

HAWKESBURY CITY COUNCIL
FINANCIAL STATEMENTS
for the year ended 30 June 2018

The Hawkesbury 2036...It's Our Future

**General Purpose
Special Purpose
Special Schedules**



Hawkesbury City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

*Hawkesbury City Council leading and working with our community
to create a healthy and resilient future*



General Purpose Financial Statements

for the year ended 30 June 2018

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Overview

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

366 George Street
WINDSOR NSW 2576

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.hawkesbury.nsw.gov.au.

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

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

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

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

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

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

Who uses the Financial Statements?

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

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

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

General Purpose Financial Statements

for the financial year ended 30 June 2018

Statement by Councillors and Management

made pursuant to Section 413(2)(c) of the Local Government Act 1993 (NSW) (as amended)

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

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

To the best of our knowledge and belief, these Financial Statements:

- present fairly the Council's operating result and financial position for the year, and
- accords 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 September 2018.



Councillor Barry Calvert

MAYOR

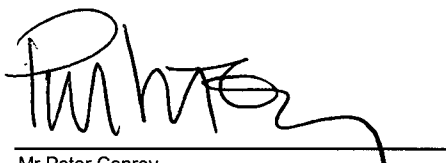
25 September 2018



Councillor Mary Lyons-Buckett

DEPUTY MAYOR

25 September 2018



Mr Peter Conroy

GENERAL MANAGER

25 September 2018



Ms Emma Galea

RESPONSIBLE ACCOUNTING OFFICER

25 September 2018

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Income from continuing operations				
Revenue:				
51,923	Rates and annual charges	3a	52,429	49,754
6,473	User charges and fees	3b	7,021	6,335
1,201	Interest and investment revenue	3c	1,520	1,434
4,019	Other revenues	3d	4,379	4,047
6,422	Grants and contributions provided for operating purpose	3e,f	7,694	9,591
3,428	Grants and contributions provided for capital purpose	3e,f	19,052	18,825
Other income:				
–	Fair value increment on investment property	11	2,104	3,578
–	Reversal of revaluation decrements / impairment of	4d		
–	Net share of interests in joint ventures and			
265	associates using the equity method	17	304	387
73,731	Total income from continuing operations		94,503	93,951
Expenses from continuing operations				
26,879	Employee benefits and on-costs	4a	27,013	26,092
304	Borrowing costs	4b	364	358
17,288	Materials and contracts	4c	17,690	18,982
18,452	Depreciation and amortisation	4d	19,485	18,594
–	Impairment of investments	4d		
12,154	Other expenses	4e	11,390	11,839
–	Interest and investment losses	3c		
–	Net losses from the disposal of assets	5	97	420
–	Fair value decrement on investment property	11		
–	Revaluation decrement / impairment of IPP&E	4d	178	
–	Net share of interests in joint ventures and			
–	associates using the equity method	17		
75,076	Total expenses from continuing operations		76,217	76,285
(1,345)	Operating result from continuing operations		18,286	17,666
–	Operating result from discontinued operation	22	–	–
(1,345)	Net operating result for the year		18,286	17,666
(1,345)	Net operating result attributable to Council		18,286	17,666
–	Net operating result attributable to non-controlling interests		–	–
(4,773)	Net operating result for the year before grants and contributions provided for capital purposes		(766)	(1,159)

Statement of Comprehensive Income
for the year ended 30 June 2018

\$ '000	Notes	2018	Restated 2017
Net operating result for the year (as per Income Statement)		18,286	17,666
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	10a	47,466	(4,139)
Total items which will not be reclassified subsequently to the operating result		47,466	(4,139)
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil		-	-
Total items which will be reclassified subsequently to the operating result when specific conditions are met		-	-
Total other comprehensive income for the year		47,466	(4,139)
Total comprehensive income for the year		65,752	13,527
Total comprehensive income attributable to Council		65,752	13,527
Total comprehensive income attributable to non-controlling interests		-	-

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

Statement of Financial Position

as at 30 June 2018

\$ '000	Notes	Actual 30-Jun-18	Restated 30-Jun-17	Restated 1-Jul-16
ASSETS				
Current assets				
Cash and cash equivalents	6a	5,341	19,400	5,233
Investments	6b	53,500	25,211	38,800
Receivables	7	5,940	5,989	6,599
Inventories	8	216	164	287
Other	8	1,004	773	836
Total current assets		66,001	51,537	51,755
Non-current assets				
Receivables	7	1,079	989	1,051
Infrastructure, property, plant and equipment	10	957,537	904,400	892,890
Investments accounted for using the equity method	17	3,229	2,925	2,538
Investment property	11	47,271	45,312	41,655
Intangible assets	12	242	242	471
Total non-current assets		1,009,358	953,868	938,605
TOTAL ASSETS		1,075,359	1,005,405	990,360
LIABILITIES				
Current liabilities				
Payables	13	10,192	7,842	7,967
Borrowings	13	751	910	850
Provisions	14	10,367	10,134	8,812
Total current liabilities		21,310	18,886	17,629
Non-current liabilities				
Borrowings	13	2,982	3,658	4,506
Provisions	14	6,477	4,023	2,914
Total non-current liabilities		9,459	7,681	7,420
TOTAL LIABILITIES		30,769	26,567	25,049
Net assets		1,044,590	978,838	965,311
EQUITY				
Retained earnings	15	432,873	414,587	396,921
Revaluation reserves	15	611,717	564,251	568,390
Council equity interest		1,044,590	978,838	965,311
Non-controlling equity interests		—	—	—
Total equity		1,044,590	978,838	965,311

Statement of Changes in Equity
for the year ended 30 June 2018

		2018			Non-			2017			Non-		
		Accumulated	Revaluation	Other	Council	controlling	Total	Restated	Restated	Other	Council	controlling	Total
\$ '000	Notes	Surplus	Reserve	Reserves	Interest	Interest	Equity	Accumulated	Revaluation	Reserves	Interest	Interest	Equity
Opening balance		414,587	564,251	-	978,838	-	978,838	396,921	595,311	-	992,232	-	992,232
a. Correction of Prior Period Errors	14 (b)	-	-	-	-	-	-	-	(26,921)	-	(26,921)	-	(26,921)
Restated opening balance		414,587	564,251	-	978,838	-	978,838	396,921	568,390	-	965,311	-	965,311
Net operating result for the year		18,286	-	-	18,286	-	18,286	17,666	-	-	17,666	-	17,666
Other comprehensive oncome													
- Gain (loss) on revaluation of IPP&E	10 (a)	-	47,466	-	47,466	-	47,466	-	(4,139)	-	(4,139)	-	(4,139)
Other comprehensive income		-	47,466	-	47,466	-	47,466	-	(4,139)	-	(4,139)	-	(4,139)
Total comprehensive income		18,286	47,466	-	65,752	-	65,752	17,666	(4,139)	-	13,527	-	13,527
Equity - balance at the end of the reporting period		432,873	611,717	-	1,044,590	-	1,044,590	414,587	564,251	-	978,838	-	978,838

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 2018

Original unaudited budget 2018	\$ '000	Notes	2018	2017
Cash Flows from operating activities				
Receipts:				
49,327	Rates and annual Charges		52,168	49,642
6,408	User charges and fees		7,390	6,987
1,201	Investment and interest revenue received		1,394	1,433
8,883	Grants and contributions		18,031	18,948
-	Bonds, deposits and retention amounts received		261	-
3,979	Other		8,114	8,757
Payments:				
(26,073)	Employee benefits and on-costs		(26,773)	(25,927)
(17,115)	Materials and contracts		(18,812)	(21,521)
(190)	Borrowing costs		(191)	(218)
-	Bonds, deposits and retention amounts refunded		-	(987)
(12,032)	Other		(10,059)	(10,577)
14,388	Net cash provided (or used in) operating activities	16b	31,523	26,537
Cash flows from investing activities				
Receipts:				
-	Sale of investment securities		69,000	58,900
-	Sale of investment property		303	-
870	Sale of infrastructure, property, plant and equipment		1,134	1,468
Payments:				
-	Purchase of investment securities		(97,289)	(45,310)
-	Purchase of investment property		(139)	(79)
(15,018)	Purchase of infrastructure, property, plant and equipment		(17,688)	(26,328)
-	Contributions paid to joint ventures and associates		-	(109)
-	Other investing activity payments		-	(143)
(14,148)	Net Cash provided (or used in) investing activities		(44,679)	(11,601)
Cash flows from financing activities				
Receipts:				
-	Nil		-	-
Payments:				
(910)	Repayment of borrowings and advances		(904)	(877)
(910)	Net cash flow provided (used in) financing activities		(904)	(877)
(670)	Net increase/(decrease) in cash and cash equivalents		(14,060)	14,059
19,400	plus: cash and cash equivalents - beginning of year		19,400	5,341
18,730	Cash and cash equivalents - end of the year	16a	5,341	19,400
	plus: Investments on hand - end of year		53,500	25,211
	Total cash, cash equivalents and investments		58,841	44,611

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 2018

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Note 1. Summary of Significant Accounting Policies

These financial statements were authorised for use by Council on 25 September 2018.

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

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

Basis of preparation

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

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

Full dollars have been used in Note 24 Related party disclosures in relation to the disclosure of specific related party transactions.

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

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

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

and are clearly marked.

(a) New and amended standards adopted by Council

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

(b) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by

the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment and investment property.

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

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

Significant judgements in applying the Council's accounting policies

- (v) Impairment of receivables

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

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993 (NSW)*, all money and other assets received by Council is held in the

Note 1. Summary of Significant Accounting Policies

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
- Sewerage Service
- Hawkesbury Sports Council Incorporated

(b) The Trust Fund

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

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 which that are recoverable from, or payable to the taxation authority are presented as operating cash flows.

New accounting standards and interpretations issued not yet effective

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

As at the date of authorisation of these financial statements, Council considers that the standards

and interpretations listed below will have an impact upon future published financial statements ranging from additional and / or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

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

- [AASB 9 Financial Instruments](#)

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

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

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

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

- [AASB 15 Revenue from Contracts with Customers](#)
- [AASB 1058 Income of Not-for-Profit Entities](#)
- [AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities](#)

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Summary of Significant Accounting Policies

- [AASB 16 Leases](#)

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

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

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

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

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

[AASB 1059 Service Concession Arrangement: Granters](#)

This policy will not have any impact on council.

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

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).									
	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current & non-current)	
	Actual 2018	Actual 2017	Actual 2018	Actual 2017	Actual 2018	Actual 2017	Actual 2018	Actual 2017	Actual 2018	Actual 2017
Governance	10	8	720	992	(710)	(984)	-	-	141	169
Our Leadership	44,649	46,058	8,268	6,900	36,381	39,158	3,058	4,255	73,660	62,580
Our Community	1,658	2,256	7,417	7,490	(5,759)	(5,234)	656	722	6,736	4,575
Our Environment	1,739	1,684	1,903	2,102	(164)	(418)	84	1,083	4,063	4,091
Our Assets	45,922	43,710	55,522	56,491	(9,601)	(12,782)	6,389	7,035	990,524	933,990
Our Future	525	236	2,387	2,309	(1,862)	(2,073)	28	18	236	-
Total Functions & Activities	94,503	93,951	76,217	76,285	18,286	17,666	10,215	13,113	1,075,359	1,005,405

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:

GOVERNANCE

Includes costs relating to Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of Council and policy-making committees, public disclosure (e.g. GIPA), and legislative compliance.

Our Leadership

Be a respected civic leader through consistent, transparent and engaged decision making that the community can understand.

Our Community

Partner with our community and key service providers to deliver outcomes that support a connected, healthy and inclusive Hawkesbury.

Our Environment

Through leadership, stewardship and education, ensure that our natural and built environment is protected and enhanced for the current community and for future generations.

Our Assets

Provide, upgrade and maintain assets to support our community.

Our Future

Be a place that is vibrant, attractive and welcoming that treasures and celebrates our shared history, environment, local economy and lifestyle.

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

Note 3. Income from continuing operations

\$ '000	2018	2017
(a) Rates and annual charges		
Ordinary rates		
Residential	26,146	25,454
Farmland	1,378	1,491
Business	3,304	3,000
Total ordinary rates	30,828	29,945
Special rates		
Nil	-	-
Total special rates	-	-
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	12,014	11,470
Stormwater management services	534	-
Sewerage services	6,329	5,722
Waste management services (non-domestic)	1,228	1,169
Section 611 charges	22	22
Sullage	1,474	1,426
Total annual charges	21,601	19,809
TOTAL RATES AND ANNUAL CHARGES	52,429	49,754

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

Accounting policy for rates and annual charges

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

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

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

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(b) User charges and fees		
Specific user charges (per s.502 - specific "actual use" charges)		
Sewerage services	953	840
Waste management services (non-domestic)	4	13
Sullage	337	315
Total user charges	1,294	1,168
Other user charges and fees		
(i) Fees and charges - statutory and regulatory functions (per s.608)		
Inspection services	23	26
Planning and building regulation	1,829	1,473
Regulatory / statutory fees	450	491
Registration fees	3	5
Section 149 certificates (EPA Act)	257	246
Section 603 certificates	97	105
Sewerage management facility inspection fees	176	155
Total fees and charges - statutory / regulatory	2,835	2,501
(ii) Fees and charges - other (incl. general user charges (per s.608))		
Caravan park	8	9
Animal Shelter income	696	677
Cemeteries	327	245
Leaseback fees - Council vehicles	308	308
Library, Museum and Gallery income	65	91
Park rents	151	146
Restoration charges	152	136
Swimming Centre	218	205
Vehicle inspection fees	2	14
Waste Management Facility	884	806
Other	81	29
Total fees and charges - other	2,892	2,666
TOTAL USER CHARGES AND FEES	7,021	6,335

Accounting policy for user charges and fees

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 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(c) Interest and investment revenue (including losses)		
Interest		
- Overdue rates and annual charges (incl. special purpose rates)	217	219
- Cash and investments	1,303	1,215
TOTAL INTEREST AND INVESTMENT REVENUE	1,520	1,434
Interest revenue is attributable to:		
Unrestricted investments / financial assets:		
Overdue rates and annual charges (general fund)	190	196
General Council cash and investments	597	775
Restricted investments / funds - external:		
Development contributions		
- Section 7.11	431	304
- Section 64	64	11
Sewerage fund operations	98	41
Domestic waste management operations	85	14
Stormwater management	46	36
Restricted investments / funds - internal:		
Internally restricted assets	9	57
Total interest and investment revenue recognised	1,520	1,434

Accounting policy for interest and investment revenue

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

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

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Other revenues			
Rental income - investment property	11	1,876	1,762
Rental income - other Council properties		439	422
Fines - parking		586	534
Fines - other		232	275
Legal fees recovery - rates and charges (extra charges)		151	73
Legal fees recovery - other		12	12
Agricultural income		12	13
External income		86	80
GST fuel rebates		151	120
Insurance claim recoveries		261	153
NSW Rural Fire reimbursement		154	147
Nursery income		46	42
Private works printing income		12	7
Recycling income (non-domestic)		72	68
Sales - general		2	1
Vary LEP applications		3	5
Other		284	333
TOTAL OTHER REVENUE		4,379	4,047

Accounting policy for other revenue

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

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

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

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

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

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants				
General purpose (untied)				
Financial assistance - general component	2,761	3,937	-	-
Financial assistance - local roads component	1,717	2,460	-	-
Pensioners' rates subsidies - general component	297	318	-	-
Total general purpose	4,775	6,715	-	-
Specific purpose				
Pensioners' rates subsidies:				
- Sewerage	41	41	-	-
- Domestic waste management	139	134	-	-
Aged care	59	55	-	-
Community care	41	41	-	5
Economic development	5	18	-	-
Environmental protection	2	-	22	-
Flood restoration	11	31	-	913
Heritage and cultural	185	121	10	-
Housing community	-	-	-	4
Library - per capita	161	159	-	-
Library - special projects	-	-	-	216
LIRS subsidy	123	142	-	-
Noxious weeds	50	96	-	-
Public order and safety	69	128	170	195
Recreation and culture	144	-	1,007	65
Street lighting	164	161	-	-
Traffic route subsidy	11	11	-	-
Transport (Roads to Recovery)	-	-	1,458	2,672
Transport (other roads and bridges funding)	857	715	711	475
Total specific purpose	2,062	1,853	3,378	4,545
Total grants	6,837	8,568	3,378	4,545
Grant revenue is attributable to:				
- Commonwealth funding	4,517	6,498	1,629	2,688
- State funding	2,300	2,070	1,741	1,853
- Other funding	20	-	8	4
	6,837	8,568	3,378	4,545

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

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(f) Contributions				
Developer contributions:				
(s7.4 & s7.11 - EP&A Act, S64 of the LGA):				
Cash contributions				
S 7.4 – contributions using planning agreements	5	9	-	-
S 7.11 – contributions towards amenities/services	-	1	3,293	1,879
S 7.12 – fixed development consent levies	-	-	1,439	820
S 64 - sewerage service contributions	-	-	1,272	626
S 64 - stormwater contributions	-	-	434	303
Total developer contributions – cash	5	10	6,438	3,628
Non-cash contributions				
S 7.4 – contributions using planning agreements	-	-	45	-
S 7.11 – contributions towards amenities/services	-	-	8,171	9,507
S 7.12 – fixed development consent levies	-	-	681	-
Total developer contributions – non-cash	-	-	8,897	9,507
Total developer contributions	5	10	15,335	13,135
Other Contributions:				
Cash contributions				
Bushfire prevention	239	163	-	-
Bushfire services	-	-	164	-
Business development	229	-	1	-
Community services	4	-	69	-
Dedications	-	-	100	-
Dedications – subdivisions (other than by s7.11)	-	-	(33)	-
Drainage	7	-	-	-
Fire and Emergency Services Levy implementation	3	113	-	-
Other councils - joint works / services	304	574	-	-
Parks contributions	1	3	35	-
Recreation and culture	-	-	3	-
Roads and bridges	27	-	-	-
Hawkesbury Sports Council	20	-	-	-
Other	18	160	-	1,145
Total other contributions – cash	852	1,013	339	1,145
Non-cash contributions				
Nil	-	-	-	-
Total other contributions – non-cash	-	-	-	-
Total other contributions	852	1,013	339	1,145
Total contributions	857	1,023	15,674	14,280
TOTAL GRANTS & CONTRIBUTIONS	7,694	9,591	19,052	18,825

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

Note 3. Income from continuing operations (continued)

Accounting policy for grants and contributions

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

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

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

\$ '000	2018	2017
(g) Unspent grants and contributions		
Certain grants & contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	2,317	196
Add: operating grants recognised in the current period but not yet spent	2,596	2,327
Add: operating grants received for the provision of goods and services in a future	-	-
Less: operating grants recognised in a previous reporting period now spent	(2,311)	(206)
Unexpended and held as restricted assets (operating grants)	2,602	2,317
Capital grants		
Unexpended at the close of the previous reporting period	677	968
Add: operating grants recognised in the current period but not yet spent	518	371
Add: operating grants received for the provision of goods and services in a future	-	-
Less: operating grants recognised in a previous reporting period now spent	(460)	(662)
Unexpended and held as restricted assets (capital grants)	735	677
Contributions		
Unexpended at the close of the previous reporting period	8,756	6,253
Add: operating grants recognised in the current period but not yet spent	6,818	3,954
Add: operating grants received for the provision of goods and services in a future	-	-
Less: operating grants recognised in a previous reporting period now spent	(818)	(1,451)
Unexpended and held as restricted assets (contributions)	14,756	8,756

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	2018	2017
(a) Employee benefits and on-costs		
Salaries and wages	19,730	19,431
Employee termination costs (where material – other than vested leave paid)	156	-
Travel expenses	14	17
Employee Leave Entitlements (ELE)	4,177	3,960
Superannuation	2,552	2,520
Workers' compensation insurance	307	(9)
Fringe Benefit Tax (FBT)	69	100
Payroll tax	30	28
Training costs (other than salaries and wages)	201	227
Protective clothing	62	89
Other	16	17
Total employee costs	27,314	26,380
less: capitalised costs	(301)	(288)
TOTAL EMPLOYEE COSTS EXPENSED	27,013	26,092
Number of "Equivalent Full Time" employees at year end	272	273
Number of "Equivalent Full Time" employees at year end (incl. vacancies)	291	293

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

Council, as a Pooled Employer, as defined by AASB119, is 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 of each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2017 for 4 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2017. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2017.

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

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.

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations

The plan is a defined benefit plan for the following reasons:

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

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

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

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

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

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

* Plus promotional increases

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group. The estimated employer reserves financial position, as shown above, is a preliminary calculation. Once all the relevant information has been received by the Funds Actuary, the 2018 triennial review will be completed around December 2018.

An employer's additional lump sum contribution per annum as a percentage of the total additional lump sum contributions for all Pooled Employers (of \$40 million each year from 1 July 2017 to 30 June 2021) provides an indication of the level of participation of that employer compared with other employers in the Pooled Employer sub-group.

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

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(b) Borrowing costs		
(i) Interest bearing liability costs		
Interest on Loans	189	218
Total interest bearing liability costs	189	218
Less: capitalised costs	-	-
Total interest bearing liability costs expensed	189	218
(ii) Other borrowing costs		
Discount adjustments relating to movements in provisions (other than ELE)		
- Remediation liabilities	106	51
Interest applicable on interest free (and favourable) loans to Council	69	89
Total other borrowing costs	175	140
TOTAL BORROWING COSTS EXPENSED	364	358

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(c) Materials and contracts			
Raw materials and consumables		1,270	2,473
Contractor and consultancy costs			
Roads, Parks and Buildings		5,042	5,942
Other Contractors		1,463	1,202
Cemeteries		84	86
Community services		165	160
Waste Collection and Disposal		6,350	5,637
Ferry Operation		516	704
Information Technology		207	216
Sewer services		1,198	1,165
Auditors remuneration ⁽²⁾		91	103
Legal expenses:			
- Legal expenses: planning and development		175	212
- Legal expenses: debt recovery		138	68
- Legal expenses: other		136	224
Operating leases:			
- Operating lease rentals: contingent rentals ⁽¹⁾		615	516
Other		240	274
Total materials and contracts		17,690	18,982
TOTAL MATERIALS AND CONTRACTS		17,690	18,982
Operating leases			
Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.			
1. Operating lease payments are attributable to:			
Computers		551	457
Other		64	59
		615	516
2. Auditor remuneration			
During the year the following fees were paid or payable for services provided by the auditor of Council, related practices and non-related audit firms			
Auditors of the Council – NSW Auditor-General:			
(i) Audit and other assurance services			
Audit and review of financial statements		80	79
Remuneration for audit and other assurance services		80	79
Total Auditor-General remuneration		80	79
Non NSW Auditor-General audit firms:			
(i) Audit and other assurance services			
Audit and review of financial statements		11	24
Remuneration for audit and other assurance services		11	24
Total remuneration of non NSW Auditor-General audit firms		11	24
Total Auditor remuneration		91	103

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

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Depreciation, amortisation and impairment			
Depreciation and amortisation			
Plant and equipment		1,207	1,145
Office equipment		121	133
Furniture and fittings		48	44
Land improvements (depreciable)		20	21
Infrastructure:			
– Buildings		–	4,304
– Buildings – non-specialised		769	–
– Buildings – specialised		3,811	–
– Other structures		546	293
– Roads		5,905	5,737
– Bridges		483	468
– Footpaths		304	289
– Stormwater drainage		1,895	1,877
– Sewerage network		1,983	1,945
– Swimming pools		155	89
– Park assets		1,554	1,525
Other assets:			
– Heritage collections		–	–
– Library books		259	206
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	10 & 14	218	136
Intangible assets	12	207	382
Total gross depreciation and amortisation costs		19,485	18,594
Total depreciation and amortisation costs		19,485	18,594
Impairment			
Land improvements (depreciable)		178	–
Total IPP&E impairment / revaluation decrement costs / (reversals)		178	–
Impairment of investments			
Nil			
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED		19,663	18,594

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

Accounting policy for depreciation, amortisation and impairment expenses

Depreciation and amortisation

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

Impairment of non-financial assets

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

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

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

Impairment of financial assets

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(e) Other expenses		
Advertising	139	145
Bad and doubtful Debts	214	56
Bank charges	174	178
Boundary Road contribution	5	21
Computer software charges	801	739
- Bushfire Fighting Fund	653	636
- Department of Planning Levy	85	80
- Emergency Services Levy	106	119
- NSW Fire Brigade Levy	153	147
- Waste S88 EPA Contribution	3,431	3,310
- Regional Strategic Alliance	95	95
- Other contributions/levies	648	644
Councillor expenses - Mayoral fee	44	45
Councillor expenses - Councillors' fees	268	221
Councillors' expenses (incl. Mayor) - other (excluding fees above)	48	57
Donations, contributions & assistance to other organisations (Section 356)	102	112
Election expenses	-	358
Electricity and heating	646	794
Fire Control expenses	141	164
Gas	37	64
Insurance	905	926
Licences and subscriptions	219	186
Office expenses (including computer expenses)	43	40
Postage	188	185
Printing and stationery	95	81
Recycling Program	104	114
Sewerage treatment works operations	627	734
Stormwater - Environmental	31	138
Street lighting	633	666
Telephone and communications	112	120
Valuation fees (rates)	156	152
Water	191	159
Other	296	353
<u>TOTAL OTHER EXPENSES</u>	<u>11,390</u>	<u>11,839</u>

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 2018

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	2018	2017
Plant & Equipment	10		
Proceeds from disposal - plant and equipment		989	1,372
Less: carrying amount of plant and equipment assets sold/written off		(1,010)	(1,546)
Net Gain/(Loss) on Disposal		(21)	(174)
Infrastructure	10		
Proceeds from disposal - infrastructure		128	114
Less: carrying amount of infrastructure assets sold/written off		(228)	(366)
Net Gain/(Loss) on Disposal		(100)	(252)
Investment property	11		
Proceeds from disposal – investment properties		303	-
Less: carrying amount of investment properties sold/written off		(284)	-
Net Gain/(Loss) on Disposal		19	-
Financial Assets¹	6		
Proceeds from disposal/redemptions/maturities – financial assets		69,000	58,900
Less: carrying amount of financial assets sold/redeemed/matured		(69,000)	(58,900)
Net Gain/(Loss) on Disposal		-	-
Other (Library Books)			
Proceeds from disposal – Other (Library Books)		7	6
Less: carrying amount of Other (Library Books) assets sold/written off		-	-
Net Gain/(Loss) on Disposal		7	6
Operational Land			
Proceeds from disposal – Operational Land		6	-
Less: carrying amount of Operational Land assets sold/written off		(12)	-
Net Gain/(Loss) on Disposal		(6)	-
Other			
Proceeds from disposal – Other		4	-
Less: carrying amount of Other assets sold/written off		-	-
Net Gain/(Loss) on Disposal		4	-
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(97)	(420)

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	1,786	693
Cash-equivalent assets		
- Deposits at call	3,555	18,707
Total Cash & Cash Equivalents	5,341	19,400

Accounting policy for cash and cash equivalents

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

Note 6(b). Investments

\$ '000	2018 Current	2018 Non Current	2017 Current	2017 Non Current
Investments				
b. 'Held to maturity'	53,500	-	25,211	-
Total investments	53,500	-	25,211	-
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	58,841	-	44,611	-

¹ Those investments where time to maturity (from date of purchase) is < 3 mths.

Held to maturity investments

Long term deposits	53,500	-	25,211	-
Total	53,500	-	25,211	-

Accounting policy for investments

Classification

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

(b) Held to maturity investments

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

Recognition and de-recognition

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

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

Note 6c. Restricted cash, cash equivalents and investments - details

\$ '000	2018 Current	2018 Non Current	2017 Current	2017 Non Current
Total cash, cash equivalents and investments	58,841	-	44,611	-
attributable to:				
External restrictions (refer below)	26,808	-	15,409	-
Internal restrictions (refer below)	20,296	-	19,121	-
Unrestricted	11,737	-	10,081	-
	58,841	-	44,611	-

\$ '000	2018	2017
Details of Restrictions		
External Restrictions - Included in Liabilities		
Specific purpose unexpended loans- LIRS	-	121
External Restrictions - Included in Liabilities	-	121
External Restrictions - Other		
Developer contributions - general	14,424	8,475
Developer contributions - sewer fund	453	282
Specific purpose unexpended grants - general	3,025	2,682
Specific purpose unexpended grants - sewer	312	312
Specific purpose unexpended contributions	751	608
Sewerage services	4,981	872
Domestic waste management	1,455	567
Stormwater management	1,407	1,490
External Restrictions - Other	26,808	15,288
Total External Restrictions	26,808	15,409
Internal Restrictions		
Employees leave entitlement	1,465	1,465
Contingency	721	601
Election	141	66
Heritage	80	94
Information Technology	517	627
Infrastructure Projects	267	267
Legal	250	249
Risk Management	173	231
Tip Remediation and Sullage	6,690	8,642
Unexpended Contributions	56	194
Unspent Work Reserve/Property	9,136	5,886
Workers Compensation	800	799
Total Internal Restrictions	20,296	19,121
TOTAL RESTRICTIONS	47,104	34,530

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

Note 7. Receivables

\$ '000	2018		2017	
	Current	Non Current	Current	Non Current
Purpose				
Rates and annual charges	1,959	978	1,785	891
Interest and extra charges	197	-	179	29
User charges and fees	1,618	101	1,760	69
Private works	(2)	-	1	-
Accrued revenues				
– Interest on investments	582	-	445	-
Government grants and subsidies	1,509	-	1,541	-
Net GST receivable	433	-	430	-
Total	6,296	1,079	6,141	989
less: Provision for Impairment				
User Charges & Fees	(356)	-	(152)	-
Total Provision for Impairment - Receivables	(356)	-	(152)	-
TOTAL NET RECEIVABLES	5,940	1,079	5,989	989
Externally Restricted Receivables				
Sewerage Services				
- Rates & Availability Charges	329	-	591	-
- Other	84	-	-	-
Domestic Waste Management	676	-	614	-
Total External Restrictions	1,089	-	1,205	-
Internally Restricted Receivables				
Nil	-	-	-	-
Internally Restricted Receivables	-	-	-	-
Unrestricted Receivables	4,851	-	4,784	989
TOTAL NET RECEIVABLES	5,940	1,079	5,989	989
Movement in provision for impairment of receivables			2018	2017
Balance at the beginning of the year			152	117
+ new provisions recognised during the year			204	35
– amounts already provided for and written off this year				
– amounts provided for but recovered during the year				
– previous impairment losses reversed				
Balance at the end of the year			356	152

Accounting policy for receivables

Recognition and measurement

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

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

Impairment

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables

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

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

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

Note 8. Inventories and other assets

\$ '000	2018		2017	
	Current	Non Current	Current	Non Current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	216	-	164	-
Total inventories at cost	216	-	164	-
TOTAL INVENTORIES	216	-	164	-
(b) Other assets				
Prepayments	1,004	-	773	-
TOTAL OTHER ASSETS	1,004	-	773	-

Externally Restricted Assets

There are no restrictions applicable to the above assets.

Accounting policy

Raw materials and stores, work in progress and finished goods

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

Inventory held for distribution

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

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

Note 9(a). Infrastructure, property, plant and equipment

Asset class \$ '000	as at 30/06/2017			Asset movements during the reporting period								as at 30/06/2018		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss (recognised in P/L)	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Capital work in progress	11,085	–	11,085	–	5,116	–	–	–	(8,131)	–	–	8,070	–	8,070
Plant and equipment	14,914	5,854	9,060	–	2,190	(1,010)	(1,207)	–	18	–	–	15,720	6,669	9,051
Office equipment	2,561	2,099	462	33	31	–	(121)	–	–	–	–	2,626	2,221	405
Furniture and fittings	1,883	1,626	257	42	9	–	(48)	–	–	–	–	1,938	1,678	260
Land:														
– Operational land	69,834	–	69,834	–	–	(12)	–	–	–	–	15,069	84,891	–	84,891
– Community land	81,986	–	81,986	–	4	–	–	–	–	–	–	81,990	–	81,990
– Land under roads (post 30/6/08)	11,093	–	11,093	–	1,149	–	–	(178)	5	–	–	12,069	–	12,069
Land improvements – non-depreciable	1,068	–	1,068	–	–	–	–	–	–	–	–	1,068	–	1,068
Land improvements – depreciable	4,859	4,238	621	–	–	–	(20)	–	–	–	–	4,859	4,258	601
Infrastructure:														
– Buildings – non-specialised	24,165	14,067	10,098	–	155	–	(769)	–	50	–	4,905	27,680	13,241	14,439
– Buildings – specialised	119,267	54,579	64,688	885	263	(7)	(3,811)	–	2,165	–	25,228	137,530	48,120	89,410
– Other structures	13,455	5,826	7,629	17	50	–	(546)	–	–	–	–	13,487	6,337	7,150
– Roads	534,139	177,503	356,636	5,665	3,176	(7)	(5,905)	–	1,222	–	–	544,195	183,408	360,787
– Bridges	46,720	15,712	31,008	607	427	(116)	(483)	–	521	–	–	48,038	16,074	31,964
– Footpaths	20,528	10,000	10,528	301	1,167	–	(304)	–	151	–	–	22,148	10,305	11,843
– Stormwater drainage	197,350	63,638	133,712	2,402	1,860	–	(1,895)	–	2,396	–	–	204,005	65,530	138,475
– Sewerage network	167,593	88,684	78,909	425	70	(86)	(1,983)	–	1,603	–	1,615	171,371	90,818	80,553
– Swimming pools	4,971	2,564	2,407	–	2	–	(155)	–	–	–	–	4,973	2,719	2,254
– Park assets	33,350	13,068	20,282	23	4	–	(1,554)	–	–	–	600	34,002	14,647	19,355
Other assets:														
– Heritage collections	957	–	957	–	–	–	–	–	–	–	50	1,007	–	1,007
– Library books	3,693	2,954	739	–	292	–	(259)	–	–	–	–	3,140	2,368	772
Reinstatement, rehabilitation and restoration assets (refer Note 26):														
– Tip assets	1,929	588	1,341	–	–	–	(218)	–	–	–	–	1,929	806	1,123
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	1,367,400	463,000	904,400	10,400	15,965	(1,238)	(19,278)	(178)	–	–	47,466	1,426,736	469,199	957,537

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment (continued)

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

Land under roads

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

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

Crown reserves

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

Rural Fire Service assets

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

Until such time as discussions on this matter have concluded and the legislation changed, Council will only recognise rural fire service assets including land, buildings, plant and vehicles, that it deems has control over.

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

Note 9(b). Externally restricted infrastructure, property, plant and equipment

\$ '000 Class of asset	Actual 2018			Actual 2017		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Sewerage services						
WIP	134	–	134	1,677	–	1,677
Plant and equipment	846	248	598	853	256	597
Office equipment	258	111	147	245	101	144
Furniture and fittings	2	–	2	2	–	2
Land						
– Operational land	1,315	–	1,315	2,225	–	2,225
– Community land	7	–	7	7	–	7
Buildings	1,220	538	682	939	623	316
Other structures	334	180	154	334	160	174
Infrastructure	171,371	90,817	80,554	167,593	88,684	78,909
Other assets	79	51	28	75	44	31
Total sewerage services	175,566	91,945	83,621	173,950	89,868	84,082
Domestic waste management						
Plant and equipment	1,891	534	1,357	1,979	379	1,600
Park Asset	–	–	–	287	273	14
Total DWM	1,891	534	1,357	2,266	652	1,614
TOTAL RESTRICTED I,PP&E	177,457	92,479	84,978	176,216	90,520	85,696

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

Note 9(c). Infrastructure, property, plant and equipment – current year
impairments

\$ '000	Notes	2018	2017
(i) Impairment losses recognised in the Income Statement:			
Impairment of Land Under Roads acquired for cash during 2016/2017		(178)	–
Total impairment losses		(178)	–
IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L	4(d)	(178)	–

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

Note 10. Investment property

\$ '000	2018	2017
(a) Investment properties at fair value		
<u>Investment properties on hand</u>	<u>47,271</u>	<u>45,312</u>
Reconciliation of annual movement:		
Opening balance	45,312	41,655
– Capitalised expenditure – this year	139	79
– Disposals during year	(284)	-
– Net gain/(loss) from fair value adjustments	2,104	3,578
CLOSING BALANCE – INVESTMENT PROPERTIES	<u>47,271</u>	<u>45,312</u>

(b) Valuation basis

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

The revaluation at 30 June 2018 were based on independent assessments made by:
Curtis Valuations Pty Ltd

(c) Contractual obligations at reporting date

Refer to Note 18 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements – Council as lessor

Details of leased investment properties are as follows:

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	77	786
Later than 1 year but less than 5 years	721	473
Later than 5 years	122	249
Total minimum lease payments receivable	<u>920</u>	<u>1,508</u>

(e) Investment property income and expenditure – summary

Rental income from investment properties:		
– Minimum lease payments	1,432	1,359
– Other income	444	403
Direct operating expenses on investment properties:		
– that generated rental income	(241)	(281)
– that did not generate rental income	(326)	(176)
Net revenue contribution from investment properties	<u>1,309</u>	<u>1,305</u>
plus:		
Fair value movement for year	<u>2,104</u>	<u>3,578</u>
Total income attributable to investment properties	<u>3,413</u>	<u>4,883</u>

Accounting policy for investment property

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

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

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

Note 11. Intangible assets

\$ '000	2018	2017
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Intangible assets represent identifiable non-monetary assets without physical substance.

Intangible assets are as follows:

Opening values:

Gross book value (1/7)	3,112	2,959
Accumulated amortisation (1/7)	(2,870)	(2,488)
Accumulated impairment (1/7)	-	-
Net book value – opening balance	242	471

Movements for the year

– Purchases	207	153
– Amortisation charges	(207)	(382)

Closing values:

Gross book value (30/6)	3,263	3,112
Accumulated amortisation (30/6)	(3,021)	(2,870)
Accumulated impairment (30/6)	-	-

TOTAL INTANGIBLE ASSETS – NET BOOK VALUE

242	242
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¹. The net book value of intangible assets represent:

– Software	242	242
	242	242

Accounting policy for intangible assets

IT development and software

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

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

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

Note 12. Payables and borrowings

\$ '000	2018		2017	
	Current	Non Current	Current	Non Current
Payables				
Goods and services – operating expenditure	6,843	-	4,958	-
Accrued expenses:				
– Other expenditure accruals	1,281	-	1,077	-
Security bonds, deposits and retentions	2,068	-	1,807	-
Total Payables	10,192	-	7,842	-
Borrowings				
Loan - Sewer	400	328	400	659
Loan - LIRS	351	2,654	510	2,999
Total Borrowings	751	2,982	910	3,658
TOTAL PAYABLES AND BORROWINGS	10,943	2,982	8,752	3,658

(a) Payables and borrowings relating to restricted assets

	2018		2017	
	Current	Non Current	Current	Non Current
Externally restricted assets				
Sewer	400	328	400	659
Loan – LIRS	351	2,654	510	2,999
Liabilities relating to externally restricted assets	751	2,982	910	3,658
Internally restricted assets				
Nil	-	-	-	-
Liabilities relating to internally restricted assets	-	-	-	-
Total liabilities relating to restricted assets	751	2,982	910	3,658
Total liabilities relating to unrestricted assets	10,192	-	7,842	-
TOTAL PAYABLES, BORROWINGS AND PROVISIONS	10,943	2,982	8,752	3,658

(b) Current payables and borrowings not anticipated to be settled within the next 12 months

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

	2018	2017
Payables – security bonds, deposits and retentions	620	552
	620	552

(c) Changes in liabilities arising from financing activities

Class of borrowings	2017	Non-cash changes			2018
	Opening balance as at 1/7/17	Repayments	Acquisition	Interest	Closing balance as at 30/6/18
Loans – secured	1,059	(400)	-	69	728
Other Loan	3,509	(504)	-	-	3,005
TOTAL	4,568	(904)	-	69	3,733

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

Note 12. Payables and borrowings

\$ '000	2018	2017
(d) Financing arrangements		
(i) Unrestricted access was available at balance date to the		
Bank overdraft facilities ⁽¹⁾	800	800
Credit cards/purchase cards	500	308
Total financing arrangements	1,300	1,108
Drawn facilities as at balance date:		
– Credit cards/purchase cards	12	6
Total drawn financing arrangements	12	6
Undrawn facilities as at balance date:		
– Bank overdraft facilities	800	800
– Credit cards/purchase cards	488	302
Total undrawn financing arrangements	1,288	1,102

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

Accounting policy for payables and borrowings

Payables

These amounts represent liabilities for goods and services provided to the Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 15 days of recognition.

Borrowings

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

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

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

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

Note 13. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	2,499	—	2,407	—
Sick leave	558	—	600	—
Long service leave	5,954	552	5,822	530
Leave in lieu	371	—	331	—
ELE on-costs	57	—	61	—
Sub-total – aggregate employee benefits	9,439	552	9,221	530
Asset remediation/restoration:				
Asset remediation/restoration (future works)	820	5,535	849	3,249
Sub-total – asset remediation/restoration	820	5,535	849	3,249
Other provisions:				
Self insurance – workers compensation	94	354	64	244
PPE Lease Liability	14	36	—	—
Sub-total – other provisions	108	390	64	244
TOTAL PROVISIONS	10,367	6,477	10,134	4,023
(a) Provisions relating to restricted assets				
Externally restricted assets				
Sewer	330	40	307	40
Domestic waste management	382	10	336	10
Other	—	—	121	—
Provisions relating to externally restricted assets	712	50	764	50
Internally restricted assets				
Waste Management Facility	820	5,535	849	3,249
Insurance	94	354	64	244
Provisions relating to internally restricted assets	914	5,889	913	3,493
Total provisions relating to restricted assets	1,626	5,939	1,677	3,543
Total provisions relating to unrestricted assets	8,741	538	8,457	480
TOTAL PROVISIONS	10,367	6,477	10,134	4,023

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

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

	2018	2017
Provisions – employees benefits	6,216	6,078
	6,216	6,078

(c) Description of and movements in provisions

2018	Lease Liability	Self-insurance	Asset remediation	Total
At beginning of year	—	308	4,098	4,406
Changes to provision:				
Additional provisions	50	140	2,153	2,343
Unwinding of discount	—	—	104	104
Total other provisions at end of year	50	448	6,355	6,853
2017	Lease Liability	Self-insurance	Asset remediation	Total
At beginning of year	—	611	1,529	2,140
Changes to provision:				
Additional provisions	—	—	2,611	2,611
Amounts used (payments)	—	(303)	(93)	(396)
Unwinding of discount	—	—	51	51
Total other provisions at end of year	—	308	4,098	4,406

Note 13. Provisions

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.

Self-insurance

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

Accounting policy for provisions

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

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

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

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

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

Restoration

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

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

Rehabilitation

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Provisions

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

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

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

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

Self-insurance

Council has decided to self-insure for various risks, including public liability and professional indemnity. A provision for self-insurance has been made to recognise outstanding claims. Council also maintains cash and investments to meet expected future claims; refer to Note 6(c).

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

Note 14. 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) Correction of errors relating to a previous reporting period

Nature of prior-period error

As part of the Operational Land revaluation process, the independent valuer took into account the use and circumstances of particular properties and determined that the circumstances significantly reduced the market value of these land parcels. A correction was made to the values of the properties amounting to \$20.227 million.

The Council also identified a community land parcel that was classified as Capital work in progress and measured at cost. The land has been reclassified to the Community land asset class and has been revalued based on the Valuer General's report. A revaluation decrements of \$5.049 million was processed to correct the value of this land parcel.

A parcel of Community land was also classified and valued as Operational land. This has been revalued and classified correctly as Community land with downward adjustment of \$1.644 million.

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

The Council has corrected the accounting treatment of the cash receipt from Civic Risk by setting this off against the premiums rather than account for it through Other Comprehensive Income.

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

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

Changes to the opening Statement of Financial Position at 1 July 2016

	Original Balance 1 July, 2016	Impact Increase/ (decrease)	Restated Balance 1 July, 2016
Statement of Financial Position			
Operational Land	92,201	(22,367)	69,834
Community Land	79,694	1,335	81,029
Capital Work in Progress	9,439	(5,889)	3,550
Total Assets	1,017,281	(26,921)	990,360
Total Liabilities	25,049	–	25,049
Revaluation Reserve	595,311	(26,921)	568,390
Total equity	992,232	(26,921)	965,311

Note 14. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

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

	Original Balance 30 June, 2017	Impact Increase/ (decrease)	Restated Balance 30 June, 2017
Statement of Financial Position			
Operational Land	92,201	(22,367)	69,834
Community Land	80,651	1,335	81,986
Capital Work in Progress	16,974	(5,889)	11,085
Total Assets	1,032,326	(26,921)	1,005,405
Total Liabilities	26,567	–	26,567
Revaluation Reserve	591,172	(26,921)	564,251
Total equity	1,005,759	(26,921)	978,838

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

	Original Balance 30 June, 2017	Impact Increase/ (decrease)	Restated Balance 30 June, 2017
Income Statement			
Net share of interest in joint venture using equity method	495	(108)	387
Total income from continuing operations	94,040	(108)	93,932
Total expenses from continuing operations	76,266	–	76,266
Net operating result for the year	17,774	(108)	17,666

(c) Voluntary changes in accounting policies

Council made no voluntary changes in any accounting policies during the year.

(d) Changes in accounting estimates

Council made no changes in accounting estimates during the year.

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

Note 15. Statement of cash flows – additional information

\$ '000	Notes	Actual 2018	Actual 2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	5,341	19,400
Balance as per the Statement of Cash Flows		5,341	19,400
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		18,286	17,666
Adjust for non-cash items:			
Depreciation and amortisation		19,485	18,594
Net losses/(gains) on disposal of assets		97	420
Non-cash capital grants and contributions		(8,897)	(9,574)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment property		(2,104)	(3,578)
– Revaluation decrements / impairments of IPP&E direct to P&L		178	-
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		69	89
Unwinding of discount rates on reinstatement provisions		104	51
Share of net (profits) or losses of associates/joint ventures		(304)	(387)
+/- Movement in Operating Assets and Liabilities & Other Cash Items:			
Decrease/(increase) in receivables		(245)	637
Increase/(decrease) in provision for doubtful debts		204	35
Decrease/(increase) in inventories		(52)	266
Decrease/(increase) in other assets		(231)	63
Increase/(decrease) in payables		1,885	695
Increase/(decrease) in other accrued expenses payable		204	167
Increase/(decrease) in other liabilities		261	(987)
Increase/(decrease) in employee leave entitlements		240	165
Increase/(decrease) in other provisions		2,343	2,215
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		31,523	26,537
(c) Non-cash investing and financing activities			
Developer contributions 'in kind'		8,897	9,507
Other Non Cash Item		-	67
Total non-cash investing and financing activities		8,897	9,574

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

Note 16. Interests in other entities

\$ '000

	Council's share of net income		Council's Share of Net Assets	
	Actual 2018	Actual 2017	Actual 2018	Actual 2017
Joint ventures	304	387	3,229	2,925
Total	304	387	3,229	2,925

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

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

Name of operation/entity	Principal activity
1. Hawkesbury Sports Council	Sports & Sporting Recreation 2 Stewart Street, SOUTH WINDSOR NSW 2756

Interests in Subsidiary	Ownership		Voting rights	
	2018	2017	2018	2017
Council's interest in Subsidiary	100%	100%	10%	10%
Non-controlling interest in Subsidiary	0%	0%	90%	90%

The nature and extent of significant restrictions relating to the Subsidiary

As HSC is a subsidiary of Council, there are no significant restrictions relating to Cash & Investments of Other Assets.

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

Council has delegated the responsibility of the management of sporting facilities and associated auspiced Council funded services to the Hawkesbury Sports Council (HSC). The HSC is an incorporated association that operates autonomously via the entity's constitution. Council contributions, both financial and in-kind, support in the form of land and facilities to ensure adequate provision of sports services and facilities to the community.

As the function of HSC is to perform the functions and services delegated by Council, any financial loss incurred by HSC is borne by Council and recognised in the consolidated Financial Statements. As a mechanism to reduce the risk of financial losses and ensure that decisions made by HSC align with Council's operational and strategic objectives, Council representatives, being the Manager of Parks & Recreation and a nominated Councillor, are invited to attend each meeting. As assets used by HSC are owned by Council, adequate insurance cover is included in Council's insurance policy portfolio to mitigate risks associated with loss or damage.

During 2017/2018, Council contributed \$787K for the operation of HSC and \$283K for capital improvements of facilities. Council currently intends to continue providing operational and capital financial contributions to HSC.

Other disclosures

Although council has limited voting powers on the HSC executive, the existence of this entity is contingent on Council continuing to provide facilities, financial contributions and delegation for the management of its sporting facilities.

Summarised financial information for the Subsidiary

Summarised statement of comprehensive income	2018	2017
Revenue	941	954
Expenses	(1,053)	(1,030)
Profit for the period	(112)	(76)
Other comprehensive income:		
Total comprehensive income ⁽¹⁾	(112)	(76)
⁽¹⁾ Non-controlling interest share	-	-
Dividends paid to non-controlling interests	-	-

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

Note 16. Interests in other entities (continued)

\$ '000

(a) Controlled Entities (Subsidiaries) - being entities & operations controlled by Council (continued)

Summarised statement of financial position	2018	2017
Current assets	521	670
Non-current assets	128	89
Total assets	649	759
Current liabilities	81	77
Non-current liabilities	-	-
Total liabilities	81	77
Net assets ⁽²⁾	568	682
⁽²⁾ Non-controlling interest share	-	-

Accounting policy for subsidiaries

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

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

(b) Joint arrangements

(i) Joint ventures

Council has incorporated the following joint ventures into its consolidated financial statements.

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2018	2017
Civic Risk West	Joint Venture	Equity Method	2,768	2,504
Civic Risk Mutual	Joint Venture	Equity Method	461	421
Total carrying amounts – material joint ventures and associates			3,229	2,925

(b) Details

Name of entity	Principal activity	Place of business
Civic Risk West	Self insurance provider for public liability and indemnity	Penrith
Civic Risk Mutual	Review Industrial Special Risk and Motor Risk	Penrith

(c) Relevant interests and fair values

Name of entity	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
			2018	2017	2018	2017	2018	2017
Civic Risk West	n/a	n/a	7%	7%	7%	7%	10%	10%
Civic Risk Mutual	n/a	n/a	7%	7%	7%	7%	6%	6%

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

Note 16. Interests in other entities (continued)

\$ '000

(b) Joint arrangements (continued)

(d) Summarised financial information for joint ventures and associates

	Civic Risk West		Civic Risk Mutual	
	2018	2017	2018	2017
Statement of financial position				
Current assets				
Cash and cash equivalents	3,022	2,935	1,158	506
Other current assets	19,442	13,732	5,759	6,238
Non-current assets	41,740	47,434	5,989	5,889
Current liabilities				
Current financial liabilities (excluding trade and other payables and provisions)	6,111	5,008	2,690	2,890
Other current liabilities	720	688	299	423
Non-current liabilities				
Non-current financial liabilities (excluding trade and other payables and provisions)	15,612	20,429	1,448	2,830
Net assets	41,761	37,976	8,469	6,489
Reconciliation of the carrying amount				
Opening net assets (1 July)	37,976	32,195	6,489	7,286
Profit/(loss) for the period	5,913	7,465	1,979	(796)
Dividends paid	-	-	-	-
Dividends received	-	-	-	-
Other adjustments to equity	(2,128)	(1,684)	-	-
Closing net assets	41,761	37,976	8,468	6,490
Council's share of Net Assets (%)	6.6290%	6.6%	5.445%	6.5%
Council's share of Net Assets (\$)	2,768	2,504	461	421
	Civic Risk West		Civic Risk Mutual	
	2018	2017	2018	2017
Statement of comprehensive income				
Income	6,077	7,066	9,425	8,302
Interest income	3,261	3,757	419	584
Interest expense	(17)	(17)	-	-
Other expenses	(3,408)	(3,341)	(7,865)	(9,682)
Profit/(loss) for period	5,913	7,465	1,979	(796)
Other comprehensive income	-	-	-	-
Total comprehensive income	5,913	7,465	1,979	(796)
Share of income – Council (%)	4.5%	5.6%	2.0%	3.7%
Profit/(loss) – Council (\$)	265	417	40	(29)
Total comprehensive income – Council (\$)	265	417	40	(29)
Dividends received by Council	143	108	-	-

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

Note 16. Interests in other entities (continued)

\$ '000

(b) Joint ventures and associates (continued)

(f) The nature and extent of significant restrictions relating to joint ventures and associates

There are restrictions on Westpool and UIP members to access equity to pay Council's liabilities, including:

- a. members must provide 12 months notice prior to leaving the pool; and
- b. equity is only returned to members after the capital adequacy thresholds have been met within the pool.

(ii) Joint operations

Council has no interest in any joint operations.

Accounting policy for joint arrangements

The Council has determined that it has only joint ventures.

Joint ventures

Interests in joint ventures are accounted for using the equity method in accordance with AASB128 Investments in *Associates and Joint Ventures*. Under this method, the investment is initially recognised as a cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the joint venture after the date of acquisition.

If the Council's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Council discontinues recognising its share of further losses.

The Council's share in the joint venture's gains or losses arising from transactions between itself and its joint venture are eliminated.

Adjustments are made to the joint venture's accounting policies where they are different from those of the Council for the purpose of the consolidated financial statements.

(c) Associates

Council has no interest in any associates.

(d) Unconsolidated structured entities

Council did not consolidate the following structured entities:

1. Hawkesbury River County Council

A statutory body responsible for the management of noxious weeds, covering the Hawkesbury, Penrith, Hills and Blacktown LGAs. HRCC earned \$1.5M of revenue and expended \$1.6M in 2017/2018 and holds \$1.9M of equity as at 30 June 2018.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Interests in other entities (continued)

Nature of Risks relating to the Unconsolidated Structured Entity

Council contributed \$171,517 to HRCC in 2017/2018, which represented 7% of total revenue. Only 27% of revenue is sourced by constituent Councils, with the majority of income received being grants for the management of noxious weeds.

The HRCC operates within the boundaries of available revenue and therefore is deemed to be low risk. Council's involvement is limited to the contributions paid annually and is represented at board meetings by two Councillors.

Current intention to provide financial support

Council currently intends to continue providing financial contributions to HRCC.

2. Western Sydney Organisation of Councils (WSROC)

A regional body established to co-ordinate lobbying for Western Sydney, representing 10 councils, including HCC. Additionally, WSROC provides resource-sharing opportunities and joint project management co-ordination.

Nature of risks relating to the Unconsolidated Structured Entity

Council contributed \$85,000 to WSROC in 2017/2018. Council also participates in joint projects and programs when they arise, if they present a sound investment opportunity to council, but is not required to participate.

WSROC operates within the boundaries of contributions received from member Councils and therefore is deemed to be low risk. Council involvement is limited to the membership paid annually and is represented on the board by two Councillors.

Current Intention to provide financial support

Council is currently reviewing its continued membership of WSROC.

(e) Subsidiaries, joint arrangements and associates not recognised

The following subsidiaries, joint arrangements and associates have not been recognised in this financial report.

Name of entity/operation	Principal activity/type of entity
Regional Strategic Alliance	To achieve cost efficiencies through sharing arrangements between Council, Blue Mountains Council and Penrith Council Joint Arrangement

Reasons for non-recognition

The Alliance is yet to be formally established as an entity and current funds collected and spent are managed in trust by Blue Mountains Council.

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

Note 17. Commitments for expenditure

\$ '000	Notes	Actual 2018	Actual 2017
(a) Capital commitments (exclusive of GST)			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Property, Plant & Equipment			
Buildings		429	650
Plant and equipment		474	216
Total Commitments		903	866
These expenditures are payable as follows:			
Within the next year		903	773
Later than one year and not later than 5 years		-	91
Later than 5 years		-	2
Total payable		903	866
Sources for Funding of Capital Commitments:			
Unrestricted General Funds		409	272
Unexpended Grants		459	25
Externally Restricted Reserves		19	312
Internally Restricted Reserves		16	257
Total Sources of Funding		903	866

(b) Finance lease commitments

Nil

(c) Operating lease commitments (non-cancellable)

a. Commitments under Non Cancellable Operating Leases at the Reporting date, but not recognised as Liabilities are payable:

Within the next year	325	312
Later than one year and not later than 5 years	199	487
Later than 5 years	-	-
Total non-cancellable operating lease commitments	524	799

b. Non Cancellable Operating Leases include the following assets:

Office Rentals

Contingent Rentals may be payable depending on the condition of items or usage during the lease term..

Conditions relating to operating leases:

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

(d) Investment property commitments

Nil

(e) Investment in joint operations – commitments

For capital commitments and other commitments relating to investments in joint operations, refer to Note 17 (c)

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Contingencies and other assets/liabilities not recognised

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Civic Risk Insurance Pools

Council is one of ten members to Civic Risk, an insurance pool managed by Mutual Management Services Ltd.

Council contributes to Westpool's operations and in return receives Public Liability & Professional Indemnity insurance coverage, and associated services such as training and risk assessment.

Council's contribution represented 7% of the total amounts paid in by member Councils.

The pool ended with net assets of \$50.2M of which Council's proportional share is \$3.2M.

Should the pool ever require additional funding as a result of past insurance events, Council would be required to make any necessary contributions.

(ii) Workers Compensation Claims

Council holds a Workers Compensation Self Insurers licence and recognises that it might pay out future claims based upon past events.

Amounts that cannot be paid out of of Council's recurrent Workers Compensation expenditure budget will be funded from a reserve that is set up specifically for this purpose - refer Note 6(c).

(iv) Other guarantees

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

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.

(ii) Potential land acquisitions due to planning

Council has classified a number of privately owned land parcels as local open space or bushland.

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

ASSETS NOT RECOGNISED:

(i) RFS red fleet

Council has determined that as RFS control the replacement, insurance and maintenance of the RFS red fleet (fire trucks) and accordingly has not recognised these assets.

Due to limited information regarding the purchase price and trade-in or resale values, Council is also unable to determine the value of the red fleet.

(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 2018

Note 19. Financial risk management

\$ '000

Risk management

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

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

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

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

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

	Carrying Value		Fair Value	
	2018	2017	2018	2017
Financial Assets				
Cash and Cash Equivalents	5,341	19,400	5,341	19,400
Investments				
- "Held to Maturity"	53,500	25,211	53,500	25,211
Receivables	6,586	6,548	6,586	6,548
Total Financial Assets	65,427	51,159	65,427	51,159
Financial Liabilities				
Payables	10,192	7,842	10,192	7,842
Loans / Advances	3,733	4,568	3,733	4,568
Total Financial Liabilities	13,925	12,410	13,925	12,410

Fair value is determined as follows:

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Financial risk management (continued)

\$ '000

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

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

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order. 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.

The risks associated with the investments held are:

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

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

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

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

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

	Increase of Values/Rates		Decrease of Values/Rates	
	Net Result	Equity	Net Result	Equity
2018				
Possible impact of a 1% movement in interest rates	588	588	(588)	(588)
2017				
Possible impact of a 1% movement in interest rates	446	446	(446)	(446)

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

Note 19. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures.

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

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

Council makes suitable provision for doubtful receivables as required.

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

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

	2018 Rates and annual charges	2018 Other receivables	2017 Rates and annual charges	2017 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	0%	80%	0%	80%
Overdue	100%	20%	100%	20%
	100%	100%	100%	100%

(ii) Ageing of receivables – value

Rates and annual charges

	2018	2017
Current	1,917	1,487
< 1 year overdue	379	332
1 – 2 years overdue	197	406
2 – 5 years overdue	206	107
> 5 years overdue	238	344
	2,937	2,676

Other receivables

	2018	2017
Current	3,617	3,630
0 – 30 days overdue	230	231
31 – 60 days overdue	216	217
61 – 90 days overdue	29	29
> 91 days overdue	346	347
	4,438	4,454

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

Note 19. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk by borrowing long term and fixing the interest rates.

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

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in:		Total cash outflows	Actual carrying values
				1-5 Yrs	> 5 Yrs		
2018							
Trade/other payables	0.00%	2,068	8,124	-	-	10,192	10,192
Loans and advances	5.82%	-	1,102	3,016	-	4,118	3,733
Total financial liabilities		2,068	9,226	3,016	-	14,310	13,925
2017							
Trade/other payables	0.00%	1,807	6,035	-	-	7,842	7,842
Loans and advances	5.82%	-	1,101	3,604	701	5,406	4,568
Total financial liabilities		1,807	7,136	3,604	701	13,248	12,410

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Material budget variations

Council's original financial budget for 17/18 was adopted by the Council on 13 June 2017.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2018 Budget	2018 Actual	2018 ----- Variance* -----	
REVENUES				
Rates and annual charges	51,923	52,429	506	1% F
User Charges & Fees	6,473	7,021	548	8% F
Interest and investment revenue	1,201	1,520	319	27% F
Investment revenue is more than the Original Budget due to higher level of funds invested than budgeted.				
Other revenues	4,019	4,379	360	9% F
Operating grants and contributions	6,422	7,694	1,272	20% F
Only known grants and contributions are included in the Original Budget. Additional grants were received during the year.				
Capital grants and contributions	3,428	19,052	15,624	456% F
Only known grants are budgeted for in the Original Budget. Non cash asset dedications were greater than forecasted in the Original Budget.				
Fair value increment on investment property	-	2,104	2,104	F
Fair valuation adjustments as a result of revaluation of investment property are not included within the Original Budget.				
Joint ventures and associates - net profits	265	304	39	15% F
Share of profits from joint ventures and associates greater than forecasted within the Original Budget.				

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

Note 20. Material budget variations

\$ '000	2018 Budget	2018 Actual	2018 ----- Variance* -----	
EXPENSES				
Employee benefits and on-costs	26,879	27,013	(135)	(1%) F
Borrowing costs	304	364	(60)	(20%) F
Movements in the Tip remediation provision and unwinding of the fair value adjustment on the Sewer Loan were greater than budgeted.				
Materials and contracts	17,288	17,690	(402)	(2%) U
Depreciation and amortisation	18,452	19,485	(1,033)	(6%) U
Other expenses	12,154	11,390	764	6% F
Net losses from disposal of assets	-	97	(97)	U
Net Losses from Disposal of Assets are not included in the Original Budget.				
Revaluation decrement/impairment of IPP&E	-	178	(178)	U
Impairment of Land Under Roads is not included in the Original Budget.				
Budget variations relating to Council's Cash Flow Statement include:				
Cash flows from operating activities	14,388	31,523	(17,135)	(119%) F
Grants and contributions received during the year were not included in the Original Budget. Investment income greater than budgeted due to a higher level of funds invested. The impact of GST grossing up is not incorporated into the Original Budget.				
Cash flows from investing activities	(14,148)	(44,678)	30,530	(216%) F
The Original Budget does not include the net change in the overall value of the investment portfolio through the placement and redemption of term deposits. Remaining variance relates to changes in project timings due to reprioritisation of works.				
Cash flows from financing activities	(910)	(904)	(6)	1% F

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

Note 21. Fair value measurement

\$ '000

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

- Infrastructure, property, plant and equipment
- Investment property

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

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

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

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

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

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

		Fair value measurement hierarchy			
2018		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	Valuation	active mkts	inputs	inputs	
Recurring fair value measurements					
Investment properties					
Investment Properties	30/06/2018	-	47,271	-	47,271
Total investment properties		-	47,271	-	47,271
Infrastructure, property, plant and equipment					
Operational Land	30/06/2018	-	84,891	-	84,891
Community Land	30/06/2016	-	-	81,990	81,990
Land under road	30/06/2014	-	-	12,069	12,069
Land Improvements - non depreciable	30/06/2011	-	-	1,068	1,068
Land Improvements - depreciable	30/06/2011	-	-	601	601
Buildings - non specialised	30/06/2018	-	-	14,439	14,439
Buildings - specialised	30/06/2018	-	-	89,410	89,410
Other Structure	30/06/2017	-	-	7,150	7,150
Road, Bridges, Footpaths	30/06/2015	-	-	404,594	404,594
Stormwater Drainage	30/06/2015	-	-	138,475	138,475
Swimming Pools and Other Open Space	30/06/2017	-	-	2,254	2,254
Sewer Network	30/06/2018	-	-	80,553	80,553
Park Asset	30/06/2017	-	-	19,355	19,355
Library books, Heritage, Plant, Equip & Tip	30/06/2018	-	-	20,688	20,688
Total infrastructure, property, plant and equip		-	84,891	872,646	957,537

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

Note 21. Fair value measurement

\$ '000

2017	Date of latest Valuation	Fair Value Measurement Hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Investment properties					
Investment Properties	30/06/2017	-	45,312	-	45,312
Total investment properties		-	45,312	-	45,312
Infrastructure, property, plant and equipment					
Operational Land	30/06/2013	-	69,834	-	69,834
Community Land	30/06/2016	-	-	81,986	81,986
Land under road	30/06/2014	-	-	11,093	11,093
Land Improvements - non depreciable	30/06/2011	-	-	1,068	1,068
Land Improvements - depreciable	30/06/2011	-	-	621	621
Buildings - non specialised	30/06/2013	-	-	10,098	10,098
Buildings - specialised	30/06/2013	-	-	64,688	64,688
Other Structure	30/06/2017	-	-	7,629	7,629
Road, Bridges, Footpaths	30/06/2015	-	-	398,172	398,172
Stormwater Drainage	30/06/2015	-	-	133,712	133,712
Swimming Pools and Other Open Space	30/06/2017	-	-	2,407	2,407
Sewer Network	30/06/2017	-	-	78,909	78,909
Park Asset	30/06/2017	-	-	20,282	20,282
Library books, Heritage, Plant, Equip & Tip	30/06/2017	-	-	23,901	23,901
Total infrastructure, property, plant and equip		-	69,834	834,566	904,400

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

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

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

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

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

Financial assets

The Council's financial assets relate to investments in term deposits. The information included under note 6(b) is considered sufficient to meet the Fair Value disclosures requirements hence additional information is not included under this note.

Financial liabilities

Council does not have any liabilities which are fair valued.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement

Investment properties

Council conducts indexation each year and a full revaluation is conducted every three years, and is classified as a Level 3 Fair Value. The full revaluation and indexation is done by independent and qualified valuers to determine the fair value of its investment properties.

The full revaluation was conducted by Lunne Watt and Associates Pty Limited as at 30 June 2016. The value of investment property was determined through either capitalisation of rental income or with reference to value of similar properties within the area. The key unobservable input to this valuation is rent, interest rate property value.

Council revalues investment properties every three years. The next revaluation is due during the 2018/2019 financial year.

Infrastructure, property, plant and equipment (IPPE)

Buildings

Council engages external, independent and qualified valuers to determine the fair value of Council's buildings. Buildings were last revalued as at the 30 June 2018 by Scott Fullarton Valuations Pty Ltd.

The valuer obtained the gross value of each specialised building by applying a unit rate to a structure or a square metre rate to a building, based on its current replacement cost, which is the lowest cost of replacing the economic benefits of the existing asset using modern technology. The key unobservable input was the square metre rate, which was benchmarked to construction costs of similar properties across the industry. Non-specialised buildings were valued at market value, having regard to the "highest and best use".

Council revalues buildings every 5 years. The next revaluation is due during the 2022/2023 financial year.

Operational Land

Council engages external, independent and qualified valuer to determine the fair value of the council's operational land. Operational land was revalued on 30 June 2018 and fair values were determined by Scott Fullarton Valuation Pty Ltd.

Operational land has been valued at market value, having regard to the "highest and best use", after identifying all elements that would be taken into account by buyers and sellers in setting the price, including but not limited to the description and dimensions of the land, Planning and other constraints on development and the potential for alternative use. In this regard, the valuer analysed sale of land throughout the subject and surrounding council area and adopted a rate per square metre, after taking into consideration zoning, location, area and configuration.

Council revalues operational land every five years. The next revaluation is due during the 2022/2023 financial year.

Land Under Road

Council conducted the revaluation for the land under road on 30 June 2014. Council used the Valuer General's value to determine the fair value of the land under road assets.

Land under road has been determined using a discounted unit rate per square metre, derived from the Unimproved Land Value as determined by the Valuer General, performed for rating purposes, and is applied to the total square area.

Council revalues the land under roads every five years. The next revaluation is due during the 2018/2019 financial year.

Community Land

Council conducted the revaluation for the community land on 30 June 2016. Council used the Valuer General's value to determine the fair value of the community land.

Community land has been determined using a unit rate per square metre, derived from the Unimproved Land Value as determined by the Valuer General for rating purposes.

Council revalues the community land every 5 years, the next revaluation is due on 2020/2021 financial year.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement

\$ '000

Sewerage Network

Council conducts indexation on asset values under this class every year and conducts a full revaluation every five years. Council engages an external, independent and qualified valuer to conduct full revaluations.

The Sewerage network was last revalued in the 2014/2015 financial year by Andrew Nock. The fair value was determined based on asset replacement cost and condition of the assets. In between full revaluations, Council applies the construction cost index rate, which is issued by the NSW Office of Water. The next full revaluation is due during the 2019/2020 financial year.

Road, Bridges, Footpaths and Drainage

Council conducts a full revaluation of the above assets every 5 years. The last revaluation was conducted during the 2014/2015 financial year, which was performed by Council's internal professional staff, consisting of qualified engineers.

The fair value of road assets was determined based on the replacement cost per square metre rate and condition of the asset. The fair value of footpaths and drainage assets were determined based on the replacement cost per square meter and the condition of the asset. Replacement costs was used to determine the fair value of bridges. The next full revaluation is due during the 2019/2020 financial year.

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

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

	Community Land	Land Under Roads	Land Improvement - Non Depreciable	Total
Opening Balance - 1/7/16	81,030	6,589	986	88,605
Purchases (GBV)	974	4,465	84	5,523
Disposal	-	-	(3)	(3)
PY Capitalisation	-	21	1	22
Transfers from/(to) another asset class	(18)	18	-	-
Closing Balance - 30/6/17	81,986	11,093	1,068	94,147
Purchases (GBV)	-	1,149	-	1,149
Disposal	-	-	-	-
Impairment Loss	-	(178)	-	(178)
PY Capitalisation	4	-	-	4
Revaluation	-	-	-	-
Transfers from/(to) another asset class	-	5	-	5
Closing Balance - 30/6/18	81,990	12,069	1,068	95,127

Note 21. Fair value measurement

\$ '000

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

	Land Imp: Depreciable	Buildings: Non Spec.	Buildings: Specialised	Other Structures	Total
Opening Balance - 1/7/16	761	12,821	64,688	10,598	88,868
Purchases (GBV)	24	1,242	-	651	1,917
Disposals (WDV)	(5)	(58)	-	-	(63)
Depreciation and impairment	(21)	(4,304)	-	(293)	(4,618)
Transfers from/(to) another asset class	(146)	-	-	146	-
PY Capitalisation	8	397	-	165	570
Revaluations	-	-	-	(3,638)	(3,638)
Closing Balance - 30/6/17	621	10,098	64,688	7,629	83,036
Purchases (GBV)	-	155	1,148	67	1,370
Reinstatements	-	-	-	-	-
Disposals (WDV)	-	-	(7)	-	(7)
Depreciation & Impairment	(20)	(557)	(2,669)	(546)	(3,792)
Transfers from/(to) another asset class	-	-	-	-	-
PY Capitalisation	-	50	2,165	-	2,215
Revaluations	-	4,693	24,085	-	28,778
Closing Balance - 30/6/18	601	14,439	89,410	7,150	111,600

	Roads, Bridges Footpaths	Stormwater Drainage	Swimming Pools & O/S	Other Assets	Total
Opening Balance - 1/7/16	390,369	135,180	25,592	94,444	645,585
Purchases (GBV)	13,455	181	301	14,394	28,331
Disposals (WDV)	(227)	-	(44)	(1,575)	(1,846)
Depreciation and impairment	(6,494)	(1,877)	(1,614)	(3,609)	(13,594)
PY Capitalisation	1,069	228	56	(1,945)	(592)
Revaluation	-	-	(1,602)	1,101	(501)
Adjustments to PY movements	-	-	-	-	-
Adjustments	-	-	-	-	-
Closing Balance - 30/6/17	398,172	133,712	22,689	102,810	657,383
Purchases (GBV)	11,353	4,262	31	8,208	23,854
Disposals (WDV)	(133)	-	(2)	(1,096)	(1,231)
Depreciation and impairment	(6,692)	(1,895)	(1,709)	(3,835)	(14,131)
Adjustments	-	-	-	50	50
PY Capitalisation	1,894	2,396	-	(6,511)	(2,221)
Revaluation	-	-	600	1,615	2,215
Closing Balance - 30/6/18	404,594	138,475	21,609	101,241	665,919

(5). Highest and best use

Due to the use of facilities and open space for the provision of community services and due to the condition of some assets, not all of Council's non financial assets are being utilised at their highest and best use from a purely financial perspective.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Related party transactions

\$ '000

a. Key management personnel

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

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

Compensation:	2018	2017
Short-term benefits	1,920	1,633
Annual Leave Entitlements	121	112
Post-employment benefits	178	146
Long Service Leave Entitlements	52	49
Termination benefits	156	—
Total	2,427	1,940

b. Other transactions with KMP and their related parties

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

Nature of the transaction	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for doubtful debts outstanding	Doubtful debts expense recognised
	Actual \$	Actual \$		Actual \$	Actual \$
2018					
Daughter of Director Jeff Organ provided design works for community consultation, sourced in accordance with Council's recruitment process for casual employees	36,319	-	Normal employment terms	-	-
Director Matthew Owens purchased the vehicle used as part of his employment on termination	28,625	-	Purchased for market value	-	-

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Events occurring after the reporting date

Council is aware of the following 'non-adjusting events' that merit disclosure:

An incident occurred after the reporting date that resulted in a fatality. The financial impacts of this event, if any, are unknown at this stage.

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

Note 24. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted Cash asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	–	–	4,713	–	–	–	–	–
Roads	2,175	1,190	3,458	128	(13)	–	3,480	1,507
Parking	386	–	–	10	(4)	–	392	–
Open space	1,105	422	–	48	(243)	–	1,332	–
Community facilities	731	318	–	45	(15)	–	1,079	622
Recreational Facilities	892	196	–	33	(124)	–	997	254
Bushfire	13	–	–	–	(12)	–	1	–
Extractive Industries	277	47	–	9	–	–	333	–
Land Acquisition	787	1,114	–	56	–	–	1,957	(3,553)
Plan Administration Reserve	30	5	–	1	–	–	36	–
S7.11 Contributions - under a plan	6,396	3,293	8,171	330	(411)	–	9,607	(1,170)
S7.12 Levies - under a plan	1,602	1,439	681	101	(407)	–	2,735	1,170
Total 7.11 and 7.12 revenue - under plans	7,998	4,732	8,852	431	(818)	–	12,342	–
S7.4 planning agreements	21	4	45	1	–	–	28	–
S64 contributions	738	1,706	–	64	–	–	2,507	–
Total contributions	8,757	6,442	8,897	496	(818)	–	14,877	–

Cumulative internal borrowings represent the amount required to be repaid from General Fund on development of a repayment program.

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

Note 24. Statement of developer contributions

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN - HAWKESBURY CITY

PURPOSE	Opening balance	Contributions		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted Cash asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	–	–	4,713	–	–	–	–	–
Roads	2,175	1,190	3,458	128	(13)	–	3,480	1,507
Parking	386	–	–	10	(4)	–	392	–
Open space	1,105	422	–	48	(243)	–	1,332	–
Community facilities	731	318	–	45	(15)	–	1,079	622
Recreational Facilities	892	196	–	33	(124)	–	997	254
Bushfire	13	–	–	–	(12)	–	1	–
Extractive Industries	277	47	–	9	–	–	333	–
Land Acquisition	787	1,114	–	56	–	–	1,957	(3,553)
Plan Administration Reserve	30	5	–	1	–	–	36	–
Total	6,396	3,293	8,171	330	(411)	–	9,607	(1,170)

S7.12 LEVIES – UNDER A PLAN

CONTRIBUTION PLAN - HAWKESBURY CITY

PURPOSE	Opening balance	Contributions		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted Cash asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Other	1,602	1,439	681	101	(407)	–	2,735	1,170
Total	8,028	1,439	681	101	(407)	–	2,735	1,170

Notes to the Financial Statements

for the year ended 30 June 2018

Note 25. Financial result and financial position by fund

Income Statement by Fund		
\$ '000	2018	2018
Continuing operations	Sewer	General¹
Income from continuing operations		
Rates and annual charges	6,329	46,100
User charges and fees	1,019	6,002
Interest and investment revenue	162	1,358
Other revenues	298	4,081
Grants and contributions provided for operating purposes	17	7,677
Grants and contributions provided for capital purposes	434	18,618
Other income		
Fair value increment on investment property	-	2,104
Share of interests in joint ventures and associates using the equity method	-	304
Total Income from Continuing Operations	8,259	86,244
Expenses from continuing operations		
Employee benefits and on-costs	1,565	25,448
Borrowing costs	69	295
Materials and contracts	2,440	15,250
Depreciation and amortisation	2,121	17,364
Other expenses	1,039	10,351
Net losses from the disposal of assets	88	9
Revaluation decrement / impairment of IPPE	-	178
Total expenses from continuing operations	7,322	68,895
Operating result from continuing operations	937	17,349
Discontinued operations		
Net profit/(loss) from discontinued operations	-	-
Net operating result for the year	937	17,349
Net operating result attributable to each council fund	937	17,349
Net operating result attributable to non-controlling interests	-	-
Net operating result for the year before grants and contributions provided for capital purposes	503	(1,269)

¹ General Fund refers to all Council's activities other than Water, Sewer & Other

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

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

Note 25. Financial result and financial position by fund

Statement of Financial Position by fund		
\$ '000	2018	2018
ASSETS	Sewer	General¹
Current assets		
Cash and cash equivalents	3,275	2,066
Investments	2,471	51,029
Receivables	413	5,527
Inventories	-	216
Other	-	1,004
Total current assets	6,159	59,842
Non-current assets		
Receivables	-	1,079
Infrastructure, property, plant and equipment	83,621	873,916
Investments accounted for using the equity method	-	3,229
Investment property	75	47,196
Intangible assets	-	242
Total non-current assets	83,696	925,662
TOTAL ASSETS	89,855	985,504
LIABILITIES		
Current liabilities		
Payables	-	10,192
Borrowings	400	351
Provisions	330	10,037
Total current liabilities	730	20,580
Non-current liabilities		
Borrowings	328	2,654
Provisions	40	6,437
Total non-current liabilities	368	9,091
TOTAL LIABILITIES	1,098	29,671
Net assets	88,757	955,833
EQUITY		
Retained earnings	38,665	395,562
Revaluation reserves	50,092	560,271
Council equity interest	88,757	955,833
Non-controlling interests	-	-
Total equity	88,757	955,833

¹ General Fund refers to all Council's activities other than Water, Sewer & Other
NB. All amounts disclosed above are gross – that is, they include internal receivables and payables between the funds.

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

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

\$ '000	Amounts 2018	Indicator 2018	Prior Periods 2017	Prior Periods 2016	Benchmark
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	(2,899)	-3.97%	-6.61%	-10.16%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	73,043				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	65,349	70.96%	68.44%	70.51%	>60%
Total continuing operating revenue ⁽¹⁾	92,095				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	38,105	2.93x	3.30x	3.64x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	13,011				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	16,950	13.37x	11.54x	9.61x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	1,268				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	3,134	5.63%	5.46%	5.44%	<5%
Rates, annual and extra charges collectible	55,681				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	58,841	12.4mths	8.91 mths	8.4mths	>3mths
Payments from cash flow of operating and financing activities x12	4,728				

Notes

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

⁽²⁾ Refer Notes 6-8 inclusive.
Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

⁽³⁾ Refer to Notes 13 and 14.

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

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

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

\$ '000	General indicators ⁵		Sewer indicators		Benchmark
	2018	2017	2018	2017	
Local government industry indicators – by fund					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	-5.12%	-6.00%	5.65%	12.26%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions					
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	68.66%	66.40%	94.25%	90.75%	>60.00%
Total continuing operating revenue ⁽¹⁾					
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	2.93x	3.30x	7.39x	3.94x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)					

Notes

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

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

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

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

\$ '000	General indicators ⁵		Sewer indicators		Benchmark
	2018	2017	2018	2017	
Local government industry indicators – by fund (continued)					
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	16.57x	15.58x	6.41x	3.09x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)					
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	5.69%	4.96%	5.18%	9.33%	<5%
Rates, annual and extra charges collectible					
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	12.44 months	8.67 months	12.53 months	15.05 months	> 3 months
Payments from cash flow of operating and financing activities					

Notes

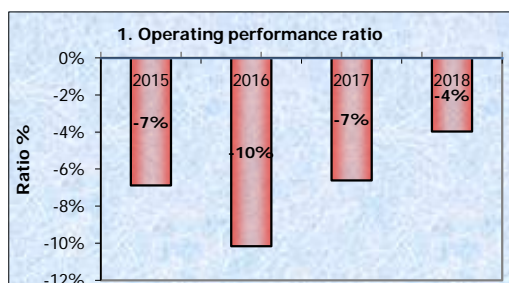
(1) Refer to Notes at Note 26a above.

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

Notes to the Financial Statements

for the year ended 30 June 2018

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



Benchmark: — Minimum $\geq 0.00\%$

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

Purpose of operating performance ratio

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

Commentary on 2017/18 result

2017/18 ratio -3.97%

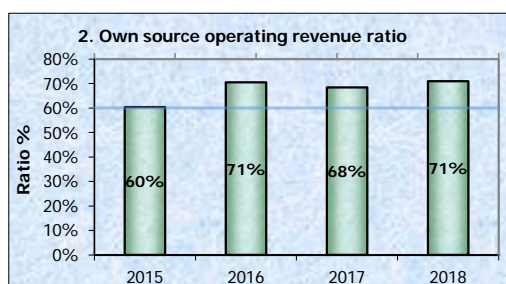
Ratio improved as a result of improvements in rates and annual charges income and user charges and fees.

Ratio needs improvement



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum $\geq 60.00\%$

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

Purpose of own source operating revenue ratio

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

Commentary on 2017/18 result

2017/18 ratio 70.96%

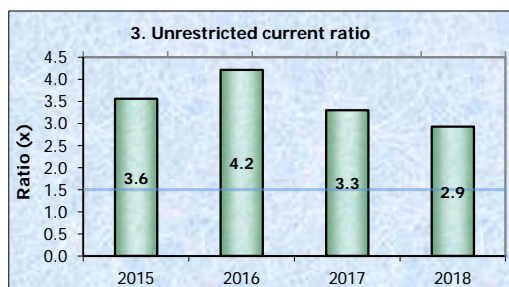
Ratio improved as a result of improvements in rates and annual charges and user charges and fees and the commencement of prepaying the FAG in 2016/17.

Ratio is better than benchmark



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum ≥ 1.50

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

Purpose of unrestricted current ratio

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

Commentary on 2017/18 result

2017/18 ratio 2.93x

Ratio declined as the level of external restrictions applicable to current assets increased.

Ratio is better than benchmark

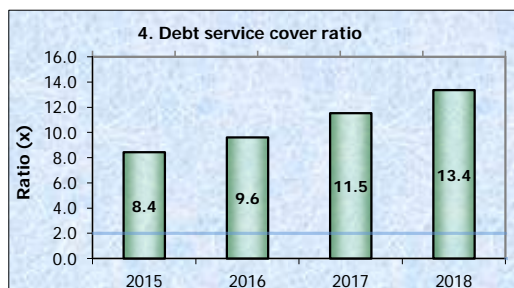


Ratio achieves benchmark

Ratio is outside benchmark

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

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



Purpose of debt service cover ratio

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

Commentary on 2017/18 result

2017/18 ratio 13.37x

Ratio increased due to an increase over the prior year in available cash to service debt costs, in conjunction with debt costs reducing.

Ratio is better than benchmark.

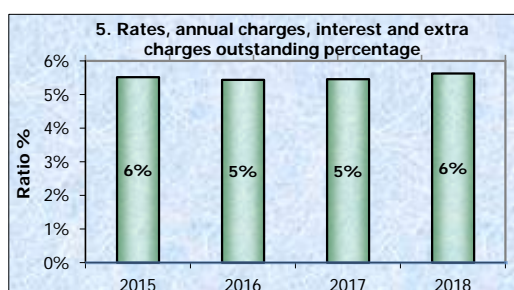
Benchmark: — Minimum ≥ 2.00

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



Ratio achieves benchmark

Ratio is outside benchmark



Purpose of rates & annual charges outstanding ratio

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

Commentary on 2017/18 result

2017/18 ratio 5.63%

Ratio remained consistent as a result of consistent application of debt recovery processes.

Benchmark: — Maximum $< 5.00\%$

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



Ratio achieves benchmark

Ratio is outside benchmark



Purpose of cash expense cover ratio

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

Commentary on 2017/18 result

2017/18 ratio 12.4 mths

Ratio increased as a result of increased cash and cash equivalents.

Ratio is better than benchmark.

Benchmark: — Minimum ≥ 3.00

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



Ratio achieves benchmark

Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial report

Hawkesbury City Council

To the Councillors of Hawkesbury City Council

Opinion

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

In my opinion,

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 20 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Somaiya Ahmed
Director, Financial Audit Services

19 October 2018
SYDNEY

Cr Barry Calvert
Mayor
Hawkesbury City Council
366 George Street
WINDSOR NSW 2756

Contact: Somaiya Ahmed
Phone no: 02 9275 7424
Our ref: D1825187/1737

19 October 2018

Dear Mayor

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





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

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

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

INCOME STATEMENT

Operating result

	2018 \$m	2017 \$m	Variance %
Rates and annual charges revenue	52.4	49.8	 5.2
Grants and contributions revenue	26.7	28.4	 6.0
Operating result for the year	18.3	17.7	 3.4
Net operating result before capital amounts	(0.8)	(1.2)	 33

Council's operating result (\$18.3 million) was marginally higher than the 2016–17 result. The revenue and expenses remained largely constant.

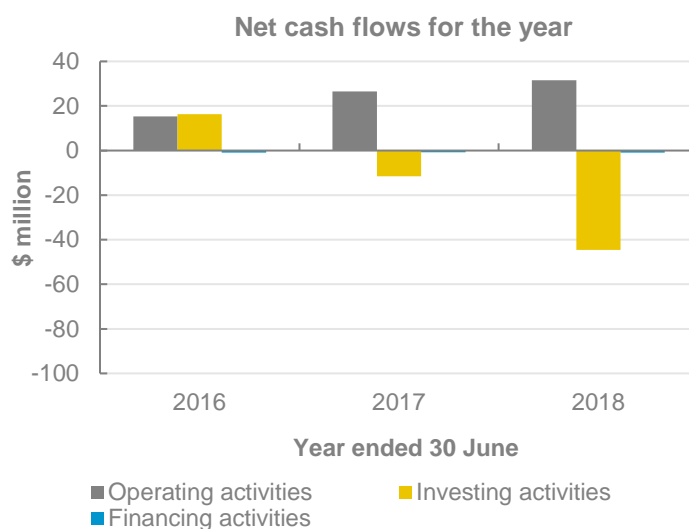
The net operating deficit before capital grants and contributions (\$766,000) was \$393,000 lower than the 2016–17 result. This was mainly due to the 5.4 per cent increase in rate and annual charges income offset by the lower grants received in the current year compared to 2016–17.

Rates and annual charges revenue (\$52.4 million) increased by \$2.6 million (5.2 per cent) in 2017–2018. Council had an increase in the number of properties combined with the effect of the rate peg of 1.5 per cent.

Grants and contributions revenue (\$26.7 million) decreased by \$1.7 million (6.0 per cent) in 2017–2018 due to a reduction in State and Commonwealth Government funding.

STATEMENT OF CASH FLOWS

- The increase in cash outflows from investing activities is due to greater proportion of funds invested in investment securities during 2017–18.
- The increase in cash flows from operating activities was mainly due to increase in rates and annual charges.



FINANCIAL POSITION

Cash and Investments

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	26.8	15.4	<ul style="list-style-type: none"> • Cash and investments increased by \$14.2 million, mainly due to receipts of developer contributions. • Significant externally restricted funds include Developer Contributions of \$14.4 million and sewerage services of \$5.0 million.
Internal restrictions	20.3	19.1	
Unrestricted	11.7	10.1	
Cash and investments	58.8	44.6	<ul style="list-style-type: none"> • Significant internally restricted funds include Unspent Work Reserve/Property of \$9.1 million and tip remediation and sillage of \$6.7 million.

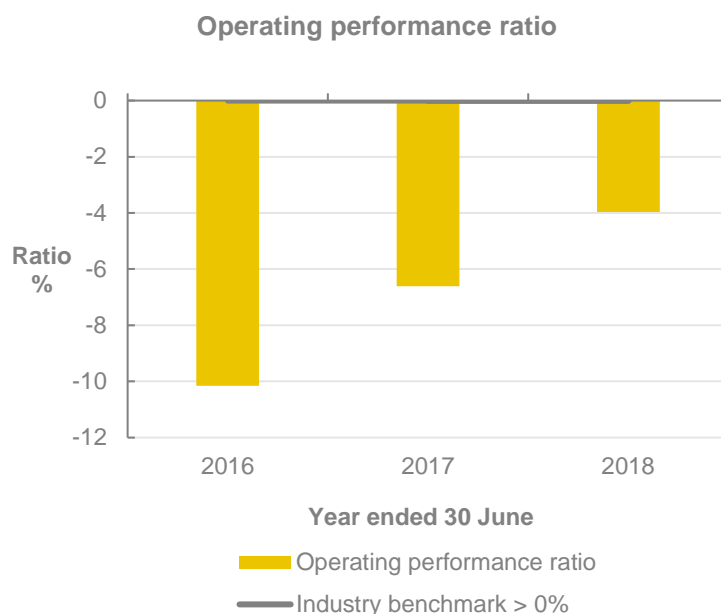
PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 26 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7, which has not been audited.

Operating performance ratio

- The Council's operating performance ratio of negative 4.0 per cent reflects a deficit in operating revenues over operating expenses and did not meet the OLG benchmark of greater than zero per cent.
- The slightly improved ratio in 2017–1–18 reflects lower operational expenses and a slight increase in rates revenue.

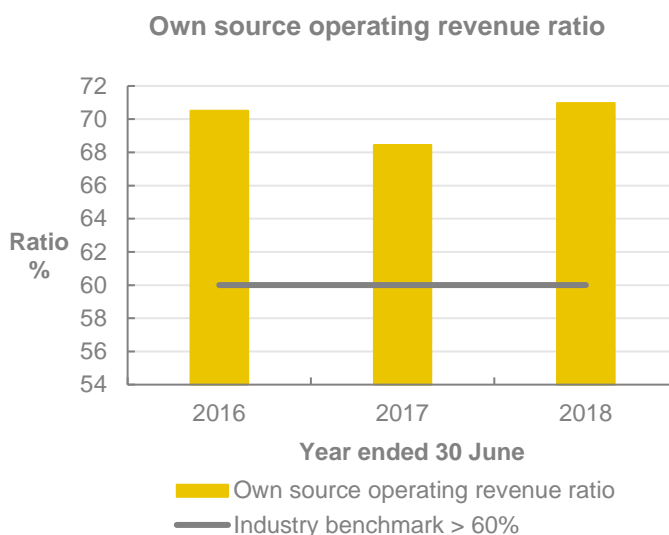
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



Own source operating revenue ratio

- Council continues to exceed the OLG benchmark of greater than 60 per cent.
- The ratio in 2017–1–18 was slightly higher than 2016–1–17 due to an increase in rates revenue and user charges and fees.

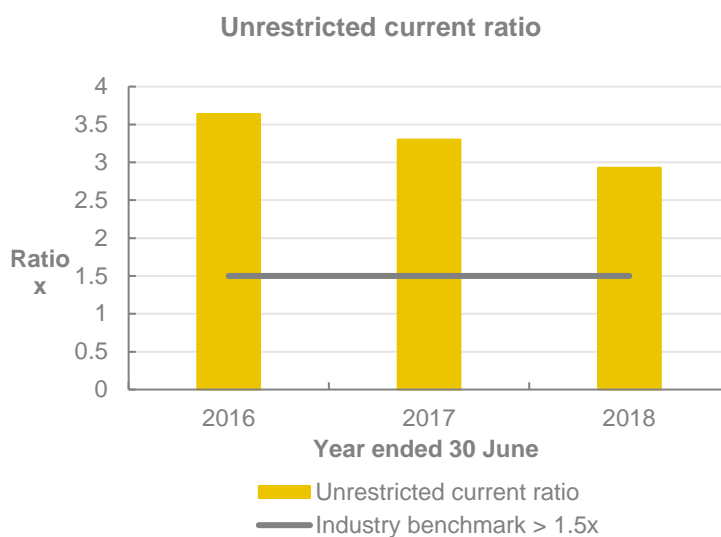
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

- Council continues to exceed the benchmark due to high cash and investment balances.
- The ratio has decreased in 2017–18 as a result of reduction in unrestricted cash and cash investments by \$1.6 million and increase in external restrictions applied.

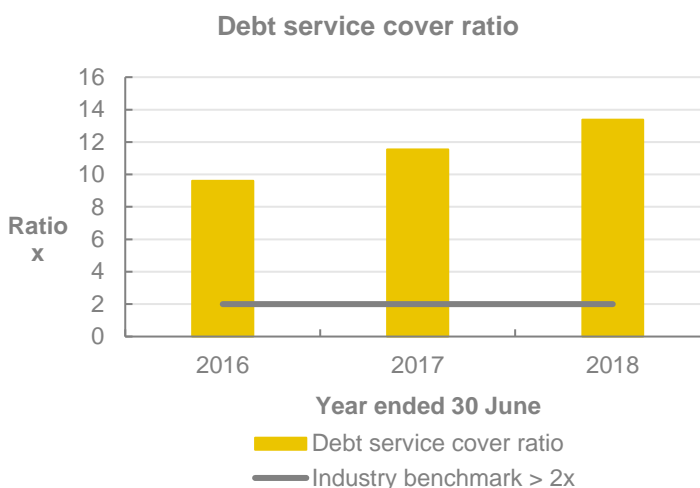
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

- Council exceeded the benchmark of greater than two times in 2017–18.
- The ratio increased from previous year mainly due to the reduction in borrowings and increase in the income from operations.

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

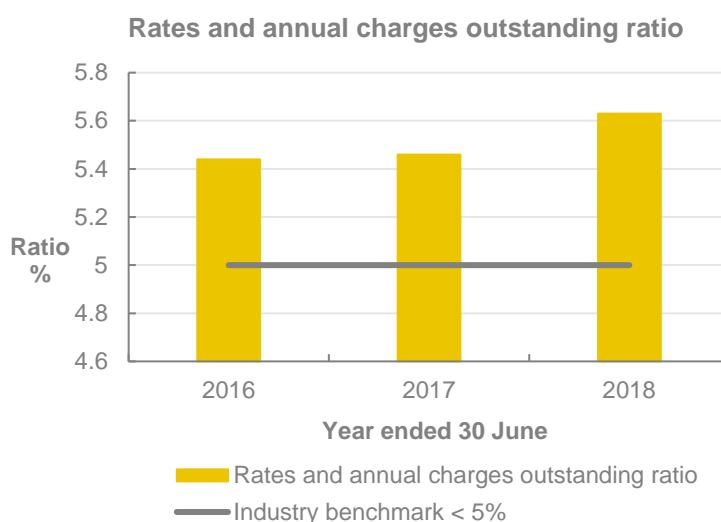


Rates and annual charges outstanding ratio

Council did not achieve the benchmark for outstanding rates and annual charges.

The elevated ratio reflects time lags in the recovery of outstanding rates debtors in comparison to industry expectations.

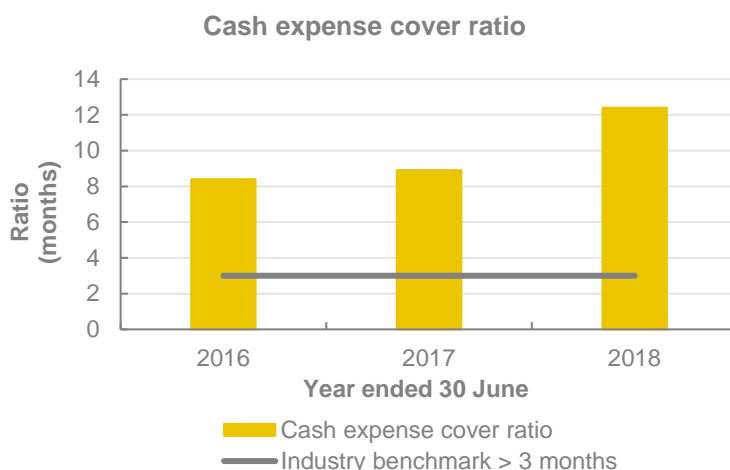
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 5 per cent for metro councils.



Cash expense cover ratio

- Council exceeded the benchmark of greater than three months.
- This has increased slightly from prior year due to higher levels of cash and term deposits.

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.

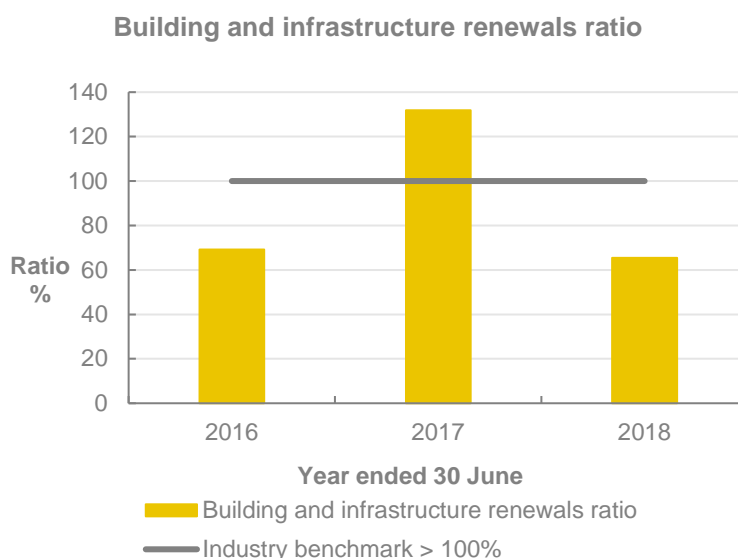


Building and infrastructure renewals ratio (unaudited)

- Council's building and infrastructure renewals ratio was below the benchmark.
- This ratio has decreased from previous year due to a reduction in asset renewals in 2017–18.

The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

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



OTHER MATTERS

New accounting standards implemented

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

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

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

Council's disclosure of the changes in their liabilities arising from financing activities is disclosed in Note 12.

Legislative compliance

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

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



Somaiya Ahmed
Director, Financial Audit Services

Hawkesbury City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

*Hawkesbury City Council leading and working with our community
to create a healthy and resilient future*



Special Purpose Financial Statements

for the year ended 30 June 2018

Contents	Page
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2. Special Purpose Financial Statements:	
Income Statement - Sewerage Business Activity	92
Statement of Financial Position - Sewerage Business Activity	93
3. Notes to the Special Purpose Financial Statements	94
4. Auditor's Report	101

Background

(i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.

(ii) The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

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

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

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

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

Special Purpose Financial Statements

for the year ended 30 June 2018

Statement by Councillors and Management

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

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


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

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

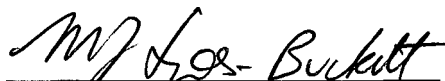
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

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

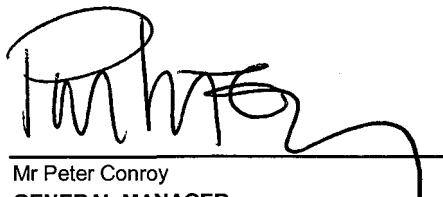
Signed in accordance with a resolution of Council made on 25 September 2018.



Councillor Barry Calvert
MAYOR



Councillor Mary Lyons-Buckett
DEPUTY MAYOR



Mr Peter Conroy
GENERAL MANAGER



Ms Emma Galea
RESPONSIBLE ACCOUNTING OFFICER

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

\$ '000	2018	2017
Income from continuing operations		
Access charges	6,329	5,722
User charges	1,019	857
Interest	162	52
Grants and contributions provided for non-capital purposes	17	64
Profit from the sale of assets	-	-
Other income	298	185
Total income from continuing operations	7,825	6,880
Expenses from continuing operations		
Employee benefits and on-costs	1,565	1,450
Borrowing costs	-	-
Materials and contracts	2,440	2,766
Depreciation, amortisation and impairment	2,121	2,083
Calculated taxation equivalents	61	52
Loss on sale of assets	88	28
Unwinding of interest free loan	69	89
Other expenses	1,039	1,289
Total expenses from continuing operations	7,383	7,757
Surplus (deficit) from continuing operations before capital amounts	442	(877)
Grants and contributions provided for capital purposes	434	656
Surplus (deficit) from continuing operations after capital amounts	434	656
Surplus (deficit) from discontinued operations	-	-
Surplus (deficit) from all operations before tax	876	(221)
Less: corporate taxation equivalent (30%) [based on result before capital]	(133)	-
SURPLUS (DEFICIT) AFTER TAX	743	(221)
Plus opening retained profits	37,757	37,310
Plus/less: prior period adjustments	-	668
Plus adjustments for amounts unpaid:		
- Taxation equivalent payments	61	52
- Corporate taxation equivalent	133	-
Less:		
- Tax equivalent dividend paid	(29)	(52)
Closing retained profits	38,665	37,757
Return on capital %	0.85%	-1.0%
Subsidy from Council	1,891	2,878
Calculation of dividend payable:		
Surplus (deficit) after tax	743	(221)
Less: capital grants and contributions (excluding developer contributions)	-	(30)
Surplus for dividend calculation purposes	743	-
Potential dividend calculated from surplus	372	-

Hawkesbury City Council

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

\$ '000	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	3,275	2,822
Investments	2,471	-
Receivables	413	591
Total current Assets	6,159	3,413
Non-current assets		
Infrastructure, property, plant and equipment	83,621	84,082
Investment property	75	75
Total non-current assets	83,696	84,157
TOTAL ASSETS	89,855	87,570
LIABILITIES		
Current liabilities		
Borrowings	400	400
Provisions	330	307
Total current liabilities	730	707
Non-current liabilities		
Borrowings	328	659
Provisions	40	40
Total non-current liabilities	368	699
TOTAL LIABILITIES	1,098	1,406
NET ASSETS	88,757	86,164
EQUITY		
Retained earnings	38,665	37,757
Revaluation reserves	50,092	48,407
Council equity interest	88,757	86,164
Non-controlling equity interest	-	-
TOTAL EQUITY	88,757	86,164

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	95
3	Sewerage Business Best-Practice Management disclosure requirements	98

Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2017

Note 1. Significant accounting policies

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

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

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

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

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

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

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. Sewerage Service

Comprising the operations & net assets of Council's Sewerage Reticulation & Treatment Operations servicing the Hawkesbury City Council area.

Category 2

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

Nil

Monetary amounts

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

As required by the NSW Office of Water (Department of Primary Industries) the amounts shown in Note 3 are disclosed in whole dollars.

(i) Taxation Equivalent Charges

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

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

Note 1. Significant accounting policies

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

Notional rate applied (%)

Corporate income tax rate – 30%

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

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

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

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

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

Income Tax

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

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

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

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

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

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

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

Note 1. Significant accounting policies

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.38% at 30 June 2017.

(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 DPIW guidelines and must not exceed:

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

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

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

Note 3. Sewerage Business
Best Practice Management disclosure requirements

Dollars Amounts shown below are in **WHOLE DOLLARS** (unless otherwise indicated)

2018

1. Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	61,000
(ii)	No of assessments multiplied by \$3/assessment	23,895
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	23,895
(iv)	Amounts actually paid for Tax Equivalents	29,203

2. Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	371,700
(ii)	No. of assessments x (\$30 less tax equivalent charges per assessment)	215,055
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 & 30 June 2014	(191,600)

2018 Surplus	743,400	2017 Surplus	(251,000)	2016 Surplus	(684,000)
		2017 Dividend	-	2016 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	n/a
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	-

3. Required outcomes for 4 Criteria

[To be eligible for the payment of a "Dividend from Surplus", ALL the Criteria below need a "YES"]

(i)	Completion of Strategic Business Plan (including Financial Plan)	YES
(ii)	Pricing with full cost-recovery, without significant cross subsidies [Refer Item 2(a) in Table 1 on page 22 of the Best Practice Guidelines]	YES
	Complying charges	
	(a) Residential [Item 2(c) in Table 1]	YES
	(b) Non Residential [Item 2(c) in Table 1]	YES
	(c) Trade Waste [Item 2(d) in Table 1]	YES
	DSP with Commercial Developer Charges [Item 2(e) in Table 1]	YES
	Liquid Trade Waste Approvals & Policy [Item 2(f) in Table 1]	YES
(iii)	Complete Performance Reporting Form (by 15 September each year)	YES
(iv)	a. Integrated Water Cycle Management Evaluation	YES
	b. Complete and implement Integrated Water Cycle Management Strategy	YES

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

Note 3. Sewerage Business
Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2018

National Water Initiative (NWI) Financial Performance Indicators

NWI F2	Total Revenue (Sewerage) Total Income (s14) - Grants for Acquisition of Assets (s12a) - Interest Income (s10) - Aboriginal Communities W&S Program Income (w10a)	\$'000	8,112
NWI F10	Written Down Replacement Cost of Fixed Assets (Sewerage) Written down current cost of system assets (s48)	\$'000	83,023
NWI F12	Operating Cost (Sewerage) Management Expenses (s1) + Operational & Maintenance Expenses (s2)	\$'000	5,075
NWI F15	Capital Expenditure (Sewerage) Acquisition of Fixed Assets (s17)	\$'000	2,573
NWI F18	Economic Real Rate of Return (Sewerage) [Total Income (s14) - Interest Income (s10) - Grants for acquisition of Assets (s12a) - Operating cost (NWI F12) - Current cost depreciation (s3)] x 100 divided by [Written down current cost (ie. WDCC) of System Assets (s48) + Plant & Equipment (s34b)]	%	1.09%
NWI F27	Capital Works Grants (Sewerage) Grants for the Acquisition of Assets (12a)	\$'000	-

**National Water Initiative (NWI) Financial Performance Indicators
Water & Sewer (combined)**

NWI F3	Total Income (Water & Sewerage) Total Income (w13 + s14) + Gain/Loss on disposal of assets (w14 + s15) minus Grants for acquisition of assets (w11a + s12a) - Interest Income (w9 + s10)	\$'000	8,024
NWI F8	Revenue from Community Service Obligations (Water & Sewerage) Community Service Obligations (NWI F25) x 100 divided by Total Income (NWI F3)	%	0.51%
NWI F16	Capital Expenditure (Water & Sewerage) Acquisition of Fixed Assets (w16 + s17)	\$'000	2,573
NWI F19	Economic Real Rate of Return (Water & Sewerage) [Total Income (w13 + s14) - Interest Income (w9 + s10) - Grants for acquisition of assets (w11a + s12a) - Operating Cost (NWI F11 + NWI F12) - Current cost depreciation (w3 + s3)] x 100 divided by [Written down replacement cost of fixed assets (NWI F9 + NWI F10) + Plant & equipment (w33b + s34b)]	%	1.09%
NWI F20	Dividend (Water & Sewerage) Dividend paid from surplus (2(v) of Note 2 + 2(v) of Note 3)	\$'000	-
NWI F21	Dividend Payout Ratio (Water & Sewerage) Dividend (NWI F20) x 100 divided by Net Profit after tax (NWI F24)	%	0.00%

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

Note 3. Sewerage Business

Best Practice Management disclosure requirements (continued)

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

2018

**National Water Initiative (NWI) Financial Performance Indicators
Water & Sewer (combined)**

NWI F22	Net Debt to Equity (Water & Sewerage) Overdraft (w36 + s37) + Borrowings (w38 + s39) - Cash & Investments (w30 + s31) x 100 divided by [Total Assets (w35 + s36) - Total Liabilities (w40 + s41)]	%	-5.65%
NWI F23	Interest Cover (Water & Sewerage) Earnings before Interest & Tax (EBIT) divided by Net Interest Earnings before Interest & Tax (EBIT): 915 Operating Result (w15a + s16a) + Interest expense (w4a + s4a) - Interest Income (w9 + s10) - Gain/Loss on disposal of assets (w14 + s15) + Miscellaneous Expenses (w4b + w4c + s4b + s4c) Net Interest: - 139 Interest Expense (w4a + s4a) - Interest Income (w9 + s10)		>100
NWI F24	Net Profit After Tax (Water & Sewerage) Surplus before dividends (w15a + s16a) - Tax equivalents paid (Note 2-1(iv) + Note 3-1(iv))	\$'000	908
NWI F25	Community Service Obligations (Water & Sewerage) Grants for Pensioner Rebates (w11b + s12b)	\$'000	41

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules No. 5 & 6 of Council's Annual Financial Statements.
 - The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial report

Hawkesbury City Council

To the Councillors of Hawkesbury City Council

Opinion

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

The Declared Business Activity of the Council is Sewerage Business Activity.

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

My opinion should be read in conjunction with the rest of this report and the Emphasis of Matter referring to the basis of accounting.

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink, appearing to read 'Somaiya', is positioned within a faint rectangular border.

Somaiya Ahmed
Director, Financial Audit Services

19 October 2018
SYDNEY

Hawkesbury City Council

SPECIAL SCHEDULES
for the year ended 30 June 2018

*Hawkesbury City Council leading and working with our community
to create a healthy and resilient future*



Special Schedules

for the year ended 30 June 2018

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

Background

(i) These Special Schedules have been designed to meet the requirements of special purpose users such as;

- the NSW Grants Commission
- the Australian Bureau of Statistics (ABS),
- the NSW Office of Water (NOW), and
- the Office of Local Government (OLG).

(ii) The financial data is collected for various uses including;

- the allocation of Financial Assistance Grants,
- the incorporation of Local Government financial figures in national statistics,
- the monitoring of loan approvals,
- the allocation of borrowing rights, and
- the monitoring of the financial activities of specific services.

Special Schedule No. 1 - Net Cost of Services
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	2,075	10	-	(2,065)
Administration	8,368	1,485	209	(6,674)
Public order and safety				
Fire service levy, fire protection, emergency services	2,149	390	164	(1,595)
Enforcement of local government regulations	530	189	-	(341)
Animal control	953	696	100	(157)
Other	521	669	-	148
Total public order and safety	4,153	1,944	264	(1,945)
Health	746	540	-	(206)
Environment				
Noxious plants and insect/vermin control	637	-	-	(637)
Solid waste management	13,630	14,624	22	1,016
Street cleaning	298	-	-	(298)
Drainage	2,849	11	5,984	3,146
Stormwater management	61	535	-	474
Total environment	17,475	15,170	6,006	3,701
Community services and education				
Administration and education	789	149	-	(640)
Aged persons and disabled	134	59	-	(75)
Total community services and education	923	208	-	(715)
Housing and community amenities				
Public cemeteries	199	327	-	128
Street lighting	633	164	-	(469)
Town planning	1,893	1,784	-	(109)
Other community amenities	1	-	4,732	4,731
Total housing and community amenities	2,726	2,275	4,732	4,281
Sewerage services	8,976	9,538	434	996
Recreation and culture				
Public libraries	2,322	243	-	(2,079)
Museums	444	58	-	(386)
Art galleries	551	73	-	(478)
Sporting grounds and venues	259	146	-	(113)
Parks and gardens (lakes)	7,256	317	976	(5,963)
Other sport and recreation	2,164	387	11	(1,766)
Total recreation and culture	12,996	1,224	987	(10,785)
Fuel and energy			-	-

Special Schedule No. 1 - Net Cost of Services (continued)
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations.	Income from continuing operations		Net Cost of Services
		Non-capital.	Capital	
Mining, manufacturing and construction				-
Building control	577	687	-	110
Transport and communication				
Urban roads (UR) – local	4,509	44	3,584	(881)
Urban roads – regional	1,945	-	1,759	(186)
Sealed rural roads (SRR) – local	2,997	-	47	(2,950)
Sealed rural roads (SRR) – regional	1,288	857	-	(431)
Unsealed rural roads (URR) – local	2,405	27	-	(2,378)
Bridges on SRR – local	31	-	437	406
Parking areas	32	(1)	-	(33)
Footpaths	-	-	200	200
Other transport and communication	2,693	551	392	(1,750)
Total transport and communication	15,900	1,478	6,419	(8,003)
Economic affairs	1,302	4,190	-	2,888
Totals – functions	76,217	38,749	19,051	(18,417)
General purpose revenues ⁽²⁾		36,399	-	36,399
Share of interests – joint ventures and associates using the equity method	-	304	-	304
NET OPERATING RESULT ⁽²⁾	76,217	75,452	19,051	18,286

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

(2) As reported in the Income Statement

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

\$'000		Calculation 2018/19	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	31,186	30,468
Plus or minus adjustments ⁽²⁾	b	524	256
Notional general income	c = (a + b)	31,710	30,724
Permissible income calculation			
Special variation percentage ⁽³⁾	d	9.50%	0.00%
or rate peg percentage	e	2.30%	1.50%
or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	-	-
Plus special variation amount	h = d x (c - g)	3,012	-
or plus rate peg amount	i = c x e	-	460
or plus Crown land adjustment and rate peg amount	j = c x f	-	-
Sub-total	k = (c+g+h+i+j)	34,722	31,184
Plus (or minus) last year's carry forward total	l	(1)	1
Less valuation objections claimed in the previous year	m	-	-
Sub-total	n = (l + m)	(1)	1
Total permissible income	o = k + n	34,721	31,185
Less notional general income yield	p	34,728	31,186
Catch-up or (excess) result	q = o - p	(7)	(1)
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	5	-
Less unused catch-up ⁽⁵⁾	s	-	-
Carry forward to next year	t = q + r - s	(2)	(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.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Hawkesbury City Council

To the Councillors of Hawkesbury City Council

Opinion

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

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

My opinion should be read in conjunction with the rest of this report and the Emphasis of Matter referring to the basis of accounting.

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter – Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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

A handwritten signature in black ink, appearing to read 'Somaiya', with a stylized flourish at the end.

Somaiya Ahmed
Director, Financial Audit Services

19 October 2018
SYDNEY

Special Schedule 5 – Sewerage Service Income Statement

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

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	1,236	987
b. Engineering and supervision	1,646	1,731
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	211	293
b. Maintenance expenses	1	3
– Pumping stations		
d. Energy costs	72	75
e. Maintenance expenses	214	370
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	667	912
g. Chemical costs	285	493
h. Energy costs	240	251
i. Effluent management	400	360
k. Maintenance expenses	8	13
– Other		
l. Operation expenses	95	42
3. Depreciation expenses		
a. System assets	2,066	2,030
b. Plant and equipment	56	53
4. Miscellaneous expenses		
g. Tax equivalents dividends (actually paid)	29	27
5. Total expenses	7,226	7,640

Special Schedule 5 – Sewerage Service Income Statement (continued)

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

\$'000	2018	2017
Income		
6. Residential charges (including rates)	5,063	4,587
7. Non-residential charges		
a. Access (including rates)	21	24
b. Usage charges	1,245	1,110
8. Trade waste charges		
a. Annual fees	953	840
9. Extra charges	23	23
10. Interest income	139	29
11. Other income	332	137
12. Grants		
b. Grants for pensioner rebates	41	41
13. Contributions		
a. Developer charges	434	626
c. Other contributions	-	30
14. Total income	8,251	7,447
15. Gain (or loss) on disposal of assets	(88)	(28)
16. Operating result	937	(221)
16a. Operating result (less grants for acquisition of assets)	937	(221)

Special Schedule 5 – Sewerage Service Income Statement (continued)

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

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	-	4
b. New assets for growth	-	-
c. Renewals	2,471	1,509
d. Plant and equipment	102	98
18. Repayment of debt	400	400
19. Totals	2,973	2,011
Non-operating funds employed	-	-
20. Proceeds from disposal of assets	2	22
21. Borrowing utilised	-	-
23. Transfer from sinking fund	-	-
22. Totals	2	22
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	6,943	6,923
b. Residential (unoccupied, ie. vacant lot)	48	44
c. Non-residential (occupied)	935	903
d. Non-residential (unoccupied, ie. vacant lot)	39	38
24. Number of ETs for which developer charges were received	54 ET	78 ET
25. Total amount of pensioner rebates (actual dollars)	\$ 322,585	\$ 304,026

Special Schedule 6 – Sewerage Service Statement of Financial Position

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

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	453		453
b. Special purpose grants	312		312
f. Other	4,981		4,981
27. Receivables			
a. Specific purpose grants	-		-
b. Rates and availability charges	329		329
c. User charges	79		79
d. Other	5		5
28. Inventories	-		-
29. Property, plant and equipment			
a. System assets	-	83,023	83,023
b. Plant and equipment	-	598	598
30. Other assets	-	75	75
31. Total Assets	6,159	83,696	89,855
LIABILITIES			
32. Bank overdraft	-		-
33. Creditors	-		-
34. Borrowings	400	328	728
35. Provisions			
a. Tax equivalents	-	-	-
b. Dividend	-	-	-
c. Other	330	40	370
36. Total Liabilities	730	368	1,098
37. NET ASSETS COMMITTED	5,429	83,328	88,757
EQUITY			
38. Accumulated surplus			38,665
39. Asset revaluation reserve			50,092
40. Other reserves			
41. TOTAL EQUITY			88,757
Note to system assets:			
42. Current replacement cost of system assets			174,720
43. Accumulated current cost depreciation of system assets			(91,697)
44. Written down current cost of system assets			83,023

Notes to Special Schedules 3 and 5

for the year ended 30 June 2018

Administration ⁽¹⁾

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

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

Engineering and supervision ⁽¹⁾

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

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

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

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

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

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

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

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

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

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

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a Annual Fees, 8b Usage Charges and 8c Excess Mass Charges and 8d Re-inspection Fees.

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

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

Notes:

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

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

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross Replacement Cost (GRC)	Assets in condition as a percentage of gross replacement cost				
							1	2	3	4	5
Buildings	Council Offices / Administration Centres	192	671	989	9,809	18,814	57%	33%	8%	2%	0%
	Council Works Depot	75	256	302	2,758	6,001	10%	72%	15%	3%	0%
	Council Public Halls	390	237	91	20,537	29,762	16%	55%	26%	3%	0%
	Libraries	75	356	358	10,588	15,748	35%	60%	4%	1%	0%
	Cultural Facilities	45	147	121	4,763	7,400	27%	66%	5%	1%	1%
	Council Houses	62	127	-	1,202	4,902	0%	27%	70%	3%	0%
	Child Care Centres	74	291	235	11,288	18,518	15%	66%	18%	1%	0%
	Amenities/Toilets	135	349	235	11,332	20,963	4%	81%	13%	1%	1%
	Leisure Facilities	294	377	341	21,470	31,727	25%	59%	13%	2%	1%
	Emergency Services	93	271	268	10,102	15,582	10%	66%	23%	1%	0%
	sub total	1,435	3,084	2,940	103,849	169,417	22%	60%	17%	2%	0%
Other Structures	Other Structures	194	68	4	7,150	13,487	20%	53%	24%	3%	0%
	sub total	194	68	4	7,150	13,487	20%	53%	24%	3%	0%
Roads	Sealed Roads Surface	3,013	1,260	1,046	54,301	71,987	49%	27%	15%	3%	6%
	Sealed Roads Structure	5,520	5,046	3,713	252,551	383,678	21%	48%	26%	3%	2%
	Unsealed Roads	510	2,109	1,375	11,971	19,213	2%	76%	13%	8%	1%
	Footpaths/ Cycle ways	-	91	98	11,843	22,147	23%	66%	11%	0%	0%
	Bridges	-	90	89	31,964	48,038	22%	71%	7%	0%	0%
	Kerb and Gutter	-	17	8	29,568	51,757	10%	37%	53%	0%	0%
	Other Road Assets	257	440	439	5,112	7,069	8%	15%	60%	15%	2%
	Car Park	20	45	37	7,286	10,493	14%	30%	53%	3%	0%
	sub total	9,320	9,098	6,805	404,594	614,382	23%	47%	25%	3%	2%

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

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross Replacement Cost (GRC)	Assets in condition as a percentage of gross replacement cost				
							1	2	3	4	5
Sewerage Network	Mains	480	92	84	10,375	17,753	48%	17%	25%	10%	0%
	Pumping Station/s	-	486	479	9,663	16,399	29%	70%	1%	0%	0%
	Treatment Works	3,695	2,439	2,832	20,794	46,641	43%	33%	2%	9%	13%
	Reticulation	966	301	283	25,304	61,557	22%	4%	68%	6%	0%
Recycle Water Network	Manholes	47	67	55	6,937	19,823	14%	38%	47%	1%	0%
	Treatment Plant	-	-	-	3,927	5,241	0%	100%	0%	0%	0%
	Reticulation	-	-	-	3,553	3,957	0%	100%	0%	0%	0%
	sub total	5,188	3,385	3,733	80,553	171,371	31%	23%	36%	6%	4%
Stormwater Drainage	Retarding Basins	-	-	-	9,883	9,883	100%	0%	0%	0%	0%
	Stormwater Conduits	-	55	60	114,432	174,770	52%	47%	1%	0%	0%
	Inlet and Junction Pits	-	6	4	10,067	14,023	85%	15%	0%	0%	0%
	Head Walls	-	3	3	1,810	2,678	78%	22%	0%	0%	0%
	Gross Pollutant Traps	-	36	32	2,281	2,650	19%	81%	0%	0%	0%
	sub total	-	100	99	138,475	204,004	57%	43%	1%	0%	0%
Open Space/ Recreational	Swimming Pools	25	134	132	2,254	4,971	6%	33%	60%	1%	0%
	Open Space / Rec	997	3,491	3,470	19,355	34,001	8%	57%	29%	5%	1%
	sub total	1,022	3,625	3,602	21,609	38,972	8%	54%	33%	5%	1%
	TOTAL - ALL ASSETS	17,159	19,360	17,183	756,230	1,211,633	29%	46%	21%	3%	2%

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

Notes:

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

Infrastructure asset condition assessment ‘key’

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

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

\$ '000	Amounts 2018	Indicator 2018	Prior Periods 20172016	
Infrastructure asset performance indicators * consolidated				
1. Infrastructure renewals ratio				
Asset renewals ⁽¹⁾	10,374	65.45%	131.91%	69.20%
Depreciation, amortisation and impairment	15,851			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	17,159	2.27%	3.00%	2.22%
Net carrying amount of infrastructure assets	756,163			
3. Asset maintenance ratio				
Actual asset maintenance	17,183	88.76%	95.21%	80.69%
Required asset maintenance	19,360			

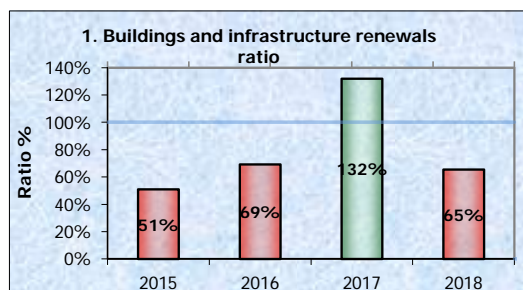
Notes

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

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

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2018



Benchmark: — Minimum $\geq 100.00\%$

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

Purpose of asset renewals ratio

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

Commentary on 2017/18 result

2017/18 Ratio 65.45%

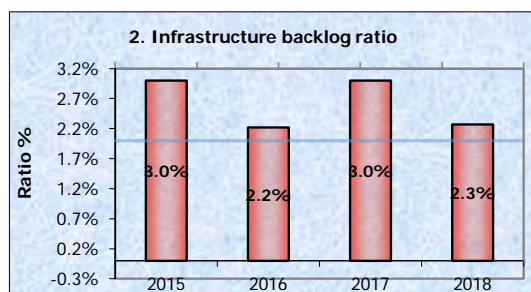
This ratio has declined as the completion of several projects has been delayed. This works are due for completion during 2018/19.

This ratio needs improvement



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Maximum $< 2.00\%$

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

Purpose of infrastructure backlog ratio

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

Commentary on 2017/18 result

2017/18 Ratio 2.27%

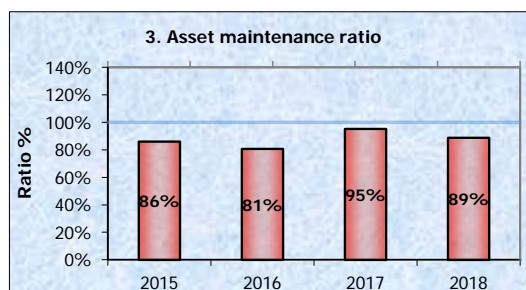
The ratio indicates that Council requires additional renewal to catch up on prior year renewal shortfalls.

Ratio needs improvement.



Ratio achieves benchmark

Ratio is outside benchmark



Benchmark: — Minimum > 1.00

Benchmark: — Minimum $> 100.00\%$

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

Purpose of asset maintenance ratio

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

Commentary on 2017/18 result

2017/18 Ratio 88.76%

The ratio is below the minimum benchmark of 1.0, indicating that Council needs to invest funds within the year to stop the infrastructure backlog from growing.

Ratio needs improvement.



Ratio achieves benchmark

Ratio is outside benchmark

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2017

\$ '000	Sewer 2018	General ⁽¹⁾ 2018
Infrastructure asset performance indicators by fund		
1. Infrastructure renewals ratio		
Asset renewals ⁽²⁾	124.61%	56.99%
Depreciation, amortisation and impairment		
prior period:	85.08%	141.69%
2. Infrastructure backlog ratio		
Estimated cost to bring assets to a satisfactory standard	6.44%	1.77%
Net carrying amount of infrastructure assets		
prior period:	7.16%	2.43%
3. Asset maintenance ratio		
Actual asset maintenance	110.28%	84.19%
Required asset maintenance		
prior period:	177.19%	82.90%

Notes

- (1) General fund refers to all of Council's activities except for its sewer activity which is listed separately.
- (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.

