stormwater drainage	30/06/15	—	—	22,474	22,474
Water supply network	30/06/17	—	—	84,529	84,529
Sewerage network	30/06/17	—	—	40,309	40,309
Swimming pools	30/06/18	—	—	3,203	3,203
Other open space/recreational assets	30/06/18	—	—	14,043	14,043
Heritage collections	30/06/18	—	—	87	87
Library books	30/06/18	—	—	367	367
Other assets	30/06/18	—	—	34	34
Tip assets	30/06/18	—	—	1,742	1,742
Quarry assets	30/06/18	—	—	465	465
Capital Works in progress	30/06/18	—	—	6,355	6,355
Total infrastructure, property, plant and equipment		—	21,079	616,326	637,405

Inverell Shire Council

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

Note 21. Fair value measurement (continued)

\$ '000

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

		Fair value measurement hierarchy			
		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
2018					
Non-recurring fair value measurements					
Non-current assets classified as 'held for sale'					
Vacant Land	30/06/18	—	481	—	481
Total NCA's classified as 'held for sale'		—	481	—	481
2017					
Recurring fair value measurements					
Investment property					
Commerical offices and vacant land	30/06/17	—	2,725	—	2,725
Total investment property		—	2,725	—	2,725
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/17	—	—	9,004	9,004
Office equipment	30/06/17	—	—	929	929
Furniture and fittings	30/06/17	—	—	133	133
Operational land	30/06/13	—	12,646	—	12,646
Community land	30/06/13	—	9,559	—	9,559
Buildings – non-specialised	30/06/13	—	—	20,309	20,309
Buildings – specialised	30/06/13	—	—	9,827	9,827
Other structures	30/06/13	—	—	12,866	12,866
Roads	30/06/15	—	—	173,108	173,108
Bridges	30/06/15	—	—	94,758	94,758
Footpaths	30/06/15	—	—	5,085	5,085
Bulk earthworks (non-depreciable)	30/06/15	—	—	105,825	105,825
Stormwater drainage	30/06/15	—	—	22,382	22,382
Water supply network	30/06/17	—	—	84,034	84,034
Sewerage network	30/06/17	—	—	40,389	40,389
Swimming pools	30/06/13	—	—	3,001	3,001
Other open space/recreational assets	30/06/13	—	—	12,158	12,158
Heritage collections	30/06/17	—	—	85	85
Library books	30/06/17	—	—	357	357
Other assets	30/06/17	—	—	41	41
Tip assets	30/06/13	—	—	725	725
Quarry assets	30/06/13	—	—	131	131
Capital Works in progress	30/06/17	—	—	5,969	5,969
Total infrastructure, property, plant and equipment		—	22,205	601,116	623,321
Non-recurring fair value measurements					
Non-current assets classified as 'held for sale'					
Vacant Land	30/06/13	—	481	—	481
Total NCA's classified as 'held for sale'		—	481	—	481

(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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

(3) Valuation techniques used to derive Level 2 and Level 3 Fair Values

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

The Fair Valuation techniques Council has employed while utilising Level 2 and Level 3 inputs are as follows:

Investment properties

Council's portfolio of investment properties includes two commercial buildings and a collection of vacant land held for commercial development. Both land and buildings were last valued by APV Valuers and Asset Management (APV Valuers) in June 2018.

Land has been valued using Level 2 inputs. Sales prices of comparable land sites in close proximity are adjusted for difference in key attributes such as property size. The most significant inputs into this valuation approach are price per square meter.

Fair value of Commercial Building has been derived from sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square meter.

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

Infrastructure, property, plant and equipment

Plant and equipment, office equipment, furniture and fittings and other assets

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

Plant and equipment	Trucks, rollers, earthmoving equipment, motor vehicles, Chainsaws, brush cutters, mowers
Office equipment	Computers, monitors, projectors
Furniture and fittings	Desk, chairs, display systems
Library books	Books, publications, reference materials, CD & DVD
Heritage collection	Paintings, sculptures

The key unobservable inputs to the valuation are the remaining useful life, and residual value. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the asset condition, pattern of consumption, estimated remaining useful lives and the residual value.

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

Operational and community land

Councils "operational" Land by definition has no special restrictions other than those that may apply to any piece of land.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

Councils "Community" land (including owned by Council, the Crown and various other Government Agencies that is managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access (such as a trust deed, dedication under section 94 of the Environment Planning and Assessment Act 1979). This gives rise to the restrictions in the Act, intended to preserve the qualities of the land.

Level 2 valuation inputs were used to value land in freehold title (investment and non-investment) as well as land used for special purposes which is restricted in use under current zoning rules. Sale prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

There has been a change to the valuation process during the reporting period. Previously Community Land was valued by APV valuers, however as of 2018 Council has elected to use valuations as supplied by NSW Valuer General in accordance with the Code of Accounting Practise.

Buildings (specialised and non-specialised)

Councils buildings incorporate, Administrative buildings, libraries, sporting club houses and canteens, public amenities, depot buildings and workshops, rural fire service sheds, community centres, community halls etc.

Buildings were valued by APV Valuers in June 2018 using the cost approach. The approach estimated the replacement cost for each building by componentising the building into significant parts with different useful lives and taking into account a range of factors such as asset condition, pattern of consumption, estimated remaining useful lives and the residual value. While all buildings were physically inspected, inputs such as estimated condition and pattern of consumption required extensive professional judgement and are therefore unobservable. 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.

Other structures

This asset class comprises playgrounds, floodlighting systems, irrigation systems, shelters, picnic tables, fences, BBQs, aerodrome runway etc.

Council engaged APV Valuers to value all other structures in 2018. 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, asset condition and useful life required extensive professional judgement and are therefore unobservable. 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 (including bulk earthworks)

This asset class includes the road pavement and road seal, along with other road assets including kerb and guttering, guardrail and roadside furniture including signs and other traffic management devices. The full revaluation of road assets is undertaken every five years and the last valuation was performed in-house by Councils Financial and Engineering staff as at 30 June 2015 using the cost approach. No market based evidence (level 2) inputs are available therefore Level 3 valuation inputs were used for the asset class. Some of the significant inputs considered in the valuation of these assets are remaining useful life, pattern of consumption, asset condition, dimensions.

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

Bridges

Bridges were valued in-house by Councils Financial and Engineering staff in June 2015. The approach estimated the replacement cost for each bridge by componentising the bridges into significant parts with different useful lives and taking into account a range of factors. Inputs such as estimates asset condition and pattern of consumption required extensive professional judgement and accordingly impact on the final determination of fair value.

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

Footpaths

Footpaths were valued in-house by Councils Financial and Engineering staff in June 2015 using the cost approach. Footpaths are segmented to match the adjacent road segment and no further componentisation was undertaken. Condition information is updated as changes in the network are observed. Some of the significant inputs considered in the valuation of these assets are remaining useful life, pattern of consumption, asset condition, dimensions.

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

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

Stormwater drainage

Stormwater Drainage refers to the system for the collection, storage and removal of stormwater. These assets include pipelines, pits, headwalls and other drainage structures. The full revaluation of Stormwater Drainage assets is undertaken every 5 years and the last valuation was completed in June 2015 by Councils Financial and Engineering staff using the cost approach.

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 unit or similar may be supported from market evidence (Level 2) such as the NSW Reference Rates Manual, Valuation of water supply, sewerage and stormwater assets, as published by the NSW Office of Water, other inputs (such as estimates of pattern of consumption, asset condition and useful life) require significant professional judgement and are therefore unobservable. 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.

Water supply network

Councils Water Supply Network assets include water meters, water mains & pipelines, pump stations, treatment plants, reservoirs and connections. The full revaluation of Water Supply assets is undertaken every 5 years and the last valuation was completed in June 2017 by Councils Financial and Engineering staff using the cost approach.

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 unit or similar may be supported from market evidence (Level 2) such as the NSW Reference Rates Manual, Valuation of water supply, sewerage and stormwater assets, as published by the NSW Office of Water, other inputs (such as estimates of pattern of consumption, residual values, asset condition and useful life) require significant professional judgement and

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

Council indexes Water Supply assets each year in line with the NSW Water Supply & Sewerage Construction Cost Indices as published by NSW Office of Water.

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

Sewerage network

Councils Sewerage Network assets include sewer mains, pump stations and treatment plants. The full revaluation of Sewerage Network assets is undertaken every 5 years and the last valuation was completed in June 2017 by Councils Financial and Engineering staff using the cost approach.

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 unit or similar may be supported from market evidence (Level 2) such as the NSW Reference Rates Manual, Valuation of water supply, sewerage and stormwater assets, as published by the NSW Office of Water, other inputs (such as estimates of pattern of consumption, residual values, asset condition and useful life) require significant professional judgement and are therefore unobservable. As such these assets were all classified as having been valued using Level 3 valuation inputs.

Council indexes Sewerage Network assets each year in line with the NSW Water Supply & Sewerage Construction Cost Indices as published by NSW Office of Water.

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

Swimming pools

The swimming pool assets include all assets located within the swimming facilities at Inverell and Ashford. These assets were valued by APV Valuers in June 2018. The valuation methodology used by APV for these valuations are the same as that used by APV for Specialised buildings and Other Structures. Inputs such as estimates of the pattern of consumption, asset condition and useful life require significant professional judgement and are therefore unobservable. 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.

Other open spaces and recreational assets

Councils Open Space & Recreational Assets include all assets within our sporting field and park locations. This includes but not limited to, ovals, playing courts, playgrounds, fences and shelters. These assets were valued by APV Valuers in June 2018. The valuation methodology used by APV for these valuations are the same as that used by APV Valuers for Specialised buildings and Other Structures. Inputs such as estimates of the pattern of consumption, residual values, asset condition and useful life require significant professional judgement and are therefore unobservable. 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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

Tip and quarry assets

The Inverell Landfill and Materials Recovery Facility is located on Burtenshaw's Road Inverell. This facility encompasses a landfill operation as well as a wide range of waste disposal services, resource recovery services, recycled and reclaimed products.

Council also operates rural landfills at Delungra, Bonshaw, and waste transfer stations at Yetman, Ashford.

Council utilise and maintain approximately forty eight quarries (gravel pits) within the Shire.

It has been recognised that there will be significant costs associated with the closure and post closure management of these landfills and quarries.

Closure of these landfill sites and quarries will involve a wide range of activities and may include preparation of a Site Closure and Management Plan, final capping of the landfill waste and site re-vegetation, installation of a final gas management system, revision of the surface water management system and leachate management infrastructure to suit post closure operations, decommissioning and removing infrastructure and equipment that will not be required post-closure, and fencing sensitive infrastructure.

An evaluation of costs for site closure and post closure management has been undertaken by Councils Financial and Engineering Staff each year. The key unobservable inputs are the discount rate, estimated costs, actual timing of costs and future environment management requirements. These inputs require significant professional judgement and are therefore unobservable. 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.

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

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

- a. The following table presents a reconciliation of the movements in recurring fair value measurement allocated to Level of the hierarchy

	<u>2018</u>	<u>2017</u>
	\$000	\$000
<u>Opening Balance 30/6/2017</u>	623,321	615,575
Adoption of AASB 13		
Transfers from/(to) Level 1 FV hierarchy	-	-
Transfers from/(to) Level 2 FV hierarchy	-	-
Transfers from/(to) another asset class		-
Purchases (GBV)	17,478	13,584
Disposals (WDV)	(870)	(1,842)
Adjustments	329	
Depreciation & Impairment	(9,077)	(8,116)
Revaluation Decrements to Equity	(1,925)	-
Revaluation Increments to Equity	8,149	4,120
<u>Closing Balance - 30/6/18</u>	<u>637,405</u>	<u>623,321</u>

- b. Information relating to the transfers into and out of the Level 3 fair Valuation Hierarchy (as disclosed in the Table above includes:

No transfers were made on or out of level Fair Value Hierarchy

c. **The Valuation Process for Level 3 Fair Value Measurements**

Level 3 valuations process for some asset classes where the basis was Cost Approach, the inputs used were:

- Pattern of consumption
- Componentisation
- Asset Condition
- Unit Rates
- Useful Life

(5). Highest and best use

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Related party transactions

\$ '000

a. Key management personnel

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

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

Compensation:	2018	2017
Short-term benefits	940	873
Post-employment benefits	50	65
Termination benefits	448	—
Total	1,438	938

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	30	3	–	1	–	–	34	–
Roads	448	12	–	11	–	–	471	–
Community facilities	–	1	–	–	(1)	–	–	–
S7.11 contributions – under a plan	478	16	–	12	(1)	–	505	–
Total S7.11 and S7.12 revenue under plans	478	16	–	12	(1)	–	505	–
S64 contributions	–	250	–	–	(250)	–	–	–
Total contributions	478	266	–	12	(251)	–	505	–

S7.11 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN - Shire of Inverell

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	30	3	–	1	–	–	34	–
Roads	448	12	–	11	–	–	471	–
Community facilities	–	1	–	–	(1)	–	–	–
Total	478	16	–	12	(1)	–	505	–

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 24. Financial result and financial position by fund

Income Statement by fund			
\$ '000	2018	2018	2018
Continuing operations	Water	Sewer	General¹
Income from continuing operations			
Rates and annual charges	2,110	2,451	13,850
User charges and fees	2,654	9	2,785
Interest and investment revenue	182	115	1,178
Other revenues	69	13	752
Grants and contributions provided for operating purposes	112	102	12,314
Grants and contributions provided for capital purposes	188	63	2,214
Other income			
Net gains from disposal of assets	–	–	45
Fair value increment on investment property	–	–	555
Total income from continuing operations	5,315	2,753	33,693
Expenses from continuing operations			
Employee benefits and on-costs	999	549	10,464
Borrowing costs	63	63	158
Materials and contracts	672	501	6,718
Depreciation and amortisation	1,482	918	6,132
Other expenses	1,362	866	781
Net losses from the disposal of assets	9	6	–
Total expenses from continuing operations	4,587	2,903	24,253
Operating result from continuing operations	728	(150)	9,440
Net operating result attributable to each council fund	728	(150)	9,440
Net operating result for the year before grants and contributions provided for capital purposes	540	(213)	7,226

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

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

Inverell Shire Council

Notes to the Financial Statements
as at 30 June 2018

Note 24. Financial result and financial position by fund (continued)

Statement of Financial Position by fund			
\$ '000	2018	2018	2018
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	717	795	2,092
Investments	8,500	6,000	39,000
Receivables	899	195	4,145
Inventories	126	15	365
Other	3	–	179
Non-current assets classified as 'held for sale'	–	–	481
Total current assets	10,245	7,005	46,262
Non-current assets			
Receivables	–	–	24
Infrastructure, property, plant and equipment	85,402	43,173	508,830
Investment property	–	–	3,280
Total non-current assets	85,402	43,173	512,134
TOTAL ASSETS	95,647	50,178	558,396
LIABILITIES			
Current liabilities			
Payables	21	6	2,258
Income received in advance	–	–	668
Borrowings	206	185	185
Provisions	295	114	3,485
Total current liabilities	522	305	6,596
Non-current liabilities			
Borrowings	878	1,225	1,461
Provisions	–	–	2,146
Total non-current liabilities	878	1,225	3,607
TOTAL LIABILITIES	1,400	1,530	10,203
Net assets	94,247	48,648	548,193
EQUITY			
Accumulated surplus	21,485	17,905	481,012
Revaluation reserves	72,762	30,743	67,181
Total equity	94,247	48,648	548,193

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

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

Inverell Shire Council

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

Note 25(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	6,968	18.01%	20.36%	18.79%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	38,696				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	26,168	63.57%	61.28%	62.51%	> 60.00%
Total continuing operating revenue ⁽¹⁾	41,161				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	40,954	11.71x	11.99x	11.21x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	3,498				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	15,784	18.88x	19.29x	24.49x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	836				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,114	5.69%	5.84%	5.31%	< 10% regional & rural
Rates, annual and extra charges collectible	19,588				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	57,104	26.60 mths	25.1 mths	24.8 mths	> 3 mths
Payments from cash flow of operating and financing activities	2,147				

Notes

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

⁽²⁾ Refer Notes 6-8 inclusive.

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

⁽³⁾ Refer to Notes 12 and 13.

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 25(b). Statement of performance measures – by fund

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund							
1. Operating performance ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
less operating expenses							
<hr/>	20.81%	22.01%	13.87%	15.76%	-5.23%	9.61%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
2. Own source operating revenue ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
<hr/>	56.10%	54.28%	94.36%	90.20%	94.01%	94.30%	> 60.00%
Total continuing operating revenue ⁽¹⁾							
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾							
<hr/>	10.81x	11.00x	32.42x	26.59x	31.00x	31.68x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)							

Notes

(1) - (4) Refer to Notes at Note 25a above.

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

Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 25(b). Statement of performance measures – by fund (continued)

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	37.51x	40.09x	8.83x	6.55x	3.46x	4.21x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	5.90%	6.03%	4.95%	5.34%	5.11%	5.28%	< 10% regional & rural
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	24.28	23.26	33.61	26.77	37.82	42.70	> 3 months
Payments from cash flow of operating and financing activities	months	months	months	months	months	months	

Notes

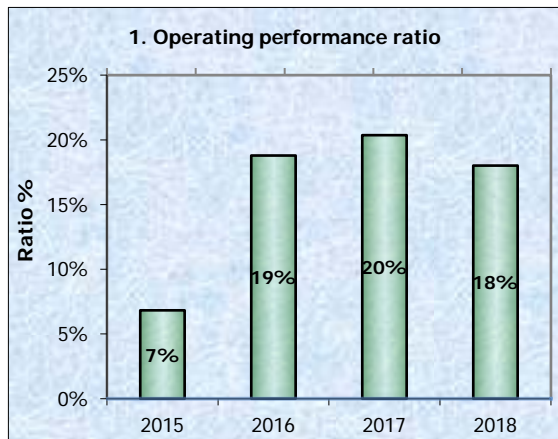
(1) Refer to Notes at Note 25a above.

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

Inverell Shire Council

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

Note 25(c). Statement of performance measures – consolidated results (graphs)

Benchmark: — Minimum $\geq 0.00\%$

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

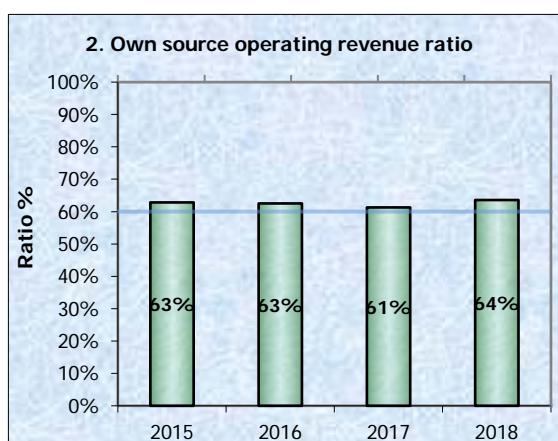
Purpose of operating performance ratio

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

Commentary on 2017/18 result**2017/18 ratio 18.01%**

This ratio indicates that Council's operating revenue, excluding capital grants and contributions are sufficient to cover operating expenditures. The Tcorp benchmark for this ratio is to have a result of better than -4% each year. The "Fit for Future" benchmark is break even or better over a three year period which Council has achieved for the Combined Fund.

Ratio achieves benchmark
 Ratio is outside benchmark

Benchmark: — Minimum $\geq 60.00\%$

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

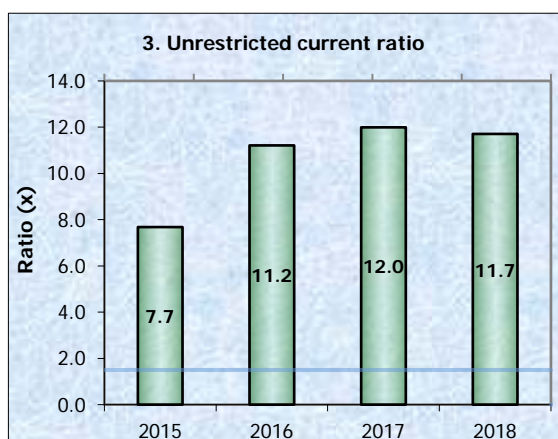
Purpose of own source operating revenue ratio

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

Commentary on 2017/18 result**2017/18 ratio 63.57%**

Council's Own Source Operating Revenue Ratio has remained above the Tcorp benchmark of greater than 60% over the last three years. The "Fit for Future" benchmark is that Councils should have Own Source Operating Revenue of greater than 60% over a three year average which Council has achieved for the Combined Fund.

Ratio achieves benchmark
 Ratio is outside benchmark

Benchmark: — Minimum ≥ 1.50

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

Purpose of unrestricted current ratio

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

Commentary on 2017/18 result**2017/18 ratio 11.71x**

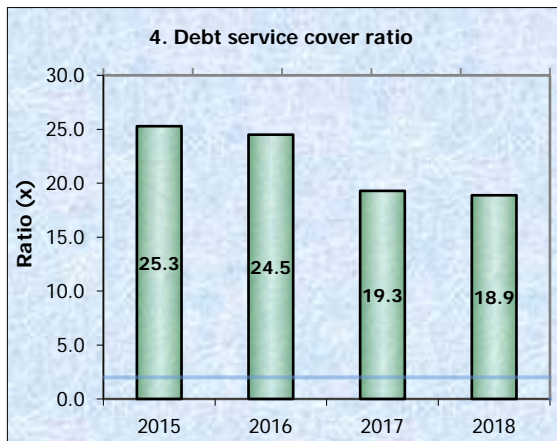
This ratio indicates that Council currently project to have \$10.61 (excluding externally restricted funds) available to service every \$1.00 of debt as it falls due. 10.61:1 is above benchmark and demonstrates Council's ability to satisfy short term obligations. The Tcorp benchmark is 1.5:1

Ratio achieves benchmark
 Ratio is outside benchmark

Inverell Shire Council

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

Note 25(c). Statement of performance measures – consolidated results (graphs)

Benchmark: — Minimum ≥ 2.00

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

Purpose of debt service cover ratio

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

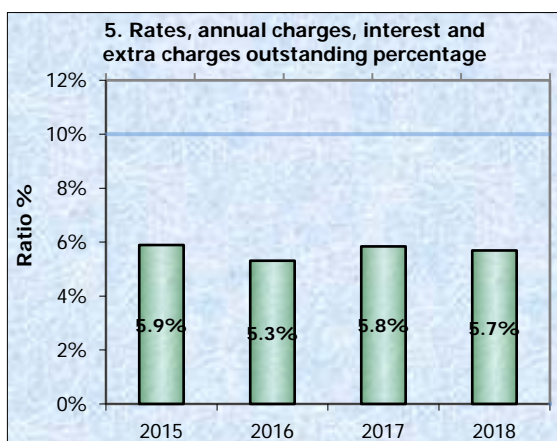
Commentary on 2017/18 result**2017/18 ratio 18.88x**

The debt service cover ratio of 18.88 times indicates that Council has \$18.88 before interest and depreciation to pay each \$1.00 of interest and principal repayments on current borrowings. Council's ability to generate sufficient cash to cover its debt payment is sound and in excess of the Tcorp benchmark of 2.0 times



Ratio achieves benchmark

Ratio is outside benchmark

Benchmark: — Maximum $< 10.00\%$

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

Purpose of rates and annual charges outstanding ratio

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

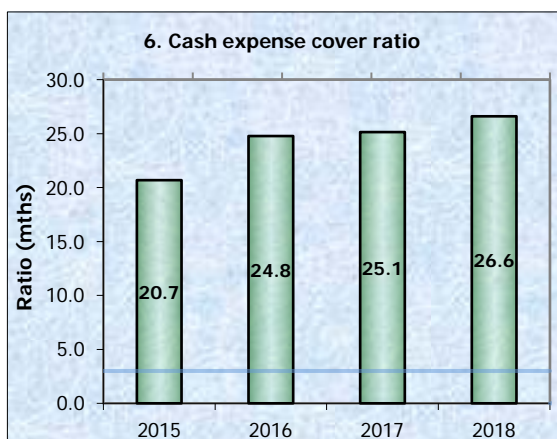
Commentary on 2017/18 result**2017/18 ratio 5.69%**

This ratio indicates the percentage of Rates and Annual Charges outstanding at the end of the financial year and is a measure of how well Council is managing debt recovery. Council's ratio of 5.69% is satisfactory and is better than the Tcorp benchmark of 10%



Ratio is within Benchmark

Ratio is outside Benchmark

Benchmark: — Minimum ≥ 3.00

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

Purpose of cash expense cover ratio

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

Commentary on 2017/18 result**2017/18 ratio 26.60 mths**

As indicated with a ratio of 25.14 months Council's ability to continue paying for its immediate expenses without additional cash inflow is sound and exceeds the Tcorp benchmark of 2 months.



Ratio achieves benchmark

Ratio is outside benchmark

Inverell Shire Council

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

Note 26. Council information and contact details

Principal place of business:

144 Otho Street
Inverell NSW 2360

Contact details

Mailing address:

PO Box 138
Inverell NSW 2360

Opening hours:

8:30am to 4:30pm

Telephone: 02 67288288

Facsimile: 02 67288277

Internet: www.inverell.nsw.gov.au

Email: council@inverell.nsw.gov.au

Officers

GENERAL MANAGER

Paul Henry

RESPONSIBLE ACCOUNTING OFFICER

Scott Norman

PUBLIC OFFICER

Sharon Stafford

AUDITORS

Audit Office of NSW
Level 15
1 Margaret Street
SYDNEY

Elected members

MAYOR

Paul Harmon

COUNCILLORS

Anthony Michael
Di Baker
Paul King
Kate Dight
Mal Peters
Stewart Berryman
Neil McCosker
Jacki Watts

Other information

ABN: 72 695 204 530



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial report

Inverell Shire Council

To the Councillors of Inverell Shire Council

Opinion

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

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial report have come to light during the audit.

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule 2 - Permissible income for general rates.

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

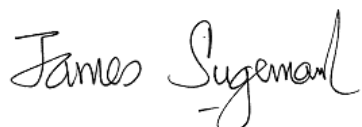
- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 18 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in black ink, reading "James Sugumar". The signature is written in a cursive, flowing style.

James Sugumar
Director, Financial Audit Services

29 October 2018
SYDNEY

Cr Paul Harmon
Mayor
Inverell Shire Council
PO Box 138
INVERELL NSW 2360

Contact: James Sugumar
Phone no: 02 9275 7288
Our ref: D1824676/1744

29 October 2018

Dear Mayor Harmon

Report on the Conduct of the Audit
Inverell Shire Council
Audit for the year ended 30 June 2018

I issued an unmodified audit opinion in my Independent Auditor's Report for the general purpose financial statements of Inverell Shire Council (the Council) for the year ended 30 June 2018.

The audit was conducted in accordance with section 415 of the *Local Government Act 1993* (the Act).






This Report on the Conduct of the Audit is issued in accordance with section 417 of the Act and should be read in conjunction with my audit opinion issued under section 417(2) of the Act.

SIGNIFICANT AUDIT ISSUES AND OBSERVATIONS

I did not identify any significant audit issues or observations during my audit of the Council's general purpose financial statements.

FINANCIAL RESULTS

INCOME STATEMENT

	2018 \$m	2017 \$m	Variation \$m	Variation %
Rates and annual charges revenue	18.4	17.4	+1.0	 5.8
Grants and contributions revenue	15.0	15.9	-0.9	 5.7
TOTAL REVENUE	41.7	41.0	+0.7	 1.7
TOTAL EXPENSES	31.7	32.7	-1.0	 3.1
Operating result for the year	10.0	8.3	+1.7	 20.5

The increase in rates and annual charges revenue of \$1.0 million was mainly due to an approved special rate variation of 6.25 per cent including the rate peg of 1.5 per cent.

Grants and contributions revenue decreased by \$0.9 million primarily due to:

- reduction of \$2.4 million in financial assistance grants received during the year due to early receipt of grants in 2016–17
- an offsetting increase in specific purpose grants of \$600,000 for transport programs and \$490,000 for bushfire and emergency services.

The movement in total revenue also included fair value increase on investment property of \$555,000.

Council's total expenses decreased by \$1.0 million mainly due to a one-off net loss on disposal of assets last year of \$1.4 million.

Reduced expenses together with an increase in revenue contributed to a \$1.7 million rise in the operating result for the year.

BALANCE SHEET

	2018 \$m	2017 \$m	Variation \$m	Variation %
Current assets	63.5	60.7	+2.8	↑ 4.6
Non-current assets	640.7	627.4	+13.3	↑ 2.1
TOTAL ASSETS	704.2	688.1	+16.1	↑ 2.3
TOTAL LIABILITIES	13.1	13.2	-0.1	↓ 0.8
NET ASSETS	691.1	674.8	+16.3	↑ 2.4

Current assets increased by \$2.8 million mainly as a result of reclassification of \$1.0 million non-current investments into current cash and investments, and growth in receivables of \$1.5 million.

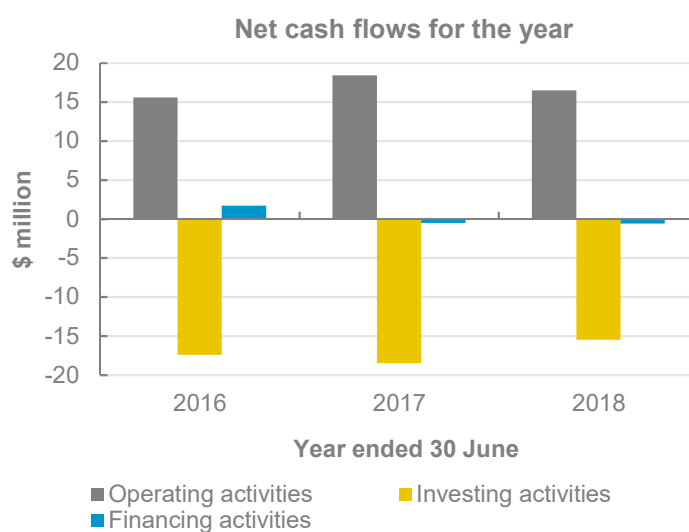
Non-current assets increased by \$13.3 million primarily due to:

- infrastructure, property, plant and equipment (IPPE) increased by \$6.3 million from reassessment of fair values
- net asset additions of \$7.8 million, including impact of disposals and depreciation.

Total liabilities remained fairly stable compared to the prior year.

CASH FLOWS

- The Council reported positive cash flows in 2016 and 2018, and negative cash flows in 2017.
- Cash flows from operating activities decreased by \$2.0 million from last year due to less grants and contributions received.
- Cash flows from investing activities increased by \$3.1 million from last year mainly due to less purchases of investment securities.



CASH POSITION

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
Externally restricted	21.2	20.9	Externally restricted cash and investments have remained stable, comprising mainly of water and sewer management funds.
Internally restricted	24.9	22.4	
Unrestricted	11.0	13.9	Internal restrictions have increased by \$2.4 million for economic development and growth assets.
Cash and investments	57.1	57.2	Cash and investments have remained similar compared to the prior year.

COUNCIL'S PERFORMANCE RATIOS FOR 30 JUNE 2018

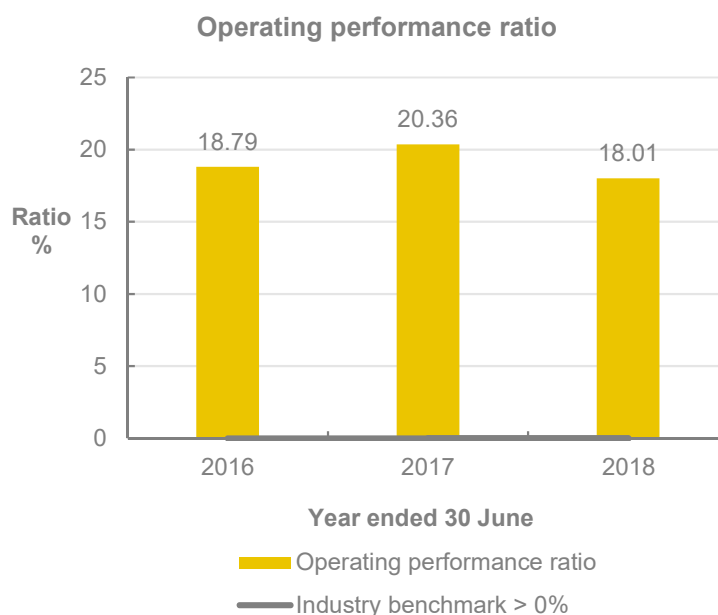
I provide a summary of outcomes and analysis of the Council's key performance ratios for the year ended 30 June 2018 below:

Performance ratio	Outcome	Reference
Operating performance ratio	Achieved	<u>1</u>
Own source operating revenue ratio	Achieved	<u>2</u>
Unrestricted current ratio	Achieved	<u>3</u>
Debt service cover ratio	Achieved	<u>4</u>
Rates and annual charges cover ratio	Achieved	<u>5</u>
Cash expense cover ratio	Achieved	<u>6</u>
Building and infrastructure renewals ratio	Achieved	<u>7</u>

The ratios and the definitions (except for the 'building and infrastructure renewals ratio') are reported in Note 25(a) of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7 which has not been audited.

1. Operating performance ratio (operating margin to operating revenue)

- Council continued to exceed the benchmark for the past three years.
- The ratio decreased slightly to 18.01 this year due to less grants and contributions revenue for operating purposes by \$1.7 million.

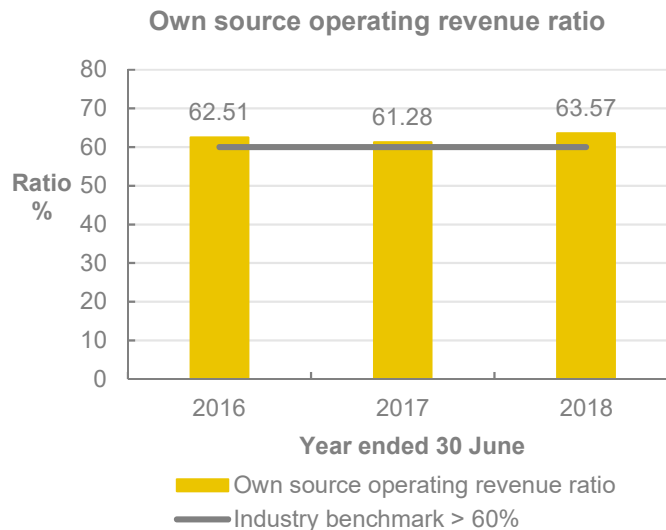


The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements).

The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.

2. Own source operating revenue ratio (own funding to total funding)

- Council achieved the benchmark over the last three years.
- The ratio improved in 2018 due to increased rates and annual charges revenue from the special rate variation.

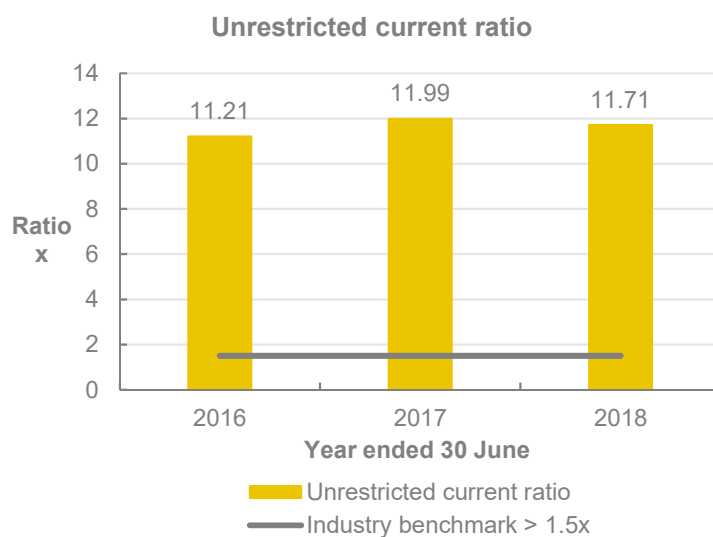


The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions.

The benchmark set by OLG is greater than 60 per cent.

3. Unrestricted current ratio (unrestricted cash to liabilities)

- Council continued to exceed the benchmark for the past three years.
- The Council will be able to meet its short-term obligations as and when they fall due.

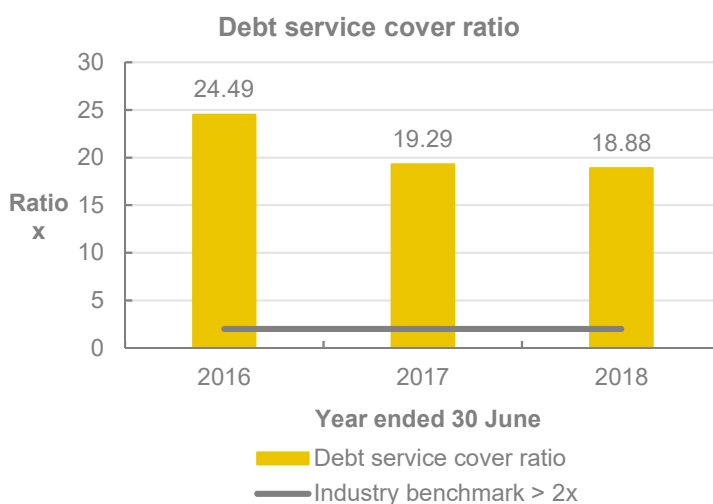


The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due.

The benchmark set by OLG is greater than 1.5 times.

4. Debt service cover ratio (operating cash to loan obligations)

- Council continued to exceed the benchmark for the past three years.

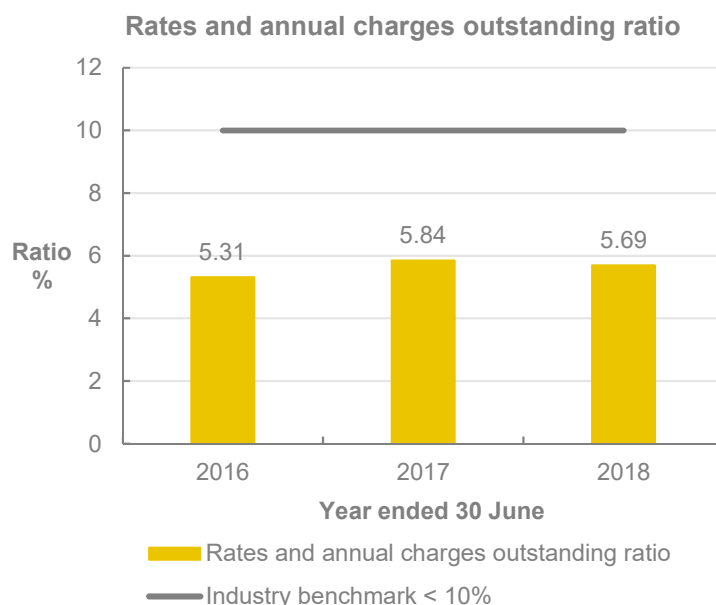


The 'debt service cover ratio' measures the operating result to service debt including interest, principal and lease payments.

The benchmark set by OLG is greater than two times.

5. Rates and annual charges outstanding ratio (uncollected rates to total rates)

- Council achieved the benchmark for the past three years.
- The collection procedures of the Council operated effectively to collect more than 90 per cent of the rates and annual charges revenue within the receivable dates.

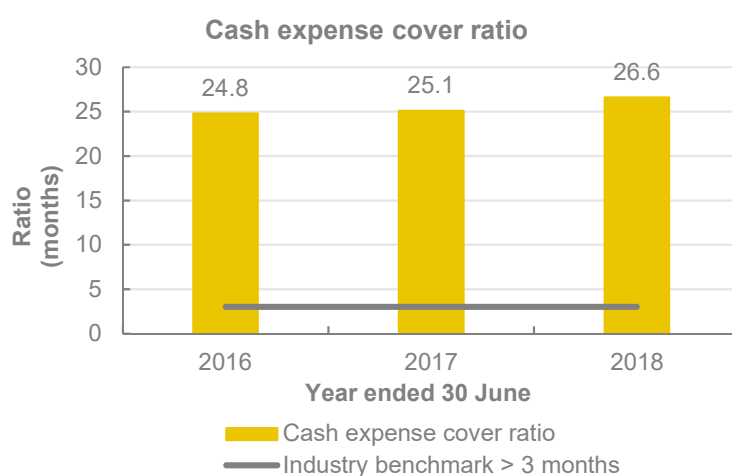


The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts.

The benchmark set by OLG is less than 10 per cent for regional and rural councils.

6. Cash expense cover ratio (cash balance to monthly outgoings)

- Council continued to exceed the benchmark by a good margin for the past three years.
- It will be able to meet its immediate expenses for more than two years without additional cash inflows.

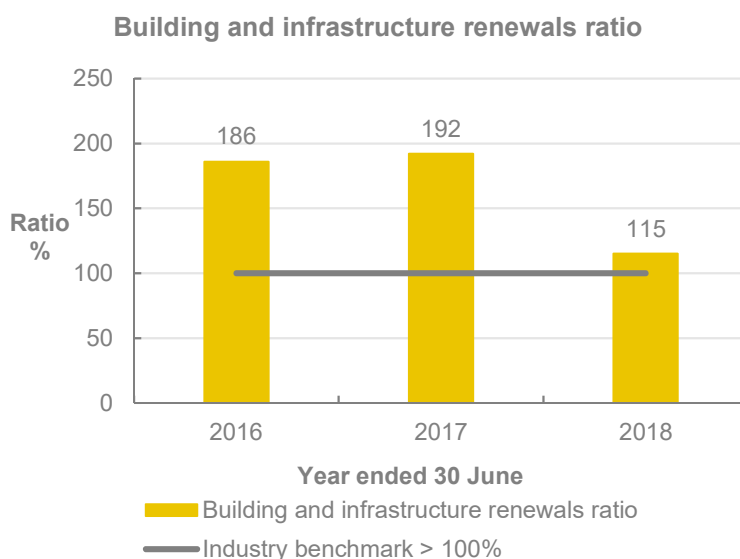


The cash expense cover ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow.

The benchmark set by OLG is greater than three months.

7. Building and infrastructure renewals ratio (unaudited)

- Council continued to achieve the benchmark for this ratio in the past three years.
- The building and infrastructure renewals ratio declined this year due to relatively higher rate of depreciation.



The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating.

The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from council's Special Schedule 7 which has not been audited.

OTHER MATTERS

Legislative compliance

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

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

James Sugumar

James Sugumar
Director, Financial Audit Services

cc: Mr Paul Henry, General Manager
Mr Scott Norman, Director of Corporate Services
Mr Paul Cornall, Principal, Forsyths
Mr Tim Hurst, Chief Executive of the Office of Local Government

Inverell Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018



Inverell Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents	Page
1. Statement by Councillors and Management	2
2. Special Purpose Financial Statements:	
Income Statement – Water Supply Business Activity	3
Income Statement – Sewerage Business Activity	4
Statement of Financial Position – Water Supply Business Activity	5
Statement of Financial Position – Sewerage Business Activity	6
3. Notes to the Special Purpose Financial Statements	7
4. Auditor's Report	17

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).
-

Inverell Shire Council

Special Purpose Financial Statements for the year ended 30 June 2018

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 24 October 2018.



Paul Harmon

Mayor

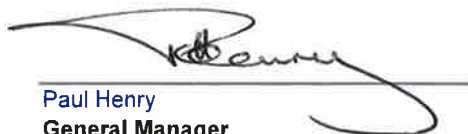
24 October 2018



Anthony Michael

Councillor

24 October 2018



Paul Henry

General Manager

24 October 2018



Scott Norman

Responsible Accounting Officer

24 October 2018

Inverell Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2018

\$ '000	2018	2017
Income from continuing operations		
Access charges	2,110	2,096
User charges	2,654	2,121
Interest	182	184
Grants and contributions provided for non-capital purposes	112	124
Other income	69	17
Total income from continuing operations	5,127	4,542
Expenses from continuing operations		
Employee benefits and on-costs	999	1,143
Borrowing costs	63	73
Materials and contracts	672	706
Depreciation, amortisation and impairment	1,482	853
Water purchase charges	54	77
Loss on sale of assets	9	1,474
Debt guarantee fee (if applicable)	5	6
Other expenses	1,308	1,257
Total expenses from continuing operations	4,592	5,589
Surplus (deficit) from continuing operations before capital amounts	535	(1,047)
Grants and contributions provided for capital purposes	188	354
Surplus (deficit) from continuing operations after capital amounts	723	(693)
Surplus (deficit) from all operations before tax	723	(693)
Less: corporate taxation equivalent (30%) [based on result before capital]	(161)	–
SURPLUS (DEFICIT) AFTER TAX	563	(693)
Plus opening retained profits	20,757	21,444
Plus adjustments for amounts unpaid:		
– Debt guarantee fees	5	6
– Corporate taxation equivalent	161	–
Closing retained profits	21,485	20,757
Return on capital %	0.7%	-1.1%
Subsidy from Council	1,648	2,997
Calculation of dividend payable:		
Surplus (deficit) after tax	563	(693)
Less: capital grants and contributions (excluding developer contributions)	–	–
Surplus for dividend calculation purposes	563	–
Potential dividend calculated from surplus	281	–

Inverell Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2018

\$ '000	2018	2017
Income from continuing operations		
Access charges	2,451	2,445
User charges	9	9
Interest	115	176
Grants and contributions provided for non-capital purposes	102	107
Other income	13	14
Total income from continuing operations	2,690	2,751
Expenses from continuing operations		
Employee benefits and on-costs	549	526
Borrowing costs	63	70
Materials and contracts	501	384
Depreciation, amortisation and impairment	918	680
Loss on sale of assets	6	–
Debt guarantee fee (if applicable)	7	8
Other expenses	866	861
Total expenses from continuing operations	2,910	2,529
Surplus (deficit) from continuing operations before capital amounts	(220)	222
Grants and contributions provided for capital purposes	63	52
Surplus (deficit) from continuing operations after capital amounts	(157)	274
Surplus (deficit) from all operations before tax	(157)	274
Less: corporate taxation equivalent (30%) [based on result before capital]	–	(67)
SURPLUS (DEFICIT) AFTER TAX	(157)	207
Plus opening retained profits	18,055	17,773
Plus adjustments for amounts unpaid:		
– Debt guarantee fees	7	8
– Corporate taxation equivalent	–	67
Closing retained profits	17,905	18,055
Return on capital %	-0.4%	0.7%
Subsidy from Council	1,292	715
Calculation of dividend payable:		
Surplus (deficit) after tax	(157)	207
Less: capital grants and contributions (excluding developer contributions)	–	–
Surplus for dividend calculation purposes	–	207
Potential dividend calculated from surplus	–	104

Inverell Shire Council

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

\$ '000	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	717	677
Investments	8,500	7,000
Receivables	899	688
Inventories	126	116
Other	3	–
Total current assets	10,245	8,481
Non-current assets		
Infrastructure, property, plant and equipment	85,402	85,008
Total non-current assets	85,402	85,008
TOTAL ASSETS	95,647	93,489
LIABILITIES		
Current liabilities		
Payables	21	44
Borrowings	206	195
Provisions	295	275
Total current liabilities	522	514
Non-current liabilities		
Borrowings	878	1,083
Total non-current liabilities	878	1,083
TOTAL LIABILITIES	1,400	1,597
NET ASSETS	94,247	91,892
EQUITY		
Accumulated surplus	21,485	20,757
Revaluation reserves	72,762	71,135
Council equity interest	94,247	91,892
TOTAL EQUITY	94,247	91,892

Inverell Shire Council

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

\$ '000	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	795	1,155
Investments	6,000	6,000
Receivables	195	209
Inventories	15	18
Total current Assets	7,005	7,382
Non-current assets		
Infrastructure, property, plant and equipment	43,173	42,298
Total non-current assets	43,173	42,298
TOTAL ASSETS	50,178	49,680
LIABILITIES		
Current liabilities		
Payables	6	7
Borrowings	185	178
Provisions	114	131
Total current liabilities	305	316
Non-current liabilities		
Borrowings	1,225	1,410
Total non-current liabilities	1,225	1,410
TOTAL LIABILITIES	1,530	1,726
NET ASSETS	48,648	47,954
EQUITY		
Accumulated surplus	17,905	18,055
Revaluation reserves	30,743	29,899
Council equity interest	48,648	47,954
TOTAL EQUITY	48,648	47,954

Inverell Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	8
2	Water Supply Business Best-Practice Management disclosure requirements	12
3	Sewerage Business Best-Practice Management disclosure requirements	14

Inverell Shire Council

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

Note 1. Significant accounting policies

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

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

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

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

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

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. **Water Supply** – Water Supply Activities
- b. **Waste Water/Sewerage** – Waste Water/Sewerage Activities

Monetary amounts

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

Inverell Shire Council

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

Note 1. Significant accounting policies (continued)

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

(i) *Taxation-equivalent charges*

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

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

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

Notional rate applied (%)

Corporate income tax rate – 30%

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

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

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

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

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

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

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

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

Inverell Shire Council

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

Note 1. Significant accounting policies (continued)

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

Local government rates and charges

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

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 2.63% at 30/6/18.

(iv) Dividends

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

Inverell Shire Council

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

Note 1. Significant accounting policies (continued)

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 DPIW guidelines and must not exceed:

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

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

For the year ended 30/6/2018 Council has not met the conditions of the Best Practise Management Guide and accordingly no dividend has been declared.

END OF AUDITED SPECIAL PURPOSE FINANCIAL STATEMENTS

Inverell Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 2. Water supply business
best-practice management disclosure requirements

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

2018

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	5,000
(ii)	Number of assessments multiplied by \$3/assessment	18,189
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	5,000
(iv)	Amounts actually paid for tax equivalents	–

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	281,250
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	176,890
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016	938,600

2018 Surplus	562,500	2017 Surplus	(693,000)	2016 Surplus	1,069,100
		2017 Dividend	–	2016 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	176,890
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? ^a	YES

3. Required outcomes for 6 criteria

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

(i)	Completion of strategic business plan (including financial plan)	NO
(ii)	Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	– Complying charges [item 2 (b) in table 1]	NO
	– DSP with commercial developer charges [item 2 (e) in table 1]	YES
	– If dual water supplies, complying charges [item 2 (g) in table 1]	NO
(iii)	Sound water conservation and demand management implemented	NO
(iv)	Sound drought management implemented	NO
(v)	Complete performance reporting form (by 15 September each year)	YES
(vi)	a. Integrated water cycle management evaluation	NO
	b. Complete and implement integrated water cycle management strategy	NO

Inverell Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 2. Water supply business
best-practice management disclosure requirements (continued)

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

2018

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	5,133
NWI F4	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	48.16%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	85,388
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	2,247
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	256
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	1.64%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	–

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

Inverell Shire Council

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

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

2018

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	7,000
(ii)	Number of assessments multiplied by \$3/assessment	14,898
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	7,000
(iv)	Amounts actually paid for tax equivalents	–

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	–
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	141,980
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016	710,800

2018 Surplus	(157,000)	2017 Surplus	207,400	2016 Surplus	660,400
		2017 Dividend	–	2016 Dividend	–

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

3. Required outcomes for 4 criteria

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

(i)	Completion of strategic business plan (including financial plan)	NO
(ii)	Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	Complying charges	
	(a) Residential [item 2 (c) in table 1]	YES
	(b) Non-residential [item 2 (c) in table 1]	NO
	(c) Trade waste [item 2 (d) in table 1]	NO
	DSP with commercial developer charges [item 2 (e) in table 1]	YES
	Liquid trade waste approvals and policy [item 2 (f) in table 1]	YES
(iii)	Complete performance reporting form (by 15 September each year)	YES
(iv)	a. Integrated water cycle management evaluation	NO
	b. Complete and implement integrated water cycle management strategy	NO

Inverell Shire Council

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

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

2018

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	2,638
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	43,173
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	1,682
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	955
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	0.09%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	–

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

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	7,756
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.56%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	1,211
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	1.12%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Inverell Shire Council

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

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

2018

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

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	-9.46%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: Interest expense (w4a + s4a) – interest income (w9 + s10)		> 100
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	578
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	121

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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial report

Inverell Shire Council

To the Councillors of Inverell Shire Council

Opinion

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

The Declared Business Activities of the Council are:

- Water Supply Business Activity
- Sewerage Business Activity.

In my opinion, the financial report presents fairly, in all material respects, the financial positions of the Council's Declared Business Activities as at 30 June 2018, and their financial performances for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (LG Code).

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 2 - Permissible income for general rates.

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

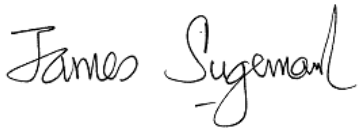
- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the best practice management disclosures in Notes 2 and 3 of the financial report
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in black ink, reading "James Sugumar". The signature is written in a cursive, flowing style.

James Sugumar
Director, Financial Audit Services

29 October 2018
SYDNEY

Inverell Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2018



Inverell Shire Council

Special Schedules for the year ended 30 June 2018

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

Background

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

Inverell Shire Council

Special Schedule 1 – Net Cost of Services

for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	1,816	–	–	(1,816)
Administration	1,013	219	10	(784)
Public order and safety				
Fire service levy, fire protection, emergency services	910	157	365	(388)
Beach control	–	–	–	–
Enforcement of local government regulations	2	5	–	3
Animal control	225	58	–	(167)
Other	–	–	–	–
Total public order and safety	1,137	220	365	(552)
Health	(298)	34	–	332
Environment				
Noxious plants and insect/vermin control	262	237	–	(25)
Other environmental protection	58	35	–	(23)
Solid waste management	2,659	3,592	–	933
Street cleaning	372	(9)	–	(381)
Drainage	–	–	–	–
Stormwater management	378	146	–	(232)
Total environment	3,729	4,001	–	272
Community services and education				
Administration and education	72	–	–	(72)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	21	–	–	(21)
Children's services	323	282	–	(41)
Total community services and education	416	282	–	(134)
Housing and community amenities				
Public cemeteries	139	97	–	(42)
Public conveniences	296	–	–	(296)
Street lighting	179	–	–	(179)
Town planning	447	145	–	(302)
Other community amenities	62	12	–	(50)
Total housing and community amenities	1,123	254	–	(869)
Water supplies	4,463	4,954	188	679
Sewerage services	2,898	2,654	62	(182)

Inverell Shire Council

Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	929	106	30	(793)
Museums	–	–	–	–
Art galleries	65	–	–	(65)
Community centres and halls	247	41	–	(206)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	97	25	–	(72)
Sporting grounds and venues	473	16	423	(34)
Swimming pools	484	10	–	(474)
Parks and gardens (lakes)	706	75	–	(631)
Other sport and recreation	99	106	–	7
Total recreation and culture	3,100	379	453	(2,268)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	289	102	–	(187)
Other mining, manufacturing and construction	(53)	33	–	86
Total mining, manufacturing and const.	236	135	–	(101)
Transport and communication				
Urban roads (UR) – local	2,157	–	152	(2,005)
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	1,341	10	–	(1,331)
Sealed rural roads (SRR) – regional	1,653	2,510	–	857
Unsealed rural roads (URR) – local	2,398	210	–	(2,188)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	–	–	–	–
Bridges on SRR – local	–	–	–	–
Bridges on URR – local	1,198	–	668	(530)
Bridges on regional roads	–	–	–	–
Parking areas	94	–	–	(94)
Footpaths	194	–	70	(124)
Aerodromes	275	6	–	(269)
Other transport and communication	1,524	4,042	497	3,015
Total transport and communication	10,834	6,778	1,387	(2,669)
Economic affairs				
Camping areas and caravan parks	50	54	–	4
Other economic affairs	1,211	1,106	–	(105)
Total economic affairs	1,261	1,160	–	(101)
Totals – functions	31,728	21,070	2,465	(8,193)
General purpose revenues ⁽¹⁾		18,211		18,211
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	31,728	39,281	2,465	10,018

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

Inverell Shire Council

Special Schedule 2 – Permissible income for general rates

for the year ended 30 June 2019

\$'000		Calculation 2018/19	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	11,450	10,736
Plus or minus adjustments ⁽²⁾	b	315	44
Notional general income	$c = (a + b)$	11,765	10,780
Permissible income calculation			
Special variation percentage ⁽³⁾	d	7.25%	6.25%
Or rate peg percentage	e		
Or crown land adjustment (incl. rate peg percentage)	f		
Less expiring special variation amount	g	—	—
Plus special variation amount	$h = d \times (c - g)$	853	674
Or plus rate peg amount	$i = c \times e$	—	—
Or plus Crown land adjustment and rate peg amount	$j = c \times f$	—	—
Sub-total	$k = (c + g + h + i + j)$	12,618	11,454
Plus (or minus) last year's carry forward total	l	6	1
Less valuation objections claimed in the previous year	m	(1)	—
Sub-total	$n = (l + m)$	5	1
Total permissible income	$o = k + n$	12,623	11,455
Less notional general income yield	p	12,614	11,450
Catch-up or (excess) result	$q = o - p$	9	5
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	2	1
Less unused catch-up ⁽⁵⁾	s	(1)	—
Carry forward to next year	$t = q + r - s$	10	6

Notes

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Inverell Shire Council

To the Councillors of Inverell Shire Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the general purpose financial statements, special purpose financial statements and the Special Schedules excluding Special Schedule 2 (the other Schedules).

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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

A handwritten signature in black ink, reading "James Sugumar". The signature is written in a cursive, flowing style.

James Sugumar
Director, Financial Audit Services

29 October 2018
SYDNEY

Inverell Shire Council

Special Schedule 3 – Water Supply Income Statement

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

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	177	235
b. Engineering and supervision	160	119
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	–	–
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	–	–
d. Maintenance expenses	433	426
– Reservoirs		
e. Operation expenses	–	–
f. Maintenance expenses	68	92
– Pumping stations		
g. Operation expenses (excluding energy costs)	–	–
h. Energy costs	–	–
i. Maintenance expenses	635	617
– Treatment		
j. Operation expenses (excluding chemical costs)	719	719
k. Chemical costs	–	–
l. Maintenance expenses	–	–
– Other		
m. Operation expenses	–	–
n. Maintenance expenses	–	–
o. Purchase of water	55	77
3. Depreciation expenses		
a. System assets	1,482	853
b. Plant and equipment	–	–
4. Miscellaneous expenses		
a. Interest expenses	63	73
b. Revaluation decrements	–	–
c. Other expenses	786	898
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	4,578	4,109

Inverell Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

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

\$'000	2018	2017
Income		
6. Residential charges		
a. Access (including rates)	2,110	2,096
b. Usage charges	1,960	1,558
7. Non-residential charges		
a. Access (including rates)	—	—
b. Usage charges	661	488
8. Extra charges	—	—
9. Interest income	182	184
10. Other income	102	92
10a. Aboriginal Communities Water and Sewerage Program	—	—
11. Grants		
a. Grants for acquisition of assets	—	—
b. Grants for pensioner rebates	66	67
c. Other grants	46	57
12. Contributions		
a. Developer charges	—	—
b. Developer provided assets	—	—
c. Other contributions	188	354
13. Total income	5,315	4,896
14. Gain (or loss) on disposal of assets	(9)	(1,474)
15. Operating result	728	(687)
15a. Operating result (less grants for acquisition of assets)	728	(687)

Inverell Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

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

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	–	4,870
c. Renewals	256	211
d. Plant and equipment	–	14
17. Repayment of debt	195	185
18. Totals	451	5,280
Non-operating funds employed		
19. Proceeds from disposal of assets	–	–
20. Borrowing utilised	–	–
21. Totals	–	–
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	5,260	5,253
b. Residential (unoccupied, ie. vacant lot)	139	149
c. Non-residential (occupied)	567	558
d. Non-residential (unoccupied, ie. vacant lot)	97	99
23. Number of ETs for which developer charges were received	16 ET	31 ET
24. Total amount of pensioner rebates (actual dollars)	\$ 122,030	\$ 122,029

Inverell Shire Council

Special Schedule 4 – Water Supply Statement of Financial Position

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

\$'000	Current	Non-current	Total
ASSETS			
25. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	295	–	295
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	8,922	–	8,922
26. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	110	–	110
c. User charges	789	–	789
d. Other	–	–	–
27. Inventories	126	–	126
28. Property, plant and equipment			
a. System assets	–	85,388	85,388
b. Plant and equipment	–	14	14
29. Other assets	3	–	3
30. Total assets	10,245	85,402	95,647
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	21	–	21
33. Borrowings	206	878	1,084
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	295	–	295
35. Total liabilities	522	878	1,400
36. NET ASSETS COMMITTED	9,723	84,524	94,247
EQUITY			
37. Accumulated surplus			21,485
38. Asset revaluation reserve			72,762
39. Other reserves			–
40. TOTAL EQUITY			94,247
Note to system assets:			
41. Current replacement cost of system assets			117,751
42. Accumulated current cost depreciation of system assets			(32,363)
43. Written down current cost of system assets			85,388

Inverell Shire Council

Special Schedule 5 – Sewerage Service Income Statement

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

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	187	180
b. Engineering and supervision	306	297
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	–	–
b. Maintenance expenses	396	374
– Pumping stations		
c. Operation expenses (excluding energy costs)	138	153
d. Energy costs	59	69
e. Maintenance expenses	–	–
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	520	399
g. Chemical costs	–	–
h. Energy costs	76	69
i. Effluent management	–	–
j. Biosolids management	–	–
k. Maintenance expenses	–	–
– Other		
l. Operation expenses	–	–
m. Maintenance expenses	–	–
3. Depreciation expenses		
a. System assets	918	680
b. Plant and equipment	–	–
4. Miscellaneous expenses		
a. Interest expenses	63	70
b. Revaluation decrements	–	–
c. Other expenses	234	230
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	2,897	2,521

Inverell Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

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

\$'000	2018	2017
Income		
6. Residential charges (including rates)	2,243	2,237
7. Non-residential charges		
a. Access (including rates)	141	143
b. Usage charges	67	65
8. Trade waste charges		
a. Annual fees	—	—
b. Usage charges	—	—
c. Excess mass charges	—	—
d. Re-inspection fees	—	—
9. Extra charges	—	—
10. Interest income	115	176
11. Other income	22	23
11a. Aboriginal Communities Water and Sewerage Program	—	—
12. Grants		
a. Grants for acquisition of assets	—	—
b. Grants for pensioner rebates	55	56
c. Other grants	47	51
13. Contributions		
a. Developer charges	—	—
b. Developer provided assets	—	—
c. Other contributions	63	52
14. Total income	2,753	2,803
15. Gain (or loss) on disposal of assets	(6)	—
16. Operating result	(150)	282
16a. Operating result (less grants for acquisition of assets)	(150)	282

Inverell Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

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

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	2	–
c. Renewals	953	1,401
d. Plant and equipment	–	–
18. Repayment of debt	177	170
19. Totals	1,132	1,571
Non-operating funds employed		
20. Proceeds from disposal of assets	–	–
21. Borrowing utilised	–	–
22. Totals	–	–
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	4,591	4,580
b. Residential (unoccupied, ie. vacant lot)	139	149
c. Non-residential (occupied)	139	136
d. Non-residential (unoccupied, ie. vacant lot)	97	99
24. Number of ETs for which developer charges were received	16 ET	14 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 98,928	\$ 102,123

Inverell Shire Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

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

\$'000	Current	Non-current	Total
ASSETS			
26. Cash and investments			
a. Developer charges	–	–	–
b. Special purpose grants	–	–	–
c. Accrued leave	113	–	113
d. Unexpended loans	155	–	155
e. Sinking fund	–	–	–
f. Other	6,527	–	6,527
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	132	–	132
c. User charges	–	–	–
d. Other	63	–	63
28. Inventories	15	–	15
29. Property, plant and equipment			
a. System assets	–	43,173	43,173
b. Plant and equipment	–	–	–
30. Other assets	–	–	–
31. Total assets	7,005	43,173	50,178
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	6	–	6
34. Borrowings	185	1,225	1,410
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	114	–	114
36. Total liabilities	305	1,225	1,530
37. NET ASSETS COMMITTED	6,700	41,948	48,648
EQUITY			
38. Accumulated surplus			17,905
39. Asset revaluation reserve			30,743
40. Other reserves			–
41. TOTAL EQUITY			48,648
Note to system assets:			
42. Current replacement cost of system assets			70,620
43. Accumulated current cost depreciation of system assets			(27,447)
44. Written down current cost of system assets			43,173

Inverell Shire Council

Notes to Special Schedules 3 and 5

for the year ended 30 June 2018

Administration ⁽¹⁾

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

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

Engineering and supervision ⁽¹⁾

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

Inverell Shire Council

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings												
	Buildings – non-specialised	–	–	457	332	23,732	26,749	83%	14%	3%	0%	0%
	Buildings – specialised	–	–	32	28	10,303	14,180	36%	58%	6%	0%	0%
	Sub-total	–	–	489	360	34,035	40,929	66.9%	29.1%	4.0%	0.2%	-0.2%
Other structures												
	Other structures	–	–	–	–	12,075	13,626	81%	18%	1%	0%	0%
	Sub-total	–	–	–	–	12,075	13,626	81.3%	18.0%	0.7%	0.0%	0.0%
Roads												
	Sealed roads	5,097	5,097	3,075	2,794	135,562	176,777	26%	66%	6%	2%	0%
	Unsealed roads	–	–	–	–	42,989	48,854	48%	48%	4%	0%	0%
	Bridges	–	–	172	106	94,878	125,845	20%	71%	9%	0%	0%
	Footpaths	–	–	147	120	5,077	6,572	23%	76%	1%	0%	0%
	Bulk earthworks	–	–	–	–	106,545	106,545	100%	0%	0%	0%	0%
	Sub-total	5,097	5,097	3,394	3,020	385,051	464,593	43.5%	50.6%	5.2%	0.8%	0.0%
Water supply network												
	Water supply network	–	–	985	935	84,529	116,878	20%	67%	13%	0%	0%
	Sub-total	–	–	985	935	84,529	116,878	20.3%	67.0%	12.8%	0.0%	0.0%
Sewerage network												
	Sewerage network	–	–	788	931	40,309	67,755	20%	35%	44%	1%	0%
	Sub-total	–	–	788	931	40,309	67,755	20.1%	34.5%	43.9%	1.1%	0.3%

Inverell Shire Council

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	–	–	67	69	22,474	31,109	1%	97%	2%	0%	0%
	Sub-total	–	–	67	69	22,474	31,109	1.0%	97.0%	2.0%	0.0%	0.0%
Open space/recreational assets	Swimming pools	–	–	1,053	1,058	3,203	4,560	46%	54%	2%	0%	-2%
	Other Open Space/Recreational Assets	–	–	–	–	14,043	16,433	70%	27%	2%	0%	0%
	Sub-total	–	–	1,053	1,058	17,246	20,993	64.9%	33.2%	2.4%	0.0%	-0.5%
	TOTAL – ALL ASSETS	5,097	5,097	6,776	6,373	595,719	755,883	38.6%	51.3%	9.5%	0.6%	0.0%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Inverell Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2018

	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Infrastructure asset performance indicators * consolidated					
1. Buildings and infrastructure renewals ratio ⁽¹⁾					
Asset renewals ⁽²⁾	8,268	115.27%	192.22%	186.07%	>= 100%
Depreciation, amortisation and impairment	7,173				
2. Infrastructure backlog ratio ⁽¹⁾					
Estimated cost to bring assets to a satisfactory standard	5,097	0.86%	1.10%	1.09%	< 2.00%
Net carrying amount of infrastructure assets	595,719				
3. Asset maintenance ratio					
Actual asset maintenance	6,373	94.05%	106.16%	103.21%	> 100%
Required asset maintenance	6,776				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	5,097	0.67%	0.83%	0.72%	
Gross replacement cost	755,883				

Notes

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

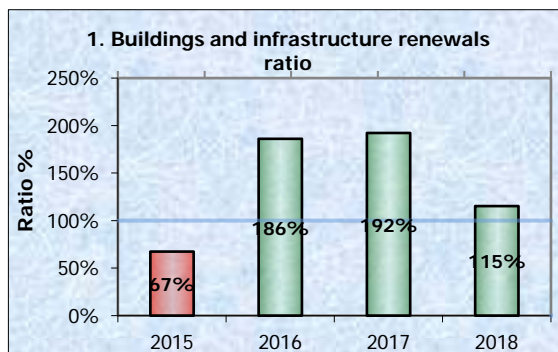
⁽¹⁾ Excludes Work In Progress (WIP)

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

Inverell Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2018



Benchmark: — Minimum $\geq 100.00\%$

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

Purpose of asset renewals ratio

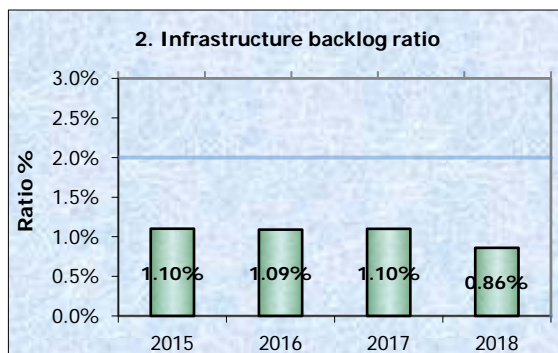
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2017/18 result

2017/18 Ratio 115.27%

Council has achieved this "fit for the future" benchmark of greater than 100% average over three years. Council "fit for the future" Roadmap has allocated a Special Road Renewal Funding in 2015-2018 of \$6M to increase asset renewals and to reduce Councils Infrastructure Backlog.

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Maximum $< 2.00\%$

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

Purpose of infrastructure backlog ratio

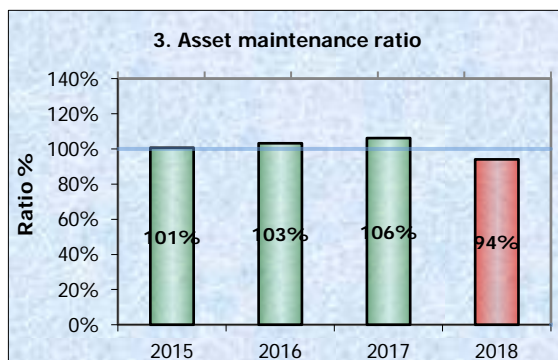
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2017/18 result

2017/18 Ratio 0.86%

Council completed an independent review of its Road Infrastructure Asset Class in 2015. The results of this review have been utilised to determine Council's actual Infrastructure Backlog and to inform Council's "fit for the future roadmap". The "fit for the future" benchmark is less 2%

Ratio achieves benchmark
Ratio is outside benchmark



Benchmark: — Minimum $> 100.00\%$

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

Purpose of asset maintenance ratio

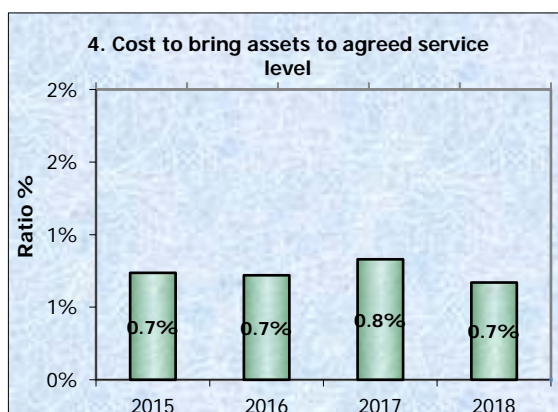
Compares actual vs. required annual asset maintenance. A ratio above 100% indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2017/18 result

2017/18 Ratio 94.05%

Council's Asset Maintenance Ratio of 94.05% is marginally lower than the "fit for the future" benchmark of greater than 100%, which indicates that the level of expenditure on the maintenance of infrastructure is sufficient to prevent the infrastructure backlog from growing

Ratio achieves benchmark
Ratio is outside benchmark



Purpose of agreed service level ratio

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

Commentary on 2017/18 result

2017/18 Ratio 0.67%

At 0.67% Council meets the benchmark for this newly introduced ratio which is lower than the "Fit for the future" benchmark of less than 2%

This ratio is considered to be more reflective of Council's infrastructure 'backlog', particularly due to the use of gross replacement cost in calculation

Inverell Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2018

	General indicators ⁽¹⁾		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Infrastructure asset performance indicators by fund							
1. Buildings and infrastructure renewals ratio ⁽²⁾							
Asset renewals ⁽³⁾	167.55%	223.16%	16.85%	35.41%	1.63%	176.65%	>= 100%
Depreciation, amortisation and impairment							
2. Infrastructure backlog ratio ⁽²⁾							
Estimated cost to bring assets to a satisfactory standard	1.08%	1.44%	0.00%	0.00%	0.00%	0.40%	< 2.00%
Net carrying amount of infrastructure assets							
3. Asset maintenance ratio							
Actual asset maintenance	90.09%	105.59%	94.92%	103.17%	118.15%	116.26%	> 100%
Required asset maintenance							
4. Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council	0.89%	0.92%	0.00%	0.00%	0.00%	1.43%	
Gross replacement cost							

Notes

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

⁽²⁾ Excludes Work In Progress (WIP)

⁽³⁾ Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.