



LAKE MACQUARIE CITY **FINANCIAL STATEMENTS** FOR THE YEAR ENDED 30 JUNE 2020



Lake Macquarie City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



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Lake Macquarie City Council

General Purpose Financial Statements

for the year ended 30 June 2020

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

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

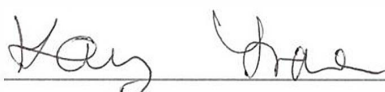
- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

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

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

Signed in accordance with a resolution of Council made on 26 October 2020.



Cr Kay Fraser
Mayor
26 October 2020



Cr Christine Buckley
Deputy Mayor
26 October 2020



Morven Cameron
General Manager
26 October 2020



Dwight Graham
Responsible Accounting Officer
26 October 2020

Lake Macquarie City Council

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020 \$ '000		Notes	Actual 2020 \$ '000	Actual 2019 \$ '000
	Income from continuing operations			
173,958	Rates and annual charges	3a	177,019	171,533
19,436	User charges and fees	3b	17,484	18,459
13,759	Other revenues	3c	8,155	13,603
19,394	Grants and contributions provided for operating purposes	3d,3e	30,006	29,426
42,423	Grants and contributions provided for capital purposes	3d,3e	55,543	34,830
8,087	Interest and investment income	4	6,655	7,907
–	Rental income	14e	4,391	–
277,057	Total income from continuing operations		299,253	275,758
	Expenses from continuing operations			
104,006	Employee benefits and on-costs	5a	95,586	90,989
7,700	Borrowing costs	5b	7,226	7,326
48,360	Materials and contracts	5c	58,365	59,654
59,360	Depreciation, amortisation and impairment of intangible assets and IPPE	5d	60,666	58,639
28,817	Other expenses	5e	27,971	24,962
–	Net losses from the disposal of assets	6	3,658	8,632
–	Fair value decrement on investment properties	11	1,688	396
–	Depreciation, amortisation and impairment of intangible assets and IPPE	5d	–	100
–	Net share of interests in joint ventures and associates using the equity method	19	75	96
248,243	Total expenses from continuing operations		255,235	250,794
28,814	Operating result from continuing operations		44,018	24,964
28,814	Net operating result for the year		44,018	24,964
28,814	Net operating result attributable to council		44,018	24,964
(13,609)	Net operating result for the year before grants and contributions provided for capital purposes		(11,525)	(9,866)

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

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

Lake Macquarie City Council

Statement of Comprehensive Income

for the year ended 30 June 2020

	Notes	2020 \$ '000	Restated 2019 ¹ \$ '000
Net operating result for the year (as per Income Statement)		44,018	24,964
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10	484,558	2,939
Changes in accounting estimates		—	—
Other movements		(494)	(68)
Total items which will not be reclassified subsequently to the operating result		484,064	2,871
Total other comprehensive income for the year		484,064	2,871
Total comprehensive income for the year		528,082	27,835
 Total comprehensive income attributable to Council		 528,082	 27,835

(1) Refer to Note 17 for details regarding the restatement.

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

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

Lake Macquarie City Council

Statement of Financial Position

as at 30 June 2020

	Notes	2020 \$ '000	Restated 2019 ¹ \$ '000	Restated 1 July 2018 ¹ \$ '000
ASSETS				
Current assets				
Cash and cash equivalents	7(a)	19,847	21,035	36,389
Investments	7(b)	196,840	158,172	112,278
Receivables	8	15,832	16,032	13,641
Inventories	9a	1,633	1,975	1,832
Other	9b	1,884	557	461
Current assets classified as 'held for sale'		–	–	7,084
Total current assets		236,036	197,771	171,685
Non-current assets				
Investments	7(b)	87,984	66,037	65,603
Receivables	8	1,523	1,603	1,940
Inventories	9a	3,416	3,275	2,637
Infrastructure, property, plant and equipment	10	3,110,751	2,574,937	2,520,750
Investment property	11	40,960	40,882	41,215
Intangible Assets	12	7,866	7,753	5,326
Right of use assets	14a	292	–	–
Investments accounted for using the equity method	19	902	975	1,071
Other	9b	199	461	725
Total non-current assets		3,253,893	2,695,923	2,639,267
Total assets		3,489,929	2,893,694	2,810,952
LIABILITIES				
Current liabilities				
Payables	15	24,002	18,822	11,409
Income received in advance	15	–	–	55
Contract liabilities	13	755	–	–
Lease liabilities	14b	189	–	–
Borrowings	15	7,433	4,681	2,708
Provisions	16	89,810	88,332	87,090
Total current liabilities		122,189	111,835	101,262
Non-current liabilities				
Lease liabilities	14b	108	–	–
Borrowings	15	178,620	122,241	79,422
Provisions	16	26,089	23,565	22,050
Total non-current liabilities		204,817	145,806	101,472
Total liabilities		327,006	257,641	202,734
Net assets		3,162,923	2,636,053	2,608,218
EQUITY				
Accumulated surplus	17	1,357,354	1,315,042	1,290,146
Revaluation reserves	17	1,805,569	1,321,011	1,318,072
Council equity interest		3,162,923	2,636,053	2,608,218
Total equity		3,162,923	2,636,053	2,608,218

(1) Refer to Note 17 for details regarding the restatement.

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

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

Lake Macquarie City Council

Statement of Changes in Equity for the year ended 30 June 2020

	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus ¹	IPP&E revaluation reserve	Total equity	Accumulated surplus ¹	IPP&E revaluation reserve	Total equity
		\$ '000	\$ '000	\$ '000	Restated \$ '000	Restated \$ '000	Restated \$ '000
Opening balance		1,315,042	1,321,011	2,636,053	1,312,839	1,318,072	2,630,911
Correction of prior period errors	17b	–	–	–	(22,693)	–	(22,693)
Changes due to AASB 1058 and AASB 15 adoption	17	(1,213)	–	(1,213)	–	–	–
Changes due to AASB 16 adoption	17	1	–	1	–	–	–
Restated opening balance		1,313,830	1,321,011	2,634,841	1,290,146	1,318,072	2,608,218
Net operating result for the year		44,018	–	44,018	24,964	–	24,964
Other comprehensive income							
– Correction of prior period errors	17b	–	–	–	28,837	–	28,837
– Gain (loss) on revaluation of IPP&E	10	–	484,558	484,558	–	2,939	2,939
– Other movements		(494)	–	(494)	(68)	–	(68)
– Changes in accounting estimates		–	–	–	(28,837)	–	(28,837)
Other comprehensive income		(494)	484,558	484,064	(68)	2,939	2,871
Total comprehensive income		43,524	484,558	528,082	24,896	2,939	27,835
Closing balance		1,357,354	1,805,569	3,162,923	1,315,042	1,321,011	2,636,053

(1) Refer to Note 17 for details regarding the restatement.

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

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

Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020 \$ '000		Notes	Actual 2020 \$ '000	Actual 2019 \$ '000
Cash flows from operating activities				
Receipts:				
173,958	Rates and annual charges		179,208	168,409
19,436	User charges and fees		18,836	21,207
8,087	Investment and interest revenue received		7,041	9,040
19,394	Grants and contributions		59,632	51,264
–	Bonds, deposits and retention amounts received		3,078	1,126
13,759	Other		23,252	23,161
Payments:				
(104,006)	Employee benefits and on-costs		(93,011)	(90,862)
(48,360)	Materials and contracts		(63,350)	(72,534)
(7,700)	Borrowing costs		(6,026)	(4,957)
–	Bonds, deposits and retention amounts refunded		(884)	(537)
(29,506)	Other		(36,197)	(19,507)
45,062	Net cash provided (or used in) operating activities	18b	91,579	85,810
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		205,553	223,304
4,675	Sale of infrastructure, property, plant and equipment		6,802	8,812
22,537	Other investing activity receipts		–	–
Payments:				
–	Purchase of investment securities		(266,168)	(269,632)
–	Purchase of investment property		(1,766)	(63)
(98,766)	Purchase of infrastructure, property, plant and equipment		(95,446)	(103,980)
–	Purchase of real estate assets		427	(718)
–	Purchase of intangible assets		(1,071)	(3,679)
(71,554)	Net cash provided (or used in) investing activities		(151,669)	(145,956)
Cash flows from financing activities				
Receipts:				
27,382	Proceeds from borrowings and advances		63,814	47,499
Payments:				
(5,507)	Repayment of borrowings and advances		(4,683)	(2,707)
–	Lease liabilities (principal repayments)		(229)	–
21,875	Net cash flow provided (used in) financing activities		58,902	44,792
(4,617)	Net increase/(decrease) in cash and cash equivalents		(1,188)	(15,354)
217,240	Plus: cash and cash equivalents – beginning of year	18a	21,035	36,389
212,623	Cash and cash equivalents – end of the year	18a	19,847	21,035
–	plus: Investments on hand – end of year	7(b)	284,824	224,209
212,623	Total cash, cash equivalents and investments		304,671	245,244

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 26 October 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

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

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Lake Macquarie City Council is a not-for-profit entity for the purpose of preparing the financial statements. The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

(a) Historical cost convention

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

(b) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Lake Macquarie City 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 are set out below.

- (i) Estimated fair values of infrastructure, property, plant and equipment – refer Note 10
- (ii) Estimated fair values of investment properties – refer Note 11
- (iii) Estimated provision for asset remediation (tips, quarries and sanitary depots) – refer Note 16
- (iv) Estimated provision for self-insurance claims – refer Note 16
- (v) Employee benefit provisions – refer Note 16

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables
Council has made a significant judgement about the impairment of a number of its receivables - refer Note 8.
- (ii) Interests in other entities
Council has used significant judgement about the relationship that it has with external entities to establish treatment and disclosure of these relationships – refer Note 19.

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993 (NSW)*, all money and property received by Council is held in Council's Consolidated Fund unless it is required to be held in Council's Trust Fund. The consolidated fund and other entities through which Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

The Consolidated Fund consists of General Purpose Operations only.

(b) The Trust Fund

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

Trust monies and property held by Council but not subject to control of Council, have been excluded from these reports.

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

Goods and Services Tax (GST)

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

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

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

Volunteer services

Income relating to volunteer services should be recognised where the amount is material, the services would be purchased if they were not donated and the amounts of the volunteer services can be measured reliably.

Council is not able to reliably measure the value of volunteer services at this time and so are unable to recognise them in the financial statements.

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

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

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

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

AASB 1059 Service Concession Arrangements: Grantors

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

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

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

ASB2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
AASB2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128
AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

The standard amendments address an acknowledged inconsistency between the requirements in AASB10 and those in AASB128 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

These amendments will only impact Council where there has been a sale or contribution of assets between Council and any Joint Venture or Associate.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

New accounting standards adopted during the year

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

Those newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures are further discussed at Note 17.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Functions or activities										
Unique Landscape	17,753	17,087	38,635	45,388	(20,882)	(28,301)	971	780	13,518	11,237
Lifestyle and Wellbeing	64,632	56,322	105,540	79,315	(40,908)	(22,993)	7,067	7,621	956,642	795,250
Mobility and Accessibility	31,583	19,041	53,075	64,466	(21,492)	(45,425)	6,882	3,897	2,184,402	1,808,357
Diverse Economy	14,040	15,670	15,203	16,456	(1,163)	(786)	40	–	177,418	147,487
Connected Communities	3,822	4,093	21,297	21,836	(17,475)	(17,743)	2,531	2,205	27,937	23,224
Creativity	361	945	4,153	2,345	(3,792)	(1,400)	193	733	8,220	6,833
Shared Decision-Making	25	9	2,175	3,530	(2,150)	(3,521)	–	–	–	–
Organisational Support	3,530	1,950	15,082	17,362	(11,552)	(15,412)	626	1,785	120,890	100,331
Shares of gains or losses in joint ventures and associates using the equity method	–	–	75	96	(75)	(96)	–	–	902	975
General purpose income	163,507	160,641	–	–	163,507	160,641	16,789	13,917	–	–
Total functions and activities	299,253	275,758	255,235	250,794	44,018	24,964	35,099	30,938	3,489,929	2,893,694

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Unique Landscape

Waste strategic planning, tree and bushland preservation and management, sustainability governance, ecosystem enhancement, noxious weed control, overgrown land control, management of lake, foreshore, and natural areas, Landcare, development assessment and compliance and integrated planning administration.

Lifestyle and Wellbeing

Waste planning and education, domestic waste collection, Awaba waste management facility, bulk waste collection service, provision and servicing of parks and commercial property bins.

Effluent services, maintenance of pedestrian areas, ranger activities, cleaning of public amenities, environment and public health compliance, food premise compliance and essential services legislative compliance.

Community development and facilities, community planning, Lake Macquarie Family Day Care, public cemeteries, developer contribution administration, management of sport and recreation facilities, Hunter Region Sports Centre, parks liaison, recreation and land planning, development and operations of leisure services.

Beach and lifeguard services, Lake Macquarie City Games, swim centres and cultural activities.

Mobility and Accessibility

Asset management administration and policy development.

Roads – Infrastructure planning, land acquisitions for roads construction, construction of new roads, sealing gravel roads, kerb and gutter construction, resurfacing program, roads reconstruction and rehabilitation works, city wide road, bridges and car park maintenance.

Drainage – Infrastructure planning, construct/improve urban drainage, minor drainage improvements, land acquisition for drainage, customer and technical services, project management.

Traffic and Transportation – Street lighting/charges, street signs, road line marking, traffic facilities, cycleway construction/improvements, footpath improvements.

Diverse Economy

Economic and employment development, tourism including marketing, planning and promotion.

Management of residential, industrial and commercial properties held in Council's ownership, leases to community groups, bowling clubs etc.. Holiday parks, administration and management of outdoor dining agreements, development of Council owned industrial, retail / commercial and residential land, sale of scattered lots, acquisition and disposal of investment properties and reclassification of Council owned land.

CivilLake construction, external contractual works, quarry rehabilitation and establishment, CivilLake maintenance.

Connected Communities

Environmental security, sustainability engagement, sustainable living, fire protection services, state emergency services.

Social and community planning, including children's services, aboriginal services, aged and disabled services, family day care service, community halls, multi-purpose centres, youth and neighbourhood centres.

Library Services – Library administration, children's and extension services, acquisition services, information services, regional branch libraries.

Creativity

Working together with creative process and outcomes that bring together history, culture, knowledge and expertise that supports new technologies and ways of thinking. This includes Museum of Art and Culture (MAC), cultural services administration and smart city initiatives.

Notes to the Financial Statements

for the year ended 30 June 2020

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

Shared Decision-Making

Elections, members' fees and expenses, subscriptions to local authority associations, meetings of Council and policy making committees, area representation and public disclosure and compliance, together with related administration costs.

Organisational Support

Administrative services, advertising, purchasing, stores, printing and stationery, insurance, risk management, records management, administration building cleaning and maintenance, treasury functions, rates, cash collections, debt collection, personnel and industrial relations, payroll, staff training and development, work health and safety, workers compensation, legal services, information technology, public relations, grants and sponsorship, mechanical services, plant new and replacement, Council's Works Depot operations/services.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations

	AASB	2020 \$ '000	2019 \$ '000
(a) Rates and annual charges			
Ordinary rates			
Residential	1058 (1)	118,922	114,980
Farmland		76	74
Mining	1058 (1)	1,006	986
Business	1058 (1)	19,031	18,529
Less: pensioner rebates (mandatory)		(3,231)	(3,268)
Rates levied to ratepayers		135,804	131,301
Pensioner rate subsidies received	1058 (1)	1,805	1,781
Total ordinary rates		137,609	133,082
Annual charges			
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services	1058 (1)	36,479	35,512
Waste management services (non-domestic)	1058 (1)	2,273	2,245
Section 611 charges		63	124
Less: pensioner rebates (mandatory)		(991)	(1,008)
Domestic waste – sanitary / sullage services	1058 (1)	1,034	1,024
Annual charges levied		38,858	37,897
Pensioner subsidies received:			
– Domestic waste management		552	554
Total annual charges		39,410	38,451
TOTAL RATES AND ANNUAL CHARGES		177,019	171,533

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

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

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

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

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

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

Accounting policy for rates and charges

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

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

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

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

2019 accounting policy

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

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	AASB	2020 \$ '000	2019 \$ '000
(b) User charges and fees			
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Domestic waste management services	1058 (1)	208	259
Waste management services (non-domestic)	15 (1)	113	–
Sullage	15 (1)	280	306
Total specific user charges		601	565
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Inspection services	15 (1)	207	212
Section 10.7 certificates (EP&A Act)	15 (1)	445	429
Section 603 certificates	15 (1)	347	303
Animal enforcement	15 (1)	199	214
Building assessment and compliance	15 (1)	811	883
Development assessment	15 (1)	1,730	1,948
Health inspection	15 (1)	465	537
Subdivision assessment	15 (1)	708	624
Tipping	15 (1)	2,585	2,448
Total fees and charges – statutory/regulatory		7,497	7,598
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Caravan parks	15 (2)	5,749	6,287
Restoration charges		76	190
Swimming centres	15 (2)	1,732	1,915
Community facilities	15 (1)	990	1,099
Other	15 (1)	839	805
Total fees and charges – other		9,386	10,296
TOTAL USER CHARGES AND FEES		17,484	18,459

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

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

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

Accounting policy for user charges and fees

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

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

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

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

2019 accounting policy

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

Other

For an overview of the drivers of the movement from prior year, refer to comments contained in Financial Highlights and also in Note 23.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	AASB	2020 \$ '000	2019 \$ '000
(c) Other revenues			
Rental income – investment property		–	3,089
Rental income – other council properties (2019 only)		–	1,865
Legal fees recovery – rates and charges (extra charges)	15 (1)	68	200
Legal fees recovery – other		840	–
Insurance claims recoveries		318	319
Recycling income (non-domestic)		–	210
Fines – parking, animal and littering	1058 (1)	1,270	1,293
Canteen sales	15 (1)	273	284
Other		690	1,394
Sale of merchandise		26	29
Sundry sales and services	15 (1)	294	356
Commissions received		28	29
External works	15 (1)	4,177	4,535
Movement in provision for real estate inventories		171	–
TOTAL OTHER REVENUE		8,155	13,603

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

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

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

Accounting policy for other revenue

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

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

2019 accounting policy

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	AASB	Operating 2020 \$ '000	Operating 2019 \$ '000	Capital 2020 \$ '000	Capital 2019 \$ '000
(d) Grants					
General purpose (untied)					
Current year allocation					
Financial assistance – general component	1058 (1)	6,762	6,591	–	–
Financial assistance – local roads component	1058 (1)	1,390	1,388	–	–
Payment in advance - future year allocation ¹					
Financial assistance grant received in advance – equalisation component	1058 (1)	7,161	6,834	–	–
Financial assistance – local roads component	1058 (1)	1,476	1,440	–	–
Other					
Pensioners' rates subsidies – general component	1058 (1)	–	–	–	–
Total general purpose		16,789	16,253	–	–
Specific purpose					
Bushfire and emergency services	1058 (2)	1,206	1,100	–	19
Community facilities and services	1058 (2)	3,372	3,619	553	1,243
Environmental	1058 (2)	2,249	1,504	349	399
Heritage		25	36	–	–
Library and arts	1058 (2)	715	625	126	567
Other		26	80	–	26
Recreation	1058 (2)	394	215	991	844
Waterways		–	–	1,377	716
Transport (3x3, flood works, roads to recovery)	1058 (2)	1,594	1,057	5,333	2,635
Total specific purpose		9,581	8,236	8,729	6,449
Total grants		26,370	24,489	8,729	6,449
Grant revenue is attributable to:					
– Commonwealth funding		20,167	19,563	4,007	1,630
– State funding		6,062	4,798	4,722	4,818
– Other funding		141	128	–	1
		26,370	24,489	8,729	6,449

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

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

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

(1) The 19/20 Financial Assistance Grant received in advance related to the 20/21 allocation. This amount was not expended in the current financial year and has been restricted in note 7(c).

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	Notes	AASB	Operating 2020 \$ '000	Operating 2019 \$ '000	Capital 2020 \$ '000	Capital 2019 \$ '000
(e) Contributions						
Developer contributions (s7.4 & s7.11 - EP&A Act, s64 of the LGA)						
Cash contributions						
S 7.4 – contributions using planning agreements			–	–	–	1
S 7.11 – contributions towards amenities/services	1058 (1)		615	422	20,105	12,685
S 7.12 – fixed development consent levies	1058 (1)		–	–	882	–
Total developer contributions – cash			615	422	20,987	12,686
Non-cash contributions						
Dedications of land in lieu of cash contributions	1058 (1)		–	–	658	9
Total developer contributions	26		615	422	21,645	12,695
Other contributions						
Cash contributions						
Bushfire services			7	3	–	–
Community services			4	129	–	–
Drainage			–	–	–	350
Kerb and gutter	1058 (1)		–	–	302	160
Recreation and culture			6	23	–	30
Roads and bridges			–	271	–	289
RMS contributions (regional roads, block grant)			76	1,111	–	–
Other	1058 (1)		786	295	39	6
Natural disaster relief funding			–	599	–	–
Environmental	1058 (1)		539	392	–	–
Community facilities			–	–	75	26
Administration	1058 (1)		1,259	1,370	–	–
Economic development			11	41	–	–
Total other contributions – cash			2,688	4,234	416	861
Non-cash contributions						
Dedications	1058 (1)		333	281	24,753	14,825
Total other contributions – non-cash			333	281	24,753	14,825
Total other contributions			3,021	4,515	25,169	15,686
Total contributions			3,636	4,937	46,814	28,381
TOTAL GRANTS AND CONTRIBUTIONS			30,006	29,426	55,543	34,830

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

Accounting policy from 1 July 2019

Grant income under AASB 15

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

The performance obligations are varied based on the agreement. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

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

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

Grant income

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

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

Capital grants

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

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

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

Contributions

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

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

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

Accounting policy prior to 1 July 2019

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
(f) Unspent grants and contributions – external restrictions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Operating grants recognised in the current period but not yet spent	152	811
Operating grants received for the provision of goods and services in a future period	8,637	8,273
Operating grants recognised in a previous reporting period now spent	(9,733)	(8,778)
Less: operating grants received in a previous reporting period now spent and recognised as income	–	–
Capital grants		
Capital grants recognised in the current period but not yet spent	171	796
Capital grants recognised in a previous reporting period now spent	(689)	(822)
Less: capital grants received in a previous reporting period now spent and recognised as income	–	–
Contributions		
Contributions recognised in the current period but not yet spent	21,306	14,491
Contributions recognised in a previous reporting period now spent	(9,570)	(5,995)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4. Interest and investment income

	2020 \$ '000	2019 \$ '000
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	404	310
– Cash and investments	5,312	5,057
– Interest on section 7.11 contributions	939	2,545
Amortisation of premiums and discounts		
– Amortisation of discounts and premiums	–	(5)
Total Interest and investment income	6,655	7,907

Accounting policy for interest and investment revenue

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

	2020 \$ '000	2019 \$ '000
(a) Employee benefits and on-costs		
Salaries and wages	83,850	80,046
Employee termination costs	1,040	1,021
Employee leave entitlements (ELE)	15,735	16,710
Superannuation	12,220	11,819
Workers' compensation insurance	3,678	2,149
Fringe benefit tax (FBT)	417	348
Other contractual payments	662	685
Other	742	818
Total employee costs	118,344	113,596
Less: capitalised costs	(22,758)	(22,607)
Total employee cost expensed	95,586	90,989

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

Superannuation plans

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

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however sufficient information to account for the plan as a defined benefit is not available. Therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable—refer to Note 21 for more information.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

	Notes	2020 \$ '000	2019 \$ '000
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on leases		9	–
Interest on loans		6,027	5,041
Total interest bearing liability costs		6,036	5,041
Total interest bearing liability costs expensed		6,036	5,041
(ii) Other borrowing costs			
Amortisation of discounts and premiums:			
– Remediation liabilities	16	1,190	2,285
TOTAL BORROWING COSTS EXPENSED		7,226	7,326

Accounting policy for borrowing costs

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

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
(c) Materials and contracts		
Raw materials and consumables	33,470	33,526
Contractor costs		
– Kerbside recycling	5,412	6,766
– Greenwaste collection and processing	7,372	6,787
– Council online system	–	886
– Effluent removal	1,228	1,183
– Caravan park managers	1,150	1,156
– Cleaning	609	610
– Other	53	48
Consultancy costs		
– Development assessment	42	61
– Planning	213	195
– Asset management planning	389	19
– Environmental	230	53
– Design services	–	4
– Other consultants	554	559
Auditors remuneration ¹	120	110
Expenses from short-term leases (2020 only)	43	–
Expenses from leases of low value assets (2020 only)	46	–
Expenses from Peppercorn leases (2020 only)	13	–
Legal expenses		
– Legal expenses: planning and development	389	717
– Legal expenses: other	1,130	254
Operating leases expense (2019 only)		
– Computers	441	774
– Others	39	159
Family day care	2,750	3,287
Caravan park rental commission	276	313
RSPCA payments	226	201
Vehicle registrations	435	402
Water charges	1,735	1,584
TOTAL MATERIALS AND CONTRACTS	58,365	59,654

Accounting policy for materials and contracts

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

Operating leases (2019 only)

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
1. Auditor remuneration		
During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms		
Auditors of the Council - NSW Auditor-General:		
(i) Audit and other assurance services		
Audit and review of financial statements	110	89
Total Auditor-General remuneration	110	89
Non NSW Auditor-General audit firms		
(i) Audit and other assurance services		
Audit and review of financial statements	—	—
Other audit and assurance services	10	21
Total remuneration of non NSW Auditor-General audit firms	10	21
Total Auditor remuneration	120	110

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

	Notes	2020 \$ '000	2019 \$ '000
(d) Depreciation, amortisation and impairment of non-financial assets			
Depreciation and amortisation			
Plant and equipment		5,827	5,599
Office equipment		576	636
Furniture and fittings		425	465
Land improvements (depreciable)		2,373	2,397
Infrastructure	10		
– Buildings		6,066	5,701
– Other structures		1,821	1,719
– Roads, bridges, footpaths, other road assets		20,830	20,610
– Bridges		639	640
– Footpaths		1,518	1,216
– Other road assets		7,646	7,827
– Stormwater drainage		6,927	6,380
– Swimming pools		374	366
– Other open space/recreational assets		1,966	1,754
– Other infrastructure		1,091	584
Right of use assets	14	234	–
Other assets			
– Library books		341	439
Reinstatement, rehabilitation and restoration assets			
– Other remediation assets	16,10	1,054	1,054
Intangible assets	12	958	1,252
Total depreciation and amortisation costs		60,666	58,639
Impairment / revaluation decrement of IPPE			
Plant and equipment		–	3
Infrastructure	10		
– Swimming pools		–	97
Total depreciation, amortisation and impairment of non-financial assets		60,666	58,739

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

Accounting policy for depreciation, amortisation and impairment expenses of intangibles and IPPE

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 and Note 14 for right of use assets.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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. Where an asset is not held principally for cash generating purposes and would be replaced if Council was deprived of it, depreciated replacement cost is used as value in use. Otherwise, value in use is estimated by using a discounted cash flow model.

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.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
(e) Other expenses		
Advertising	663	683
Training costs (other than salaries and wages)	1,158	808
Travel expenses	492	494
Bad and doubtful debts	25	16
Bank charges	441	474
Contributions/levies to other levels of government		
– Contributions to state government – EPA	9,037	6,012
– Emergency services levy (includes FRNSW, SES, and RFS levies)	316	275
– NSW rural fire service levy	1,140	–
– Contributions to state government – BFB and State Fire brigades	2,823	3,549
Councillor expenses – mayoral fee	120	118
Councillor expenses – councillors' fees	387	371
Councillors' expenses (incl. mayor) – other (excluding fees above)	113	191
Donations, contributions and assistance to other organisations (Section 356)	998	1,070
Electricity and heating	1,328	1,458
Insurance	2,552	2,449
Postal charges	527	681
Street lighting	3,008	3,533
Subscriptions, memberships and publications	762	761
Telephone and communications	1,027	988
Valuation fees	529	566
Other	525	465
TOTAL OTHER EXPENSES	27,971	24,962

Accounting policy for other expenses

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6. Gain or loss from disposal of assets

	Notes	2020 \$ '000	2019 \$ '000
Infrastructure, Property, Plant and Equipment	10		
Proceeds from disposal – Infrastructure, property, plant and equipment		6,802	1,809
Less: carrying amount of Infrastructure, property, plant and equipment assets sold/written off		(10,460)	(9,478)
Net gain/(loss) on disposal		(3,658)	(7,669)
Investments	7(b)		
Proceeds from disposal/redemptions/maturities – investments		–	223,304
Less: carrying amount of investments sold/redeemed/matured		–	(223,304)
Net gain/(loss) on disposal		–	–
Non-current assets classified as 'held for sale'			
Proceeds from disposal – non-current assets 'held for sale'		–	7,003
Less: carrying amount of 'held for sale' assets sold/written off		–	(7,966)
Net gain/(loss) on disposal		–	(963)
Net gain (or loss) from disposal of assets		(3,658)	(8,632)

The loss on disposal of \$3,658k includes amounts totalling \$1,354k relating to roads and \$5,225k relating to buildings and recreational facilities which have been disposed of before the end of their useful lives. This was offset by a \$4,503k gain on disposal of operational land.

Accounting policy for disposal of assets

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(a). Cash and cash equivalents

	2020 \$ '000	2019 \$ '000
Cash and cash equivalents		
Cash on hand and at bank	12,843	5,035
Cash-equivalent assets		
– Managed funds	7,004	–
– Short-term deposits	–	16,000
Total cash and cash equivalents	19,847	21,035

Accounting policy for cash and cash equivalents

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Investments				
Financial assets at fair value through profit and loss	59,840	–	–	–
Financial assets at amortised cost	137,000	87,984	158,172	66,037
Total Investments	196,840	87,984	158,172	66,037
Financial assets at fair value through the profit and loss				
Managed funds ¹	59,840	–	–	–
Total	59,840	–	–	–
Financial assets at amortised cost				
Managed funds	–	–	34,672	–
Long term deposits	117,000	36,000	102,500	7,000
Floating Rate Notes	20,000	47,207	21,000	54,209
Mortgage backed securities	–	2,528	–	2,579
Other long term financial assets	–	2,249	–	2,249
Total	137,000	87,984	158,172	66,037

Investment policy

Council has an approved investment policy complying with Section 625 of the Local Government Act 1993 (NSW) and S212 of the LG (General) Regulations 2005. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an Investment Policy that complies with the Act and ensures that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds. Council amended its Policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments Council holds are no longer prescribed, however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

(1) Council reassessed the classification of managed funds which are now reported at fair value through profit and loss. Prior period differences between amortised cost and its assessed fair value are not material.

Accounting policy for investments

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

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

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Fair value through other comprehensive income – equity instruments

Council currently has no investments classified as fair value through other comprehensive income.

Financial assets through profit or loss

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

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

Council's financial assets measured at fair value through profit or loss comprise managed funds in the statement of financial position.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Total cash, cash equivalents and investments	216,687	87,984	179,207	66,037
Attributable to:				
External restrictions	77,139	87,984	48,268	66,037
Internal restrictions	126,910	–	124,033	–
Unrestricted	12,638	–	6,906	–
	216,687	87,984	179,207	66,037

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

	2020 \$ '000	2019 \$ '000
External restrictions – included in liabilities		
Specific purpose unexpended grants – general fund (2020 only)	631	–
External restrictions – included in liabilities	631	–
External restrictions – other		
Caravan parks reserve	2,393	4,316
Crown reserve	120	50
DWM land infrastructure ^C	4,711	4,102
DWM site rehabilitation ^C	9,647	8,675
Waste and sustainability improvement	2	4
Developer contributions – general ^A	124,107	71,933
Domestic waste management ^C	13,124	14,914
Specific purpose unexpended grants (recognised as revenue) – general fund ^B	1,712	4,168
Sundry Contributions	2,691	2,492
Trust - Restricted Asset	4,494	2,228
Contractor Retentions	161	89
RID Squad	799	803
Section 90	531	531
Total external restrictions	165,123	114,305
Internal restrictions		
Sustainability environmental levy	3	3
Wangi Point Lakeside Holiday park	993	1,142
Elections	1,898	752
Roads and drainage	17	21
Community facilities	1,221	1,461
Replacement of assets	34,917	34,675
Open space acquisition	4,024	4,392
Strategy property reserve	20,831	18,491
Unexpended loan funds	11,798	4,671
Quarry and contamination reserve	529	2,010
Matching funds Sec 7.11	8,026	8,314
Grand matching funds	4,264	4,769
Cemeteries improvement	1,171	1,177
General fund carried forward works	13,386	14,299
Community land	15,304	17,955
IT replacement	2,260	2,758
Charlestown open space endowment fund	2,871	3,482
Cardiff town park endowment fund	2,141	2,609
Insurance proceeds	893	861
Water and energy reduction strategies	363	191
Total internal restrictions	126,910	124,033
TOTAL RESTRICTIONS	292,033	238,338

(A) Development contributions which are not yet expended for the provisions of services and amenities in accordance with contributions plans (also includes those not under contribution plans).

(B) Grants which are not yet expended for the purposes for which they were obtained (see Note 1).

(C) Domestic Waste Management (DWM) funds, which are externally restricted assets, must be applied for the purposes for which they were raised.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Purpose				
Rates and annual charges	5,609	1,406	4,742	1,410
Interest and extra charges	154	181	157	193
User charges and fees	1,308	122	887	34
Contributions to works	152	–	427	–
Accrued revenues				
– Interest on investments	938	–	1,309	–
– Other income accruals	230	–	396	–
Net investment in finance lease	–	–	–	–
Fines	63	–	140	–
Government grants and subsidies	1,945	–	2,354	–
Net GST receivable	1,512	–	3,287	–
RMS	3,104	–	1,585	–
External works	420	–	57	–
Other debtors	397	–	694	9
Total	15,832	1,709	16,035	1,646
Less: provision of impairment				
Rates and annual charges	–	(137)	–	–
Other debtors	–	(49)	(3)	(43)
TOTAL NET RECEIVABLES	15,832	1,523	16,032	1,603
Externally restricted receivables				
Domestic waste management	1,389	–	1,018	–
Total external restrictions	1,389	–	1,018	–
Unrestricted receivables	14,443	1,523	15,014	1,603
TOTAL NET RECEIVABLES	15,832	1,523	16,032	1,603

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

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

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

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

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

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

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

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

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

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

Rates and annual charges outstanding are secured against the property.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
(a) Inventories				
(i) At cost				
Real estate for resale	404	2,016	1,171	3,275
Stores and materials	1,020	–	794	–
Trading stock – pools	10	–	10	–
(ii) Inventories at net realisable value (NRV)				
Real estate for resale	199	1,400	–	–
Total inventories at net realisable value (NRV)	199	1,400	–	–
TOTAL INVENTORIES	1,633	3,416	1,975	3,275
(b) Other assets				
Prepayments	1,884	199	557	461
TOTAL OTHER ASSETS	1,884	199	557	461
Externally restricted assets				
	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Domestic waste management				
Stores and materials	114	–	103	–
Total externally restricted assets	114	–	103	–
Total externally restricted assets	114	–	103	–
Total internally restricted assets	–	–	–	–
Total unrestricted assets	3,403	3,615	2,429	3,736
TOTAL INVENTORIES AND OTHER ASSETS	3,517	3,615	2,532	3,736

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets (continued)

(i) Other disclosures

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
(a) Details for real estate development				
Residential	603	3,416	1,171	1,085
Industrial/commercial	–	–	–	1,740
Other properties	–	–	–	450
Total real estate for resale	603	3,416	1,171	3,275
Represented by:				
Acquisition costs	624	2,418	1,171	1,979
Development costs	8	1,287	–	1,296
Less: provision for under recovery	(29)	(289)	–	–
Total real estate for resale	603	3,416	1,171	3,275

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Land held for resale/capitalisation of borrowing costs

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

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

Lake Macquarie City Council

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

Note 10. Infrastructure, property, plant and equipment

	as at 30/06/19			Asset movements during the reporting period						as at 30/06/20		
	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000	Additions renewals ¹ \$ '000	Additions new assets \$ '000	Carrying value of disposals \$ '000	Depreciation expense \$ '000	Adjustments and transfers \$ '000	Revaluation increments to equity (ARR) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000
Capital work in progress	81,093	–	81,093	87	(28,670)	–	–	–	–	52,510	–	52,510
Plant and equipment	64,813	(33,256)	31,557	5,221	3,311	(1,280)	(5,827)	14	–	68,502	(35,506)	32,996
Office equipment	7,113	(6,256)	857	275	1,118	–	(576)	–	–	8,445	(6,771)	1,674
Furniture and fittings	6,198	(4,475)	1,723	369	68	(1)	(425)	–	–	6,587	(4,853)	1,734
Land:												
– Crown land	46,233	–	46,233	20	–	–	–	431	–	46,684	–	46,684
– Operational land	169,351	–	169,351	22	6,472	(383)	–	3,567	–	179,029	–	179,029
– Community land	130,780	–	130,780	430	913	(322)	–	(3,135)	–	128,666	–	128,666
– Land under roads (post 30/6/08)	18,645	–	18,645	–	5,431	–	–	342	–	24,418	–	24,418
Land improvements – non-depreciable	12,673	(2,666)	10,007	17	693	–	–	–	–	13,383	(2,666)	10,717
Land improvements – depreciable	114,970	(43,028)	71,942	538	19,253	(91)	(2,373)	–	–	134,589	(45,320)	89,269
Infrastructure:												
– Buildings	298,349	(98,947)	199,402	7,956	10,242	(4,647)	(6,066)	–	–	309,205	(102,318)	206,887
– Other structures	46,516	(23,543)	22,973	1,862	1,723	(277)	(1,821)	250	–	49,493	(24,783)	24,710
– Roads	1,099,382	(389,689)	709,693	21,897	13,959	(1,110)	(20,830)	61,263	46,131	1,341,051	(510,048)	831,003
– Bridges	68,938	(22,949)	45,989	24	38	–	(639)	–	1,034	71,531	(25,085)	46,446
– Footpaths	76,602	(22,869)	53,733	224	5,293	(51)	(1,518)	–	35,490	140,947	(47,776)	93,171
– Other road assets	607,581	(229,764)	377,817	565	9,865	(193)	(7,646)	(61,513)	82,524	618,976	(217,557)	401,419
– Bulk earthworks (non-depreciable)	213,494	–	213,494	–	1,412	–	–	–	38,296	253,202	–	253,202
– Stormwater drainage	505,474	(185,667)	319,807	911	14,867	(140)	(6,927)	(14)	281,083	976,480	(366,893)	609,587
– Swimming pools	10,050	(3,037)	7,013	2,288	40	(406)	(374)	–	–	11,867	(3,306)	8,561
– Other open space/recreational assets	50,925	(21,544)	29,381	794	4,619	(172)	(1,966)	–	–	55,878	(23,222)	32,656
– Other infrastructure	29,958	(13,854)	16,104	1,812	2,729	(660)	(1,091)	–	–	33,410	(14,516)	18,894
Other assets:												
– Library books	7,028	(5,607)	1,421	598	–	(127)	(341)	–	–	7,326	(5,775)	1,551
– Remediation asset	–	–	–	–	–	–	–	–	–	–	–	–
– Artworks	2,225	–	2,225	–	99	–	–	–	–	2,324	–	2,324
– Other remediation assets	25,162	(11,465)	13,697	–	–	–	(1,054)	–	–	25,162	(12,519)	12,643
Totals ²	3,693,553	(1,118,616)	2,574,937	45,910	73,475	(9,860)	(59,474)	1,205	484,558	4,559,665	(1,448,914)	3,110,751

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

(2) Total renewal and new assets include capital WIP acquisitions for the year less transfer from WIP through capitalisation process.

Lake Macquarie City Council

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

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

	as at 30/06/18			Asset movements during the reporting period							as at 30/06/19		
	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000	Additions renewals ¹ \$ '000	Additions new assets \$ '000	Carrying value of disposals \$ '000	Depreciation expense \$ '000	Impairment loss / revaluation decrements (recognised in P/L) \$ '000	Adjustments and transfers \$ '000	Revaluation increments to equity (ARR) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000
Capital work in progress	57,940	–	57,940	17,234	5,919	–	–	–	–	–	81,093	–	81,093
Plant and equipment	63,153	(31,648)	31,505	4,933	2,052	(1,353)	(5,599)	(3)	23	–	64,813	(33,256)	31,557
Office equipment	7,189	(5,854)	1,335	89	93	–	(636)	–	(23)	–	7,113	(6,256)	857
Furniture and fittings	6,162	(4,013)	2,149	29	10	–	(465)	–	–	–	6,198	(4,475)	1,723
Land:													
– Operational land	167,880	–	167,880	–	1,115	(357)	–	–	713	–	169,351	–	169,351
– Community land	174,303	–	174,303	13	3,779	–	–	–	(47,316)	–	130,780	–	130,780
– Crown land	–	–	–	–	–	(171)	–	–	45,754	650	46,233	–	46,233
– Land under roads (post 30/6/08)	16,712	–	16,712	–	1,020	–	–	–	–	913	18,645	–	18,645
Land improvements – non-depreciable	11,635	(2,666)	8,969	46	992	–	–	–	–	–	12,673	(2,666)	10,007
Land improvements – depreciable	111,421	(41,106)	70,315	694	3,798	(214)	(2,397)	–	(254)	–	114,970	(43,028)	71,942
Infrastructure:													
– Buildings	285,826	(92,844)	192,982	4,589	8,147	(1,822)	(5,701)	–	–	1,207	298,349	(98,947)	199,402
– Other structures	43,480	(21,561)	21,919	645	2,403	(389)	(1,719)	–	–	114	46,516	(23,543)	22,973
– Roads	1,080,555	(374,689)	705,866	22,681	5,295	(3,792)	(20,610)	–	254	–	1,099,382	(389,689)	709,693
– Bridges	68,938	(22,309)	46,629	–	–	–	(640)	–	–	–	68,938	(22,949)	45,989
– Footpaths	73,578	(21,721)	51,857	1,169	2,100	(176)	(1,216)	–	–	–	76,602	(22,869)	53,733
– Other road assets	603,477	(222,131)	381,346	2,359	2,256	(317)	(7,827)	–	–	–	607,581	(229,764)	377,817
– Bulk earthworks (non-depreciable)	212,594	–	212,594	–	900	–	–	–	–	–	213,494	–	213,494
– Stormwater drainage	493,121	(179,430)	313,691	3,425	9,240	(170)	(6,380)	–	–	–	505,474	(185,667)	319,807
– Swimming pools	9,945	(2,581)	7,364	192	–	(66)	(366)	(97)	–	(15)	10,050	(3,037)	7,013
– Other open space/recreational assets	43,780	(20,092)	23,688	1,433	6,020	(77)	(1,754)	–	–	70	50,925	(21,544)	29,381
– Other infrastructure	27,164	(13,820)	13,344	493	3,138	(286)	(584)	–	–	–	29,958	(13,854)	16,104
Other assets:													
– Library books	6,825	(5,379)	1,446	548	–	(134)	(439)	–	–	–	7,028	(5,607)	1,421
– Artworks	2,167	–	2,167	–	58	–	–	–	–	–	2,225	–	2,225
– Other remediation assets	25,161	(10,412)	14,749	–	–	–	(1,054)	–	–	–	25,162	(11,465)	13,697
Totals	3,593,006	(1,072,256)	2,520,750	60,572	58,335	(9,324)	(57,387)	(100)	(849)	2,939	3,693,553	(1,118,616)	2,574,937

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

Accounting policy for infrastructure, property, plant and equipment

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

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognised in profit or loss relating to that asset class, the increase is first recognised in 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:

	Years		Years
Earthmoving plant	5 – 15	Wharves and Jetties	30 - 50
Tractors/mowing plant	3 – 8	Sealed road structure	14 – 145
Garbage trucks	6	Unsealed road structure	19
Other heavy vehicles	6 – 15	Kerb & channel	80
Light vehicles	4 – 10	Foot paving & cycle ways	30 - 92
Other engineering plant & equipment	2 – 100	Road furniture & structures	30 - 80
Office equipment	3 – 5	Bridges	40 - 120
Furniture & fittings	5 – 20	Drainage assets	29 - 792
Land improvements	20 – 100	Heritage assets	100
Buildings	7 – 100	Digital library collection	3
Other infrastructure	15 – 149	Library books	6
Other open space / recreational assets	10 – 100	Corporate Software	5 - 10
Other structures	10 – 50	Remediation asset	14
Swimming Pools	10 – 50		

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, other than land under roads, is classified as either operational or community in accordance with Part 2 of Chapter 6 of the Local Government Act 1993 (NSW).

Land under roads

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

Land under roads has been recognised for land acquired before 1 July 2008 where a roadway has been constructed on the land after 1 July 2008.

Council values land under roads acquired after 1 July 2008 based on the valuation of road segments at the average unit value of properties adjoining the relevant road segment, with the average unit values being derived from Valuer General valuations. A discount factor is applied to these amounts to reflect the restrictions placed on 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 firefighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the firefighting equipment has been purchased or constructed". Until such time as discussions on this matter have concluded and the legislation changed, Council will recognise Rural Fire Service assets including land, buildings, plant and vehicles.

Nature and Purpose of Reserve

Revaluation Reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments and decrements in the revaluation of non-current assets.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. Investment properties

	2020 \$ '000	2019 \$ '000
Owned investment property	40,960	40,882
Total owned investment property	40,960	40,882

Reconciliation – owned investment property

Reconciliation of annual movement

Opening balance	40,882	41,215
– Acquisitions	1,804	–
– Capitalised expenditure – this year	(38)	63
– Classified as ‘held for sale’	–	–
– Disposals during year	–	–
– Net gain/(loss) from fair value adjustments	(1,688)	(396)
– Transfers from/(to) inventories and owner-occupied property	–	–
CLOSING BALANCE – OWNED INVESTMENT PROPERTY	40,960	40,882

Accounting policy for investment property

Investment property, principally comprising commercial centres, retail buildings and land, is held for long-term rental yields and/or capital appreciation and is not occupied by Council. Changes in fair values are recorded in the Income Statement as part of other income.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Intangible assets

Intangible assets are as follows:

	2020 \$ '000	2019 \$ '000
Software		
Opening values at 1 July		
Gross book value	9,175	18,956
Accumulated amortisation	(1,422)	(13,630)
Net book value – opening balance	7,753	5,326
Movements for the year		
– Other movements	–	(1)
– Purchases	707	1,080
– Development costs	364	2,600
– Amortisation charges	(958)	(1,252)
– Gross book value written off	–	13,459
– Accumulated amortisation charges written off	–	(13,459)
Closing values at 30 June		
Gross book value	10,246	9,175
Accumulated amortisation	(2,380)	(1,422)
Total software – net book value	7,866	7,753
TOTAL INTANGIBLE ASSETS – NET BOOK VALUE	7,866	7,753

Accounting policy for intangible assets

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to five years. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Contract assets and liabilities

	Notes	2020 Current \$ '000	2020 Non-current \$ '000
Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	587	—
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	44	—
Unexpended capital contributions (to construct Council controlled assets)	(i)	—	—
Unexpended operating contributions (received prior to performance obligation being satisfied)	(ii)	—	—
Total grants received in advance		631	—
User fees and charges received in advance:			
Upfront fees – leisure centre	(iii)	—	—
Other		124	—
Total user fees and charges received in advance		124	—
Total contract liabilities		755	—

Notes

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

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

(iii) Upfront user charges and fees received are recorded as a contract liability on receipt and recognised as revenue over the expected life of the contract.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Contract assets and liabilities (continued)

	2020 Current \$ '000	2020 Non-current \$ '000
(i) Contract liabilities relating to restricted assets		
Externally restricted assets		
Water	—	—
Sewer	—	—
Unspent grants held as contract liabilities (excl. Water & Sewer)	631	—
Contract liabilities relating to externally restricted assets	631	—
Total contract liabilities relating to restricted assets	631	—
Total contract liabilities relating to unrestricted assets	124	—
Total contract liabilities	755	—

	2020 \$ '000
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(ii) Revenue recognised (during the financial year) from opening contract liability balances

Grants and contributions received in advance:

Capital grants (to construct Council controlled assets)	625
Operating grants (received prior to performance obligation being satisfied)	—
Capital contributions (to construct Council controlled assets)	—
Operating contributions (received prior to performance obligation being satisfied)	—

User Fees and Charges received in advance:

Upfront fees – leisure centre	—
-------------------------------	---

Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period

625

Significant changes in contract assets and liabilities

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

Accounting policy for contract assets and liabilities

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases

Council as a Lessee

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

Council as a lessee

Council has leases over a range of assets including land and buildings and IT equipment. Information relating to the leases in place and associated balances and transactions is provided below.

Terms and conditions of leases

Buildings

Council leases land and buildings which include Cardiff Library, Wangi Point Holiday Park, Finnan Oval & Waterboard Oval and other buildings. The leases are generally between 5 and 25 years and some of them include a renewal option to allow Council to renew the noncancellable lease term at their discretion.

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

Office and IT equipment

Leases for office and IT equipment are generally for low value assets, except for significant items such as photocopiers. The leases are for between 3 and 5 years with no renewal option, the payments are fixed, however some of the leases include variable payments based on usage.

Extension options

Council includes options in the building leases to provide flexibility and certainty to Council operations and reduce costs of moving premises; and the extension options are at Council's discretion.

At commencement date and each subsequent reporting date, Council assesses where it is reasonably certain that the extension options will be exercised.

There are \$737,232 in potential future lease payments which are not included in lease liabilities as Council has assessed that the exercise of the option is not reasonably certain.

	Office and IT Equipment \$ '000	Land and Buildings \$ '000	Total \$ '000
(a) Right of use assets			
Opening balance at 30 June 2019	—	—	—
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	148	337	485
Adoption of AASB 16 at 1 July 2019 – transfer of IPP&E from Note 11(a)	—	—	—
Additions to right-of-use assets	87	—	87
Adjustments to right-of-use assets due to re-measurement of lease liability	—	—	—
Depreciation charge	(89)	(145)	(234)
Impairment of right-of-use assets	—	—	—
Other movement	—	(46)	(46)
RIGHT OF USE ASSETS	146	146	292

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

	2020 Current \$ '000	2020 Non-current \$ '000
(b) Lease liabilities		
Lease liabilities	189	108
TOTAL LEASE LIABILITIES	189	108

(i) The maturity analysis

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

	< 1 year \$ '000	1 – 5 years \$ '000	> 5 years \$ '000	Total \$ '000	Total per Statement of Financial Position \$ '000
Cash flows	189	108	–	297	297

	2020 \$ '000
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(c) Income Statement

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

Interest on lease liabilities	9
Variable lease payments based on usage not included in the measurement of lease liabilities	–
Income from sub-leasing right of use assets	–
Depreciation of right of use assets	234
Impairment of right of use assets	–
Expenses relating to short-term leases	43
Expenses relating to low-value leases	46
Expenses relating to Peppercorn leases	13
Other	–
	345

(d) Statement of Cash Flows

Total cash outflow for leases	341
	341

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

Leases at significantly below market value – concessionary / peppercorn leases

Council has a number of leases at significantly below market for buildings and other structures which are used for:

- fire brigade
- boat ramp
- and other infrastructure.

The leases are a month by month rolling term and require payments of a maximum amount of \$550 per year. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

Council does not believe that any of the leases in place are individually material from a statement of financial position or performance perspective.

Accounting policy

Accounting policies under AASB 16 – applicable from 1 July 2019

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

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

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

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

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

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

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

Exceptions to lease accounting

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

Leases at significantly below market value / concessionary leases

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

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

Refer to Note 5c and Note 16.

(e) Operating leases

Council as a Lessor

Council leases out a number of properties to businesses and community groups; these leases have been classified as operating leases for financial reporting purposes. Assets relating to commercial property are included as investment property (refer note 11) in the Statement of Financial Position.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

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

	2020 \$ '000
(i) Operating lease income	
Commercial properties	
Lease income (excluding variable lease payments not dependent on an index or rate)	2,751
Lease income relating to variable lease payments not dependent on an index or a rate	113
Residential and community properties	
Lease income (excluding variable lease payments not dependent on an index or rate)	1,081
Lease income relating to variable lease payments not dependent on an index or a rate	446
Total income relating to operating leases	4,391
(ii) Operating lease expenses	
Commercial properties	
Direct operating expenses that generated rental income	977
Direct operating expenses that did not generate rental income	1,688
Residential and community properties	
Direct operating expenses that generated rental income	843
Direct operating expenses that did not generate rental income	—
Total expenses relating to operating leases	3,508
(iii) Repairs and maintenance	
Contractual obligations for future repairs and maintenance	—
Total repairs and maintenance	—
(iv) Maturity analysis of contractual lease income	
Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:	
< 1 year	2,520
1–2 years	1,374
2–3 years	710
3–4 years	410
4–5 years	318
> 5 years	3,306
Total undiscounted contractual lease income receivable	8,638

Accounting policy

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

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

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

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

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Payables				
Prepaid rates	2,915	—	—	—
Goods and services	13,169	—	8,520	—
Borrowings	108	—	84	—
Accrued expenses	2,664	—	4,759	—
Deposit and retentions	4,655	—	2,419	—
Other	491	—	3,040	—
Total payables	24,002	—	18,822	—
Borrowings				
Loans – secured ¹	7,433	178,620	4,681	122,241
Finance lease liabilities (2019 only)	—	—	—	—
Deferred payment liabilities	—	—	—	—
Total borrowings	7,433	178,620	4,681	122,241
TOTAL PAYABLES AND BORROWINGS	31,435	178,620	23,503	122,241

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

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

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Domestic waste management	2,792	78,796	3,062	29,584
Payables and borrowings relating to externally restricted assets	2,792	78,796	3,062	29,584
Total payables and borrowings relating to restricted assets	2,792	78,796	3,062	29,584
Total payables and borrowings relating to unrestricted assets	28,643	99,824	20,441	92,657
TOTAL PAYABLES AND BORROWINGS	31,435	178,620	23,503	122,241

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings (continued)

	2020 \$ '000	2019 \$ '000
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(b) Current payables and borrowings not anticipated to be settled within the next twelve months

	2,635	1,354
Total payables and borrowings	2,635	1,354

(c) Changes in liabilities arising from financing activities

	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance \$ '000	Cash flows \$ '000	Acquisition \$ '000	Fair value changes \$ '000	Acquisition due to change in accounting policy \$ '000	Other non-cash movement \$ '000	Closing balance \$ '000
Loans – secured	126,922	59,131	–	–	–	–	186,053
Loan – unsecured	–	–	–	–	–	–	–
Lease liabilities	–	297	–	–	–	–	297
Other	–	–	–	–	–	–	–
TOTAL	126,922	59,428	–	–	–	–	186,350

	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance \$ '000	Cash flows \$ '000	Acquisition \$ '000	Fair value changes \$ '000	Other non-cash movement \$ '000	Closing balance \$ '000
Loans – secured	82,130	44,792	–	–	–	126,922
TOTAL	82,130	44,792	–	–	–	126,922

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings (continued)

	2020 \$ '000	2019 \$ '000
(d) Financing arrangements		
The amount of total financing facilities available to council at the report date is:		
Bank overdraft facilities ¹	700	700
Corporate credit cards	1,500	1,250
Total financing arrangements	2,200	1,950
Drawn facilities as at balance date:		
– Bank overdraft facilities	–	–
– Corporate credit cards	82	121
Total drawn financing arrangements	82	121
Undrawn facilities as at balance date:		
– Bank overdraft facilities	700	700
– Credit cards/purchase cards	1,418	1,129
Total undrawn financing arrangements	2,118	1,829

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

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

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

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

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

Finance leases (2019 only)

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions

	2020 Current	2020 Non-current	2019 ¹ Current Restated	2019 ¹ Non-current Restated
	\$ '000	\$ '000	\$ '000	\$ '000
Provisions				
Employee benefits				
Annual leave	11,120	—	9,938	—
Sick leave	8,251	—	7,974	—
Long service leave	21,506	1,671	20,670	1,195
Time in lieu	1,539	—	1,731	—
Asset remediation/restoration:				
Asset remediation/restoration (future works)	46,060	20,525	47,006	19,335
Other provisions				
Self insurance – workers compensation	1,334	3,893	1,013	3,035
TOTAL PROVISIONS	89,810	26,089	88,332	23,565

(1) Refer to Note 17 for details relating to the restatement.

(a) Provisions relating to restricted assets

Externally restricted assets				
Domestic waste management	2,281	78	2,150	40
Total provisions relating to restricted assets	2,281	78	2,150	40
Total provisions relating to unrestricted assets	87,529	26,011	86,182	23,525
TOTAL PROVISIONS	89,810	26,089	88,332	23,565

	2020 \$ '000	2019 \$ '000
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(b) Current provisions not anticipated to be settled within the next twelve months

76,907	81,132
76,907	81,132

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

(c) Description of and movements in non-employee benefit provisions

	Other provisions		
	Self insurance	Asset remediation	Total ¹
	\$ '000	(Restated) ¹ \$ '000	\$ '000
2020			
At beginning of year	4,048	66,341	70,389
Changes to provision:			
– Revised costs	1,179	14	1,193
Amounts used (payments)	–	(946)	(946)
Unwinding of discount	–	1,176	1,176
Total other provisions at end of year	5,227	66,585	71,812
2019			
At beginning of year	4,670	64,391	69,061
– Revised costs	(622)	52	(570)
Amounts used (payments)	–	(334)	(334)
Unwinding of discount	–	2,232	2,232
Total other provisions at end of year	4,048	66,341	70,389

(1) Refer to Note 17 for details regarding the restatement of last year amounts.

Nature and purpose of non-employee benefit provisions

Self-insurance

The provision for self-insurance represents future estimated payments required to settle outstanding workers compensation claims as a result of Council's practice to self-insure for workers compensation. It includes amounts for claims incurred but not reported, future developments on reported claims and re-opening of closed claims.

The calculation of the provision involves estimates and assumptions including the following:

- The calculation assumes that the adopted actuarial model is the correct predictor of claims experience
- It is assumed that the nature and extent of past claims are reasonable predictors of future claims behaviour. Past data, apparent trends and claims experience in general can change however and place uncertainty over the provision.
- It is assumed that the employment structure of Council remains stable in future years.
- Monetary amounts in past workers compensation claims were indexed to bring them to "standardised" values as at 30 June 2020, i.e. effects of past inflation are stripped away from actual money values.
- Workers compensation claims payments projected into the future by the adopted actuarial model will be in "standardised" values as at 30 June 2020.
- The future accrual of claims liabilities is based on an assumed risk premium rate applied to future wages exposure.
- General economic factors may be subject to change such as expected bond yields.

Asset remediation

The provision for asset remediation represents the present value of the future estimated costs Council will incur in the close down and restoration of sites requiring remediation as a result of past and/or current activity.

Accounting policy for provisions

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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

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

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

Retirement benefit obligations

All employees of 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.

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the statement of financial position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable.

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

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

Restoration

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

Rehabilitation

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

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

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

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

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

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

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. 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.

Fair value through other comprehensive income reserve (FVOCI)

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

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

Nature of prior-period error

Council has previously estimated the provision for remediation of dormant quarries and landfill sites in a way that did not reflect the latest cost information available at that time. It also included costs relating to sites where no obligation to remediate existed. This error of \$22,693k has been corrected by restating the balances at the beginning of the earliest period presented (1 July 2018) and taking the adjustment through to accumulated surplus at that date. Comparatives have been changed to reflect the correction of the error. The impact on each line item at 1 July 2018 is shown in the table below.

Changes to the opening Statement of Financial Position at 1 July 2018

Statement of Financial Position

	Original Balance 1 July, 2018 \$ '000	Impact Increase/ (decrease) \$ '000	Restated Balance 1 July, 2018 \$ '000
Total assets	2,810,952	–	2,810,952
Provisions - Current	64,397	22,693	87,090
Total liabilities	180,041	22,693	202,734
Net assets	2,630,911	(22,693)	2,608,218
Accumulated Surplus	1,312,839	(22,693)	1,290,146
Total equity	2,630,911	(22,693)	2,608,218

Adjustments to the comparative figures for the year ended 30 June 2019

Statement of Financial Position

	Original Balance 30 June, 2019 \$ '000	Impact Increase/ (decrease) \$ '000	Restated Balance 30 June, 2019 \$ '000
Total assets	2,893,694	–	2,893,694
Provisions - Current	94,476	(6,144)	88,332
Total liabilities	263,785	(6,144)	257,641
Net assets	2,629,909	6,144	2,636,053

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

	Original Balance 30 June, 2019 \$ '000	Impact Increase/ (decrease) \$ '000	Restated Balance 30 June, 2019 \$ '000
Accumulated Surplus	1,308,898	6,144	1,315,042
Total equity	2,629,909	6,144	2,636,053

Statement of Comprehensive Income

	Original Balance 30 June, 2019 \$ '000	Impact Increase/ (decrease) \$ '000	Restated Balance 30 June, 2019 \$ '000
Net operating result for the year	24,964	–	24,964
Total items which will not be reclassified subsequently to the operating result	(25,966)	28,837	2,871
Other comprehensive income	(25,966)	28,837	2,871
Total comprehensive income for the year	(1,002)	28,837	27,835

(c) Changes in accounting policies due to adoption of new accounting standards

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

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

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

(ii) AASB 15 and AASB 1058

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

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

Costs incurred in fulfilling customer contracts

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Upfront fees – Council leisure centre

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

Revenue recognition from contract modifications

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

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

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

Principal v agent

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

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

Licences

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

Prepaid rates

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

Grants – operating

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

Grants – capital

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

Changes in presentation

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

- Additional line items of contract assets, contract cost assets and contract liabilities have been created where required
- Movement of income received in advance items from Payables to Contract Liabilities

\$ '000

Balance at
1 July 2019

Opening contract balances at 1 July 2019

Contract assets

– Under AASB 15	–
– Under AASB 1058	–

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Balance at 1 July 2019
Total Contract assets	—
Contract liabilities	
– Under AASB 15	—
– Under AASB 1058	1,213
Total Contract liabilities	1,213

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

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

The following tables show the impact of adopting AASB 15 and AASB 1058 on the Council's financial statements.

Statement of Financial Position

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Carrying amount under previous revenue standards
Current liabilities				
Payables	24,002	168	–	24,170
Contract liabilities	755	(168)	(587)	–
Total current liabilities	122,189	–	(587)	121,602
Net assets	3,162,923	–	587	3,163,510
Equity				
Accumulated surplus	1,357,354	–	587	1,357,941
Council equity interest	3,162,923	–	587	3,163,510
Total equity	3,162,923	–	587	3,163,510

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Income Statement

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards
Income from continuing operations				
Grants and contributions provided for capital purposes	55,543	–	(626)	54,917
Total Income from continuing operations	299,253	–	(626)	298,627
Total Operating result from continuing operations	44,018	–	(626)	43,392
Net operating result for the year	44,018	–	(626)	43,392

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

Statement of Financial Position

\$ '000	Restated Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract liabilities	–	1,213	1,213
Total liabilities	257,641	1,213	258,854
Accumulated surplus	1,315,042	(1,213)	1,313,829
Total equity	2,636,053	(1,213)	2,634,840

(iii) AASB 16 Leases

Council as a lessee

Under AASB 117, Council assessed whether leases were operating or finance leases, based on its assessment of whether the significant risks and rewards of ownership had been transferred to Council or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the statement of financial position (except for short-term leases and leases of low-value assets).

Council has used the exception to lease accounting for short-term leases and leases of low-value assets, and the lease expense relating to these leases is recognised in the Income Statement on a straight-line basis.

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition. Council has used the following expedients:

- Contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16.
- Lease liabilities have been discounted using the Council's incremental borrowing rate at 1 July 2019.
- Right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjustment by the any prepaid or accrued lease payments.
- A single discount rate was applied to all leases with similar characteristics.
- The right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

- Excluded leases with an expiry date prior to 30 June 2020 from the Statement of Financial Position, and lease expenses for these leases have been recorded on a straight-line basis over the remaining term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Financial statement impact of adoption of AASB 16

Council has recognised right-of-use assets and lease liabilities of \$485k at 1 July 2019 for leases previously classified as operating leases, or leases that are significantly below market value which were previously off balance sheet.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 July 2019 was 2.4%.

\$ '000	Balance at 1 July 2019
Operating lease commitments at 30 June 2019 per Council financial statements	1,497

Reconciliation of lease liabilities recognised on adoption of AASB 16 Leases

Operating lease commitments discounted using the incremental borrowing rate at 1 July 2019	1,497
Less:	
Leases for low-value assets included in commitments note	(1,012)
Lease liabilities recognised at 1 July 2019	485

Council as a lessor

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

Statement of Financial Position

\$ '000	Restated Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Rights-of-use assets	—	485	485
Total assets	2,893,694	485	2,894,179
Payables – accrued interest on leases (30/6/2019)	—	1	1
Leases	—	485	485
Total liabilities	257,641	486	258,127
Accumulated surplus	1,308,898	1	1,308,899
Total equity	2,636,053	1	2,636,052

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Statement of cash flow information

	Notes	2020 \$ '000	2019 \$ '000
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	19,847	21,035
Balance as per the Statement of Cash Flows		19,847	21,035
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		44,018	24,964
Adjust for non-cash items:			
Depreciation and amortisation		60,666	58,639
Net losses/(gains) on disposal of assets		3,658	8,632
Non-cash capital grants and contributions and dedications		(26,957)	(15,115)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment property		1,688	396
– Revaluation decrements / impairments of IPP&E direct to P&L		–	100
Unwinding of discount rates on reinstatement provisions		1,176	2,285
Share of net (profits)/losses of associates/joint ventures using the equity method		75	96
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		140	(2,123)
Increase/(decrease) in provision for impairment of receivables		140	1
Decrease/(increase) in inventories		(226)	(63)
Decrease/(increase) in other current assets		(1,065)	168
Increase/(decrease) in payables		4,643	7,274
Increase/(decrease) in accrued interest payable		24	84
Increase/(decrease) in other liabilities		507	–
Increase/(decrease) in contract liabilities		755	–
Increase/(decrease) in provision for employee benefits		2,579	1,429
Increase/(decrease) in other provisions		(242)	(957)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		91,579	85,810
(c) Non-cash investing and financing activities			
Bushfire grants		333	281
Dedications		25,411	14,834
Total non-cash investing and financing activities		25,744	15,115

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Interests in other entities

	Council's share of net income	
	2020	2019
	\$ '000	\$ '000
Interests in joint arrangements		
Strategic Services Australia Limited	(75)	(96)
Total	(75)	(96)

Joint arrangements

Strategic Services Australia Limited (Hunter Councils)

Council has an interest in Strategic Services Australia Limited, along with other Member Councils of Hunter Councils. The activities of this organisation are not controlled by any one Council.

Strategic Services Australia Limited has been established to improve the quality and efficiency of local government service throughout the Hunter Region. One such service is the establishment and provision of a Record Repository Centre for the use of the Member Councils and to outsource this service to other organisations.

This Organisation was established in January 2003 as Hunter Councils Limited after receiving Minister's consent, pursuant to Section 358(1) (a) of the Local Government Act 1993.

Strategic Services Australia Limited has the same year end date as Council.

Aggregate information for joint ventures that are not individually material

The Group has interests in a number of joint ventures none of which is considered individually material. The table below summarises, in aggregate, the financial information of individually immaterial joint ventures.

Council's share

	Percentage Owned (%)	Type of joint arrangement
Strategic Services Australia Limited	19.592	Joint Venture

Summarised financial information for individually immaterial joint ventures

	2020	2019
	\$ '000	\$ '000
Strategic Services Australia Limited		
Carrying Amount of Investment in joint ventures that are not individually material	902	976
Council's Share of those joint ventures:		
Profit/(loss) from continuing operations	(75)	(96)
Post-tax profit/(loss) from discontinued operations	—	—
Other comprehensive income	—	—
Total comprehensive income – individually immaterial joint ventures	(75)	(96)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Interests in other entities (continued)

Unrecognised share of losses

The unrecognised share of losses of joint ventures due to the Council's interest, reduce to zero under the equity methods are \$0 for the reporting period and \$0 on a cumulative basis.

Risk associated with the interests in joint ventures

Each of the partners in Strategic Services Australia Limited are jointly and severally liable for the debts of the organisation.

There are no significant restrictions on the ability of joint ventures to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the Council.

	2020 \$ '000	2019 \$ '000
Commitments relating to joint ventures held	—	—
Contingent liabilities incurred jointly with other investments over joint ventures held	—	—

Accounting policy for joint arrangements

Joint Arrangements

AASB 11 Joint Arrangements defines a joint arrangement as an arrangement of which two or more parties have joint control and classifies these arrangements as either joint ventures or joint operations.

Joint ventures

Joint ventures are those joint arrangements, which provide Council with rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method in accordance with AASB 128 Associates and Joint Ventures. Under this method, the investment is initially recognised as 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 investee 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.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Commitments

	2020 \$ '000	2019 \$ '000
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(a) Capital commitments (exclusive of GST)

Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

Property, plant and equipment

Infrastructure	2,697	5,749
Sporting and recreational facilities	684	4,562
Acquisition – plant	1,263	2,337
Buildings	2,372	1,745
Community facilities	483	408
Information technology	284	191
Land Acquisition	19	85
Total commitments	7,802	15,077

Details of capital commitments

- Infrastructure commitments include the Awaba Waste Management Facility and Fernleigh Awabakal Shared Track.
- Sporting and Recreational Facilities commitments include replacement of Feighan Oval amenities.
- Acquisition - Plant commitments include trucks, mowers, trailers and light commercial vehicles under the plant replacement program.
- Buildings commitments include solar panels for administrative centre and commercial development contracts.
- Community Facilities commitments include improvements at libraries, holiday parks, art gallery and neighbourhood centres.
- Information Technology commitments include work on digital solutions projects including Smart Cities.

	2020 \$ '000	2019 \$ '000
--	-----------------	-----------------

(b) Non-cancellable operating lease commitments (2019 only)

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

Within the next year	–	772
Later than one year and not later than 5 years	–	713
Later than five years	–	12
Total non-cancellable operating lease commitments	–	1,497

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Contingencies

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

LIABILITIES NOT RECOGNISED

LMCC is involved in Supreme Court proceedings in relation to damage to private properties allegedly associated with a product used previously for road construction. The outcome of those proceedings as ordered by the Court will determine any potential liability

(i) Defined benefit superannuation contribution plans

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a “multi-employer fund” for the purposes of AASB 119 Employee Benefits. Sufficient information is not available to account for the Scheme as a defined benefit plan in accordance with AASB 119 because the assets to the Scheme are pooled together for all councils.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2020 was \$2,183,610. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA, on 30 June 2019.

The Scheme had previously advised member councils that, as result of the global financial crisis, it has a significant deficiency of assets over liabilities resulting in additional annual contributions. The requirement for additional contributions (currently \$40M per annum) is assessed annually by the Actuary and is designed to not only restore the Funds to a satisfactory financial position but to allow the Trustee, on behalf of the employers, to commence de-risking the asset allocation and consequently reduce the market exposure risk to growth assets.

To enable this de-risking of the asset allocation to commence, additional contributions are estimated to remain in place. It is estimated that there are \$1,175,100 additional contributions remaining. The Trustee will be reviewing the financial position of the fund on an annual basis.

The share of the deficit that is broadly attributable to Council is estimated to be in the order of 2.94% as at 30 June 2020. However, the Trustee determined in March 2019 that going forward should the funding on both Vested Benefit and Accrued Benefit funding levels exceed 100% the Fund will look to suspend the request for past service contributions.

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

Council's expected contribution to the plan for the next annual reporting period is \$2,061,220.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Financial risk management

Risk management

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and 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 the Finance & Administration Department under policies approved by Council.

The fair value of cash and cash equivalents, receivables, investments and financial liabilities approximates the carrying amount.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The Finance & Administration Department 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 (NSW)* and Ministerial Investment Order 625. The policy is regularly reviewed by Council and a monthly investment report is provided to Council setting out the make-up and performance of the portfolio as required by local government regulations.

The risks associated with investments held are:

- Price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or factors affecting similar instruments traded in a market.
- Interest rate risk - the risk that movements in interest rates could affect returns.
- Credit risk - the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees. Council also seeks advice from its independent advisors before placing any cash and investments.

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

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

	Increase of values/rates	
	Profit	Equity
	\$ '000	\$ '000
2020		
Possible impact of a 1% movement in price of investments	—	—
Possible impact of a 1% movement in interest rates	3,047	3,047
2019		
Possible impact of a 1% movement in price of investments	—	—
Possible impact of a 1% movement in interest rates	2,452	2,452

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Financial risk management (continued)

(b) Credit risk

Council's major receivables comprise, rates, annual charges and user charges and fees. Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures. Council also encourages ratepayers to pay their rates by the due date through incentives.

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

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

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

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

Credit risk profile

Receivables – rates and annual charges

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

	Not yet overdue \$ '000	< 1 year overdue \$ '000	1 - 2 years overdue \$ '000	2 - 5 years overdue \$ '000	> 5 years overdue \$ '000	Total \$ '000
2020						
Gross carrying amount	–	5,466	620	592	337	7,015
2019						
Gross carrying amount	–	4,620	613	601	318	6,152

Receivables - non-rates and annual charges

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

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

	Not yet overdue \$ '000	0 - 30 days overdue \$ '000	31 - 60 days overdue \$ '000	61 - 90 days overdue \$ '000	> 91 days overdue \$ '000	Total \$ '000
2020						
Gross carrying amount	8,269	898	310	287	762	10,526
ECL provision	–	–	–	–	–	–
2019						
Gross carrying amount	8,085	520	906	192	1,826	11,529
ECL provision	–	–	–	–	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Financial risk management (continued)

(c) Liquidity risk

Payables, lease liabilities and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

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

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

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

	Weighted average interest rate %	Subject to no maturity \$ '000	≤ 1 Year \$ '000	payable in: 1 - 5 Years \$ '000	> 5 Years \$ '000	Total cash outflows \$ '000	Actual carrying values \$ '000
2020							
Trade/other payables	0.00%	–	24,002	2,635	–	26,637	21,087
Loans and advances	3.89%	–	14,722	58,724	193,190	266,636	186,053
Total financial liabilities		–	38,724	61,359	193,190	293,273	207,140
2019							
Trade/other payables	0.00%	–	18,821	1,354	–	20,175	18,822
Loans and advances	4.81%	–	7,815	31,020	163,684	202,519	126,922
Total financial liabilities		–	26,636	32,374	163,684	222,694	145,744

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Material budget variations

Council's original financial budget for the financial year ended 30 June 2020 was adopted by the Council on 24/06/2019 and is unaudited.

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

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review. Material variations represent those variances between the original budget figure and the actual result that amount to **10%** or more.

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
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REVENUES

User charges and fees	19,436	17,484	(1,952)	(10)%	U
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User charges and fees were under the original budget due to the impact of COVID-19 pandemic on Council operations. Council was forced to close down its tourist parks, swim centres and community facilities for a period of time due to trading restrictions which resulted in loss of income. Tourist park fees have fallen from the previous financial year by approximately \$538k, swim centre fees by approximately \$184k and community facility fees by approximately \$52k. Health inspection fees are reduced by approximately \$128k due to no inspections taking place during COVID-19 restriction as businesses were not operating.

Other revenues	13,759	8,155	(5,604)	(41)%	U
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Other revenues are materially lower than budget due to rental income now being reported as a separate line in the Income Statement.

Operating grants and contributions	19,394	30,006	10,612	55%	F
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Fifty per cent of the Financial Assistance Grant for the financial year ending 30 June 2021 was received in advance, but not budgeted for (\$8.6m). There were a significant number of environmental operating grants (\$2.2m) received during the year, including one for the Smart Beaches project and significant bushfire services operating grants \$1.2m.

Capital grants and contributions	42,423	55,543	13,120	31%	F
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Dedications of infrastructure were recognised for \$25m and a higher level of developer contributions were received for capital works than originally expected (\$21.6m received).

Interest and investment revenue	8,087	6,655	(1,432)	(18)%	U
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Interest and investment revenue is below budget due to the impact of the COVID-19 pandemic on Australian and global financial markets and the historically low interest rates Australia experienced in the 2019/2020 financial year due to government monetary policy.

EXPENSES

Materials and contracts	48,360	58,365	(10,005)	(21)%	U
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Higher than expected materials and contracts amounts which included increased legal expenses, greenwaste contract costs and additional RMS contract works expenses.

Net losses from disposal of assets	–	3,658	(3,658)	∞	U
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Due to the nature of this item, no original budget is placed on it and losses on disposal of assets were recognised for approximately \$3.7m in this financial year.

Fair value decrement on investment property	–	1,688	(1,688)	∞	U
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No budget is placed on this item originally as the movement in the fair value of investment properties is not able to be easily forecast. This financial year resulted in a decrement to the fair value of investments properties mainly due to the impact of COVID-19 pandemic on Council's commercial rental properties.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement

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

- Infrastructure, property, plant and equipment
- Investment property

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Council therefore measures non-current assets classified as held for sale at fair value on a nonrecurring basis where their carrying amount exceeds their fair value.

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

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

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

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

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

	Date of latest valuation	Fair value measurement hierarchy		Total
		Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
2020				
Recurring fair value measurements				
Investment property				
Commercial land, office and retail	30/06/20	–	40,960	40,960
Total investment property		–	40,960	40,960
Infrastructure, property, plant and equipment				
Plant and equipment	31/3/18	–	32,996	32,996
Office equipment	31/3/18	–	1,674	1,674
Furniture and fittings	31/3/18	–	1,734	1,734
Operational land	31/3/18	179,029	–	179,029
Community land (including Crown land)	30/6/16	–	175,350	175,350
Land under roads (post 01/07/08)	31/3/19	–	24,418	24,418
Non-depreciable land improvements	30/6/16	–	10,717	10,717
Depreciable land improvements	30/6/16	–	89,269	89,269
Buildings	31/3/18	–	206,887	206,887
Other structures	30/6/16	–	24,710	24,710
Roads	31/3/20	–	831,003	831,003
Bridges	31/3/20	–	46,446	46,446
Footpaths	31/3/20	–	93,171	93,171
Other road assets	31/3/20	–	401,419	401,419
Bulk earthworks (non-depreciable)	31/3/20	–	253,202	253,202
Stormwater drainage	31/3/20	–	609,587	609,587
Swimming pools	30/6/16	–	8,561	8,561
Other open space/recreational assets	30/6/16	–	32,656	32,656
Other infrastructure	30/6/16	–	18,894	18,894
Library books	30/6/16	–	1,551	1,551
Remediation asset	30/6/18	–	12,643	12,643
Artworks	30/6/16	–	2,324	2,324
Total infrastructure, property, plant and equipment		179,029	2,879,212	3,058,241

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

2019	Fair value measurement hierarchy			Total
	Date of latest valuation	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements				
Investment property				
Commercial land, office and retail	30/06/19	—	40,882	40,882
Total investment property		—	40,882	40,882
Infrastructure, property, plant and equipment				
Plant and equipment	31/03/18	—	31,557	31,557
Office equipment	31/03/18	—	858	858
Furniture and fittings	31/03/18	—	1,723	1,723
Operational land	31/03/18	169,351	—	169,351
Community land (including Crown land)	30/06/16	—	177,013	177,013
Land under roads (post 01/07/08)	31/03/19	—	18,645	18,645
Non-depreciable land improvements	30/06/16	—	10,006	10,006
Depreciable land improvements	30/06/16	—	71,941	71,941
Buildings	31/03/18	—	199,402	199,402
Other structures	30/06/16	—	22,973	22,973
Roads	30/06/15	—	709,694	709,694
Bridges	30/06/15	—	45,989	45,989
Footpaths	30/06/15	—	53,734	53,734
Other road assets	30/06/15	—	377,817	377,817
Bulk earthworks (non-depreciable)	30/06/15	—	213,494	213,494
Stormwater drainage	30/06/15	—	319,808	319,808
Swimming pools	30/06/16	—	7,013	7,013
Other open space/recreational assets	30/06/16	—	29,381	29,381
Other infrastructure	30/06/16	—	16,104	16,104
Library books	30/06/16	—	1,421	1,421
Remediation asset	30/06/18	—	13,697	13,697
Artworks	30/06/16	—	2,225	2,225
Total infrastructure, property, plant and equipment		169,351	2,324,495	2,493,846

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

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

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

Investment property

Council obtains valuations of its investment properties on an annual basis. Council's valuer who is a member of the Australian Property Institute determines the valuations.

The best evidence of fair value is the current price in an active market for similar properties in the same location and condition and subject to similar occupancy terms. Adjustments are then made having regard to the property's inherent and external characteristics based on the available market evidence.

For properties deriving income, the key valuation technique is the capitalisation approach, for which the key unobservable input is the capitalisation rate, which is based on investment yields drawn on comparable properties.

Should it be deemed that the investment property value is largely made up of land components, valuations are drawn by direct comparison with comparable properties and / or the summation approach, the key unobservable input for which is the price per square metre.

There have been no changes in the valuation technique during the reporting period.

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

Plant & equipment, office equipment and furniture and fittings are valued at historical cost but disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets within these classes are as follows;

Plant and Equipment	Motor vehicles, trucks, trailers, gardening equipment
Office Equipment	Audio visual equipment, televisions, cameras
Furniture and fittings	Chairs, desks, shelving units

The key unobservable inputs to the valuation are the useful life, pattern of consumption, asset condition and residual value.

There have been no changes in the valuation technique during the reporting period.

Operational Land

This asset class comprises all of Council's land classified as Operational under the Local Government Act 1993 (NSW). Council operational land is valued using market valuations. The last valuation was undertaken as at 31 March 2018.

Valuations are based off market value of recent sales of land parcels with similar zoning in adjacent areas. They were obtained from a combination of an external valuation as well as in-house qualified experts. Sale prices of comparable land parcels with similar locations and zonings were adjusted for key attributes such as size and configuration.

There have been no changes in the valuation technique during the reporting period.

Community Land

Council's community land (including owned by the Council, the Crown and various other Government Agencies that is managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access, such as dedication under s7.11 of the Environment Planning and Assessment Act 1979 (amended).

Valuations of all Council's Community Land and Council controlled Crown land were based on the land values provided by the Valuer-General. As these rates are not considered to be observable market evidence they have been classified as Level 3. In line with data issued by the Crown, a small amount of Crown land parcels in this asset class were revalued at 30 June 2018 to reflect current Valuer-General valuations.

There have been no changes in the valuation technique during the reporting period.

Land under roads (post 01/07/2008)

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips. Council recognised this asset for the first time in financial year 2008/09 in accordance with AASB 1051 Land Under Roads.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

Values were determined using Valuer-General valuations of adjacent land and applying discount factors. This asset class is classified as Level 3 as significant inputs used in this methodology are unobservable.

Land under roads was previously valued using the adjacent site method, however applying discounting factors allows to reflect the restrictions placed on land under roads and therefore is considered to be a more accurate approach.

Land improvements - Depreciable and non-depreciable

The land improvements asset class consists of car-park upgrades, irrigation, landscaping and paving of public areas.

Land improvements were valued in-house by Council's Asset Management staff on a unit rate basis. Input such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value.

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

There have been no changes in the valuation technique during the reporting period.

Buildings

This asset class comprises of Specialised and Non Specialised buildings including Community Halls, Administration buildings, Caravan Parks and Residential premises

In determining the current cost of the specialised asset, reference is made to the cost of replacing the assets based in industry unit rates. This approach estimates the replacement cost by breaking the building down into significant components with different useful life and taking into account a range of factors such as the remaining useful life of the asset, condition, pattern of consumption and residual value.

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

There have been no changes in the valuation technique during the reporting period.

Footpaths

This asset class comprises of sealed or non-sealed footpaths and cycle ways.

Footpath assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

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

There have been no changes in the valuation technique during the reporting period.

Bridges

This asset class comprises of Council's bridges.

The assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

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

There have been no changes in the valuation technique during the reporting period.

Roads

This asset class comprises of road asset such as pavement, asphalt, kerb & gutter, street furniture, traffic facilities and retaining walls.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

The cost approach was utilised to value roads by breaking down each asset into significant components, applying a unit rate and then rolling up these component values to provide an overall road valuation for each road segment within the Council's Asset Management System. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

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

There have been no changes in the valuation technique during the reporting period.

Bulk earthworks (non-depreciable)

This asset class was valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

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

There have been no changes in the valuation technique during the reporting period.

Stormwater drainage

This asset class comprises of pits, pipes, stormwater quality improvement devices and headwalls.

Stormwater drainage assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

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

There have been no changes in the valuation technique during the reporting period.

Swimming pools

This asset class comprises of Council's swimming pools, including caravan park pools.

Swimming pool assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

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

There have been no changes in the valuation technique during the reporting period.

Other open space/recreational assets

This asset class comprises of Council's various outdoor playing fields, sporting facilities, playgrounds and picnic ground facilities.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and by componentising its significant parts where applicable. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

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

There have been no changes in the valuation technique during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

Other infrastructure

The other infrastructure asset class consists of jetties, retaining walls, boat ramps and seawalls.

Other infrastructure assets were valued in-house using the cost approach by experienced Asset Management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and applying a unit rate. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value.

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

There have been no changes in the valuation technique during the reporting period.

Library books

This asset class comprises of assets such as library books, CD's, DVD's, publications etc. Library books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

There have been no changes to the valuation process during the reporting period.

Remediation asset

This asset class includes the landfill cells at Council's Waste Management site which is recognised and valued at cost. It is recognised that there will be significant costs associated with the closure and post closure management of the landfill site.

Council assumes that the carrying amount reflects the fair value of the assets due to the nature of the item. Significant unobservable inputs considered in the valuation of these assets are useful life and pattern of consumption and therefore categorised at Level 3.

There have been no changes in the valuation technique during the reporting period.

Artworks

Assets within this class are collections of the Art Gallery. Market value is used to determine the fair value of the Art Gallery collection, and is valued on a 5-year cycle.

The asset class is categorised as Level 3 as gross replacement cost, pattern of consumption and estimated remaining useful life require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

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

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

	IPPE \$ '000	Investment property \$ '000	Total \$ '000
2019			
Opening balance	2,294,932	41,215	2,336,147
Purchases (GBV)	94,641	107	94,748
Disposals (WDV)	(8,969)	–	(8,969)
Depreciation and impairment	(57,501)	–	(57,501)
Recognised in other comprehensive income - Revaluation surplus	913	–	913
Other movements	(1,561)	(44)	(1,605)
Recognised in profit or loss - Unrealised - refer Notes 3 and 4	–	(396)	(396)
Closing balance	2,322,455	40,882	2,363,337
2020			
Opening balance	2,322,455	40,882	2,363,337
Purchases (GBV)	141,476	1,766	143,242
Disposals (WDV)	(9,476)	–	(9,476)
Depreciation and impairment	(59,474)	–	(59,474)
Recognised in other comprehensive income - Revaluation surplus	484,558	–	484,558
Other movements	(327)	–	(327)
Recognised in profit or loss - Unrealised - refer Notes 3 and 4	–	(1,688)	(1,688)
Closing balance	2,879,212	40,960	2,920,172

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

There were no transfers between the levels of the fair value hierarchy during the reporting period.

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

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

	Valuation technique/s	Unobservable inputs
Investment properties		
Commercial land, office and retail	Market value	Investment yields Improved rate per square metre Site rate per square metre
IPPE		
Plant and equipment	Historical cost	Pattern of consumption Asset condition Remaining useful life Residual value
Office equipment	Historical cost	Pattern of consumption Asset condition Remaining useful life Residual value

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

	Valuation technique/s	Unobservable inputs
Furniture and fittings	Historical cost	Pattern of consumption Asset condition Remaining useful life Residual value
Community land	Valuer-General valuations	Market value
Land under roads (post 01/07/08)	Discounted Valuer-General valuations	Market value, discount rate
Non-depreciable land improvements	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Depreciable land improvements	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Buildings	Industry cost indexes	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other structures	Industry cost indexes	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Roads	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Bridges	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Footpaths	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other road assets	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Bulk earthworks (nondepreciable)	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Stormwater drainage	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

	Valuation technique/s	Unobservable inputs
Swimming pools	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other open space/recreational assets	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other infrastructure	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Library books	Cost approach	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Remediation asset	Cost approach	Discount rate Remaining useful life
Artworks	Market value	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost

(4) Highest and best use

Certain investment properties are not being used for highest and best use, which for most is redevelopment, and may contain structures which are leased until redevelopment proposal commences.

All other assets valued at fair value in this note are being used for their highest and best use.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Related party disclosures

(a) Key management personnel

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

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

	2020 \$ '000	2019 \$ '000
Compensation:		
Short-term benefits	2,408	2,275
Post-employment benefits	175	166
Termination benefits	201	—
Total	2,784	2,441

Other Transactions with KMP and their related parties

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

There were no other material transactions between KMP and their related parties and Council during the financial year.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Related party disclosures (continued)

(b) Other related party transactions

	Value of transactions during year \$ '000	Outstanding balance (incl. loans and commitments) \$ '000	Terms and conditions	Provisions for impairment of receivables outstanding \$ '000	The expense recognised during the period relating to bad or doubtful debts due from related parties \$ '000
2020					
Payments for recycling bin services ¹	5,693	–	Standard procurement terms and conditions	–	–
Payments for annual subscriptions	–	–	Payments shared between the parties in the Joint Venture	–	–
Payments for legal services	30	–	Provided under the Joint Venture arrangement	–	–
Payments for record management services	–	–	Provided under the Joint Venture arrangement	–	–
Payments of grant funding ²	1,020	–	Grants provided as part of funding agreement	–	–
2019					
Payments for recycling bin services ¹	7,373	581	Standard procurement terms and conditions	–	–
Payments for annual subscriptions	70	–	Payments shared between the parties in the Joint Venture	–	–
Payments for legal services	59	–	Provided under the Joint Venture arrangement	–	–
Payments for record management services	–	–	Provided under the Joint Venture arrangement	–	–
Payments of grant funding ²	919	–	Grants provided as part of funding agreement	–	–

(1) Relates to Hunter Resource Recovery which has not been consolidated in Council's financial statements due to amounts being immaterial to Council operations.

(2) Relates to Dantia Prosperity in Abundance which has not been consolidated in Council's financial statements due to amounts being immaterial to Council operations.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/06/19						as at 30/06/20	
	Opening Balance \$ '000	Contributions received during the year		Interest earned in year \$ '000	Expenditure during year \$ '000	Internal borrowing (to)/from \$ '000	Held as restricted asset \$ '000	Cumulative internal borrowings due/(payable) \$ '000
		Cash \$ '000	Non-cash \$ '000					
Drainage	1,682	17	–	4	–	–	1,703	–
Traffic facilities ¹	13,259	2,770	–	106	(25)	–	16,110	–
Parking ¹	4,730	–	–	29	–	–	4,759	–
Open space	67,139	13,244	–	595	(5,796)	–	75,183	–
Community facilities ¹	19,570	3,685	–	158	(3,431)	–	19,982	–
Other	116	602	–	9	(603)	–	124	–
S7.11 contributions – under a plan	106,496	20,318	–	901	(9,855)	–	117,861	–
S7.12 levies – under a plan	–	882	–	3	–	–	885	–
Total S7.11 and S7.12 revenue under plans	106,496	21,200	–	904	(9,855)	–	118,746	–
S7.11 not under plans	2,050	–	–	14	–	–	2,064	–
S7.4 planning agreements	2,886	402	658	22	(13)	–	3,297	–
Council borrowing	(39,499)	–	–	–	–	39,499	–	–
Total contributions	71,933	21,602	658	940	(9,868)	39,499	124,107	–

(1) Opening balance has been restated to account for prior year transfers.

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Statement of developer contributions (continued)

	as at 30/06/19						as at 30/06/20	
	Opening Balance \$ '000	Contributions received during the year		Interest earned in year \$ '000	Expenditure during year \$ '000	Internal borrowing (to)/from \$ '000	Held as restricted asset \$ '000	Cumulative internal borrowings due/(payable) \$ '000
		Cash \$ '000	Non-cash \$ '000					
S7.11 Contributions – under a plan								
CONTRIBUTION PLAN CITY WIDE PLAN 2004								
Drainage	1,087	–	–	–	–	–	1,087	–
Other	–	5	–	8	(5)	–	8	–
Total	1,087	5	–	8	(5)	–	1,095	–
CONTRIBUTION PLAN NO. 2 NORTHLAKES URBAN RELEASE AREA								
Drainage	593	17	–	4	–	–	614	–
Traffic facilities	5,915	1,326	–	46	–	–	7,287	–
Open space	372	2,658	–	12	(4)	–	3,039	–
Community facilities	2,051	953	–	17	(61)	–	2,960	–
Other	115	74	–	1	(74)	–	116	–
Total	9,046	5,028	–	80	(139)	–	14,016	–
CONTRIBUTION PLAN NO. 3 GARDEN SUBURBS								
Drainage	2	–	–	–	–	–	2	–
Total	2	–	–	–	–	–	2	–

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Statement of developer contributions (continued)

	as at 30/06/19						as at 30/06/20	
	Opening Balance \$ '000	Contributions received during the year		Interest earned in year \$ '000	Expenditure during year \$ '000	Internal borrowing (to)/from \$ '000	Held as restricted asset \$ '000	Cumulative internal borrowings due/(payable) \$ '000
		Cash \$ '000	Non-cash \$ '000					
CONTRIBUTION PLAN NO. 4 COMMERCIAL AREAS CARPARKING								
Traffic facilities	7	–	–	2	–	–	9	–
Parking	206	–	–	–	–	–	206	–
Total	213	–	–	2	–	–	215	–
CONTRIBUTION PLAN NO. 5 NORTH WALLARAH PENINSULAR								
Traffic facilities	304	41	–	2	–	–	347	–
Open space	2,170	598	–	17	–	–	2,785	–
Community facilities	83	132	–	1	–	–	216	–
Other	–	10	–	–	(10)	–	–	–
Total	2,557	781	–	20	(10)	–	3,348	–
CONTRIBUTION PLAN NO. 6 HILLSBOROUGH ROAD								
Traffic facilities	24	–	–	–	–	–	24	–
Total	24	–	–	–	–	–	24	–
CONTRIBUTION PLAN NO. 7 MORISSET CONTRIBUTIONS CATCHMENT								
Traffic facilities	3,077	803	–	27	–	–	3,907	–
Parking	443	–	–	1	–	–	444	–
Open space	15,038	3,062	–	112	(1,236)	–	16,976	–
Community facilities	3,849	971	–	30	(4)	–	4,846	–
Other	1	114	–	–	(115)	–	–	–
Total	22,408	4,950	–	170	(1,355)	–	26,173	–
CONTRIBUTION PLAN NO. 8 GLENDALE CATCHMENT								
Traffic facilities	1,750	499	–	14	–	–	2,263	–
Parking	554	–	–	4	–	–	558	–
Open space	14,143	4,074	–	109	(1,242)	–	17,084	–
Community facilities	5,756	1,002	–	41	(913)	–	5,886	–
Other	–	213	–	–	(213)	–	–	–
Total	22,203	5,788	–	168	(2,368)	–	25,791	–

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Statement of developer contributions (continued)

	as at 30/06/19						as at 30/06/20	
	Opening Balance \$ '000	Contributions received during the year		Interest earned in year \$ '000	Expenditure during year \$ '000	Internal borrowing (to)/from \$ '000	Held as restricted asset \$ '000	Cumulative internal borrowings due/(payable) \$ '000
		Cash \$ '000	Non-cash \$ '000					
CONTRIBUTION PLAN NO. 9 CHARLESTOWN CATCHMENT								
Traffic facilities	2,125	65	—	15	(4)	—	2,201	—
Parking	3,527	—	—	24	—	—	3,551	—
Open space	9,655	943	—	65	(1,747)	—	8,916	—
Community facilities	3,610	184	—	25	(517)	—	3,302	—
Other	—	38	—	—	(38)	—	—	—
Total	18,917	1,230	—	129	(2,306)	—	17,970	—
CONTRIBUTION PLAN NO. 10 TORONTO CATCHMENT								
Traffic facilities	56	35	—	—	(21)	—	70	—
Open space	11,181	1,748	—	84	(213)	—	12,800	—
Community facilities	1,835	87	—	5	(1,834)	—	93	—
Other	—	119	—	—	(119)	—	—	—
Total	13,072	1,989	—	89	(2,187)	—	12,963	—
CONTRIBUTIONS PLAN NO. 11 BELMONT CATCHMENT								
Traffic facilities	1	1	—	—	—	—	2	—
Open space	14,580	161	—	196	(1,354)	—	13,583	—
Community facilities	2,386	356	—	39	(102)	—	2,679	—
Other	—	29	—	—	(29)	—	—	—
Total	16,967	547	—	235	(1,485)	—	16,264	—
Section 7.12 Levies								
Other	—	882	—	3	—	—	885	—
Total	—	882	—	3	—	—	885	—

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Statement of developer contributions (continued)

	as at 30/06/19	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	Cumulative internal borrowings due/(payable)
	Opening Balance \$ '000	Cash \$ '000	Non-cash \$ '000	\$ '000	\$ '000	\$ '000	Held as restricted asset \$ '000	\$ '000
S7.11 Contributions – not under a plan								
S7.11 CONTRIBUTIONS – NOT UNDER A PLAN								
Drainage	166	–	–	1	–	–	167	–
Roads	1,155	–	–	8	–	–	1,163	–
Parking	529	–	–	4	–	–	533	–
Open space	9	–	–	–	–	–	9	–
Community facilities	5	–	–	–	–	–	5	–
Other	186	–	–	1	–	–	187	–
Total	2,050	–	–	14	–	–	2,064	–

S7.4 planning agreements

S7.4 planning agreements

Roads	675	213	–	5	–	–	893	–
Parking	628	–	–	5	–	–	633	–
Open space	882	107	658	8	(13)	–	984	–
Community facilities	690	70	–	4	–	–	764	–
Other	11	12	–	–	(12)	–	11	–
Total	2,886	402	658	22	(25)	–	3,285	–

Lake Macquarie City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	(6,104)	(2.50)%	(0.27)%	5.53%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	243,710				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	213,704	71.41%	76.70%	68.44%	>60.00%
Total continuing operating revenue ¹	299,253				
3. Unrestricted current ratio					
Current assets less all external restrictions ³	157,394	4.26x	6.15x	5.61x	>1.50x
Current liabilities less specific purpose liabilities	36,943				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	61,788	5.09x	6.51x	8.52x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	12,138				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	7,213	3.92%	3.65%	4.09%	<10.00%
Rates, annual and extra charges collectible	183,993				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	172,847	10.15	8.20	8.74	>3.00
Monthly payments from cash flow of operating and financing activities	17,032	mths	mths	mths	mths

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

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

(3) 2018 and 2019 indicator has been restated in line with corrections for prior period errors



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Lake Macquarie City Council

To the Councillors of Lake Macquarie City Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 23 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Furqan Yousuf
Delegate of the Auditor-General for New South Wales

28 October 2020
SYDNEY



Cr Kay Fraser
Mayor
Lake Macquarie City Council
PO Box 1906
HUNTER REGIONAL MAIL CENTRE NSW 2310

Contact: Furqan Yousuf
Phone no: 02 9275 7470
Our ref: D2023206/1751

28 October 2020

Dear Cr Fraser

**Report on the Conduct of the Audit
for the year ended 30 June 2020
Lake Macquarie City Council**

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

I expressed a modified opinion on the Council's GPFS.

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

INCOME STATEMENT

Operating result

	2020	2019	Variance
	\$m	\$m	%
Rates and annual charges revenue	177.0	171.5	3.2
Grants and contributions revenue	85.5	64.3	33.0
Operating result from continuing operations	44.0	25.0	76.0
Net operating result before capital grants and contributions	(11.5)	(9.9)	16.2

Rates and annual charges revenue increased by \$5.5 million (3.2 per cent) to \$177.0 million in 2019–20. The movement is consistent with the increase in ordinary rates in line with the 2.7 per cent rate peg and the rise in the total number of rateable properties.

Grants and contributions revenue increased by \$21.2 million (33.0 per cent) to \$85.5 million in 2019–20. The movement was mainly attributable to increase in developer contributions by \$9.0 million and dedicated assets by \$9.9 million.

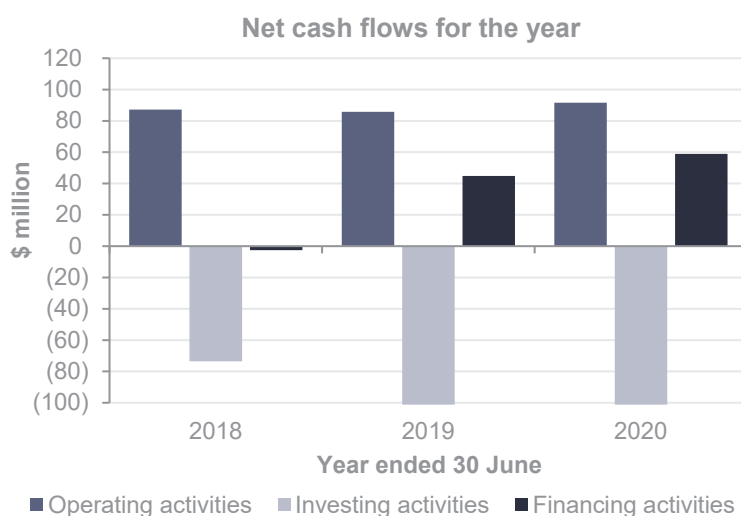
Council's net operating result from continuing operations was a surplus of \$44.0 million, which was \$19.0 million higher than the 2018–19 net operating result. The increased net operating result was mainly due to the increase in grants and contributions revenue, as explained above.

Council's net operating result before capital grants and contributions was a deficit of \$11.5 million, which was \$1.6 million lower than the 2018–19 net operating result before capital grants and contributions. The movement is mainly attributable to the following factors:

- increase in employee benefits and on-costs by \$4.6 million (5.0 per cent), mainly as a result of increase in number of employees from 1,278 to 1,332 and increase in award rates
- increase in depreciation and amortisation expense by \$2.0 million (8.0 per cent), mainly due to asset additions and renewals of \$103.7 million and revaluation increment of \$446.3 million
- the above movements were partially offset by the increase in rates and annual charges revenue by \$5.5 million, as explained above.

STATEMENT OF CASH FLOWS

- The Council's cash and cash equivalents was \$19.8 million (\$21.0 million for the year ended 30 June 2019). There was a net reduction in cash and cash equivalents of \$1.2 million at 30 June 2020.
- Net cash inflows from the operating activities increased by \$5.8 million mainly due to an increase in cash received from rates levied during the year.
- Net cash outflows from the investing activities increased by \$5.7 million mainly due to reduction in the sale of investment securities.
- Net cash inflows from financing activities increased by \$14.1 million mainly due to increase in proceeds from borrowings.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	165.1	114.3	<ul style="list-style-type: none"> Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have increased by \$50.8 million primarily due to an increase in available cash balance relating to the developer contributions. Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. Unrestricted cash balance of \$12.6 million at 30 June 2020 is available to provide liquidity for day-to-day operations of the Council.
Internal restrictions	126.9	124.0	
Unrestricted	12.6	6.9	
Cash and investments			

Debt

The Council has \$186.0 million of borrowings as at 30 June 2020 (2019: \$126.9 million)

The Council has an accumulated drawdown facility limit of \$2.2 million as at 30 June 2020 (2019: \$2.0 million). As at 30 June 2020, \$2.1 million of the total facility remains unutilised.

PERFORMANCE

Performance measures

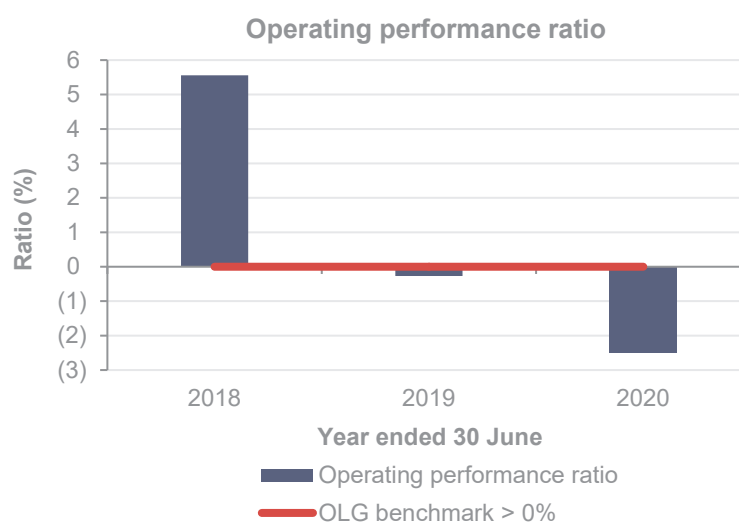
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

Operating performance ratio

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

The Council's operating performance ratio of negative 2.5 per cent did not meet the OLG benchmark for the financial year 2019-20.

The operating performance ratio has decreased from prior year mainly due to increase in Council's operating expenses.

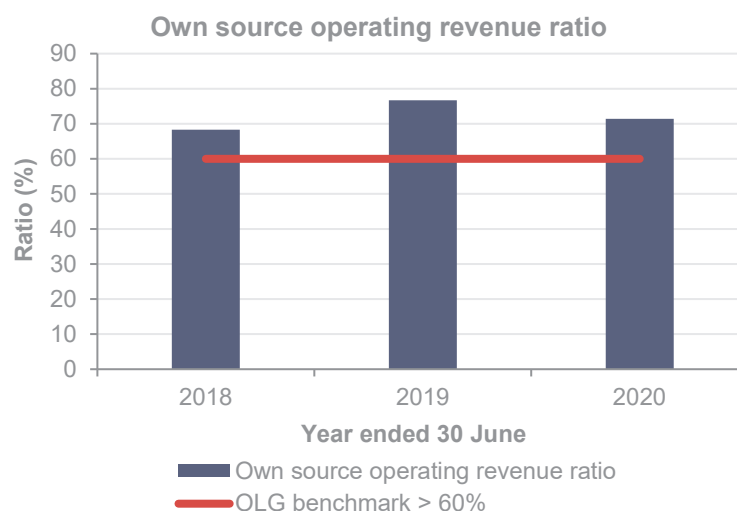


Own source operating revenue ratio

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

The Council's own source operating revenue ratio of 71.41 per cent is above the industry benchmark of 60 per cent. This indicates that the Council has a diversified source of income and does not have an overly strong reliance on operating grants and contributions.

The 2018-19 ratio was restated from 75.85 per cent to 76.7 per cent, based on revenue reclassification adjustments.



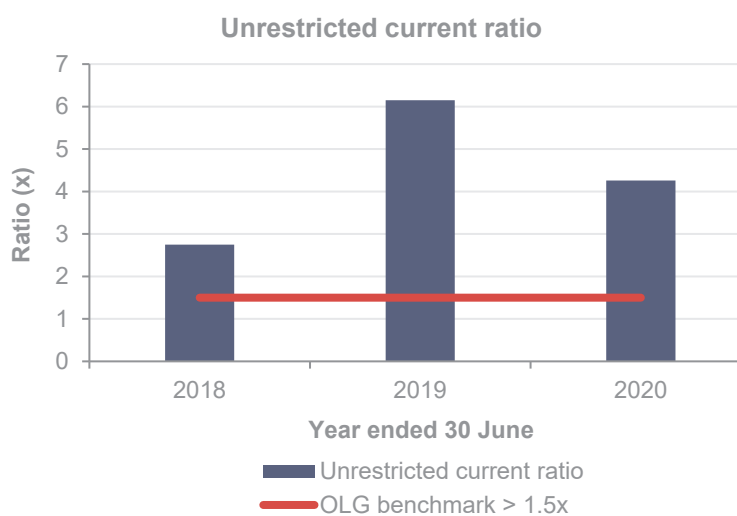
Unrestricted current ratio

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

The Council's liquidity ratio of 4.26 is above the industry benchmark minimum of greater than 1.5 times. This indicates that the Council has sufficient liquidity to meet its current liabilities as they fall due.

The Council's unrestricted current ratio has decreased from prior year mainly due to the increase in externally restricted cash.

The 2018-19 ratio was restated from 4.90 times to 6.15 times, to correct a prior period error.

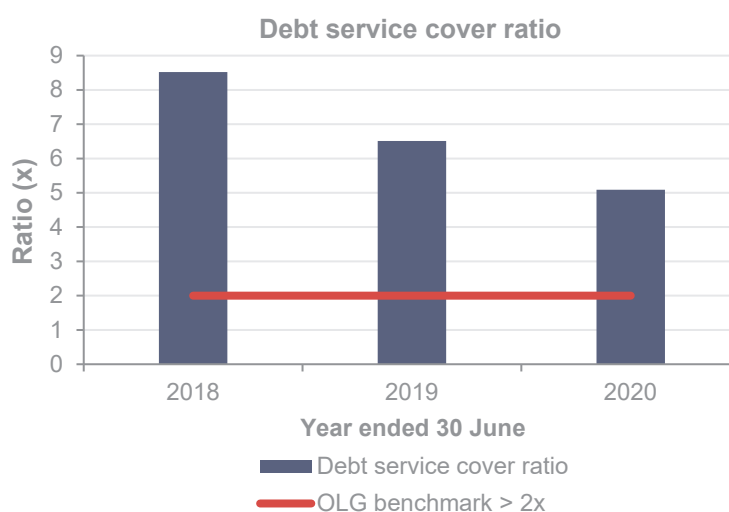


Debt service cover ratio

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

The Council's debt service cover ratio of 5.09 times is above the industry benchmark of greater than 2 times.

The Council's debt service cover ratio has decreased from the prior year mainly due to the increased repayments of borrowings in 2019-20.

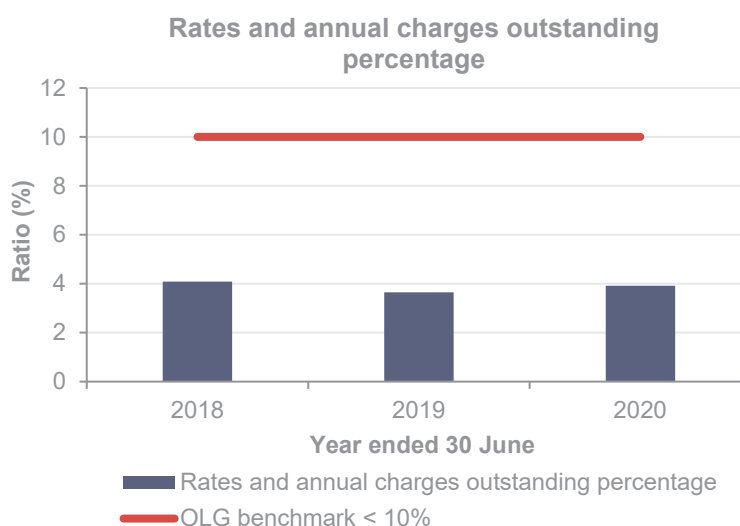


Rates and annual charges outstanding percentage

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

The Council's rates and annual charges outstanding percentage of 3.92 per cent is within the benchmark of less than 10 per cent for regional councils. This indicates that the collection procedures of the Council operated effectively to collect more than 90 per cent of the rates and annual charges revenue within the receivable due dates.

The 2018-19 ratio was restated from 3.70 per cent to 3.65 per cent, to correct a prior period error.

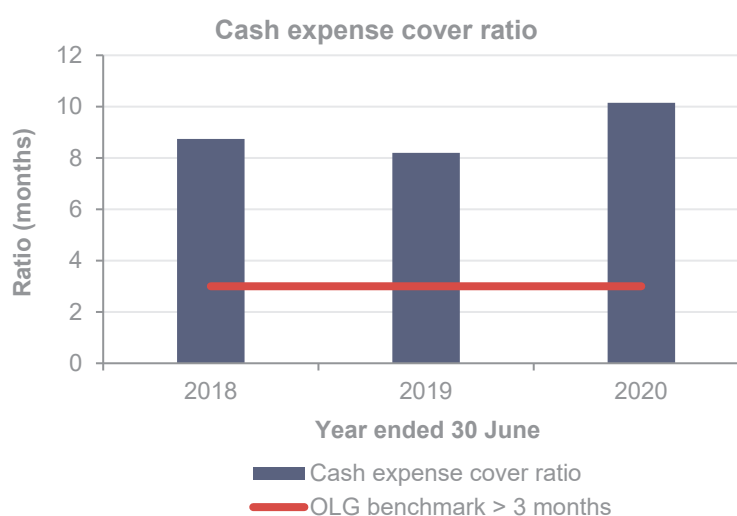


Cash expense cover ratio

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

The Council's cash expense cover ratio was 10.15 months, which is above the industry benchmark of greater than 3 months. This indicates that the Council had the capacity to cover 10.15 months of operating cash expenditure without additional cash inflows at 30 June 2020.

The cash and expense cover ratio increased compared with prior year due to increased cash and bank balance at 30 June 2020.



Infrastructure, property, plant and equipment renewals

The Council has renewed \$45.9 million of assets in 2019-20 financial year, compared to \$60.5 million of assets in the prior year.

OTHER MATTERS

Impact of new accounting standards

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

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

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

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

The Council recognised a \$1.2 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

The Council disclosed the impact of adopting the new Revenue Standards in Note 17.

AASB 16 'Leases'

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

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

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

The Council recognised right-of-use assets of \$0.5 million and corresponding lease liabilities of \$0.5 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 17.

Legislative compliance

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

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

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements
- staff provided all accounting records and information relevant to the audit.



Furqan Yousuf
Delegate of the Auditor-General for New South Wales

cc: Ms Morven Cameron, General Manager
Ms Dianne Allen, Chair of the Audit and Risk Committee
Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment

Lake Macquarie City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



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Lake Macquarie City Council

Special Purpose Financial Statements

for the year ended 30 June 2020

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

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

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

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

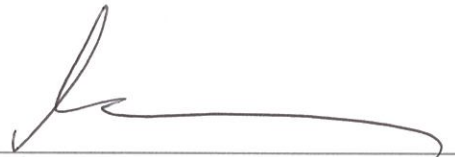
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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

Signed in accordance with a resolution of Council made on 26 October 2020.



Cr Kay Fraser
Mayor
26 October 2020



Cr Christine Buckley
Deputy Mayor
26 October 2020



Morven Cameron
General Manager
26 October 2020



Dwight Graham
Responsible Accounting Officer
26 October 2020

Lake Macquarie City Council

Income Statement – CiviLake

for the year ended 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
Income from continuing operations		
User charges and fees	3,850	4,112
Total income from continuing operations	3,850	4,112
Expenses from continuing operations		
Employee benefits and on-costs	769	759
Materials and contracts	2,657	2,688
Other expenses	13	37
Total expenses from continuing operations	3,439	3,484
Surplus (deficit) from continuing operations before capital amounts	411	628
Surplus (deficit) from continuing operations after capital amounts	411	628
Surplus (deficit) from all operations before tax	411	628
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(113)	(173)
SURPLUS (DEFICIT) AFTER TAX	298	455
Plus accumulated surplus	20,355	19,727
Plus adjustments for amounts unpaid:		
Corporate taxation equivalent	113	173
Dividend Paid	–	–
Closing accumulated surplus	20,766	20,355

Lake Macquarie City Council

Income Statement – Property Management for the year ended 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
Income from continuing operations		
User charges and fees	9,492	10,428
Interest	334	626
Profit from the sale of assets	4,410	–
Other income	1,734	1,723
Total income from continuing operations	15,970	12,777
Expenses from continuing operations		
Employee benefits and on-costs	2,179	2,017
Borrowing costs	5	–
Materials and contracts	3,923	3,792
Depreciation, amortisation and impairment	1,587	1,518
Loss on sale of assets	–	913
Calculated taxation equivalents	529	546
Other expenses	3,541	3,282
Total expenses from continuing operations	11,764	12,068
Surplus (deficit) from continuing operations before capital amounts	4,206	709
Surplus (deficit) from continuing operations after capital amounts	4,206	709
Surplus (deficit) from all operations before tax	4,206	709
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(1,157)	(195)
less dividend payment 5%	–	–
SURPLUS (DEFICIT) AFTER TAX	3,049	514
Plus accumulated surplus	123,886	122,631
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	529	546
– Corporate taxation equivalent	1,157	195
– Dividend Paid	–	–
Closing accumulated surplus	128,621	123,886
Return on capital %	6.3%	1.2%
Subsidy from Council	–	79

Lake Macquarie City Council

Income Statement – Non-domestic waste for the year ended 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
Income from continuing operations		
Rates and annual charges	2,273	2,141
User charges and fees	3,979	4,222
Grants and contributions provided for non-capital purposes	231	–
Total income from continuing operations	6,483	6,363
Expenses from continuing operations		
Employee benefits and on-costs	1,513	1,449
Borrowing costs	366	77
Materials and contracts	1,457	1,592
Depreciation and impairment	222	82
Loss on sale of assets	116	13
Calculated taxation equivalents	39	28
Other expenses	2,160	2,165
Total expenses from continuing operations	5,873	5,406
Surplus (deficit) from continuing operations before capital amounts	610	957
Surplus (deficit) from continuing operations after capital amounts	610	957
Surplus (deficit) from all operations before tax	610	957
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(168)	(263)
SURPLUS (DEFICIT) AFTER TAX	442	694
Plus accumulated surplus	17,274	16,289
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	39	28
– Corporate taxation equivalent	168	263
– Dividend Paid	–	–
Closing accumulated surplus	17,923	17,274
Return on capital %	6.2%	22.2%

Lake Macquarie City Council

Income Statement – Printing

for the year ended 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
Income from continuing operations		
User charges and fees	1,004	1,088
Total income from continuing operations	1,004	1,088
Expenses from continuing operations		
Employee benefits and on-costs	509	538
Borrowing costs	2	–
Materials and contracts	334	439
Depreciation and impairment	64	12
Other expenses	3	15
Total expenses from continuing operations	912	1,004
Surplus (deficit) from continuing operations before capital amounts	92	84
Surplus (deficit) from continuing operations after capital amounts	92	84
Surplus (deficit) from all operations before tax	92	84
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(25)	(23)
SURPLUS (DEFICIT) AFTER TAX	67	61
Plus accumulated surplus	1,457	1,373
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	25	23
Closing accumulated surplus	1,549	1,457
Return on capital %	4,700.0%	763.6%

Lake Macquarie City Council

Income Statement – Strategic Services Australia Ltd (Lake Macquarie Share) for the year ended 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
Income from continuing operations		
User charges and fees	1,088	925
Grants and contributions provided for non-capital purposes	–	156
Other income	15	28
Total income from continuing operations	1,103	1,109
Expenses from continuing operations		
Employee benefits and on-costs	697	705
Borrowing costs	–	1
Materials and contracts	294	235
Depreciation and impairment	21	22
Other expenses	166	242
Total expenses from continuing operations	1,178	1,205
Surplus (deficit) from continuing operations before capital amounts	(75)	(96)
Surplus (deficit) from continuing operations after capital amounts	(75)	(96)
Surplus (deficit) from all operations before tax	(75)	(96)
SURPLUS (DEFICIT) AFTER TAX	(75)	(96)
Plus accumulated surplus	692	788
Plus adjustments for amounts unpaid:		
Closing accumulated surplus	617	692
Return on capital %	(125.0)%	(150.8)%
Subsidy from Council	76	96

Lake Macquarie City Council

Statement of Financial Position – CiviLake

as at 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
ASSETS		
Current assets		
Investments	19,821	21,322
Receivables	3,525	1,642
Total current assets	23,346	22,964
TOTAL ASSETS	23,346	22,964
LIABILITIES		
Current liabilities		
Payables	553	184
Provisions	2,003	2,415
Total current liabilities	2,556	2,599
Non-current liabilities		
Provisions	24	10
Total non-current liabilities	24	10
TOTAL LIABILITIES	2,580	2,609
NET ASSETS	20,766	20,355
EQUITY		
Accumulated surplus	20,766	20,355
TOTAL EQUITY	20,766	20,355

Lake Macquarie City Council

Statement of Financial Position – Property Management

as at 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	10	7
Investments	39,301	42,471
Receivables	149	288
Inventories	603	1,171
Total current assets	40,063	43,937
Non-current assets		
Right of use assets	146	–
Inventories	3,416	3,275
Infrastructure, property, plant and equipment	66,844	59,699
Investment property	40,950	40,775
Total non-current assets	111,356	103,749
TOTAL ASSETS	151,419	147,686
LIABILITIES		
Current liabilities		
Lease liabilities	105	–
Payables	542	83
Provisions	807	728
Total current liabilities	1,454	811
Non-current liabilities		
Lease liabilities	42	–
Provisions	9	9
Total non-current liabilities	51	9
TOTAL LIABILITIES	1,505	820
NET ASSETS	149,914	146,866
EQUITY		
Accumulated surplus	128,622	123,886
Revaluation reserves	21,292	22,980
TOTAL EQUITY	149,914	146,866

Lake Macquarie City Council

Statement of Financial Position – Non-domestic waste

as at 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
ASSETS		
Current assets		
Investments	3,788	13,938
Receivables	143	49
Total current assets	3,931	13,987
Non-current assets		
Infrastructure, property, plant and equipment	15,685	4,664
Total non-current assets	15,685	4,664
TOTAL ASSETS	19,616	18,651
LIABILITIES		
Current liabilities		
Payables	336	302
Provisions	1,243	966
Total current liabilities	1,579	1,268
Non-current liabilities		
Provisions	10	5
Total non-current liabilities	10	5
TOTAL LIABILITIES	1,589	1,273
NET ASSETS	18,027	17,378
EQUITY		
Accumulated surplus	17,923	17,274
Revaluation reserves	104	104
TOTAL EQUITY	18,027	17,378

Lake Macquarie City Council

Statement of Financial Position – Printing

as at 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
ASSETS		
Current assets		
Investments	1,904	1,780
Receivables	16	31
Total current assets	1,920	1,811
Non-current assets		
Right of use assets	60	–
Infrastructure, property, plant and equipment	2	11
Total non-current assets	62	11
TOTAL ASSETS	1,982	1,822
LIABILITIES		
Current liabilities		
Lease liabilities	54	–
Payables	12	3
Provisions	358	362
Total current liabilities	424	365
Non-current liabilities		
Lease liabilities	8	–
Provisions	1	–
Total non-current liabilities	9	–
TOTAL LIABILITIES	433	365
NET ASSETS	1,549	1,457
EQUITY		
Accumulated surplus	1,549	1,457
TOTAL EQUITY	1,549	1,457

Lake Macquarie City Council

Statement of Financial Position – Strategic Services Australia Ltd (Lake Macquarie Share)

as at 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	999	1,041
Receivables	–	133
Inventories	110	–
Other	174	182
Total current assets	1,283	1,356
Non-current assets		
Infrastructure, property, plant and equipment	60	63
Total non-current assets	60	63
TOTAL ASSETS	1,343	1,419
LIABILITIES		
Current liabilities		
Other current liabilities	176	165
Payables	112	156
Provisions	151	118
Total current liabilities	439	439
Non-current liabilities		
Provisions	2	4
Total non-current liabilities	2	4
TOTAL LIABILITIES	441	443
NET ASSETS	902	976
EQUITY		
Accumulated surplus	617	692
Revaluation reserves	285	284
TOTAL EQUITY	902	976

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

CiviLake Management Group

Responsible for the management of all Council's non contestable maintenance, construction works and survey works including RMS works. CiviLake also manages Council's quarry operations which is managed on a cost basis plus an overhead charge.

Responsible for the tendering for external works for profit. The management unit hires where available all resources including labour, plant, equipment and human resources from the parent entity.

Council's expected return on capital is not applicable to this business unit. This is due to CiviLake hiring Council's equipment as opposed to purchasing new capital.

ABC costs are charged to the management group.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

Property Management

Responsible for the management of all Council's strategic investment properties, holiday parks, land development and land acquisitions and sales. The capital employed by Property Management during the year was \$61,479k. Council's expected return on strategic investment holdings is currently 6%–8%.

Non-Domestic Waste

Responsible for the collection and disposal of waste other than domestic waste within the city. The capital employed by Non-Domestic Waste during the year was \$4,664k. Council's expected return on capital was 2.6% in accordance with the 10-year Commonwealth Government Bond rate.

Category 2

Printing

Responsible for all internal printing work as well as external printing on a competitive basis. The capital employed by Printing during the year was \$11k. Council's expected return on capital was 2.6% in accordance with the 10-year Commonwealth Government Bond rate.

Strategic Services Australia Ltd

Strategic Services Australia Limited (SSA Ltd) (formerly Hunter Councils) is a jointly controlled entity of Council along with other regional councils. The purpose of SSA Ltd is to improve the quality and efficiency of local government service throughout the Hunter region. Council makes contributions to the operations of the entity and shares in the operations and equity of the organisation. Council's expected return is 0%.

Monetary amounts

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

(i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations (Special Purpose Financial Statements) 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 the SPFS.

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 Tax Rate	27.5%
Land Tax	Value \$nil to \$692,000 = Nil Value \$692,000 to \$4,231,000 = 1.6% of excess + \$100 Value > \$4,231,000 = 2% + \$56,624
Payroll Tax	5.45% with a \$850,000 threshold for the year 01/07/18 to 30/06/19
Other Taxes or Charges	Direct Costs Apply

Income tax

An income tax equivalent has been applied on the profits of the business. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level (gain/ (loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

Income Tax is only applied where a positive gain/ (loss) from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional, that is, it is payable to the "Council" as the owner of business operations, it represents an internal payment and has no effect on the operations of the Council.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

Accordingly, there is no need for disclosure of internal charges in the SPFS. The rate applied of 27.5% is the equivalent company tax rate prevalent as at reporting date. No adjustments have been made for variations which have occurred during the year.

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

Council is not required to pay dividends to either itself as owner of a range of businesses or to any external entities. Consequently, any form of dividend payment is purely notional and has been set at 5%. Dividend payments to Council are also restricted to those activities which do not levy special rates or charges (water, sewer, domestic waste management). Council operates Domestic Waste Management (DWM) as a restricted activity. The *Local Government Act 1993 (NSW)* requires that all operating surpluses or deficits of these funds are credited/debited to the equity of those funds



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Lake Macquarie City Council

To the Councillors of Lake Macquarie City Council

Opinion

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

The Declared Business Activities of the Council are:

- CiviLake
- Property Management
- Non-domestic Waste
- Printing
- Strategic Services Australia Ltd (Lake Macquarie Share)

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

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

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

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



Furqan Yousuf
Delegate of the Auditor-General for New South Wales

28 October 2020
SYDNEY

Lake Macquarie City Council

SPECIAL SCHEDULES
for the year ended 30 June 2020



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Permissible income for general rates

	Notes	Calculation 2020/21 \$ '000	Calculation 2019/20 \$ '000
Notional general income calculation ¹			
Last year notional general income yield	a	138,672	134,128
Plus or minus adjustments ²	b	1,214	944
Notional general income	c = a + b	139,886	135,072
Permissible income calculation			
Or rate peg percentage	e	2.60%	2.70%
Or plus rate peg amount	i = e x (c + g)	3,637	3,647
Sub-total	k = (c + g + h + i + j)	143,523	138,719
Plus (or minus) last year's carry forward total	l	(1)	2
Less valuation objections claimed in the previous year	m	(6)	(54)
Sub-total	n = (l + m)	(7)	(52)
Total permissible income	o = k + n	143,516	138,667
Less notional general income yield	p	143,501	138,672
Catch-up or (excess) result	q = o - p	15	(5)
Plus income lost due to valuation objections claimed ⁴	r	8	6
Less unused catch-up ⁵	s	—	(2)
Carry forward to next year ⁶	t = q + r + s	23	(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.
- (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 Permissible income for general rates Statement in the financial data return (FDR) to administer this process.

Lake Macquarie City Council

Report on Infrastructure Assets

as at 30 June 2020

Asset Class	Asset Category	Estimated cost	Estimated cost	2019/20	2019/20	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		to bring assets to satisfactory standard	to bring to the agreed level of service set by Council	Required maintenance ^a	Actual maintenance			1	2	3	4	5
		\$ '000	\$ '000	\$ '000	\$ '000							
(a) Report on Infrastructure Assets - Values												
Buildings	Buildings	2,635	5,748	12,368	12,230	206,887	309,205	24.6%	45.8%	18.5%	9.7%	1.4%
	Sub-total	2,635	5,748	12,368	12,230	206,887	309,205	24.6%	45.8%	18.5%	9.7%	1.4%
Other structures	Other structures	199	1,390	366	279	24,710	49,494	17.0%	67.0%	13.0%	3.0%	0.0%
	Sub-total	199	1,390	366	279	24,710	49,494	17.0%	67.0%	13.0%	3.0%	0.0%
Roads	Sealed roads	48,787	33,705	9,764	8,495	799,324	1,273,053	0.8%	35.5%	49.5%	9.9%	4.3%
	Unsealed roads	–	–	1,005	1,004	31,679	67,998	0.0%	0.0%	24.8%	65.2%	10.0%
	Bridges	–	1,105	329	295	46,446	71,531	13.5%	74.3%	11.2%	1.0%	0.0%
	Footpaths	2,646	351	1,043	859	93,171	140,947	17.1%	62.0%	19.3%	1.6%	0.0%
	Other road assets (including bulk earthworks)	1,292	273	6,454	5,023	654,621	872,178	14.1%	35.4%	49.2%	1.1%	0.2%
	Sub-total	52,725	35,434	18,595	15,676	1,625,240	2,425,707	6.9%	37.2%	45.8%	7.5%	2.6%
Stormwater drainage	Stormwater drainage	–	1,927	4,492	3,905	609,588	976,482	78.2%	17.2%	3.2%	0.8%	0.6%
	Sub-total	–	1,927	4,492	3,905	609,587	976,482	78.2%	17.2%	3.2%	0.8%	0.6%
Open space / recreational assets	Swimming pools	431	390	1,781	1,053	8,561	11,867	16.3%	57.5%	26.2%	0.0%	0.0%
	Other open space / recreational assets	–	1,259	8,388	10,997	32,656	55,878	0.0%	0.0%	0.0%	0.0%	100.0%
	Sub-total	431	1,649	10,169	12,050	41,217	67,745	2.9%	10.1%	4.6%	0.0%	82.5%
Other infrastructure assets	Other	–	1,877	247	257	18,894	33,410	29.6%	44.0%	24.9%	0.9%	0.6%
	Sub-total	–	1,877	247	257	18,894	33,410	29.6%	44.0%	24.9%	0.9%	0.6%
TOTAL - ALL ASSETS		55,990	48,025	46,237	44,397	2,526,535	3,862,043	26.6%	32.8%	31.5%	5.8%	3.4%

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

Infrastructure asset condition assessment 'key'

- | | | |
|---|----------------------------|---------------------------------------|
| 1 | Excellent/very good | No work required (normal maintenance) |
| 2 | Good | Only minor maintenance work required |

Report on Infrastructure Assets - Values (continued)

as at 30 June 2020

3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Lake Macquarie City Council

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	38,333	78.43%	78.92%	100.39%	>=100.00%
Depreciation, amortisation and impairment	48,878				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	55,990	2.22%	2.43%	2.52%	<2.00%
Net carrying amount of infrastructure assets	2,526,536				
Asset maintenance ratio					
Actual asset maintenance	44,397	96.02%	93.22%	92.71%	>100.00%
Required asset maintenance	46,239				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	48,025	1.24%	1.59%	1.71%	
Gross replacement cost	3,862,043				

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

(1) Excludes Work In Progress (WIP)

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Lake Macquarie City Council

To the Councillors of Lake Macquarie City Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

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

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

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

Furqan Yousuf
Delegate of the Auditor-General for New South Wales

28 October 2020
SYDNEY

For more information



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