



INVERELL
SHIRE COUNCIL

2019-2020

General Purpose Financial Statements
Special Purpose Financial Statements &
Special Schedules



Inverell Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020

General Purpose Financial Statements

for the year ended 30 June 2020

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Overview

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

Administration Centre
144 Otho Street
Inverell NSW 2360

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.

General Purpose Financial Statements

for the year ended 30 June 2020

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

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

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

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

Who uses the Financial Statements?

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

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

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

Inverell Shire Council

General Purpose Financial Statements

for the year ended 30 June 2020

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

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

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

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

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

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

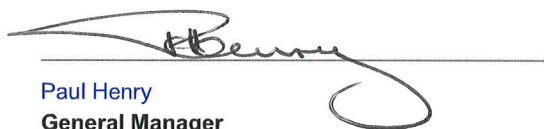
Signed in accordance with a resolution of Council made on 25 November 2020.



Paul Harmon
Mayor
25 November 2020



Anthony Michael
Councillor
25 November 2020



Paul Henry
General Manager
25 November 2020



Scott Norman
Responsible Accounting Officer
25 November 2020

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020 \$ '000		Notes	Actual 2020 \$ '000	Actual 2019 \$ '000
Income from continuing operations				
21,467	Rates and annual charges	3a	21,372	19,638
4,022	User charges and fees	3b	5,096	6,063
597	Other revenues	3c	1,133	1,313
10,045	Grants and contributions provided for operating purposes	3d,3e	13,117	11,739
2,014	Grants and contributions provided for capital purposes	3d,3e	4,757	1,961
1,137	Interest and investment income	4	1,373	1,631
184	Net gains from the disposal of assets	6	–	342
–	Rental income	13	221	–
39,466	Total income from continuing operations		47,069	42,687
Expenses from continuing operations				
14,264	Employee benefits and on-costs	5a	13,840	12,526
135	Borrowing costs	5b	349	276
7,724	Materials and contracts	5c	8,775	8,585
9,215	Depreciation and amortisation	5d	10,383	9,379
4,373	Other expenses	5e	4,104	3,620
–	Net losses from the disposal of assets	6	81	–
35,711	Total expenses from continuing operations		37,532	34,386
3,755	Net operating result for the year		9,537	8,301
Gain on boundary adjustments				
–	Gain on boundary adjustments	23	43,714	–
3,755	Net result for the year		53,251	8,301
3,755	Net result attributable to council		53,251	8,301
1,741	Net operating result for the year before grants and contributions provided for capital purposes		4,780	6,340

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

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

Statement of Comprehensive Income

for the year ended 30 June 2020

	Notes	2020 \$ '000	2019 \$ '000
Net operating result for the year (as per Income Statement)		53,251	8,301
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10(a)	67,333	1,957
Total items which will not be reclassified subsequently to the operating result		67,333	1,957
Total other comprehensive income for the year		67,333	1,957
Total comprehensive income for the year		120,584	10,258
Total comprehensive income attributable to Council		120,584	10,258

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

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

Statement of Financial Position

as at 30 June 2020

	Notes	2020 \$ '000	2019 \$ '000
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	5,482	3,683
Investments	7(b)	27,501	35,500
Receivables	8	4,066	5,497
Inventories	9a	485	511
Contract assets	12a	1,394	—
Other	9b	224	186
Total current assets		39,152	45,377
Non-current assets			
Investments	7(b)	32,097	20,069
Receivables	8	673	139
Infrastructure, property, plant and equipment	10(a)	765,899	649,268
Investment property	11	3,280	3,280
Total non-current assets		801,949	672,756
Total assets		841,101	718,133
LIABILITIES			
Current liabilities			
Payables	14	3,049	2,319
Income received in advance	14	—	62
Contract liabilities	12b	2,070	—
Borrowings	14	626	600
Provisions	15	4,753	4,002
Total current liabilities		10,498	6,983
Non-current liabilities			
Borrowings	14	2,338	2,964
Provisions	15	6,781	6,840
Total non-current liabilities		9,119	9,804
Total liabilities		19,617	16,787
Net assets		821,484	701,346
EQUITY			
Accumulated surplus	16	581,508	528,703
Revaluation reserves	16	239,976	172,643
Council equity interest		821,484	701,346
Total equity		821,484	701,346

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

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

Statement of Changes in Equity

for the year ended 30 June 2020

	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus \$ '000	IPP&E revaluation reserve \$ '000	Total equity \$ '000	Accumulated surplus \$ '000	IPP&E revaluation reserve \$ '000	Total equity \$ '000
Opening balance		528,703	172,643	701,346	520,402	170,686	691,088
Changes due to AASB 1058 and AASB 15 adoption	16	(446)	–	(446)	–	–	–
Restated opening balance		528,257	172,643	700,900	520,402	170,686	691,088
Net operating result for the year		53,251	–	53,251	8,301	–	8,301
Net operating result for the period		53,251	–	53,251	8,301	–	8,301
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10(a)	–	67,333	67,333	–	1,957	1,957
Other comprehensive income		–	67,333	67,333	–	1,957	1,957
Total comprehensive income		53,251	67,333	120,584	8,301	1,957	10,258
Equity – balance at end of the reporting period		581,508	239,976	821,484	528,703	172,643	701,346

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

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

Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020 \$ '000		Notes	Actual 2020 \$ '000	Actual 2019 \$ '000
Cash flows from operating activities				
Receipts:				
21,467	Rates and annual charges		21,286	19,575
4,022	User charges and fees		4,013	6,252
1,137	Investment revenue and interest		1,669	1,526
12,059	Grants and contributions		20,010	13,827
–	Bonds, deposits and retention amounts received		1,962	257
597	Other		3,977	2,781
Payments:				
(14,264)	Employee benefits and on-costs		(13,217)	(12,805)
(7,724)	Materials and contracts		(10,482)	(10,468)
(135)	Borrowing costs		(349)	(144)
–	Bonds, deposits and retention amounts refunded		(2,102)	(148)
(4,373)	Other		(4,336)	(4,491)
12,786	Net cash provided (or used in) operating activities	17b	22,431	16,162
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		39,500	33,500
617	Sale of infrastructure, property, plant and equipment		720	587
Payments:				
–	Purchase of investment securities		(43,500)	(35,500)
(12,746)	Purchase of infrastructure, property, plant and equipment		(16,752)	(14,094)
(12,129)	Net cash provided (or used in) investing activities		(20,032)	(15,507)
Cash flows from financing activities				
Payments:				
(600)	Borrowings and advances		(600)	(576)
(600)	Net cash flow provided (used in) financing activities		(600)	(576)
57	Net increase/(decrease) in cash and cash equivalents		1,799	79
–	Cash and cash equivalents – beginning of year	17a	3,683	3,604
–	Cash resulting from boundary adjustment		–	–
57	Cash and cash equivalents – end of the year	17a	5,482	3,683
–	plus: Investments on hand – end of year	7(b)	59,598	55,569
57	Total cash, cash equivalents and investments		65,080	59,252

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 25 November 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

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

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

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

Council is a not for-profit entity.

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

(a) Historical cost convention

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

(b) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of investment properties – refer Note 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 15
- (iv) employee benefit provisions – refer Note 15

COVID 19 Impacts

COVID-19 caused minimal disruption to Council's business practices. The Library and Tourist Office were closed for a short period during the lockdown. Staff were redeployed to other tasks during this time and no significant additional costs were incurred. Some minor costs have been incurred for additional equipment as part COVID safe responses. This includes signage, hand sanitizing stations IT hardware for virtual meetings. Some additional vehicles were hired to avoid staff travelling together.

Council has provided some rent relief to various the lessees of Council properties to compensate for lost income due to the compulsory lockdown. The lost revenue was not significant.

Rate collections are marginally less than the previous year's, however it is not known if this is a consequence of COVID-19 or attributable to the prolonged drought. Other receivables have not been impacted.

Overall, the financial impact has not been significant and is not anticipated to increase in future years.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

Council is of the view that non-current assets will not experience substantial declines in value due to COVID-19. Fair value for the majority of Council's non-current assets is determined by replacement cost where there is no anticipated material change in value due to COVID-19.

Significant judgements in applying the council's accounting policies

(i) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables – refer Note 8.

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

- General purpose operations
- Water service
- 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 property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies.

Trust monies and 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 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

Goods and Services Tax (GST)

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

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

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

Volunteer services

Volunteer services are not recognised by Inverell Shire Council as they can not be reliably measured and are not material and would not be purchased if not donated.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

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

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

Council's assessment of these new standards and interpretations (where they have been deemed as having a material impact on Council's future financial performance, financial position and cash flows) are set out below:

AASB 1059 Service Concession Arrangements: Grantors

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

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

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

AASB 1059 requires grantors to recognise a service concession asset and, in most cases, a corresponding liability on the balance sheet.

A control approach is used to assess the service concession arrangements in place.

On initial recognition the asset is measured at current replacement cost based on AASB 13 Fair Value Measurement and existing assets of the grantors are reclassified at the date of transition.

After initial recognition, the grantor accounts for the assets under either AASB 116 Property, Plant and Equipment or AASB 138 Intangible Assets.

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

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

Council does not expect any material impact to future financial statements as we do not generally enter into service concession arrangements.

This standard has an effective date for the 30 June 2021 reporting period.

New accounting standards adopted during the year

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

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

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 16.

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Functions or activities	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Leadership	22,043	20,680	3,164	2,837	18,879	17,843	6,518	6,173	71,079	65,530
Other	–	–	–	–	–	–	–	–	–	4,949
Community	2,494	3,192	4,226	4,910	(1,732)	(1,718)	2,073	2,387	25,507	25,162
Environment	4,862	4,207	5,485	4,430	(623)	(223)	133	136	39,523	29,715
Economy	864	444	1,259	1,158	(395)	(714)	16	27	13,305	11,728
Services / Infrastructure	16,806	14,164	23,398	21,051	(6,592)	(6,887)	3,888	1,120	691,687	581,049
Total functions and activities	47,069	42,687	37,532	34,386	9,537	8,301	12,628	9,843	841,101	718,133

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations

	AASB	2020 \$ '000	2019 \$ '000
(a) Rates and annual charges			
Ordinary rates			
Residential	1058 (1)	6,520	5,908
Farmland	1058 (1)	4,502	3,968
Business	1058 (1)	2,586	2,402
Less: pensioner rebates (mandatory)	1058 (1)	(334)	(307)
Rates levied to ratepayers		13,274	11,971
Pensioner rate subsidies received	1058 (1)	178	171
Total ordinary rates		13,452	12,142
Annual charges			
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services	1058 (1)	2,300	2,143
Stormwater management services	1058 (1)	146	146
Water supply services	1058 (1)	2,278	2,185
Sewerage services	1058 (1)	2,649	2,527
Waste management services (non-domestic)	1058 (1)	704	636
Less: pensioner rebates (mandatory)	1058 (1)	(340)	(316)
Annual charges levied		7,737	7,321
Pensioner subsidies received:			
– Water	1058 (1)	69	66
– Sewerage	1058 (1)	57	55
– Domestic waste management	1058 (1)	57	54
Total annual charges		7,920	7,496
TOTAL RATES AND ANNUAL CHARGES		21,372	19,638

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

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

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

Accounting policy for rates and charges

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

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

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

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

2019 accounting policy

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	AASB	2020 \$ '000	2019 \$ '000
(b) User charges and fees			
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Domestic waste management services	15 (2)	4	1
Water supply services	15 (2)	2,882	2,880
Waste management services (non-domestic)	15 (2)	937	775
Other	15 (2)	12	10
Total specific user charges		3,835	3,666
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Building services – other	15 (1)	100	104
Inspection services	15 (1)	3	2
Planning and building regulation	15 (1)	128	111
Private works – section 67	15 (2)	139	124
Registration fees	15 (1)	19	25
Section 10.7 certificates (EP&A Act)	15 (1)	29	30
Section 603 certificates	15 (1)	26	29
Total fees and charges – statutory/regulatory		444	425
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Aerodrome	15 (1)	2	2
Caravan park	15 (1)	45	46
Quarry revenues	15 (1)	19	24
RMS (formerly RTA) charges (state roads not controlled by Council)	15 (2)	716	1,852
Sportsgrounds	15 (1)	25	31
Town hall	15 (1)	10	17
Total fees and charges – other		817	1,972
TOTAL USER CHARGES AND FEES		5,096	6,063

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

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

15 (2) indicates income recognised under AASB 15 “over time”,

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

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

Accounting policy for user charges and fees

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

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

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

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

2019 accounting policy

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	AASB	2020 \$ '000	2019 \$ '000
(c) Other revenues			
Rental income – investment property		–	8
Rental income – other council properties (2019 only)		–	176
Fines	1058 (1)	13	13
Legal fees recovery – rates and charges (extra charges)	15 (1)	19	50
Commissions and agency fees	15 (1)	2	2
Insurance claims recoveries	15 (1)	138	49
Aged disabled and youth and other community services	15 (2)	2	11
Bushfire / SES sundry income	15 (1)	13	83
Cemetery	15 (1)	149	116
Insurance / workers compensation premium adjustment	1058 (1)	176	72
Library	15 (1)	14	19
Parental leave reimbursement	1058 (1)	18	48
New England Joint Organisation Administration Reimbursement	15 (2)	78	–
Sale of dogs / microchipping	15 (1)	4	3
Sale of old materials	15 (1)	129	70
Other	15 (1)	37	85
Sulo bin sales	15 (1)	11	10
Sundry health services	15 (1)	7	10
Tourism	15 (1)	52	78
Adjustment to landfill/Quarry provisions		271	410
<u>TOTAL OTHER REVENUE</u>		<u>1,133</u>	<u>1,313</u>

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

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

15 (2) indicates income recognised under AASB 15 “over time”,

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

Accounting policy for other revenue

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

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

2019 accounting policy:

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	AASB	Operating 2020 \$ '000	Operating 2019 \$ '000	Capital 2020 \$ '000	Capital 2019 \$ '000
(d) Grants					
General purpose (untied)					
Current year allocation					
Financial assistance – general component	1058 (1)	2,219	1,981	–	–
Financial assistance – local roads component	1058 (1)	1,095	1,023	–	–
Payment in advance - future year allocation					
Financial assistance – general component	1058 (1)	2,098	2,055	–	–
Financial assistance – local roads component	1058 (1)	1,103	1,062	–	–
Total general purpose		6,515	6,121	–	–
Specific purpose					
Aged, disabled, youth and other community services	15 (2)	28	28	–	–
Building Better Regions Fund	15 (2)	(3)	35	–	–
Bushfire and emergency services	1058 (1)	122	122	16	6
Bushfire Community Resilience & Recovery	1058 (1)	38	–	–	–
Bushfire Disaster Recovery Funding	1058 (1)	–	–	261	–
Community Building Partnership Program	1058 (1)	–	–	–	12
Drought Communities Program	1058 (2)	248	1,000	75	–
Drought Stimulus Program	15 (1)	10	–	–	–
Economic development – Growing Local Economies	15 (2)	16	–	–	–
Employment schemes / apprentice subsidy	1058 (1)	2	6	–	–
Environmental programs	1058 (2)	5	20	–	–
Heritage and cultural	1058 (1)	12	16	–	–
Library	1058 (1)	41	31	80	26
Library – special projects	1058 (1)	9	2	–	–
LIRS subsidy	1058 (1)	66	80	–	–
Noxious weeds	15 (2)	124	116	–	–
OLG Grant - Crown Land Management Act	15 (2)	1	46	–	–
OLG Grant - Pound Grant	1058 (1)	4	–	–	–
OLG Grant – Fire & Emergency Services Levy	15 (2)	55	–	–	–
Public Reserve Management Fund	1058 (2)	–	–	–	27
Restart NSW - Recreation Grant	1058 (2)	17	–	795	–
Safer Community Fund	1058 (2)	–	–	200	93
Sport and recreation		–	3	–	–
Street lighting	1058 (1)	62	60	–	–
Stronger Country Community Funding	1058 (2)	158	78	922	1,012
Transport (3x3, roads to recovery, flood etc.)	1058 (1)	2,263	821	–	–
Transport (other roads and bridges funding)	1058 (1)	102	–	382	(41)
Transport - CPTI Grant Scheme	1058 (2)	–	–	2	12
Transport – RESTART Grant-Fixing Country Roads	1058 (2)	–	107	–	–
War Memorial Fund	15 (2)	–	4	–	–
Total specific purpose		3,380	2,575	2,733	1,147
Total grants		9,895	8,696	2,733	1,147
Grant revenue is attributable to:					
– Commonwealth funding		6,776	7,813	536	93
– State funding		3,119	877	2,197	1,054
– Other funding		–	6	–	–
		9,895	8,696	2,733	1,147

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

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

15 (2) indicates income recognised under AASB 15 “over time”,

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	Notes	AASB	Operating 2020 \$ '000	Operating 2019 \$ '000	Capital 2020 \$ '000	Capital 2019 \$ '000
(e) Contributions						
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):						
Cash contributions						
S 7.11 – contributions towards amenities/services		1058 (1)	–	–	74	27
S 64 – water supply contributions		1058 (1)	–	–	553	206
S 64 – sewerage service contributions		1058 (1)	–	–	220	65
Total developer contributions – cash			–	–	847	298
Total developer contributions	27		–	–	847	298
Other contributions:						
Cash contributions						
Community services		15 (1)	–	6	347	–
Kerb and gutter		1058 (1)	–	–	21	–
Roads and bridges		1058 (1)	40	25	46	16
RMS contributions (regional roads, block grant)		1058 (1)	2,912	2,567	545	491
Tourism		15 (2)	58	81	–	–
Other		15 (2)	28	–	22	–
Sport and recreation		1058 (1)	40	91	–	9
Natural Disaster		1058 (1)	144	273	–	–
Total other contributions – cash			3,222	3,043	981	516
Non-cash contributions						
Crown Land			–	–	196	–
Total other contributions – non-cash			–	–	196	–
Total other contributions			3,222	3,043	1,177	516
Total contributions			3,222	3,043	2,024	814
TOTAL GRANTS AND CONTRIBUTIONS			13,117	11,739	4,757	1,961

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

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

15 (2) indicates income recognised under AASB 15 “over time”,

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

The performance obligations are varied based on the agreement but include performance obligations within AASB 15 grants such as completion of milestones. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

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

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

Grant income

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

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

Capital grants

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

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

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

Contributions

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

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

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

Accounting policy prior to 1 July 2019

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
(f) Unspent grants and contributions – external restrictions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner due to externally imposed restrictions.		
Operating grants		
Unexpended at the close of the previous reporting period	780	890
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	–	386
Add: operating grants received for the provision of goods and services in a future period	–	–
Less: operating grants recognised in a previous reporting period now spent (2019 only)	(780)	(496)
Less: operating grants received in a previous reporting period now spent and recognised as income	–	–
Unexpended and held as externally restricted assets (operating grants)	–	780
Capital grants		
Unexpended at the close of the previous reporting period	6	21
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	–	–
Add: capital grants received for the provision of goods and services in a future period	–	–
Less: capital grants recognised in a previous reporting period now spent (2019 only)	–	(15)
Less: capital grants received in a previous reporting period now spent and recognised as income	(6)	–
Unexpended and held as externally restricted assets (capital grants)	–	6
Contributions		
Unexpended at the close of the previous reporting period	548	709
Add: contributions recognised as income in the current period but not yet spent	75	2
Add: contributions received for the provision of goods and services in a future period	–	–
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate (2019 only)	–	–
Less: contributions recognised in a previous reporting period now spent	(2)	(163)
Unexpended and held as externally restricted assets (contributions)	621	548

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4. Interest and investment income

	2020 \$ '000	2019 \$ '000
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	47	58
– Cash and investments	1,297	1,504
Fair value adjustments		
– Movements in investments at fair value through profit and loss	29	69
Finance income on the net investment in the lease	–	–
Total Interest and investment income	1,373	1,631

Interest revenue is attributable to:**Unrestricted investments/financial assets:**

Overdue rates and annual charges (general fund)	47	58
General Council cash and investments	963	1,208

Restricted investments/funds – external:

Development contributions		
– Section 7.11	10	15
Water fund operations	198	247
Sewerage fund operations	155	103

Total interest and investment revenue**1,373** **1,631****Accounting policy for interest and investment revenue**

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

	2020 \$ '000	2019 \$ '000
(a) Employee benefits and on-costs		
Salaries and wages	11,900	11,054
Employee leave entitlements (ELE)	2,263	2,091
Superannuation	1,361	1,315
Workers' compensation insurance	646	420
Fringe benefit tax (FBT)	128	127
Payroll tax	73	88
Protective clothing	29	30
Employment costs	19	18
Total employee costs	16,419	15,143
Less: capitalised costs	(2,579)	(2,617)
TOTAL EMPLOYEE COSTS EXPENSED	13,840	12,526
Number of 'full-time equivalent' employees (FTE) at year end	203	198

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 20 for more information.

	Notes	2020 \$ '000	2019 \$ '000
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on leases		–	–
Interest on loans		140	144
Total interest bearing liability costs		140	144
Total interest bearing liability costs expensed		140	144
(ii) Other borrowing costs			
Fair value adjustments on recognition of advances and deferred debtors			
– Remediation liabilities	15	209	132
Total other borrowing costs		209	132
TOTAL BORROWING COSTS EXPENSED		349	276

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

Accounting policy for borrowing costs

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

	2020 \$ '000	2019 \$ '000
(c) Materials and contracts		
Raw materials and consumables	7,405	7,235
Contractor and consultancy costs	1,243	1,234
Auditors remuneration ¹	58	45
Audit & Risk Costs	43	14
Legal expenses:		
– Legal expenses: debt recovery	18	28
– Legal expenses: other	8	29
Total materials and contracts	8,775	8,585
TOTAL MATERIALS AND CONTRACTS	8,775	8,585

Accounting policy for materials and contracts

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

Operating leases (2019 only)

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

1. Auditor remuneration

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

Auditors of the Council - NSW Auditor-General:**(i) Audit and other assurance services**

Audit and review of financial statements	56	45
Remuneration for audit and other assurance services	56	45
Total Auditor-General remuneration	56	45

(i) Audit and other assurance services

Audit and review of financial statements	2	–
Remuneration for audit and other assurance services	2	–
Total Auditor remuneration	58	45

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

	Notes	2020 \$ '000	2019 \$ '000
(d) Depreciation, amortisation and impairment of non-financial assets			
Depreciation and amortisation			
Plant and equipment		1,488	1,499
Office equipment		206	233
Furniture and fittings		28	27
Infrastructure:	10(a)		
– Buildings – non-specialised		410	293
– Buildings – specialised		197	155
– Other structures		318	301
– Roads		2,840	2,432
– Bridges		1,268	1,203
– Footpaths		82	75
– Stormwater drainage		312	311
– Water supply network		1,593	1,546
– Sewerage network		1,061	941
– Swimming pools		73	66
– Other open space/recreational assets		378	358
Right of use assets	13	–	–
Other assets:			
– Library books		114	124
– Other		6	6
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	10,15	297	166
– Quarry assets	10,15	129	111
Total gross depreciation and amortisation costs		10,800	9,847
Less: capitalised costs		(417)	(468)
Total depreciation and amortisation costs		10,383	9,379
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR NON-FINANCIAL ASSETS		10,383	9,379

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

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

Impairment of non-financial assets

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

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.

	2020 \$ '000	2019 \$ '000
(e) Other expenses		
Advertising	64	61
Bad and doubtful debts	101	28
Bank charges	57	49
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	393	324
– Other contributions/levies	199	70
Councillor expenses – mayoral fee	26	26
Councillor expenses – councillors' fees	113	115
Councillors' expenses (incl. mayor) – other (excluding fees above)	14	24
Donations, contributions and assistance to other organisations (Section 356)	119	129
Electricity and heating	1,338	1,185
Insurance	732	647
Postage	64	60
Printing and stationery	73	68
Street lighting	168	195
Subscriptions and publications	41	25
Telephone and communications	153	125
Training costs (other than salaries and wages)	151	172
Travel expenses	180	204
Valuation fees	66	64
Other	52	49
Total other expenses	4,104	3,620
TOTAL OTHER EXPENSES	4,104	3,620

Accounting policy for other expenses

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6. Gain or loss from disposal of assets

	Notes	2020 \$ '000	2019 \$ '000
Property (excl. investment property)			
Proceeds from disposal – property		13	1
Less: carrying amount of property assets sold/written off		(29)	(5)
Net gain/(loss) on disposal		(16)	(4)
Plant and equipment	10(a)		
Proceeds from disposal – plant and equipment		624	586
Less: carrying amount of plant and equipment assets sold/written off		(530)	(240)
Net gain/(loss) on disposal		94	346
Infrastructure	10(a)		
Proceeds from disposal – infrastructure		83	–
Less: carrying amount of infrastructure assets sold/written off		(242)	–
Net gain/(loss) on disposal		(159)	–
Investments	7(b)		
Proceeds from disposal/redemptions/maturities – investments		39,500	33,500
Less: carrying amount of investments sold/redeemed/matured		(39,500)	(33,500)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(81)	342

Accounting policy for disposal of assets

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(a). Cash and cash equivalents

	2020 \$ '000	2019 \$ '000
Cash and cash equivalents		
Cash on hand and at bank	5,482	3,683
Total cash and cash equivalents	5,482	3,683

Accounting policy for cash and cash equivalents

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

Note 7(b). Investments

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Investments				
a. 'Financial assets at fair value through profit and loss'				
– 'Held for trading'	–	5,097	–	5,069
b. 'Financial assets at amortised cost'	27,501	27,000	35,500	15,000
Total Investments	27,501	32,097	35,500	20,069
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	32,983	32,097	39,183	20,069
Financial assets at fair value through the profit and loss				
NCD's, FRN's (with maturities > 3 months)	–	5,097	–	5,069
Total	–	5,097	–	5,069
Financial assets at amortised cost				
Term deposits	27,501	27,000	35,500	15,000
Total	27,501	27,000	35,500	15,000

Accounting policy for investments

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

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

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Fair value through other comprehensive income – equity instruments

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

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

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

Financial assets through profit or loss

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Total cash, cash equivalents and investments	32,983	32,097	39,183	20,069
attributable to:				
External restrictions	13,775	6,519	14,762	4,013
Internal restrictions	6,730	25,578	15,243	16,056
Unrestricted	12,478	–	9,178	–
	32,983	32,097	39,183	20,069

	2020 \$ '000	2019 \$ '000
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	–	–
Specific purpose unexpended loans – sewer	153	153
Bonds and deposits	70	210
Specific purpose unexpended grants – water fund (2020 only)	94	–
Specific purpose unexpended grants – sewer fund (2020 only)	–	–
External restrictions – included in liabilities	317	363

External restrictions – other

Developer contributions – general	621	546
RMS contributions	–	2
Specific purpose unexpended grants (recognised as revenue) – general fund	–	786
Water supplies	12,423	10,554
Sewerage services	6,933	6,524
External restrictions – other	19,977	18,412

Total external restrictions

Internal restrictions

Administration building	2,418	1,995
Aerodrome	306	306
Baths improvement	4,000	3,185
Computer	1,541	1,390
Connections plant and equipment	72	72
Copeton northern foreshores	49	49
Economic development / Growth Assets	5,596	5,440
Emergency management	200	150
Employee training (Statutory Requirements)	257	181
Employees leave entitlement	1,502	1,337
Equipment upgrade / emergency management	211	211
Future capital works / land purchase	450	450
Garbage degradation / rehab.	951	795
Garbage depot	169	169
Gravel pit restoration	219	219
Gravel pit roadworks	156	156
Industrial / tourism promotion	94	94
Industrial development	288	1,022

Notes to the Financial Statements

for the year ended 30 June 2020

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

	2020 \$ '000	2019 \$ '000
Insurance excess reserve	210	210
Interest equalisation	650	350
Library	202	202
Plant replacement	3,155	4,101
Residential development	7	7
Road resumptions	20	20
SES plant replacement	169	104
Special capital projects	5	5
Sports ground – hockey facility	450	450
Strategic development fund	101	516
Town hall upgrade	100	100
Waste infrastructure	2,935	2,935
Waste – externally sustainability	497	497
Workers compensation insurance	857	936
Financial Assistance Grants	4,471	3,645
Total internal restrictions	32,308	31,299
TOTAL RESTRICTIONS	52,602	50,074

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Purpose				
Rates and annual charges	1,359	–	1,076	–
Interest and extra charges	116	–	98	–
User charges and fees	1,092	673	460	139
Accrued revenues				
– Interest on investments	345	–	688	–
– Other income accruals	558	–	771	–
Net investment in finance lease	–	–	–	–
Government grants and subsidies	187	–	1,948	–
Net GST receivable	527	–	473	–
Total	4,184	673	5,514	139
Less: provision of impairment				
Rates and annual charges	(113)	–	(13)	–
User charges and fees	(5)	–	(4)	–
Total provision for impairment – receivables	(118)	–	(17)	–
TOTAL NET RECEIVABLES	4,066	673	5,497	139

Externally restricted receivables

Water supply

– Rates and availability charges	156	–	120	–
– Other	526	–	832	–

Sewerage services

– Rates and availability charges	185	–	146	–
– Other	44	–	51	–

Total external restrictions	911	–	1,149	–
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Unrestricted receivables	3,155	673	4,348	139
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TOTAL NET RECEIVABLES	4,066	673	5,497	139
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	2020 \$ '000	2019 \$ '000
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	17	29
– amounts provided for but recovered during the year	101	(12)
Balance at the end of the year	118	17

Accounting policy for receivables

Recognition and measurement

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

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

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

Impairment

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

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

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

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

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

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

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

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings and all legal avenues have been exhausted.

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

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

Rates and annual charges outstanding are secured against the property.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	54	—	54	—
Stores and materials	431	—	457	—
Total inventories at cost	485	—	511	—
TOTAL INVENTORIES	485	—	511	—
(b) Other assets				
Prepayments	224	—	186	—
TOTAL OTHER ASSETS	224	—	186	—
Externally restricted assets				
	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Water				
Stores and materials	126	—	122	—
Prepayments	—	—	3	—
Total water	126	—	125	—
Sewerage				
Stores and materials	11	—	9	—
Total sewerage	11	—	9	—
Total externally restricted assets	137	—	134	—
Total internally restricted assets	—	—	—	—
Total unrestricted assets	572	—	563	—
TOTAL INVENTORIES AND OTHER ASSETS	709	—	697	—

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets (continued)

(i) Other disclosures

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
(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:

Acquisition costs	54	—	—	—
Other properties – book value	—	—	54	—
Total costs	54	—	54	—
Total real estate for resale	54	—	54	—
Movements:				
Real estate assets at beginning of the year	54	—	54	—
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;

	2020 \$ '000	2019 \$ '000
Real estate for resale	54	54
	54	54

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

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

Land held for resale/capitalisation of borrowing costs

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

	as at 30/06/19			Asset movements during the reporting period							as at 30/06/20		
	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000	Additions renewals ¹ \$ '000	Additions new assets \$ '000	Carrying value of disposals \$ '000	Depreciation expense \$ '000	WIP transfers \$ '000	Adjustments and transfers \$ '000	Revaluation increments to equity (ARR) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000
Capital work in progress	4,397	–	4,397	871	2,527	–	–	(3,047)	–	–	4,748	–	4,748
Plant and equipment	26,512	(15,371)	11,141	3,575	360	(530)	(1,488)	–	–	–	28,417	(15,359)	13,058
Office equipment	1,783	(1,051)	732	13	378	–	(206)	–	–	–	2,164	(1,247)	917
Furniture and fittings	734	(631)	103	–	5	–	(28)	–	–	–	739	(659)	80
Land:													
– Operational land	13,473	–	13,473	–	894	–	–	–	(962)	–	13,405	–	13,405
– Community land	8,475	–	8,475	–	129	–	–	–	962	–	9,566	–	9,566
Infrastructure:													
– Buildings – non-specialised	26,945	(3,311)	23,634	172	951	(29)	(410)	150	–	–	29,730	(5,262)	24,468
– Buildings – specialised	14,279	(4,032)	10,247	–	257	–	(197)	–	–	–	16,138	(5,831)	10,307
– Other structures	13,683	(1,853)	11,830	55	160	(17)	(318)	10	–	–	13,920	(2,200)	11,720
– Roads	234,272	(49,511)	184,761	5,730	19,116	–	(2,840)	1,224	–	52,892	315,433	(54,550)	260,883
– Bridges	126,552	(32,171)	94,381	240	5,844	–	(1,268)	25	–	13,364	156,442	(43,856)	112,586
– Footpaths	6,897	(1,569)	5,328	–	565	–	(82)	–	–	1,918	10,201	(2,472)	7,729
– Bulk earthworks (non-depreciable)	107,293	–	107,293	275	9,605	–	–	98	–	(7,722)	109,549	–	109,549
– Stormwater drainage	31,151	(8,946)	22,205	194	–	–	(312)	445	–	5,658	37,434	(9,244)	28,190
– Water supply network	119,086	(34,438)	84,648	321	2,045	–	(1,593)	–	–	808	124,396	(38,167)	86,229
– Sewerage network	70,996	(28,842)	42,154	–	4,947	–	(1,061)	–	–	415	78,382	(31,927)	46,455
– Swimming pools	4,560	(1,423)	3,137	–	4	(8)	(73)	–	–	–	4,547	(1,487)	3,060
– Other open space/recreational assets	16,750	(2,748)	14,002	155	1,308	–	(378)	1,095	–	–	19,642	(3,460)	16,182
Other assets:													
– Heritage collections	91	–	91	–	3	–	–	–	–	–	94	–	94
– Library books	739	(410)	329	–	121	–	(114)	–	–	–	860	(524)	336
– Other	86	(58)	28	–	–	–	(6)	–	–	–	86	(64)	22
Reinstatement, rehabilitation and restoration assets (refer Note 17):													
– Tip assets	6,304	–	6,304	–	79	(217)	(297)	–	–	–	6,112	(243)	5,869
– Quarry assets	575	–	575	–	–	–	(129)	–	–	–	575	(129)	446
Total Infrastructure, property, plant and equipment	835,633	(186,365)	649,268	11,601	49,298	(801)	(10,800)	–	–	67,333	982,580	(216,681)	765,899

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

	as at 30/06/18			Asset movements during the reporting period							as at 30/06/19		
	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000	Additions renewals ¹ \$ '000	Additions new assets \$ '000	Carrying value of disposals \$ '000	Depreciation expense \$ '000	WIP transfers \$ '000	Adjustments and transfers \$ '000	Revaluation increments to equity (ARR) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000
Capital work in progress	6,355	–	6,355	2,138	1,678	–	–	(5,774)	–	–	4,397	–	4,397
Plant and equipment	25,963	(15,469)	10,494	2,197	189	(240)	(1,499)	–	–	–	26,512	(15,371)	11,141
Office equipment	1,771	(825)	946	16	8	(5)	(233)	–	–	–	1,783	(1,051)	732
Furniture and fittings	721	(604)	117	–	13	–	(27)	–	–	–	734	(631)	103
Land:													
– Operational land	12,714	–	12,714	–	278	–	–	–	481	–	13,473	–	13,473
– Community land	8,365	–	8,365	–	110	–	–	–	–	–	8,475	–	8,475
Infrastructure:													
– Buildings – non-specialised	26,749	(3,017)	23,732	16	179	–	(293)	–	–	–	26,945	(3,311)	23,634
– Buildings – specialised	14,180	(3,877)	10,303	84	15	–	(155)	–	–	–	14,279	(4,032)	10,247
– Other structures	13,626	(1,551)	12,075	–	10	–	(301)	46	–	–	13,683	(1,853)	11,830
– Roads	225,631	(47,080)	178,551	5,069	–	–	(2,432)	3,573	–	–	234,272	(49,511)	184,761
– Bridges	125,845	(30,968)	94,877	707	–	–	(1,203)	–	–	–	126,552	(32,171)	94,381
– Footpaths	6,572	(1,495)	5,077	326	–	–	(75)	–	–	–	6,897	(1,569)	5,328
– Bulk earthworks (non-depreciable)	106,546	–	106,546	747	–	–	–	–	–	–	107,293	–	107,293
– Stormwater drainage	31,109	(8,635)	22,474	42	–	–	(311)	–	–	–	31,151	(8,946)	22,205
– Water supply network	116,878	(32,349)	84,529	338	–	–	(1,546)	–	–	1,327	119,086	(34,438)	84,648
– Sewerage network	67,755	(27,446)	40,309	1	–	–	(941)	2,155	–	630	70,996	(28,842)	42,154
– Swimming pools	4,560	(1,357)	3,203	–	–	–	(66)	–	–	–	4,560	(1,423)	3,137
– Other open space/recreational assets	16,433	(2,390)	14,043	8	309	–	(358)	–	–	–	16,750	(2,748)	14,002
Other assets:													
– Heritage collections	87	–	87	–	4	–	–	–	–	–	91	–	91
– Library books	653	(286)	367	86	–	–	(124)	–	–	–	739	(410)	329
– Other	86	(52)	34	–	–	–	(6)	–	–	–	86	(58)	28
Reinstatement, rehabilitation and restoration assets (refer Note 17):													
– Tip assets	1,742	–	1,742	–	–	–	(166)	–	4,728	–	6,304	–	6,304
– Quarry assets	465	–	465	–	–	–	(111)	–	221	–	575	–	575
Total Infrastructure, property, plant and equipment	814,806	(177,401)	637,405	11,775	2,793	(245)	(9,847)	–	5,430	1,957	835,633	(186,365)	649,268

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 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 comprehensive valuations are performed at least every five years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value.

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

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

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

When infrastructure, property, plant and equipment are acquired by Council for nil or nominal consideration, the assets are initially recognised at their fair value at acquisition date.

Land is not depreciated. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Council will obtain ownership at the end of the lease term. 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: masonry	50 to 100
Other plant and equipment	5 to 20	Other Structures	10 to 100
Water Assets		Sewer assets	
Dams and reservoirs	100	Sewer Pump Wells	70
Bores	30	Motors & Electrical Equipment	30
Building / Civil Structures	70	Pumps & Mechanical Equipment	30
Reservoirs - Walls	100	Effluent Oxidation & Maturation Ponds	Infinite
Reservoirs - Roof	55	Sewer Sludge Lagoons	100
Motor & Electrical Equipment	35 to 60	Treatment Plant Siteworks	50
Pumps & Mechanical Equipment	35 to 60	Aeration Tanks Structural	50
Water Mains	50 to 100	Aeration Tanks Electrical	45
Water Meters	10 to 15	Aeration Tanks 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		

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

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

Carparks - Unsealed	100
Footpaths	50 to 100
Cycleways	50 to 100

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

Land under roads

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

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

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

Crown reserves

Crown reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated. Where the Crown Reserves are under a lease arrangement they are accounted for under AASB 16 Leases, Refer to Note 13

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

Rural Fire Service assets

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

Until such time as discussion on this matter have concluded and the legislation changed, Council will continue to recognised Rural Fire Service assets including land, buildings, plant and equipment, vehicles in Council financial statements.

Notes to the Financial Statements

for the year ended 30 June 2020

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

	as at 30/06/20			as at 30/06/19		
	Gross carrying amount \$ '000	Accumulated depn. and impairment \$ '000	Net carrying amount \$ '000	Gross carrying amount \$ '000	Accumulated depn. and impairment \$ '000	Net carrying amount \$ '000
Water supply						
WIP	121	–	121	117	–	117
Plant and equipment	106	82	24	102	76	26
Office equipment	13	13	–	13	13	–
Land						
– Operational land	515	–	515	514	–	514
– Community land	40	–	40	41	–	41
Buildings	270	6	264	270	1	269
Infrastructure	124,397	38,167	86,230	119,086	34,438	84,648
Total water supply	125,462	38,268	87,194	120,143	34,528	85,615
Sewerage services						
WIP	1,222	–	1,222	893	–	893
Plant and equipment	164	160	4	164	159	5
Land						
– Operational land	570	–	570	532	–	532
Infrastructure	78,382	31,927	46,455	70,996	28,841	42,155
Total sewerage services	80,338	32,087	48,251	72,585	29,000	43,585
Domestic waste management						
Plant and equipment	628	149	479	690	204	486
Land						
– Operational land	1,061	–	1,061	908	–	908
Buildings	1,312	159	1,153	769	97	672
Other structures	1,150	141	1,009	1,103	113	990
Total DWM	4,151	449	3,702	3,470	414	3,056
TOTAL RESTRICTED IPP&E	209,951	70,804	139,147	196,198	63,942	132,256

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. Investment properties

	2020 \$ '000	2019 \$ '000
Owned investment property		
Investment property on hand at fair value	3,280	3,280
Total owned investment property	3,280	3,280

(a) Reconciliation – owned investment property

Reconciliation of annual movement:

Opening balance	3,280	3,280
CLOSING BALANCE – OWNED INVESTMENT PROPERTY	3,280	3,280

(b) Valuation basis (2019 only)

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

The 2018 revaluations were based on independent assessments made by:
APV Valuers and Asset Management

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

Refer to Note 19 for disclosures relating to any capital and service obligations that have been contracted.

	2020 \$ '000	2019 \$ '000
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(d) Leasing arrangements – Council as lessor (2019 only)

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

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

Within 1 year	–	7
Later than 1 year but less than 5 years	–	21
Later than 5 years	–	162
Total minimum lease payments receivable	–	190

(e) Investment property income and expenditure – summary (2019 only)

Rental income from investment property:

– Minimum lease payments	–	8
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Direct operating expenses on investment property:

– that generated rental income	–	(39)
– that did not generate rental income	–	(8)

Net revenue contribution from investment property	–	(39)
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plus:

Total income attributable to investment property	–	(39)
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Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. Investment properties (continued)

Accounting policy for investment property

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

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

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

The valuation were based on independent assessment made by:

APV Valuers and Asset Management in their valuation undertaken in 2017/2018 Financial year.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Contract assets and liabilities

	2020 Current \$ '000	2020 Non-current \$ '000
(a) Contract assets		
Road Infrastructure	441	—
Sporting and Recreational Infrastructure	947	—
Public Order and Safety Infrastructure	6	—
Total Contract assets	1,394	—

	Notes	2020 Current \$ '000	2020 Non-current \$ '000
(b) Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	1,385	—
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	685	—
Total grants received in advance		2,070	—
Total contract liabilities		2,070	—

Notes

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

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

	2020 Current \$ '000	2020 Non-current \$ '000
(i) Contract liabilities relating to restricted assets		
Externally restricted assets		
Water	94	—
Unspent grants held as contract liabilities (excl. Water & Sewer)	1,976	—
Contract liabilities relating to externally restricted assets	2,070	—
Total contract liabilities relating to restricted assets	2,070	—
Total contract liabilities relating to unrestricted assets	—	—
Total contract liabilities	2,070	—

2020
\$ '000

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Contract assets and liabilities (continued)

	2020 \$ '000
(ii) Revenue recognised (during the financial year) from opening contract liability balances	
Grants and contributions received in advance:	
Capital grants (to construct Council controlled assets)	130
Operating grants (received prior to performance obligation being satisfied)	316
Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period	446

Significant changes in contract assets and liabilities

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

Accounting policy for contract assets and liabilities

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Leases

(ii) Council as a lessor

Operating leases

Council leases out a number of properties to individuals and community groups; these leases have been classified as operating leases for financial reporting purposes and the assets are included as either investment property and/or IPP&E.

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

	2020 \$ '000
(i) Operating lease income	
Investment properties	
Lease income relating to variable lease payments not dependent on an index or a rate	8
Other lease income	
Aged Care Units	24
Residential Dwellings	24
Radio Communication Sites	1
Shops and Offices	25
Swimming Pool	8
Tourism Restaurant	26
Other Land	105
Total income relating to operating leases	221

(ii) Operating lease expenses

Investment properties	
Direct operating expenses that generated rental income	39
Direct operating expenses that did not generate rental income	8
Other leased assets	
Other	280
Total expenses relating to operating leases	327

(iv) Maturity analysis of contractual lease income

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

< 1 year	8
1–2 years	8
2–3 years	7
3–4 years	5
4–5 years	5
> 5 years	160
Total undiscounted contractual lease income receivable	193

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Leases (continued)

Accounting policy

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Payables and borrowings

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Payables				
Prepaid rates	844	–	747	–
Payments Received in Advance	81	–	–	–
Goods and services – operating expenditure	1,639	–	957	–
Accrued expenses:				
– Salaries and wages	251	–	233	–
– Other expenditure accruals	164	–	172	–
Security bonds, deposits and retentions	70	–	210	–
Total payables	3,049	–	2,319	–
Income received in advance (2019 only)				
Payments received in advance	–	–	62	–
Total income received in advance	–	–	62	–
Borrowings				
Loans – secured ¹	626	2,338	600	2,964
Total borrowings	626	2,338	600	2,964
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>3,675</u>	<u>2,338</u>	<u>2,981</u>	<u>2,964</u>

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

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

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	335	431	230	661
Sewer	205	832	196	1,033
Domestic waste management	196	1,075	191	1,270
Other	70	–	210	–
Payables and borrowings relating to externally restricted assets	806	2,338	827	2,964
Total payables and borrowings relating to restricted assets	806	2,338	827	2,964
Total payables and borrowings relating to unrestricted assets	2,869	–	2,154	–
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>3,675</u>	<u>2,338</u>	<u>2,981</u>	<u>2,964</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Payables and borrowings (continued)

(b) Changes in liabilities arising from financing activities

	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance \$ '000	Cash flows \$ '000	Acquisition \$ '000	Fair value changes \$ '000	Acquisition due to change in accounting policy \$ '000	Other non-cash movement \$ '000	Closing balance \$ '000
Loans – secured	3,564	(600)	–	–	–	–	2,964
TOTAL	3,564	(600)	–	–	–	–	2,964

	as at 30/06/18		Non-cash changes				as at 30/06/19
	Opening Balance \$ '000	Cash flows \$ '000	Acquisition \$ '000	Fair value changes \$ '000	Other non-cash movement \$ '000		Closing balance \$ '000
Loans – secured	4,140	(576)	–	–	–		3,564
TOTAL	4,140	(576)	–	–	–		3,564

	2020 \$ '000	2019 \$ '000
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(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	76	76
Total financing arrangements	276	276

Undrawn facilities as at balance date:

– Bank overdraft facilities	200	200
– Credit cards/purchase cards	76	76
Total undrawn financing arrangements	276	276

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

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Payables and borrowings (continued)

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Provisions

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Provisions				
Employee benefits				
Annual leave	1,804	–	1,567	–
Sick leave	–	87	–	87
Long service leave	2,747	–	2,311	–
Sub-total – aggregate employee benefits	4,551	87	3,878	87
Asset remediation/restoration:				
Asset remediation/restoration (future works)	202	6,694	124	6,753
Sub-total – asset remediation/restoration	202	6,694	124	6,753
<u>TOTAL PROVISIONS</u>	<u>4,753</u>	<u>6,781</u>	<u>4,002</u>	<u>6,840</u>

(a) Provisions relating to restricted assets

Externally restricted assets

Water	335	–	330	–
Sewer	133	–	109	–
Domestic waste management	223	–	217	–
Provisions relating to externally restricted assets	691	–	656	–
Total provisions relating to restricted assets	691	–	656	–
Total provisions relating to unrestricted assets	4,062	6,781	3,346	6,840
<u>TOTAL PROVISIONS</u>	<u>4,753</u>	<u>6,781</u>	<u>4,002</u>	<u>6,840</u>

	2020 \$ '000	2019 \$ '000
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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 – employee benefits	3,368	2,728
	<u>3,368</u>	<u>2,728</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Provisions (continued)

(c) Description of and movements in provisions

	ELE provisions			Total \$ '000
	Annual leave \$ '000	Sick leave \$ '000	Long service leave \$ '000	
2020				
At beginning of year	1,567	87	2,311	3,965
Additional provisions	1,065	–	654	1,719
Amounts used (payments)	(828)	–	(218)	(1,046)
Total ELE provisions at end of year	1,804	87	2,747	4,638

2019				
At beginning of year	1,502	72	2,260	3,834
Additional provisions	988	15	530	1,533
Amounts used (payments)	(923)	–	(479)	(1,402)
Total ELE provisions at end of year	1,567	87	2,311	3,965

	Other provisions		Total \$ '000
	Asset Remediation Garabage Tips \$ '000	Quarry / Gravel Pits \$ '000	
2020			
At beginning of year	6,303	574	6,877
Additional provisions	79	–	79
Remediation Costs	(269)	–	(269)
Unwinding of discount	191	18	209
Total other provisions at end of year	6,304	592	6,896

2019			
At beginning of year	1,742	464	2,206
- Revised Costs	4,457	82	4,539
Unwinding of discount	104	28	132
Total other provisions at end of year	6,303	574	6,877

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarry. The asset remediation provision represents the present value estimate of future costs Inverell Shire Council will incur to restore, rehabilitate and reinstate the tip and quarry as a result of past operations

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 borrowing expense.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Provisions (continued)

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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

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

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

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

Restoration

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

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

Rehabilitation

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Provisions (continued)

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.

Notes to the Financial Statements

for the year ended 30 June 2020

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

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

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

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

All adjustments on adoption of AASB 15 and AASB 1058 have been taken to retained earnings at 1 July 2019.

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

(ii) AASB 15 and AASB 1058

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

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

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

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

Principal v agent

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

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

Licences

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

Prepaid rates

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

Grants – operating

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Grants – capital

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

Changes in presentation

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

- Additional line items of contract liabilities has been created.

	Balance at 1 July 2019
\$ '000	
Opening contract balances at 1 July 2019	
Contract liabilities	
– Under AASB 15	281
– Under AASB 1058	165
Total Contract liabilities	446

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

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

Statement of Financial Position

	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur-e ment	Carrying amount under previous revenue standards	Notes
\$ '000					
Current assets					
Cash and cash equivalents	5,482	–	–	5,482	
Investments	27,501	–	–	27,501	
Receivables	4,066	–	–	4,066	
Inventories	485	–	–	485	
Contract assets	1,394	–	–	1,394	
Other	224	–	–	224	
Total current assets	39,152	–	–	39,152	
Current liabilities					
Payables	3,049	–	–	3,049	
Contract liabilities	2,070	–	(2,070)	–	
Borrowings	626	–	–	626	
Provisions	4,753	–	–	4,753	
Total current liabilities	10,498	–	(2,070)	8,428	
Non-current assets					

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassification	Remeasurement	Carrying amount under previous revenue standards	Notes
Investments	32,097	—	—	32,097	
Receivables	673	—	—	673	
Infrastructure, property, plant and equipment	765,899	—	—	765,899	
Investment property	3,280	—	—	3,280	
Total non-current assets	801,949	—	—	801,949	
Non-current liabilities					
Borrowings	2,338	—	—	2,338	
Provisions	6,781	—	—	6,781	
Total Non-current liabilities	9,119	—	—	9,119	
Net assets	821,484	—	2,070	823,554	
Equity					
Accumulated surplus	581,508	—	2,070	583,578	
Revaluation reserves	239,976	—	—	239,976	
Council equity interest	821,484	—	2,070	823,554	
Total equity	821,484	—	2,070	823,554	

Funds under AASB 15 and AASB 1058 which have been received prior to the satisfaction of the performance obligation

Income Statement

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
<u>Income from continuing operations</u>					
Rates and annual charges	21,372	—	—	21,372	
User charges and fees	5,096	—	—	5,096	
Other revenues	1,133	—	—	1,133	
Grants and contributions provided for operating purposes	13,117	—	394	13,511	
Grants and contributions provided for capital purposes	4,757	—	1,230	5,987	
Interest and investment income	1,373	—	—	1,373	
Rental income	221	—	—	221	
Total Income from continuing operations	47,069	—	1,624	48,693	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	13,840	—	—	13,840	

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
Borrowing costs	349	—	—	349	
Materials and contracts	8,775	—	—	8,775	
Depreciation and amortisation	10,383	—	—	10,383	
Other expenses	4,104	—	—	4,104	
Net losses from the disposal of assets	81	—	—	81	
Total Expenses from continuing operations	37,532	—	—	37,532	
Total Operating result from continuing operations	9,537	—	1,624	11,161	
Operating result from discontinued operations	43,714	—	—	43,714	
Net result for the year	53,251	—	1,624	54,875	
Total comprehensive income	120,584	—	—	120,584	

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

Adjustments to the current year figures for the year ended 30 June 2020

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract liabilities	—	446	446
Total liabilities	16,787	446	17,233
Accumulated surplus	528,703	(446)	528,257
Total equity	(16,787)	(446)	(17,233)

(iii) AASB 16 Leases

\$ '000	Balance at 1 July 2019
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Council as a lessor

For the arrangements where Council is a lessor, there are no significant accounting policy changes on adoption of AASB 16 except for sub-leases, which have now been classified in relation to the right-of-use asset under the head lease rather than the underlying asset.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Statement of cash flow information

	Notes	2020 \$ '000	2019 \$ '000
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	5,482	3,683
Balance as per the Statement of Cash Flows		5,482	3,683

(b) Reconciliation of net operating result to cash provided from operating activities

Net result from Income Statement	53,251	8,301
Adjust for non-cash items:		
Depreciation and amortisation	10,383	9,379
Net losses/(gains) on disposal of assets	81	(342)
Non-cash capital grants and contributions	(43,730)	(6)
Adoption of AASB 15/1058	(446)	—
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investments classified as 'at fair value' or 'held for trading'	(29)	(69)
– Revaluation decrements / impairments of IPP&E direct to P&L	—	(410)
Unwinding of discount rates on reinstatement provisions	—	132
+/- Movement in operating assets and liabilities and other cash items:		
Decrease/(increase) in receivables	796	(361)
Increase/(decrease) in provision for impairment of receivables	101	(12)
Decrease/(increase) in inventories	26	(5)
Decrease/(increase) in other current assets	(38)	(4)
Decrease/(increase) in contract assets	(1,394)	—
Increase/(decrease) in payables	682	(784)
Increase/(decrease) in other accrued expenses payable	10	(38)
Increase/(decrease) in other liabilities	(24)	250
Increase/(decrease) in contract liabilities	2,070	—
Increase/(decrease) in provision for employee benefits	673	131
Increase/(decrease) in other provisions	19	—
Net cash provided from/(used in) operating activities from the Statement of Cash Flows	22,431	16,162

(c) Non-cash investing and financing activities

Bushfire grants	16	6
Boundary Adjustment with Armidale Regional Council - Transfer of Tingha Village & surrounding area assets	43,714	—
Total non-cash investing and financing activities	43,730	6

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. 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.

Inverell Sports Council - Advisory committee on Inverell Sporting Fields and facilities (Section 355 Advisory Committee)
Inverell Sapphire Floral Festival - Co-ordinate Annual Inverell Festival (Section 355 Specific Event Committee)
Great Inland Fishing Festival - Co-ordinate Annual Fishing Festival (Section 355 Specific Event Committee)
Equestrian Council - Management of Equestrian Centre (Section 355 Management Committee)
Delungra District Development Council - Co-ordinate events in village of Delungra (Section 355 Specific Events Committee)
Bonshaw Hall Management Committee - Management of Hall (Section 355 Management Committee)
Delungra Hall Management Committee - Management of Hall (Section 355 Management Committee)
Graman Hall Management Committee - Management of Hall (Section 355 Management Committee)
Mt Russell Hall Management Committee - Management of Hall (Section 355 Management Committee)
Yetman Hall Management Committee - Management of Hall (Section 355 Management Committee)
Bukkulla Recreation Ground - Management of Sporting Facility (Section 355 Management Committee)
Graman Recreation Reserve - Management of Sporting facility (Section 355 Management Committee)
Oakwood Recreation Area - Management of Sporting Facility (Section 355 Management Committee)
Sporting Area on Part Reserve 1571 - Management of Sporting Facility (Section 355 Management Committee)
Tennis Courts on Section 19 - Management of Sporting Facility (Section 355 Management Committee)
Yetman Tennis Club - Management of Sporting Facility (Section 355 Management Committee)

Reasons for non-recognition of the above.

The above Section 355 committees have minimal bank account balances and do not own or control any other assets. All other assets are held by Council and are included in these financial statements.

The above Section 355 committees have not been recognised because it is considered that these transactions are immaterial either by amount or nature.

New England Joint Organisation (NEJO)

The New England Joint Organisation ("NEJO") was established on 11th May 2018 and is a separately constituted entity pursuant to Part 7 (sections 400O to 400ZH) of the Local Government Act (NSW) 1993, as amended, and the local Government (General) Regulation 2008.

The principal purpose of the NEJO is to establish strategic regional priorities and to provide regional leadership to the geographical area for which it serves, and to identify and take up opportunities for intergovernmental cooperation on matters relating to the joint organisation area.

The NEJO comprises seven voting member Councils: Inverell Shire Council, Armidale Regional Council, Glen Innes Severn Council, Moree Plains Shire Council, Narrabri Shire Council, Tenterfield Shire Council and Uralla Shire Council.

The Board of the NEJO consists of the Mayors of each Member Council, who are entitled to one (1) vote at Meetings, and a non-voting representative of the NSW Government, who is the Regional Director of the Department of Premier and Cabinet.

The Chairperson is to be elected by the voting representatives of the Board from one (1) of the Mayoral representatives. The Chairperson does not have a casting vote. A decision of the Board is supported by a majority at which a quorum is present.

Inverell Shire Council, as a member of the NEJO, has a one-seventh voting right in respect to the decisions of the Board. Decision making is based on majority votes, so Council does not have control, joint control or significant influence over relevant activities of the organisation.

In accordance with the NEJO's Charter, each member is required to contribute annual fees towards the operation of the organisation. In the 2018/2019 financial year, the contribution made by each Council was \$5,000. The contribution for the 2019/2020 financial year has been set at \$5,000 in the Operational Plan of the NEJO.

For the year ended 30th June 2020, the NEJO's net operating result was \$46,486.00. Council is not entitled to any share of the distribution of the NEJO's net operating result.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Commitments

	2020 \$ '000	2019 \$ '000
Capital commitments (exclusive of GST)		
Capital expenditure committed at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	604	91
Plant and equipment	1,110	1,937
Sewer Pipe Network	–	323
Other Structures	599	169
Office Equipment (IT)	69	–
Investment property		
– Buildings	–	–
Total commitments	2,382	2,520
These expenditures are payable as follows:		
Within the next year	2,382	2,520
Total payable	2,382	2,520
Sources for funding of capital commitments:		
Unrestricted general funds	214	175
Unexpended grants	1,104	85
Externally restricted reserves	–	323
Internally restricted reserves	1,064	1,937
Total sources of funding	2,382	2,520

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

Description of the funding arrangements.

Pooled employers are required to pay standard employer contributions and additional lump sum contributions to the fund.

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

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

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2018 for 3 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2020. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2020.

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

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

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

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

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2020 was \$210,877.01. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31st December 2018, and covers the period ended 30 June 2020.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

The amount of additional contributions included in the total employer contribution advised above is \$144,500.04. Council's expected contribution to the plan for the next annual reporting period is \$189,482.60.

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

Employer reserves only *	\$millions	Asset Coverage
Assets	1695.2	
Past Service Liabilities	1773.2	95.6%
Vested Benefits	1757.5	96.5%

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

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$143,900.00 as at 30 June 2020.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

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

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

* Plus promotional increases

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

(iv) Other guarantees

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

2. Other liabilities

(i) Third party claims

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

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

ASSETS NOT RECOGNISED

(i) Land under roads

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

(ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management

Risk management

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

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

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

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

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 2020 \$ '000	Carrying value 2019 \$ '000	Fair value 2020 \$ '000	Fair value 2019 \$ '000
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	5,482	3,683	5,482	3,683
Receivables	4,739	5,636	6,133	5,636
Investments				
– 'Financial assets at amortised cost'	54,501	50,500	54,501	55,569
Fair value through profit and loss				
Investments				
– 'Held for trading'	5,097	5,069	5,097	–
Total financial assets	69,819	64,888	71,213	64,888
Financial liabilities				
Payables	3,049	2,319	2,968	1,572
Loans/advances	2,964	3,564	2,964	3,564
Total financial liabilities	6,013	5,883	5,932	5,136

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 market interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) **'at fair value through profit and loss'** or (ii) **'available-for-sale'** – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

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

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

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

The risks associated with the instruments held are:

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management (continued)

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

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

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit \$ '000	Equity \$ '000	Profit \$ '000	Equity \$ '000
2020				
Possible impact of a 1% movement in interest rates	596	596	(596)	(596)
2019				
Possible impact of a 1% movement in interest rates	555	555	(555)	(555)

(b) Credit risk

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

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

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

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

The level of outstanding receivables is reviewed on a monthly basis and debt recovery procedures are implemented to recover any outstanding debts. Council makes suitable provision for doubtful receivables as required.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management (continued)

Credit risk profile

Receivables – rates and annual charges

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

	Not yet overdue \$ '000	< 1 year overdue \$ '000	1 - 2 years overdue \$ '000	2 - 5 years overdue \$ '000	> 5 years overdue \$ '000	Total \$ '000
2020						
Gross carrying amount	–	551	301	268	239	1,359
2019						
Gross carrying amount	–	532	232	192	120	1,076

Receivables - non-rates and annual charges

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

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

	Not yet overdue \$ '000	0 - 30 days overdue \$ '000	31 - 60 days overdue \$ '000	61 - 90 days overdue \$ '000	> 91 days overdue \$ '000	Total \$ '000
2020						
Gross carrying amount	2,397	32	731	6	332	3,498
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	1.69%	0.16%
ECL provision	–	–	–	–	6	6
2019						
Gross carrying amount	4,308	20	10	3	236	4,577
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	1.69%	0.09%
ECL provision	–	–	–	–	4	4

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management (continued)

(c) Liquidity risk

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

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

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

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

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

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

	Weighted average interest rate %	Subject to no maturity \$ '000	payable in: ≤ 1 Year \$ '000	1 - 5 Years \$ '000	> 5 Years \$ '000	Total cash outflows \$ '000	Actual carrying values \$ '000
2020							
Trade/other payables	0.00%	70	2,135	–	–	2,205	2,205
Loans and advances	4.19%	–	734	2,290	233	3,257	2,964
Total financial liabilities		70	2,869	2,290	233	5,462	5,169
2019							
Trade/other payables	0.00%	210	1,362	–	–	1,572	1,572
Loans and advances	4.19%	–	734	3,025	233	3,992	3,564
Total financial liabilities		210	2,096	3,025	233	5,564	5,136

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Material budget variations

Council's original financial budget for 19/20 was adopted by the Council on 26/6/2019 and is unaudited.

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

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
REVENUES				
Rates and annual charges	21,467	21,372	(95)	0% U
User charges and fees	4,022	5,096	1,074	27% 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 (\$285K), additional Waste Management fees (\$145K), additional water sales (\$610K) and other minor increases/decreases across a range of functions such as Caravan Park Fees, Construction Certificates, and Companion Animals.				
Other revenues	597	1,133	536	90% F
This favourable variance is due to higher income in a range of areas including rental income (\$47K), workers comp reimbursements (\$181K), waste income (\$61K), paid parental leave scheme (\$18K), sundry administration income (\$83k), insurance proceeds (\$133K) and other minor increases across a range of Council revenue streams.				
Operating grants and contributions	10,045	13,117	3,072	31% F
This favourable variance is due to higher income in a range of areas including youth services (\$22K), Community Drought Grants (\$285K), RMS Block Grant (\$79K), Financial Assistance Grants (\$265K), Supplementary Roads to Recovery Program (\$701K), Roads to Recovery budget recorded as Capital Contributions (\$1402K), ACRD Grant (\$41K), Bushfire fighting contributions (\$47K), Library (\$50K), Accrued Leave Contributions from other Councils (\$28K), Tingha Caravan Park (\$58K), RMS – SH12 Roundabout (\$98K), and other small grants. Unfavourable - RFS Grants (\$43k), Loan Subsidies (\$7K).				
Capital grants and contributions	2,014	4,757	2,743	136% F
This favourable variance is due to higher income in a range of areas including, Section 94 Contributions (\$74K), Section 64 Water & Sewer Contributions (\$593K), Stronger Country Communities Grants (\$903K), RMS Repair Program (\$53K), RMS Restart funding (\$795K), RMS Active Transport Program (\$82K) Contributions to Works (\$242K), Connections Building (\$347K), Drought & Bushfire Resilience Grants (\$836K) and minor grants and contributions. Unfavourable – RFS Grants (\$181K), Roads to Recovery – income recorded as operational grants (\$1036K).				
Interest and investment revenue	1,137	1,373	236	21% F
The actual amount of interest received on an accrual basis was over budget by \$536K. This favourable increase was the result of reducing the original budget to reflect anticipated downward movement in interests. With the assistance of Council's investment advisor, Council was able to return a higher average investment return than anticipated during 2019-2020.				
Net gains from disposal of assets	184	–	(184)	100% U
Council only budgets for a gain on the sale of Plant & Equipment. The unfavourable variance is due to a number of fleet items not being delivered before 30 June 2020.				
Rental income	–	221	221	∞ F

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Material budget variations (continued)

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----
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This favourable variance is a result of reclassifying rental income from Other Income to Rental Income in accordance with the OLG Code of Accounting Practice

EXPENSES

Employee benefits and on-costs	14,264	13,840	424	3%	F
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Borrowing costs	135	349	(214)	(159)%	U
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The variation of \$214K is a result of Council underestimating its borrowing cost in relation to amortisation of discounts and premiums for 2020.

Materials and contracts	7,724	8,775	(1,051)	(14)%	U
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This unfavourable variance is primarily a result of additional costs associated with community grants and extra grant funds for maintenance, repair and construction work on Council Assets.

Depreciation and amortisation	9,215	10,383	(1,168)	(13)%	U
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This unfavourable variance is a result of Council's larger capital works program (grant funded) in Roads Infrastructure and the inclusion for new assets from the Tingha Boundary Adjustment not included in the original budget.

Other expenses	4,373	4,104	269	6%	F
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Net losses from disposal of assets	–	81	(81)	∞	U
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This unfavourable variance is a result of a number of Fleet purchases being deferred from 2019 to 2020 which were not included in the original budget

Operating result from discontinued operations	–	43,714	(43,714)	∞	U
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This unfavourable variance is the book entries to record Assets and liabilities transferred from Armidale Regional Council as a result of the Tingha Boundary Adjustment. Refer to note 25 for more information.

STATEMENT OF CASH FLOWS

Cash flows from operating activities	12,786	22,431	9,645	75%	F
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This variation relates to the following favourable (F) and unfavourable (U) variations in income and expenditure, rates and annual charges \$181K (U), user charges and fees \$9K (U), interest revenue \$532K (F) grants and contributions \$7961K (F), bonds and deposits \$140K (U), other revenue \$3380K (F), employee costs \$1047K (F), borrowing costs \$5K (U), materials and contracts \$2767K (U), and other expenses \$172K (U)

Cash flows from investing activities	(12,129)	(20,032)	(7,903)	65%	U
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This variation relates to the following favourable (F) and unfavourable (U) variations in investing activities, Sale of PP&E \$103K (F), investment purchases \$4,000K (U), and Purchase of PP&E \$4006K (U)

Cash flows from financing activities	(600)	(600)	–	0%	F
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Inverell Shire Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Boundary adjustments

\$ '000

Tingha Boundary Adjustment

His Excellency Governor, David Hurley, on recommendation from the Minister for Local Government, Gabrielle Upton MP, approved the boundary change by issuing the proclamation called the Local Government (Armidale and Inverell - Alteration of Boundaries) Proclamation 2019, on 8th February, 2019. The boundary adjustment was effective from 1st July, 2019.

The proclamation has been published on the NSW legislation website at

<https://www.legislation.nsw.gov.au/regulations/2019-59.pdf>

The extension to Council's southern boundary includes the community of Tingha and the surrounding area which is estimated to include approximately 67,003 Ha of land being transferred to Inverell Shire Council.

The transfer of assets from Armidale Regional Council includes Roads, Bridges Footpaths, Land and Buildings Depot, Passive Parks; Bushfire/SES Buildings, Town Hall, Museum, Aged Home Units, Landfill, Cemetery, Water and Sewer Infrastructure and some minor miscellaneous assets.

These assets were transferred to Inverell Shire Council on 1st July 2019 for NIL consideration.

At 30th June 2019, Armidale Regional Council was owed a balance of \$210K which relate to unpaid rates and charges for Tingha Locality ratepayers. As per the proclamation Council was required to purchase the outstanding rates and charges from Armidale Regional Council at full face value.

At 30th June 2019, Armidale Regional Council held credit balances of \$41K on behalf of Tingha Locality ratepayers. As per the proclamation Armidale Regional Council was required to transfer this credit balance to Inverell Shire Council.

	Actual 2020
Assets and liabilities transferred from other councils	43,714
	<u>43,714</u>

a. Assets and liabilities transferred from former councils**(i) Carrying amount of assets and liabilities transferred**

Assets and liabilities of:

- Armidale Regional Council - (Tingha Locality)

Following a comprehensive audit, review and investigation of the Tingha Asset to be transferred. Council believes the carrying amounts are materially different from their fair values as at the date of transfer 1 July 2019.

Armidale Regional Council's Written Down Value of Assets to be Transferred was \$40,446k.

Inverell Shire Council's Written Down Value of Assets to be recognised on transfer amounted to \$43,714k.

The difference has been broken down to the following asset classes:

Land Assets	\$108 K
Building and Other Structures Assets	\$184 K
Road Transport Infrastructure Assets	\$2,520 K
Water Supply Asset	\$264 K
Open Space Assets	\$193 K

The fair value of the net assets has been shown as a gain from boundary adjustments in the Income Statement and further information is provided on the next page.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Boundary adjustments (continued)

\$ '000

a. Assets and liabilities transferred (continued)

(i) Carrying amount of assets and liabilities transferred (continued)

Gain on
boundary
adjustment

ASSETS

Current assets

Cash and cash equivalents

(169)

Total current assets

(169)

Non-current assets

Receivables

210

Infrastructure, property, plant and equipment

43,714

Total non-current assets

43,924

TOTAL ASSETS

43,755

LIABILITIES

Current liabilities

Income received in advance

41

Total current liabilities

41

Non-current liabilities

Total non-current liabilities

-

TOTAL LIABILITIES

41

Net assets transferred

43,714

(ii) Adjustments to carrying amount of assets and fair values recognised

The following adjustments were made to the carrying amount of the assets and liabilities received as part of the boundary adjustment in order to recognise them at fair value at the acquisition date.

Actual

Adjustments made to recognise net assets at fair value

2020

Fair Value of identified assets

43,714

Total adjustments

43,714

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement

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

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

During the reporting period, Council will measure non-capital 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) Assets and liabilities that have been measured and recognised at fair values

2020	Fair value measurement hierarchy				Total
	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
\$ '000					
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Held for trading’	30/6/20	–	5,097	–	5,097
Total financial assets		–	5,097	–	5,097
Investment property					
Commerical offices and vacant land	30/6/18	–	–	3,280	3,280
Total investment property		–	–	3,280	3,280
Infrastructure, property, plant and equipment					
Plant and equipment	30/6/18	–	–	13,058	13,058
Office equipment	30/6/18	–	–	917	917
Furniture and fittings	30/6/18	–	–	80	80
Operational land	30/06/18	–	13,405	–	13,405
Community land	30/06/18	–	9,566	–	9,566
Buildings – non-specialised	30/06/18	–	–	24,468	24,468
Buildings – specialised	30/06/18	–	–	10,307	10,307
Other structures	30/06/18	–	–	11,720	11,720
Roads	30/06/20	–	–	260,883	260,883
Bridges	30/06/20	–	–	112,586	112,586
Footpaths	30/06/20	–	–	7,729	7,729
Bulk earthworks (non-depreciable)	30/06/20	–	–	109,549	109,549
Stormwater drainage	30/06/20	–	–	28,190	28,190
Water supply network	30/06/17	–	–	86,229	86,229
Sewerage network	30/06/17	–	–	46,455	46,455
Swimming pools	30/06/18	–	–	3,060	3,060

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

2020		Fair value measurement hierarchy			
	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
\$ '000					
Other open space/recreational assets	30/06/18	—	—	16,182	16,182
Heritage collections	30/06/18	—	—	94	94
Library books	30/06/18	—	—	336	336
Other assets	30/06/18	—	—	22	22
Tip assets	30/06/20	—	—	5,869	5,869
Quarry assets	30/06/19	—	—	446	446
Capital Works in progress	30/06/20	—	—	4,748	4,748
Total infrastructure, property, plant and equipment		—	22,971	742,928	765,899
2019					
		Fair value measurement hierarchy			
	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
\$ '000					
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Held for trading’	30/6/19	—	5,069	—	5,069
Total financial assets		—	5,069	—	5,069
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	—	—	11,141	11,141
Office equipment	30/06/18	—	—	732	732
Furniture and fittings	30/06/18	—	—	103	103
Operational land	30/06/18	—	13,473	—	13,473
Community land	30/06/18	—	8,475	—	8,475
Buildings – non-specialised	30/06/18	—	—	23,634	23,634
Buildings – specialised	30/06/18	—	—	10,247	10,247
Other structures	30/06/18	—	—	11,830	11,830
Roads	30/06/15	—	—	184,761	184,761
Bridges	30/06/15	—	—	94,381	94,381
Footpaths	30/06/15	—	—	5,328	5,328
Bulk earthworks (non-depreciable)	30/06/15	—	—	107,293	107,293
Stormwater drainage	30/06/15	—	—	22,205	22,205
Water supply network	30/06/17	—	—	84,648	84,648
Sewerage network	30/06/17	—	—	42,154	42,154
Swimming pools	30/06/18	—	—	3,137	3,137
Other open space/recreational assets	30/06/18	—	—	14,002	14,002
Heritage collections	30/06/18	—	—	91	91
Library books	30/06/18	—	—	329	329
Other assets	30/06/18	—	—	28	28
Tip assets	30/06/19	—	—	6,304	6,304
Quarry assets	30/06/19	—	—	575	575
Capital Works in progress	30/06/19	—	—	4,397	4,397
Total infrastructure, property, plant and equipment		—	21,948	627,320	649,268

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

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

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

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

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

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

Investment property

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 (IPP&E)

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

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

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 used under current zoning rules. Sale prices of comparable land sites in close proximity

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach are price per square metre.

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 Practice.

Buildings (specialised and non-specialised)

Council 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 building were physically inspected, inputs such as estimation of 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 Council's Financial and Engineering staff as at 30 June 2020 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, and dimensions.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

Bridges

Bridges were valued in-house by Council's Financial and Engineering staff in June 2020. 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 Council's Financial and Engineering staff in June 2020 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, and 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 2020 by Council's 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

Council's 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 Council's 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 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

Council's 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 Council's 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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

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

Council's 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.

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 and Bonshaw, and waste transfer stations at Yetman and 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 Council's 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

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

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

	Level 3 fair value assets \$ '000
2019	
Opening balance	637,405
Purchases (GBV)	14,568
Disposals (WDV)	(245)
Depreciation and impairment	(9,847)
Adjustments	5,430
Revaluation Decrements to Equity	1,957
Closing balance	649,268
2020	
Opening balance	649,268
Purchases (GBV)	17,104
Disposals (WDV)	(801)
Depreciation and impairment	(10,800)
Adjustments	43,795
Revaluation Decrements to Equity	67,333
Closing balance	765,899

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 in 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Related party disclosures

Key management personnel

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

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

	2020 \$ '000	2019 \$ '000
Compensation:		
Short-term benefits	894	873
Post-employment benefits	60	60
Total	954	933

Note 26. Events occurring after the reporting date

Council is not aware of any material or significant 'non-adjusting events' that should be disclosed

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/06/19	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	Cumulative internal borrowings due/(payable)
	Opening Balance \$ '000	Cash \$ '000	Non-cash \$ '000	\$ '000	\$ '000	\$ '000	Held as restricted asset \$ '000	\$ '000
Drainage	34	16	—	—	—	—	50	—
Roads	512	50	—	9	—	—	571	—
S7.11 contributions – under a plan	546	66	—	9	—	—	621	—
Total S7.11 and S7.12 revenue under plans	546	66	—	9	—	—	621	—
Total contributions	546	66	—	9	—	—	621	—

S7.11 Contributions – under a plan

CONTRIBUTION PLAN – Shire of Inverell

Drainage	34	16	—	—	—	—	50	—
Roads	512	50	—	9	—	—	571	—
Total	546	66	—	9	—	—	621	—

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Result by fund

	General ¹ 2020 \$ '000	Water 2020 \$ '000	Sewer 2020 \$ '000
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	16,593	2,200	2,579
User charges and fees	2,075	3,012	9
Interest and investment revenue	1,021	197	155
Other revenues	1,056	65	12
Grants and contributions provided for operating purposes	12,925	99	93
Grants and contributions provided for capital purposes	3,984	553	220
Rental income	207	14	–
Total income from continuing operations	37,861	6,140	3,068
Expenses from continuing operations			
Employee benefits and on-costs	12,087	1,143	610
Borrowing costs	260	41	48
Materials and contracts	7,527	917	331
Depreciation and amortisation	7,717	1,604	1,062
Other expenses	1,283	1,897	924
Net losses from the disposal of assets	81	–	–
Total expenses from continuing operations	28,955	5,602	2,975
Operating result from continuing operations	8,906	538	93
Gain on Boundary Adjustments			
Gain on Boundary Adjustments	36,899	2,047	4,768
Net result for the year	45,805	2,585	4,861
Net result attributable to each council fund	45,805	2,585	4,861
Net result for the year before grants and contributions provided for capital purposes			
	41,821	2,032	4,641

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Result by fund (continued)

	General ¹ 2020 \$ '000	Water 2020 \$ '000	Sewer 2020 \$ '000
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	3,398	1,498	586
Investments	16,501	8,000	3,000
Receivables	3,155	682	229
Inventories	348	126	11
Contract assets	1,394	–	–
Other	224	–	–
Total current assets	25,020	10,306	3,826
Non-current assets			
Investments	25,578	3,019	3,500
Receivables	673	–	–
Infrastructure, property, plant and equipment	630,455	87,194	48,250
Investment property	3,280	–	–
Total non-current assets	659,986	90,213	51,750
TOTAL ASSETS	685,006	100,519	55,576
LIABILITIES			
Current liabilities			
Payables	3,033	12	4
Contract liabilities	1,976	94	–
Borrowings	196	229	201
Provisions	4,285	335	133
Total current liabilities	9,490	670	338
Non-current liabilities			
Borrowings	1,075	431	832
Provisions	6,781	–	–
Total non-current liabilities	7,856	431	832
TOTAL LIABILITIES	17,346	1,101	1,170
Net assets	667,660	99,418	54,406
EQUITY			
Accumulated surplus	534,370	24,520	22,618
Revaluation reserves	133,290	74,898	31,788
Council equity interest	667,660	99,418	54,406
Total equity	667,660	99,418	54,406

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	4,832	11.43%	14.71%	18.01%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	42,283				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	29,166	62.00%	67.59%	64.42%	>60.00%
Total continuing operating revenue ¹	47,040				
3. Unrestricted current ratio					
Current assets less all external restrictions	24,275	6.81x	10.56x	12.72x	>1.50x
Current liabilities less specific purpose liabilities	3,563				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	15,564	16.40x	18.29x	18.88x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	949				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,362	6.03%	5.57%	5.59%	<10.00%
Rates, annual and extra charges collectible	22,599				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	59,983	23.15 mths	22.71 mths	26.60 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	2,590				

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2020	2019	2020	2019	2020	2019	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	14.71%	18.42%	(0.38)%	4.17%	(4.46)%	(7.96)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	55.31%	60.84%	89.37%	94.61%	89.80%	94.13%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	6.21x	9.49x	22.51x	20.00x	14.94x	28.87x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	28.81x	36.61x	6.28x	7.15x	4.06x	3.25x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	5.82%	5.58%	6.72%	5.40%	6.79%	5.63%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	16.19	21.80	635.83	19.86	440.58	37.60	>3.00
Payments from cash flow of operating and financing activities	mths	mths	mths	mths	mths	mths	mths

(1) - (2) Refer to Notes at Note 29a above.

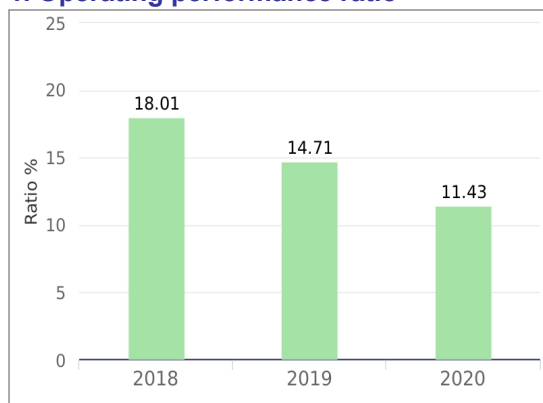
(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

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

Commentary on 2019/20 result

2019/20 ratio 11.43%

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

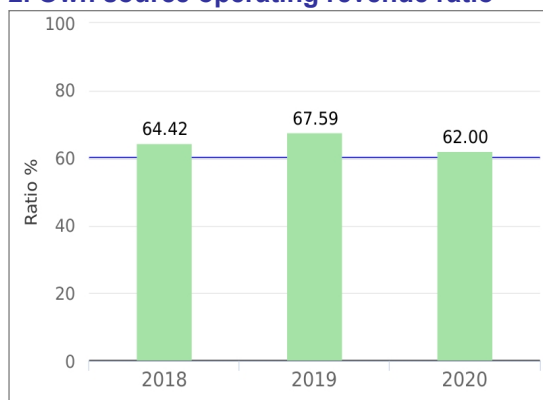
Benchmark: — > 0.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

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

Commentary on 2019/20 result

2019/20 ratio 62.00%

Council's own source revenue ratio has remained above the Tcorp benchmark of greater than 60% over the last three years. The State Government benchmark requires Council's own source operating revenue to be greater than 60% over a three year average, which Council has achieved for the combined fund.

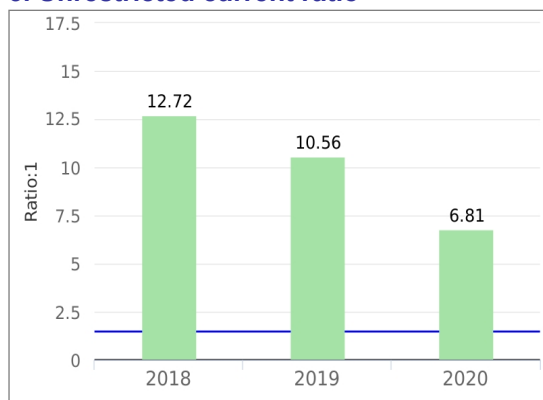
Benchmark: — > 60.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

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

Commentary on 2019/20 result

2019/20 ratio 6.81x

This ratio indicates that Council currently project to have \$6.81 (excluding externally restricted funds) available to service every \$1.00 of debt as it falls due. 6.81:1 is above the Tcorp benchmark of 1.5:1, and demonstrates Council's ability to satisfy short term obligations.

This ratio reduced due to a decrease in Current Assets, now shown as Non-Current Asset, due to an increase in long term investments.

Benchmark: — > 1.50x

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

Ratio achieves benchmark

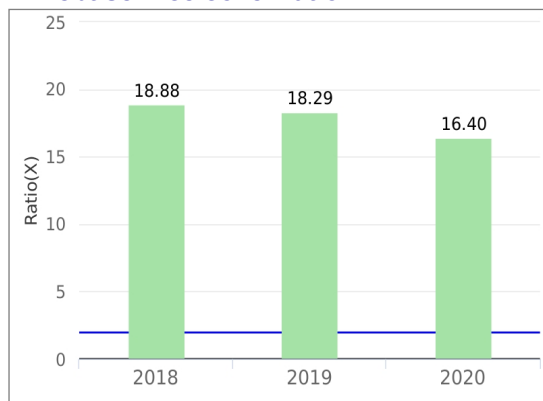
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

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

Commentary on 2019/20 result

2019/20 ratio 16.40x

The debt service cover ratio of 16.40 times indicates that Council has \$16.40 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 is in excess of the Tcorp benchmark 2.0 times.

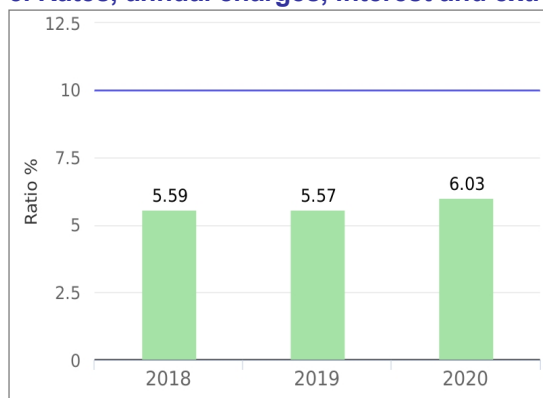
Benchmark: — > 2.00x

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

Ratio achieves benchmark

Ratio is outside benchmark

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



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

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

Commentary on 2019/20 result

2019/20 ratio 6.03%

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 6.03% is satisfactory and is better than the Tcorp benchmark of less than 10%. The impact of COVID-19 and the Tingha Boundary Adjustment has seen this ratio increase from 2019.

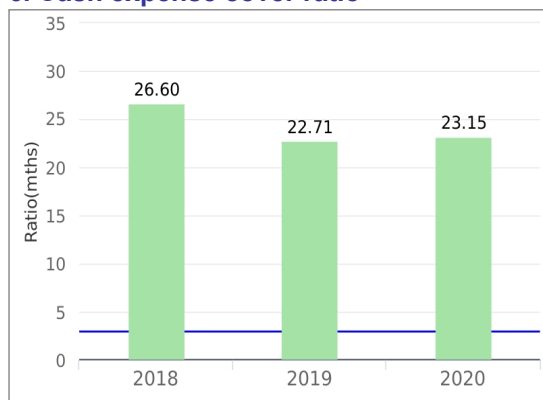
Benchmark: — < 10.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

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

Commentary on 2019/20 result

2019/20 ratio 23.15 mths

As indicated with a ratio of 23.35 months, Council's ability to continue paying for its immediate expenses without additional cash inflow is sound and exceeds the Tcorp benchmark of 3 months.

Benchmark: — > 3.00mths

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

Ratio achieves benchmark

Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2020

Note 30. 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

Telephone: 02 67 288 288

Facsimile: 02 67 288 277

Opening hours:

8:30am - 4:30pm
Monday to Friday

Internet: www.inverell.nsw.gov.au

Email: council@inverell.nsw.gov.au

Officers

General Manager

Paul Henry

Responsible Accounting Officer

Scott Norman

Public Officer

Scott Norman

Auditors

Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001

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: 72695204530



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Inverell Shire Council

To the Councillors of Inverell Shire Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 22 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

26 November 2020
SYDNEY



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

Contact: Chris Harper
Phone no: 02 925 7374
Our ref: D2026258/1744

26 November 2020

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2020
Inverell Shire Council**

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

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

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

INCOME STATEMENT

Operating result

	2020	2019	Variance
	\$m	\$m	%
Rates and annual charges revenue	21.4	19.6	↑ 9.2
Grants and contributions revenue	17.9	13.7	↑ 30.7
Operating result from continuing operations	53.3	8.3	↑ 542
Net operating result before capital grants and contributions	4.8	6.3	↓ 23.8

The Council's operating result from continuing operations (\$53.3 million including depreciation and amortisation expense of \$10.4 million) was \$45.0 million higher than 2018–19. This is mainly due to transfers of infrastructure, property, plant and equipment arising from the proclamation to adjust the Shire boundary to incorporate the township of Tingha and surrounding areas from Armidale Regional Council for \$43.7 million.

The net operating result before capital grants and contributions of \$4.8 million was \$1.5 million lower than 2018–19. This is due to an increase in employee benefits and on-costs of \$1.3 million attributable to pay increases and increased staff numbers partially due to the boundary adjustment.

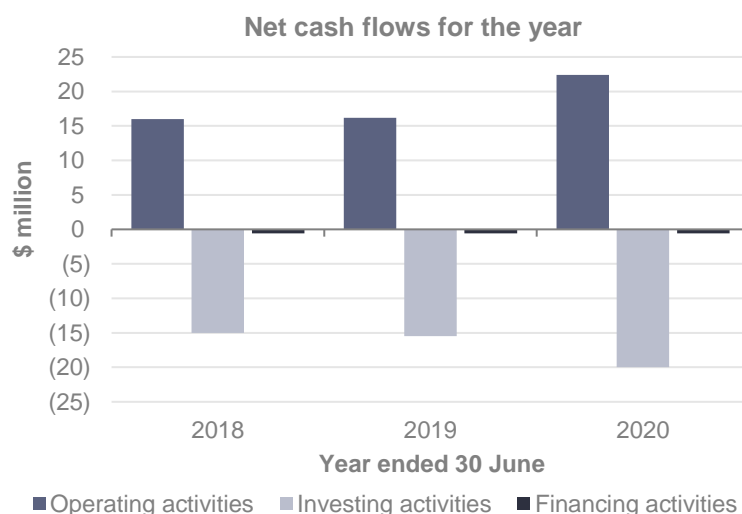
Rates and annual charges revenue (\$21.4 million) increased by \$1.8 million (9.2 per cent) in 2019–20 due mainly from properties transferred to Council as part of the boundary adjustment and the normal rate peg allowance increases in the year.

Grants and contributions revenue (\$17.9 million) increased by \$4.2 million (30.7 per cent) in 2019–20 due to:

- \$795,000 received for the Restart NSW – Recreation grant funding
- \$261,000 received for bushfire disaster recovery capital works
- \$394,000 increase in Financial Assistance Grant funding allocation
- \$1.4 million increase in roads to recovery and supplementary block grant funds received
- \$525,000 increase in other roads and bridges funding received for RMS drought funding and Active transport funding.

STATEMENT OF CASH FLOWS

Cash from operating activities increased by \$6.2 million due to higher grants and contributions. Cash outflows from investing increased by \$4.5 million due to higher capital expenditure on IPPE and an increase in investment funds. Cash from financing activities is consistent to prior year due to no new borrowings in the current year and repayment of debt.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	20.3	18.8	• Major external restrictions include water and sewer operations as well as developer contributions. The main increase related to water restricted cash due to a surplus in operations in the current year.
Internal restrictions	32.3	31.3	
Unrestricted	12.5	9.2	
Cash and investments	65.1	59.3	• Major internal restrictions include reserves to fund future capital works, plant replacements, special projects, employee leave entitlements and the Financial Assistance Grant paid in advance. This increased due to Council receiving more funds from the Financial Assistance Grant in the current year.

PERFORMANCE

Performance measures

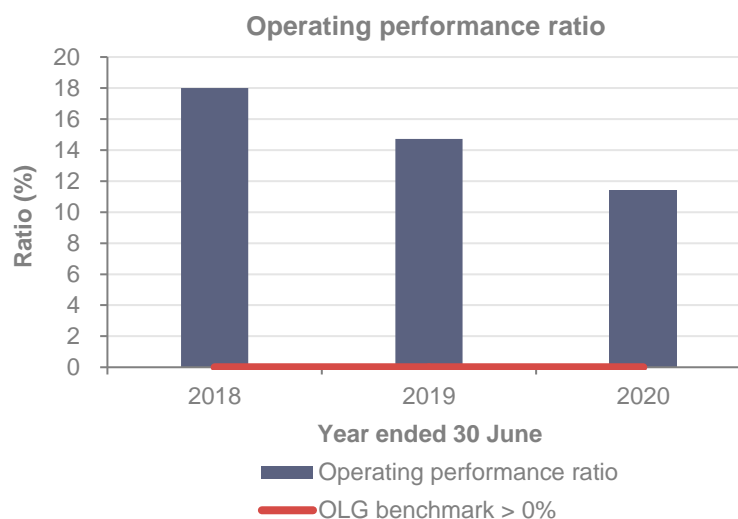
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

Operating performance ratio

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

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

The 2019–20 operating performance ratio decreased due to increases in operating expenses compared to 2018–19.

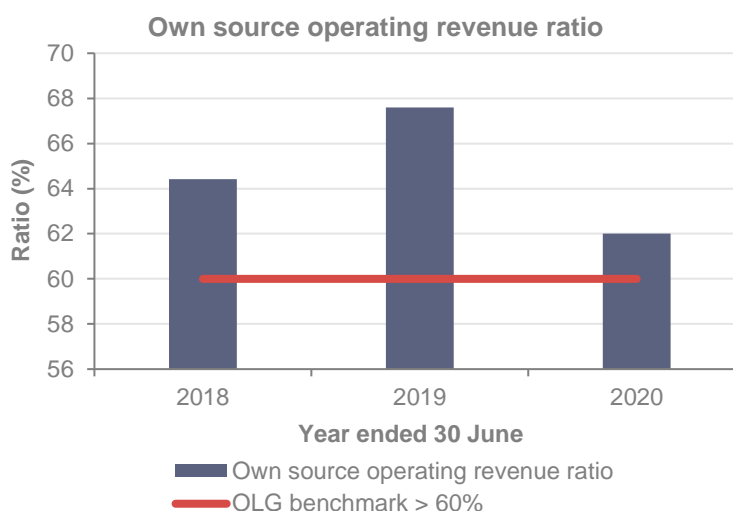


Own source operating revenue ratio

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

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

The own source operating revenue ratio has decreased compared to 2018–19 due to increases in grants and contributions in the current year.

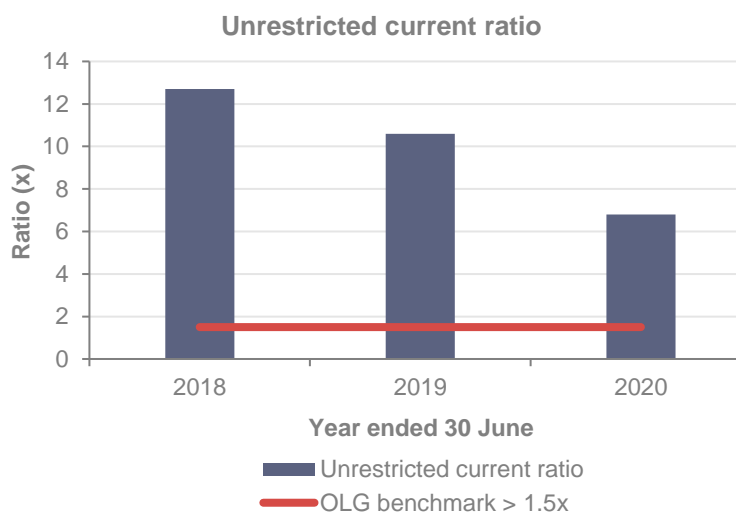


Unrestricted current ratio

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

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

The unrestricted current ratio has decreased compared to 2018–19. This is due to the transfer of investments to non-current assets and revenue deferral resulting from the adoption of the new Revenue Standards (see below).

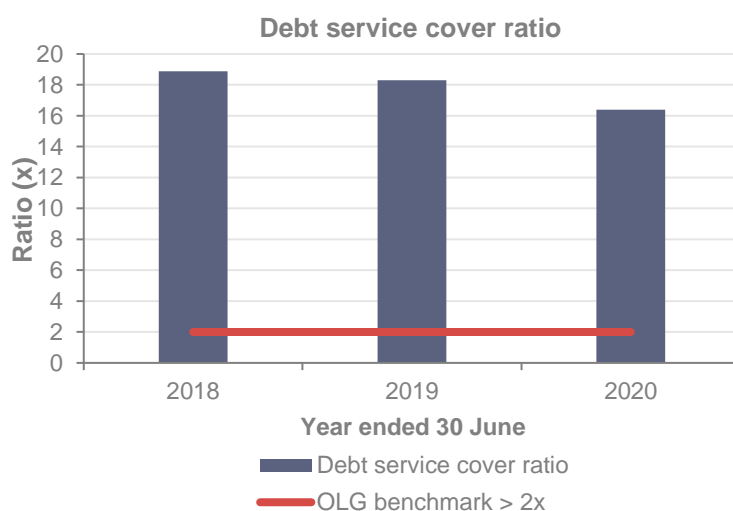


Debt service cover ratio

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

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

The debt service cover ratio remained comparable to prior years.

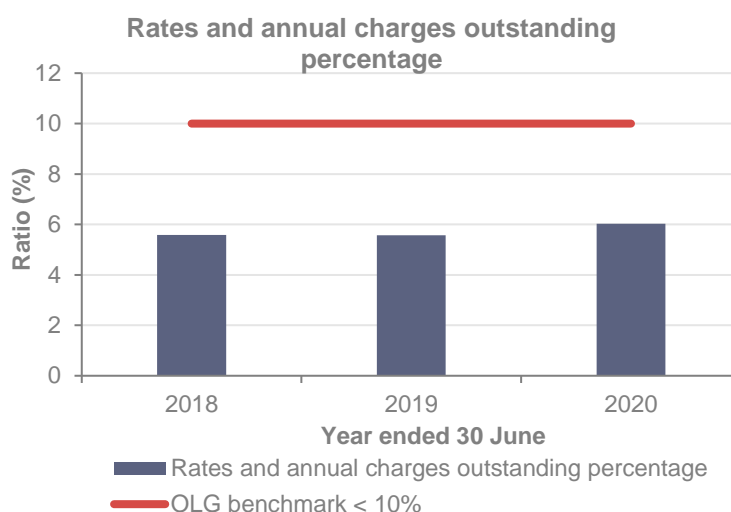


Rates and annual charges outstanding per centage

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

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

Council's rates and annual charges outstanding ratio has remained stable the past three years.

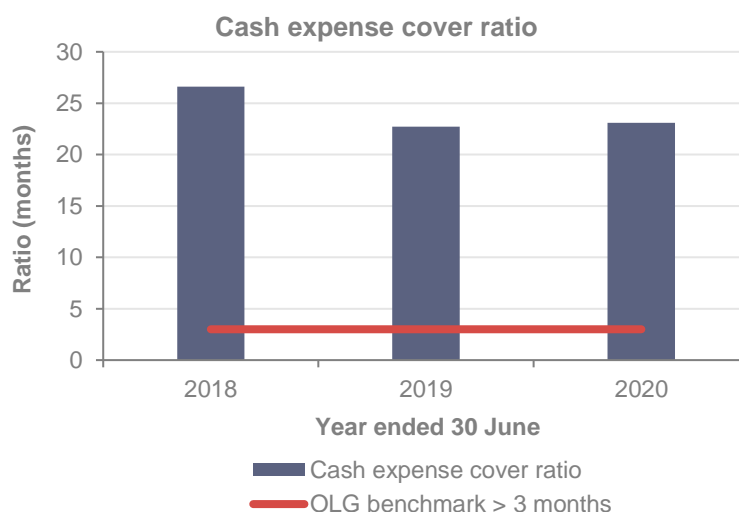


Cash expense cover ratio

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

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

The cash expense cover ratio is consistent with the prior year.



Infrastructure, property, plant and equipment renewals

Infrastructure, Property, Plant and Equipment (IPPE) renewal expenditure in 2019–20 was \$11.6 million. This is consistent with the prior year expenditure of \$11.8 million. Renewal expenditure was above depreciation for the year by \$801,000.

OTHER MATTERS

Impact of new accounting standards

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

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

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

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

The Council recognised a \$446,000 adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

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

AASB 16 'Leases'

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

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

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

There was no material impact on the financial statements for the 2019–20 year.

Legislative compliance

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

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



Chris Harper
Director, Financial Audit
Delegate of the Auditor-General for New South Wales

cc: Mr Paul Henry, General Manager
Mr Phil Schwenke, Chair of the Audit, Risk and Improvement Committee
Mr Scott Norman, Director of Corporate and Economic Services
Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment

Inverell Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020

Special Purpose Financial Statements

for the year ended 30 June 2020

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Background

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

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

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

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

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

Inverell Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2020

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

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

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

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

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

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

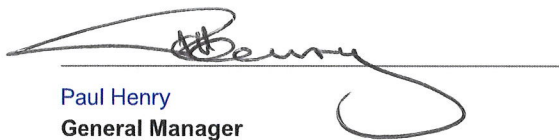
Signed in accordance with a resolution of Council made on 25 November 2020.



Paul Harmon
Mayor
25 November 2020



Anthony Michael
Councillor
25 November 2020



Paul Henry
General Manager
25 November 2020



Scott Norman
Responsible Accounting Officer
25 November 2020

Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

	2020 \$ '000	2019 \$ '000
Income from continuing operations		
Access charges	2,200	2,114
User charges	3,012	3,037
Interest	197	247
Grants and contributions provided for non-capital purposes	99	104
Other income	79	41
Total income from continuing operations	5,587	5,543
Expenses from continuing operations		
Employee benefits and on-costs	1,143	1,049
Borrowing costs	41	52
Materials and contracts	917	907
Depreciation, amortisation and impairment	1,604	1,553
Water purchase charges	98	69
Debt guarantee fee (if applicable)	3	4
Other expenses	1,799	1,669
Total expenses from continuing operations	5,605	5,303
Surplus (deficit) from continuing operations before capital amounts	(18)	240
Grants and contributions provided for capital purposes	553	206
Surplus (deficit) from continuing operations after capital amounts	535	446
Gain on Boundary Adjustment	2,047	–
Surplus (deficit) from all operations before tax	2,582	446
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(66)
SURPLUS (DEFICIT) AFTER TAX	2,582	380
Plus accumulated surplus	21,935	21,485
Plus adjustments for amounts unpaid:		
– Debt guarantee fees	3	4
– Corporate taxation equivalent	–	66
Closing accumulated surplus	24,520	21,935
Return on capital %	0.0%	0.3%
Subsidy from Council	744	838
Calculation of dividend payable:		
Surplus (deficit) after tax	2,582	380
Surplus for dividend calculation purposes	2,582	380
Potential dividend calculated from surplus	1,291	190

Income Statement – Sewerage Business Activity

for the year ended 30 June 2020

	2020 \$ '000	2019 \$ '000
Income from continuing operations		
Access charges	2,579	2,459
User charges	9	8
Interest	155	102
Grants and contributions provided for non-capital purposes	93	96
Other income	12	11
Total income from continuing operations	2,848	2,676
Expenses from continuing operations		
Employee benefits and on-costs	610	567
Borrowing costs	48	55
Materials and contracts	331	393
Depreciation, amortisation and impairment	1,062	943
Debt guarantee fee (if applicable)	5	6
Other expenses	924	931
Total expenses from continuing operations	2,980	2,895
Surplus (deficit) from continuing operations before capital amounts	(132)	(219)
Grants and contributions provided for capital purposes	220	65
Surplus (deficit) from continuing operations after capital amounts	88	(154)
Gain on Boundary Adjustment	4,768	–
Surplus (deficit) from all operations before tax	4,856	(154)
SURPLUS (DEFICIT) AFTER TAX	4,856	(154)
Plus accumulated surplus	17,757	17,905
Plus adjustments for amounts unpaid:		
– Debt guarantee fees	5	6
Less:		
Closing accumulated surplus	22,618	17,757
Return on capital %	(0.2)%	(0.4)%
Subsidy from Council	509	739
Calculation of dividend payable:		
Surplus (deficit) after tax	4,856	(154)
Surplus for dividend calculation purposes	4,856	–
Potential dividend calculated from surplus	2,428	–

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

	2020 \$ '000	2019 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	1,498	1,541
Investments	8,000	5,000
Receivables	682	952
Inventories	126	122
Other	–	3
Total current assets	10,306	7,618
Non-current assets		
Investments	3,019	4,013
Infrastructure, property, plant and equipment	87,194	85,615
Total non-current assets	90,213	89,628
TOTAL ASSETS	100,519	97,246
LIABILITIES		
Current liabilities		
Contract liabilities	94	–
Payables	12	13
Borrowings	229	217
Provisions	335	330
Total current liabilities	670	560
Non-current liabilities		
Borrowings	431	661
Total non-current liabilities	431	661
TOTAL LIABILITIES	1,101	1,221
NET ASSETS	99,418	96,025
EQUITY		
Accumulated surplus	24,520	21,935
Revaluation reserves	74,898	74,090
TOTAL EQUITY	99,418	96,025

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

	2020 \$ '000	2019 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	586	1,177
Investments	3,000	5,500
Receivables	229	197
Inventories	11	9
Total current assets	3,826	6,883
Non-current assets		
Investments	3,500	–
Infrastructure, property, plant and equipment	48,250	43,585
Total non-current assets	51,750	43,585
TOTAL ASSETS	55,576	50,468
LIABILITIES		
Current liabilities		
Payables	4	3
Borrowings	201	193
Provisions	133	109
Total current liabilities	338	305
Non-current liabilities		
Borrowings	832	1,033
Total non-current liabilities	832	1,033
TOTAL LIABILITIES	1,170	1,338
NET ASSETS	54,406	49,130
EQUITY		
Accumulated surplus	22,618	17,757
Revaluation reserves	31,788	31,373
TOTAL EQUITY	54,406	49,130

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

Note 1. Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

a. Water Supply – Water Supply Activities

b. Waste Water/Sewerage – Waste Water/Sewerage Activities

Monetary amounts

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

(i) Taxation equivalent charges

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

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

Note 1. Significant Accounting Policies (continued)

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

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

Notional rate applied (%)

Corporate income tax rate – **27.5%**

Land tax – the first \$692,000 of combined land values attracts **0%**. For the combined land values in excess of \$692,001 up to \$4,231,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$4,231,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$850,000.

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

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

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

Income tax

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

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

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

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

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

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

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.

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

Note 1. Significant Accounting Policies (continued)

(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.

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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

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

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

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30th June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

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

For the Year ended 30/6/2020 Council has not met the conditions of the Best Practise Management Guide and accordingly no dividend has been declared.



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Inverell Shire Council

To the Councillors of Inverell Shire Council

Opinion

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

The Declared Business Activities of the Council are:

- Water Supply
- Sewerage.

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

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



Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

26 November 2020
SYDNEY

Inverell Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2020

Special Schedules

for the year ended 30 June 2020

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Permissible income for general rates

	Notes	Calculation 2020/21 \$ '000	Calculation 2019/20 \$ '000
Notional general income calculation ¹			
Last year notional general income yield	a	13,548	12,614
Plus or minus adjustments ²	b	449	12
Notional general income	c = a + b	13,997	12,626
Permissible income calculation			
Special variation percentage ³	d	0.00%	7.25%
Or rate peg percentage	e	2.60%	0.00%
Plus special variation amount	$h = d \times (c + g)$	—	915
Or plus rate peg amount	$i = e \times (c + g)$	364	—
Sub-total	k = (c + g + h + i + j)	14,361	13,541
Plus (or minus) last year's carry forward total	l	1	10
Less valuation objections claimed in the previous year	m	—	(2)
Sub-total	n = (l + m)	1	8
Total permissible income	o = k + n	14,362	13,549
Less notional general income yield	p	14,359	13,548
Catch-up or (excess) result	q = o - p	3	1
Carry forward to next year ⁶	t = q + r + s	3	1

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.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Local Government Act 1993. The OLG will extract these amounts from Council's Permissible income for general rates Statement in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Inverell Shire Council

To the Councillors of Inverell Shire Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

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

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

A handwritten signature in black ink, appearing to read 'CHarper', with a long, sweeping horizontal stroke extending to the right.

Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

26 November 2020
SYDNEY

Report on Infrastructure Assets

as at 30 June 2020

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	2019/20 Required maintenance ^a	2019/20 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	1	2	3	4	5
(a) Report on Infrastructure Assets - Values												
Buildings	Buildings – non-specialised	–	–	591	554	24,468	29,730	76.5%	20.7%	2.8%	0.0%	0.0%
	Buildings – specialised	–	–	25	23	10,307	16,138	32.2%	62.6%	5.2%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	–	–	616	577	34,775	45,868	60.9%	35.5%	3.6%	0.0%	0.0%
Other structures	Other structures	–	–	1,119	1,140	11,720	13,920	80.8%	18.5%	0.7%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	–	–	1,119	1,140	11,720	13,920	80.8%	18.5%	0.7%	0.0%	0.0%
Roads	Sealed roads	7,143	7,143	3,539	3,585	214,348	261,492	11.7%	69.7%	15.6%	3.0%	0.0%
	Unsealed roads	–	–	2,067	2,059	46,535	53,941	0.0%	87.9%	12.1%	0.0%	0.0%
	Bridges	–	–	286	298	112,586	156,442	0.2%	81.9%	17.0%	0.9%	0.0%
	Footpaths	–	–	156	136	7,729	10,201	4.2%	94.7%	1.1%	0.0%	0.0%
	Other road assets	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Bulk earthworks	–	–	–	–	109,549	109,549	100.0%	0.0%	0.0%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	7,143	7,143	6,048	6,078	490,747	591,625	23.8%	62.1%	12.5%	1.6%	0.0%
Water supply network	Water supply network	–	–	1,224	1,351	86,229	124,397	20.1%	67.7%	12.3%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	–	–	1,224	1,351	86,229	124,397	20.1%	67.7%	12.3%	0.0%	0.0%
Sewerage network	Sewerage network	–	–	892	846	46,455	78,382	20.9%	38.9%	40.2%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	–	–	892	846	46,455	78,382	20.9%	38.9%	40.2%	0.0%	0.0%
Stormwater drainage	Stormwater drainage	–	–	75	100	22,532	31,790	8.0%	90.7%	1.3%	0.0%	0.0%
	Other	–	–	–	–	5,658	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	–	–	75	100	28,190	31,790	8.0%	90.7%	1.3%	0.0%	0.0%

Report on Infrastructure Assets - Values (continued)

as at 30 June 2020

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	2019/20 Required maintenance ^a	2019/20 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	1	2	3	4	5
Open space / recreational assets	Swimming pools	—	—	70	138	3,060	4,547	0.0%	0.0%	100.0%	0.0%	0.0%
	Other	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Other Open Space/Recreational Assets	—	—	864	767	16,182	19,642	70.8%	26.9%	2.4%	0.0%	0.0%
	Sub-total	—	—	934	905	19,242	24,189	57.5%	21.8%	20.7%	0.0%	0.0%
TOTAL - ALL ASSETS		7,143	7,143	10,908	10,997	717,358	910,171	26.1%	58.8%	14.1%	1.0%	0.0%

(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

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	Amounts 2020	Indicator 2020	Prior periods 20192018		Benchmark
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	8,013	93.92%	152.66%	115.27%	>=100.00%
Depreciation, amortisation and impairment	8,532				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	7,143	1.00%	0.84%	0.86%	<2.00%
Net carrying amount of infrastructure assets	717,358				
Asset maintenance ratio					
Actual asset maintenance	10,997	100.82%	100.53%	94.05%	>100.00%
Required asset maintenance	10,908				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	7,143	0.78%	0.66%	0.67%	
Gross replacement cost	910,171				

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

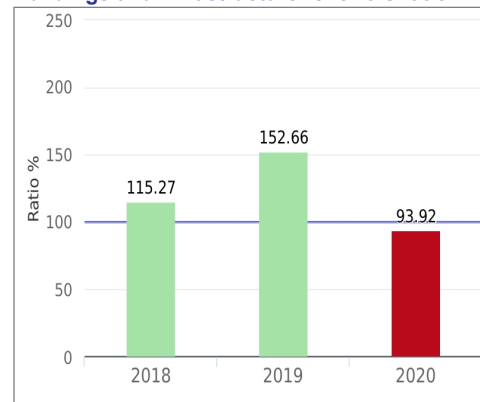
(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2020

Buildings and infrastructure renewals ratio



Buildings and infrastructure renewals ratio

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

Commentary on result

19/20 ratio 93.92%

Council's long term objective is to match spending on infrastructure renewals with their systematic deterioration. This requires the renewal ratio to approach 100% over the long term. This year council achieved 93.92% which is marginally lower than the required benchmark of 100%. However, Councils long term infrastructure renewals exceeds the benchmark on average over recent years.

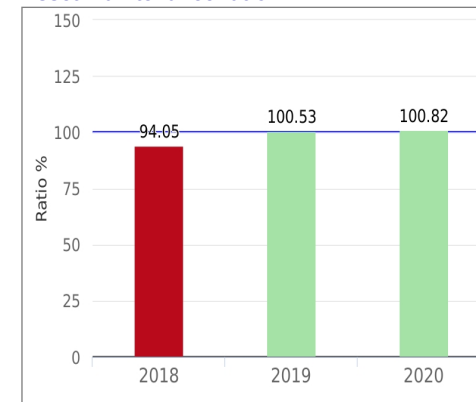
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

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

Commentary on result

19/20 ratio 100.82%

Council's Asset Maintenance Ratio of 100.82% is marginally higher than the required 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

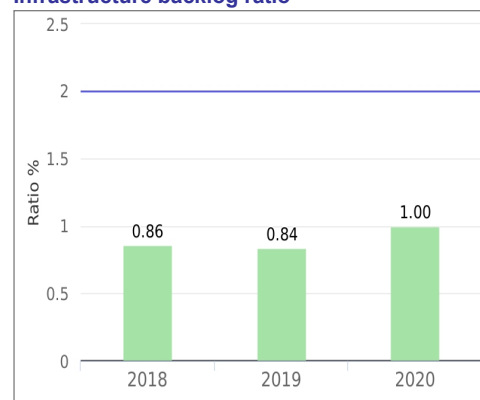
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

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

Commentary on result

19/20 ratio 1.00%

Council completed an independent review of its Road Infrastructure Asset Class in 2015 & 2020. The results of this review have been utilised to determine Council's actual Infrastructure Backlog.

The benchmark is less 2%

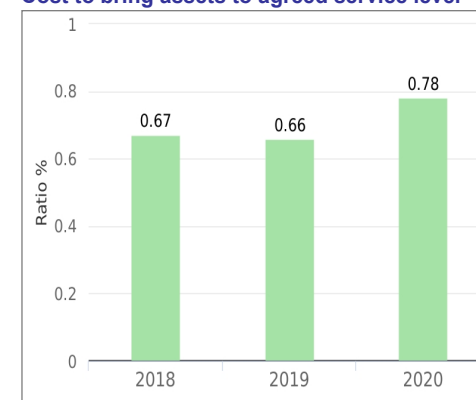
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

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

Commentary on result

19/20 ratio 0.78%

At 0.78% Council meets the benchmark for this newly introduced ratio which is lower than the required 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

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2020	2019	2020	2019	2020	2019	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²	130.86%	177.78%	20.15%	21.85%	0.00%	229.12%	>=100.00%
Depreciation, amortisation and impairment							
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard	1.22%	1.07%	0.00%	0.00%	0.00%	0.00%	<2.00%
Net carrying amount of infrastructure assets							
Asset maintenance ratio							
Actual asset maintenance	100.09%	98.79%	110.38%	105.87%	94.84%	109.58%	>100.00%
Required asset maintenance							
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council	1.01%	0.88%	0.00%	0.00%	0.00%	0.00%	
Gross replacement cost							

(1) Excludes Work In Progress (WIP)

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