

Narrabri Shire Council

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2020

A strong and vibrant regional growth centre providing a quality living environment for the entire Shire community



Narrabri Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020

*A strong and vibrant regional growth centre providing a
quality living environment for the entire Shire community*



General Purpose Financial Statements

for the year ended 30 June 2020

Contents	Page
1. Understanding Council's Financial Statements	3
2. Statement by Councillors & Management	4
3. Primary Financial Statements:	
Income Statement	5
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
4. Notes to the Financial Statements	10
5. Independent Auditor's Reports:	
On the Financial Statements (Sect 417 [2])	71
On the Financial Statements (Sect 417 [3])	74

Overview

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

46-48 Maitland Street
Narrabri NSW 2390

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, Council have ensured that its reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.narrabri.nsw.gov.au.

Narrabri Shire Council

General Purpose Financial Statements

for the year ended 30 June 2020

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

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

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

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

Who uses the Financial Statements?

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

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

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

General Purpose Financial Statements

for the year ended 30 June 2020

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

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

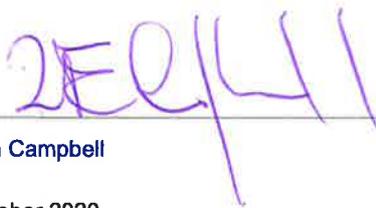
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

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

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

Signed in accordance with a resolution of Council made on 27 October 2020.



Cr Ron Campbell
Mayor
27 October 2020



Cr Cameron Staines
Deputy Mayor
27 October 2020



Mr Stewart Todd
General Manager
27 October 2020



Mr Tim McClellan
Responsible Accounting Officer
27 October 2020

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Income from continuing operations				
21,215	Rates and annual charges	3a	20,897	20,372
10,948	User charges and fees	3b	8,060	7,870
2,231	Other revenues	3c	1,808	2,477
10,976	Grants and contributions provided for operating purposes	3d,3e	12,848	11,444
14,829	Grants and contributions provided for capital purposes	3d,3e	12,001	10,242
1,498	Interest and investment income	4	1,101	1,521
–	Rental income	12	127	–
–	Net share of interests in joint ventures and associates using the equity method	17	9	20
61,697	Total income from continuing operations		56,851	53,946
Expenses from continuing operations				
16,367	Employee benefits and on-costs	5a	16,147	15,485
252	Borrowing costs	5b	346	282
13,976	Materials and contracts	5c	13,103	13,225
10,045	Depreciation and amortisation	5d	11,177	9,602
5,429	Other expenses	5e	6,104	4,631
–	Net losses from the disposal of assets	6	1,552	576
46,069	Total expenses from continuing operations		48,429	43,801
15,628	Operating result from continuing operations		8,422	10,145
15,628	Net operating result for the year		8,422	10,145
15,708	Net operating result attributable to council		8,422	10,145
879	Net operating result for the year before grants and contributions provided for capital purposes		(3,579)	(97)

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

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

Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
Net operating result for the year (as per Income Statement)		8,422	10,145
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10(a)	(550)	46,290
Total items which will not be reclassified subsequently to the operating result		(550)	46,290
Total other comprehensive income for the year		(550)	46,290
Total comprehensive income for the year		7,872	56,435
Total comprehensive income attributable to Council		7,872	56,435

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

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

Statement of Financial Position

as at 30 June 2020

\$ '000	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	3,517	1,380
Investments	7(b)	33,000	50,000
Receivables	8	9,958	12,495
Contract assets	11a	5,028	–
Inventories	9a	5,838	2,992
Other	9b	358	362
Total current assets		<u>57,699</u>	<u>67,229</u>
Non-current assets			
Infrastructure, property, plant and equipment	10(a)	505,110	492,633
Investments accounted for using the equity method	17	256	247
Total non-current assets		<u>505,366</u>	<u>492,880</u>
Total assets		<u>563,065</u>	<u>560,109</u>
LIABILITIES			
Current liabilities			
Payables	13	5,149	3,297
Income received in advance	13	–	549
Contract liabilities	11b	1,629	–
Borrowings	13	554	763
Provisions	14	4,044	4,102
Total current liabilities		<u>11,376</u>	<u>8,711</u>
Non-current liabilities			
Payables	13	199	196
Borrowings	13	4,596	5,150
Provisions	14	3,276	8,745
Total non-current liabilities		<u>8,071</u>	<u>14,091</u>
Total liabilities		<u>19,447</u>	<u>22,802</u>
Net assets		<u>543,618</u>	<u>537,307</u>
EQUITY			
Accumulated surplus	15	243,336	236,475
Revaluation reserves	15	300,282	300,832
Council equity interest		<u>543,618</u>	<u>537,307</u>
Total equity		<u>543,618</u>	<u>537,307</u>

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

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

Statement of Changes in Equity

for the year ended 30 June 2020

\$ '000	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		236,475	300,832	537,307	226,330	254,542	480,872
Changes due to AASB 1058 and AASB 15 adoption	15	(1,561)	–	(1,561)	–	–	–
Opening balance		234,914	300,832	535,746	226,330	254,542	480,872
Net operating result for the year		8,422	–	8,422	10,145	–	10,145
Net operating result for the period		8,422	–	8,422	10,145	–	10,145
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10(a)	–	(550)	(550)	–	46,290	46,290
Other comprehensive income		–	(550)	(550)	–	46,290	46,290
Total comprehensive income		8,422	(550)	7,872	10,145	46,290	56,435
Equity – balance at end of the reporting period		243,336	300,282	543,618	236,475	300,832	537,307

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

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

Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Cash flows from operating activities				
<i>Receipts:</i>				
21,133	Rates and annual charges		20,652	19,848
11,116	User charges and fees		5,941	7,979
1,574	Investment and interest revenue received		1,344	1,513
25,597	Grants and contributions		24,443	17,735
–	Bonds, deposits and retention amounts received		–	35
2,796	Other		6,821	5,365
<i>Payments:</i>				
(16,418)	Employee benefits and on-costs		(16,337)	(15,755)
(14,429)	Materials and contracts		(17,489)	(16,078)
(250)	Borrowing costs		(347)	(246)
–	Bonds, deposits and retention amounts refunded		(65)	–
(5,429)	Other		(10,497)	(5,192)
25,690	Net cash provided (or used in) operating activities	16b	14,466	15,204
Cash flows from investing activities				
<i>Receipts:</i>				
6,012	Sale of investment securities		39,800	78,000
778	Sale of infrastructure, property, plant and equipment		466	584
<i>Payments:</i>				
–	Purchase of investment securities		(22,800)	(72,000)
(32,551)	Purchase of infrastructure, property, plant and equipment		(26,222)	(20,388)
–	Purchase of real estate assets		(2,810)	–
(25,761)	Net cash provided (or used in) investing activities		(11,566)	(13,804)
Cash flows from financing activities				
<i>Payments:</i>				
(763)	Repayment of borrowings and advances		(763)	(874)
(763)	Net cash flow provided (used in) financing activities		(763)	(874)
(834)	Net increase/(decrease) in cash and cash equivalents		2,137	526
4,000	Plus: cash and cash equivalents – beginning of year	16a	1,380	854
3,166	Cash and cash equivalents – end of the year	16a	3,517	1,380
30,000	plus: Investments on hand – end of year	7(b)	33,000	50,000
33,166	Total cash, cash equivalents and investments		36,517	51,380

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

Contents of the Notes accompanying the General Purpose Financial Statements

Note	Details	Page
1	Basis of preparation	11
2(a)	Council services – financial information	13
2(b)	Council services – component descriptions	14
3	Revenue from continuing operations	16
4	Interest and investment income	22
5	Expenses from continuing operations	23
6	Gain or loss from disposal of assets	26
7(a)	Cash and cash equivalents	26
7(b)	Investments	27
7(c)	Restricted cash, cash equivalents and investments	27
8	Receivables	29
9	Inventories and other assets	30
10(a)	Infrastructure, property, plant and equipment	32
10(b)	Externally restricted infrastructure, property, plant and equipment	35
11	Contract assets and liabilities	36
12	Leases	37
13	Payables and borrowings	38
14	Provisions	40
15	Revaluation reserves and changes in accounting policies	43
16	Statement of cash flow information	47
17	Interests in other entities	48
18	Commitments	49
19	Contingencies	50
20	Financial risk management	52
21	Material budget variations	56
22	Fair Value Measurement	57
23	Related party disclosures	64
24	Statement of developer contributions	65
25	Result by fund	66
26(a)	Statement of performance measures – consolidated results	68
26(b)	Statement of performance measures – by fund	69
	Additional Council disclosures (unaudited)	
27	Council information and contact details	70

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 30 November 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

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

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

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

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

- Income statement
- Statement of cash flows
- Material budget variations

and are clearly marked.

Covid-19 impacts

The Covid-19 global health crisis has impacted Council's operations, but has had only limited financial impact.

A number of facilities, services and events were affected during the period of pandemic restrictions which resulted in reduced revenues. These impacts are included in the Material Budget Variations note to the financial statements.

Financial difficulty experienced by many ratepayers has led to a higher than normal level of outstanding collections. A contributing factor is also the prolonged drought conditions experienced in regional NSW.

Council is of the view that physical non-current assets will not experience substantial declines in value due to Covid-19.

(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.

(b) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

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

- i. estimated fair values of infrastructure, property, plant and equipment (refer to Note 10);
- ii. estimated tip remediation provisions (refer to Note 14); and
- iii. employee benefit provisions (refer to Note 14).

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

Significant judgements in applying the council's accounting policies

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

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

- General Purpose Operations
- Water Services
- Sewerage Services

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations issued not yet effective

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's assessment of the impacts of the new standards, and interpretations relevant to them, is set out below.

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

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

New accounting standards adopted during the year

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

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

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 19.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 2(a). Council services - financial information

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Services (by Directorate)										
General Manager										
Corporate Planning and Workforce	102	104	1,275	1,423	(1,173)	(1,319)	–	–	1,005	1,431
Economic Development	7	105	510	519	(503)	(414)	–	100	1,685	2,022
Planning and Environment	1,762	2,225	1,569	1,516	193	709	94	39	10,279	12,620
Strategic Management and Governance	42	48	1,056	1,515	(1,014)	(1,467)	–	–	481	826
Corporate & Community Services										
Airport	225	197	722	741	(497)	(544)	–	–	12,364	12,633
Community and Customer Relations	2	2	1,161	675	(1,159)	(673)	–	–	–	–
Cultural Facilities	983	1,241	2,437	2,520	(1,454)	(1,279)	186	60	9,256	9,438
Financial Services	73	178	2,064	1,420	(1,991)	(1,242)	–	–	10,869	3,840
Information Services	64	110	918	614	(854)	(504)	59	106	2,479	2,775
Property Services	418	403	2,150	2,428	(1,732)	(2,025)	11	56	23,249	25,441
Tourism and Community Development	418	718	1,227	1,514	(809)	(796)	262	503	2,098	1,383
Infrastructure Delivery										
Cemeteries	212	167	399	281	(187)	(114)	–	–	1,002	991
Design and Investigation Services	5	9	397	507	(392)	(498)	–	–	1,292	–
Emergency Support	288	262	793	553	(505)	(291)	225	174	487	683
Fleet Management	235	307	156	(359)	79	666	20	–	11,518	11,864
Parks and Open Spaces	1,567	456	3,089	2,592	(1,522)	(2,136)	1,366	587	14,337	13,441
Projects and Assets	16	11	308	69	(292)	(58)	–	–	343	–
Sewerage Services	5,036	3,836	3,893	3,706	1,143	130	1,626	456	15,347	46,341
Solid Waste Management	3,457	3,618	4,156	3,463	(699)	155	(2)	145	5,360	11,664
Swimming Pools	396	497	1,667	1,555	(1,271)	(1,058)	106	131	9,376	9,789
Transport (Roads & Ancillary Services)	11,827	7,891	14,023	12,735	(2,196)	(4,844)	7,542	4,836	337,693	338,580
Water Services	8,520	10,590	4,459	3,814	4,061	6,776	4,554	5,890	88,496	50,034
General Purpose Revenue										
General Purpose Revenue	21,196	20,971	–	–	21,196	20,971	7,474	7,382	4,049	4,313
Total Services	56,851	53,946	48,429	43,801	8,422	10,145	23,523	20,465	563,065	560,109

Narrabri Shire Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 2(b). Council services - component descriptions

Details relating to Council's services as reported in Note 2(a) are as follows:

General Manager

Corporate Planning and Workforce

Integrated planning and reporting support and oversight, staff management, recruitment, work health and safety compliance and organisational development.

Economic Development

Economic promotion and marketing of Narrabri Shire, investment attraction and lobbying. Current focus on Northern NSW Inland Port (N2IP).

Planning and Environment

Strategic land use planning, statutory land use planning, building certification, local activity approvals, development compliance, environmental health and companion animal management.

Strategic Management and Governance

Civic leadership and organisational management setting and implementing Council's strategic agenda.

Corporate and Community Services

Airport

Narrabri Airport services including airside and landside operations and aviation fuel facilities.

Community and Customer Relations

Delivery of quality customer service, administrative support and corporate records management, engage in communications with the community and maintaining the Council brand and reputation.

Cultural Facilities

The Crossing Theatre and Libraries. The Crossing Theatre, located in Narrabri, provides, promotes, attracts and facilitates event and entertainment opportunities for residents and visitors. Library services are provided in Narrabri, Wee Waa and Boggabri. Provision of library services is enhanced through Council's membership in the Central Northern Regional Library group.

Financial Services

Financial reporting, financial support, investment services, rates management, accounts receivable, accounts payable, asset administration, procurement services and stores management.

Information Services

Maintenance of Council's information technology infrastructure, technical support and records management services.

Property Services

Management of land, buildings and property assets (incl. caravan parks, works depots and saleyards), provision of geospatial information services (GIS), management of Council's property insurance portfolio and overseeing asset management across the organisation.

Tourism and Community Development

Information services to visitors, tourism and business operators, the tourism industry and the shire community. This includes tourism marketing and promotion of the shire, supporting local event organisers and products and tourism infrastructure coordination and development. It also includes assisting existing businesses, community development and grant seeking opportunities for Council and the community.

Infrastructure Delivery

Cemeteries

Cemetery management services for eight operational cemeteries and four closed cemeteries in towns and villages across the shire; including cemetery information management, interment services and on-going grounds maintenance.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 2(b). Council services - component descriptions (continued)

Design and Investigation Services

Site survey work, design and drafting infrastructure projects, capturing traffic count data, assessing heavy vehicle applications and maintaining alcohol free zones.

Emergency Support

Financial support to the NSW Rural Fire Service (RFS), Fire and Rescue NSW (town fire brigades) and the NSW State Emergency Service (SES).

Fleet Management

Acquisition, maintenance and disposal of Council's plant and vehicle fleet.

Parks and Open Spaces

Management and maintenance of amenity and open spaces (incl. weeds management), sporting facilities, recreation parks, public amenities and dump points, public waste / litter control, monuments and memorials, street trees and town CBD precincts.

Projects and Assets

Co-ordination of directorate activities, budget maintenance and supervision, financial analysis, monitoring and reporting, long-term asset management planning, contracts administration and tender management services.

Sewerage Services

Sewerage services provided to Boggabri, Narrabri and Wee Waa.

Solid Waste Management

Kerbside domestic and commercial waste collection, operation of a waste disposal facility at Narrabri, kerbside recycling collection, reprocessing services for kerbside collected organic material and co-mingled recycling and "drop-off" facilities at Council sites throughout the shire to divert material from landfill to reprocessing / reuse.

Swimming Pools

Outdoor swimming pools in Narrabri, Wee Waa and Boggabri, an indoor heated pool in Narrabri and an artesian bore bath (swimming pool) at Pilliga.

Transport (Roads and Ancillary Services)

Quarries management, stormwater management, street lighting, routine maintenance of urban, local and regional roads (sealed and unsealed), bridges, footpaths, kerb and guttering and parking areas. Also includes the asset renewal / replacement of all of these infrastructure asset categories.

Contract services are also provided to Transport for New South Wales (TfNSW) for maintenance, repairs and emergency response support on the Newell and Kamilaroi highways.

Water Services

Water supplies provided to Baan Baa, Bellata, Boggabri, Gwabegar, Narrabri, Pilliga and Wee Waa.

General Purpose Revenue

Ordinary rates income, untied general purpose grants and unrestricted interest and investment income.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations

\$ '000	AASB	2020	2019
(a) Rates and annual charges			
Ordinary rates			
Residential	1058 (1)	4,501	4,371
Farmland	1058 (1)	6,492	6,328
Mining	1058 (1)	998	975
Business	1058 (1)	1,314	1,273
Less: pensioner rebates (mandatory)	1058 (1)	(149)	(156)
Rates levied to ratepayers		13,156	12,791
Pensioner rate subsidies received	1058 (1)	82	86
Total ordinary rates		13,238	12,877
Special rates			
Tourism	1058 (1)	67	65
Total special rates		67	65
Annual charges			
Domestic waste management services	1058 (1)	1,417	1,372
Waste management services (non-domestic)	1058 (1)	1,307	1,209
Water supply services	1058 (1)	1,708	1,787
Sewerage services	1058 (1)	3,162	3,064
On-site sewerage management	1058 (1)	70	69
Less: pensioner rebates (mandatory)	1058 (1)	(159)	(159)
Annual charges levied		7,505	7,342
Pensioner subsidies received:			
– Water	1058 (1)	32	32
– Sewerage	1058 (1)	28	28
– Domestic waste management	1058 (1)	27	28
Total annual charges		7,592	7,430
TOTAL RATES AND ANNUAL CHARGES		20,897	20,372

AASB column disclosure

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

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

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

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

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

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when 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 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 rate 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.

Valuation Year Information

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
(b) User charges and fees			
Specific user charges			
Water supply services	15 (1)	1,930	2,322
Sewerage services	15 (1)	26	40
Total specific user charges		1,956	2,362
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions			
Planning and building regulation	15 (1)	137	225
Regulatory / statutory fees	15 (1)	70	46
Total fees and charges – statutory/regulatory		207	271
(ii) Fees and charges – other (incl. general user charges)			
Airport	15 (1)	225	202
Caravan parks	15 (1)	43	88
Cemeteries	15 (1)	212	173
Contribution to works	15 (1)	58	–
Lease rentals	15 (1)	53	37
Leaseback fees – Council vehicles	15 (1)	133	162
Park / Oval rents	15 (1)	5	8
Saleyards	15 (1)	110	192
Swimming centres	15 (1)	209	258
TfNSW (formerly RMS) charges (state roads not controlled by Council)	15 (1)	3,036	1,820
Tonnage charges - gravel	15 (1)	134	37
Tonnage charges - mining	15 (1)	1,001	1,417
Waste disposal tipping fees	15 (1)	626	805
Water / Sewer connection fees	15 (1)	36	34
Other	15 (1)	16	4
Total fees and charges – other		5,897	5,237
TOTAL USER CHARGES AND FEES		8,060	7,870

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

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

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

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

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

Accounting policy for user charges and fees

Revenue arising from user charges and fees is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided. The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service or in some cases such as caravan parks, the customer is required to pay on arrival. There is no material obligation for Council in relation to refunds or returns.

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

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)

\$ '000	AASB	2020	2019
(c) Other revenues			
Diesel rebate	15 (1)	166	255
Fines	15 (1)	–	3
Hire income - other council properties	15 (1)	48	–
Insurance claims recoveries	1058 (1)	182	77
Insurance premium rebates	15 (1)	84	75
Legal fees recovery – rates and charges (extra charges)	1058 (1)	29	9
Recoverable expenses	15 (1)	131	236
Rental income – other council properties (2019 only)	15 (1)	–	208
Sales – general	15 (1)	368	413
The Crossing Theatre (sales & other income)	15 (1)	732	1,170
Other	15 (1)	68	31
<u>TOTAL OTHER REVENUE</u>		<u>1,808</u>	<u>2,477</u>

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

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

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

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

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

Accounting policy for other revenue

Where the revenue relates to a contract with a 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, whichever 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(d) Grants					
General purpose (untied)					
Current year allocation					
Financial assistance	1058 (1)	3,628	3,624	–	–
Payment in advance - future year allocation					
Financial assistance	1058 (1)	3,846	3,758	–	–
Total general purpose		7,474	7,382	–	–
Specific purpose					
Bushfire and emergency services	1058 (1)	224	174	–	–
Community care	1058 (1)	12	884	–	–
Economic development	1058 (1)	–	100	–	–
Environmental programs	1058 (2)	90	–	–	101
Heritage and cultural	1058 (2)	20	82	–	–
Library	1058 (1)	93	51	–	–
LIRS subsidy	1058 (1)	24	131	–	–
Noxious weeds	1058 (1)	160	242	–	–
Recreation and culture	1058 (2)	819	43	484	10
Sewerage services	1058 (2)	–	–	1,626	456
Traffic route lighting subsidy	1058 (1)	59	58	–	–
Transport (roads to recovery)	1058 (1)	2,252	601	–	–
Transport (other roads and bridges funding)	1058 (2)	75	400	5,156	3,778
Water supplies	1058 (2)	–	–	4,554	5,740
Other	1058 (1)	311	127	90	105
Total specific purpose		4,139	2,893	11,910	10,190
Total grants		11,613	10,275	11,910	10,190
Grant revenue is attributable to:					
– Commonwealth funding		9,726	7,983	–	–
– State funding		1,887	2,292	11,910	10,190
		11,613	10,275	11,910	10,190

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	Notes	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(e) Contributions						
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):						
Cash contributions						
S 7.12 – fixed development consent levies		1058 (1)	–	–	91	52
Total developer contributions	24		<u>–</u>	<u>–</u>	<u>91</u>	<u>52</u>
Other contributions:						
Cash contributions						
TfNSW contributions (regional roads block grant)		1058 (1)	1,235	1,169	–	–
Total other contributions			<u>1,235</u>	<u>1,169</u>	<u>–</u>	<u>–</u>
Total contributions			<u>1,235</u>	<u>1,169</u>	<u>91</u>	<u>52</u>
TOTAL GRANTS AND CONTRIBUTIONS			<u>12,848</u>	<u>11,444</u>	<u>12,001</u>	<u>10,242</u>

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

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

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

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

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

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

Where grant income arises from an agreement which is enforceable, and contains sufficiently specific performance obligations, then the revenue is 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, are recognised at the asset's fair value when the asset is received. Council considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

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

Capital grants

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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 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 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.

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

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

Operating grants

Unexpended at the close of the previous reporting period	778	466
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	–	703
Add: operating grants received for the provision of goods and services in a future period	402	–
Less: operating grants recognised in a previous reporting period now spent (2019 only)	–	(391)
Less: operating grants received in a previous reporting period now spent and recognised as income	(319)	–
Unexpended and held as externally restricted assets (operating grants)	861	778

Capital grants

Unexpended at the close of the previous reporting period	479	212
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	–	322
Add: capital grants received for the provision of goods and services in a future period	40	–
Less: capital grants recognised in a previous reporting period now spent (2019 only)	–	(55)
Less: capital grants received in a previous reporting period now spent and recognised as income	(335)	–
Unexpended and held as externally restricted assets (capital grants)	184	479

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	2020	2019
Contributions		
Unexpended at the close of the previous reporting period	12,551	12,497
Add: contributions recognised as income in the current period but not yet spent	800	982
Less: contributions recognised in a previous reporting period now spent	(3,058)	(928)
Unexpended and held as externally restricted assets (contributions)	<u>10,293</u>	<u>12,551</u>

Note 4. Interest and investment income

\$ '000	2020	2019
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	188	126
– Cash and investments	913	1,395
Total Interest and investment income	<u>1,101</u>	<u>1,521</u>
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	109	70
General Council cash and investments	379	509
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	140	318
Water fund operations	258	335
Sewerage fund operations	191	265
Domestic waste management operations	18	20
Other externally restricted assets	6	4
Total interest and investment revenue	<u>1,101</u>	<u>1,521</u>

Accounting policy for interest and investment revenue

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

\$ '000	2020	2019
(a) Employee benefits and on-costs		
Salaries and wages	12,487	12,125
Employee leave entitlements (ELE)	2,040	2,234
Superannuation	1,534	1,277
Workers' compensation insurance	901	666
Fringe benefit tax (FBT)	142	150
Total employee costs	17,104	16,452
Less: capitalised costs	(957)	(967)
TOTAL EMPLOYEE COSTS EXPENSED	16,147	15,485

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.

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, ie. as an expense when it becomes payable. Refer to Note 19 for more information.

\$ '000	2020	2019
(b) Borrowing costs		
(i) Interest bearing liability costs		
Interest on leases	–	–
Interest on loans	240	244
Other debts	1	–
Total interest bearing liability costs	241	244
Total interest bearing liability costs expensed	241	244
(ii) Other borrowing costs		
Discount adjustments relating to movements in provisions (other than ELE)	105	–
Interest applicable on interest free (and favourable) loans to Council	–	38
Total other borrowing costs	105	38
TOTAL BORROWING COSTS EXPENSED	346	282

Accounting policy for borrowing costs

All borrowing costs are expensed as incurred.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
(c) Materials and contracts		
Raw materials and consumables	4,417	7,329
– Contractor and consultancy costs	7,315	4,622
– Waste collection	1,208	1,154
Auditors remuneration ²	57	54
Legal expenses:		
– Legal expenses: planning and development	22	20
– Legal expenses: debt recovery	1	24
– Legal expenses: other	83	22
Total materials and contracts	13,103	13,225
TOTAL MATERIALS AND CONTRACTS	13,103	13,225

Accounting policy for materials and contracts

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

2. 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

NSW Auditor General: Audit and review of financial statements	57	54
Total Auditor remuneration	57	54

\$ '000	Notes	2020	2019
(d) Depreciation of IPP&E			
Plant and equipment		1,146	979
Office equipment		196	155
Furniture and fittings		75	71
Land improvements (depreciable)		88	89
Infrastructure:	10(a)		
– Buildings		778	781
– Other structures		718	675
– Roads		4,362	3,645
– Bridges		445	442
– Footpaths		134	133
– Stormwater drainage		120	121
– Water supply network		947	966
– Sewerage network		1,127	1,256
– Swimming pools		218	207
– Other open space/recreational assets		93	82
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	14,10(a)	730	–
Total depreciation costs		11,177	9,602
TOTAL DEPRECIATION FOR IPP&E		11,177	9,602

Depreciation

Depreciation is 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 the note for IPPE assets.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
(e) Other expenses		
Advertising	211	280
Agency collection fees	71	103
Bad and doubtful debts	1,574	35
Bank charges	16	24
Catering	26	31
Contributions / levies to other levels of government		
– Emergency services levies (includes FRNSW, SES, and RFS)	443	369
Councillor expenses – mayoral fee	27	26
Councillor expenses – councillors' fees	104	106
Councillors' expenses (incl. mayor) – other (excluding fees above)	24	58
Donations / contributions to other organisations (incl. section 356)		
– community assistance scheme	156	114
– contribution to Central Northern Libraries	222	220
Fees & permits	44	52
Insurance	588	658
Office expenses (including computer expenses)	607	519
Postage	43	48
Printing and stationery	126	143
Property - electricity and heating	813	758
Property - other expenses	107	152
Recoverable expenses	–	4
Street lighting	258	292
Subscriptions and memberships	147	228
Telephone and communications	161	130
Training costs (other than salaries and wages)	129	102
Travel expenses	33	63
Valuation fees – assets	19	7
Valuation fees – rating	54	58
Other	101	51
Total other expenses	6,104	4,631
TOTAL OTHER EXPENSES	6,104	4,631

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as 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

\$ '000	Notes	2020	2019
Property (excl. investment property)			
Proceeds from disposal – property		23	9
Less: carrying amount of property assets sold/written off		(14)	(145)
Net gain/(loss) on disposal		9	(136)
Plant and equipment			
	10(a)		
Proceeds from disposal – plant and equipment		402	552
Less: carrying amount of plant and equipment assets sold/written off		(575)	(851)
Net gain/(loss) on disposal		(173)	(299)
Infrastructure			
	10(a)		
Proceeds from disposal – infrastructure		41	23
Less: carrying amount of infrastructure assets sold/written off		(1,429)	(164)
Net gain/(loss) on disposal		(1,388)	(141)
Investments			
	7(b)		
Proceeds from disposal/redemptions/maturities – investments		39,800	78,000
Less: carrying amount of investments sold/redeemed/matured		(39,800)	(78,000)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(1,552)	(576)

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.

Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
Cash and cash equivalents		
Cash on hand and at bank	1,817	380
Cash-equivalent assets		
– Deposits at call	1,700	1,000
Total cash and cash equivalents	3,517	1,380

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Investments				
b. 'Financial assets at amortised cost'	33,000	–	50,000	–
Total Investments	33,000	–	50,000	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	36,517	–	51,380	–
Financial assets at amortised cost				
Term deposits	33,000	–	50,000	–
Total	33,000	–	50,000	–

Accounting policy for investments

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

On initial recognition, all financial instruments are measured at fair value.

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.

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

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Total cash, cash equivalents and investments	36,517	–	51,380	–
attributable to:				
External restrictions	28,089	–	34,773	–
Internal restrictions	8,373	–	16,559	–
Unrestricted	55	–	48	–
	36,517	–	51,380	–

\$ '000	2020	2019
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	779	–
Specific purpose unexpended loans – general	–	203
RMS advances	568	–
Kamilaroi Highway Group Funds	75	63
Leards Forest Environmental Trust	216	253
External restrictions – included in liabilities	1,638	519

Notes to the Financial Statements

for the year ended 30 June 2020

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

External restrictions – other

Developer contributions – general	9,724	11,939
RMS contributions	–	612
Specific purpose unexpended grants (recognised as revenue) – general fund	266	1,257
Water supplies	8,458	10,471
Sewerage services	7,690	9,596
Domestic waste management	313	379

External restrictions – other

	<u>26,451</u>	<u>34,254</u>
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Total external restrictions

	<u>28,089</u>	<u>34,773</u>
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Internal restrictions

Plant and vehicle replacement	873	1,879
Employees leave entitlement	863	1,160
Carry over works	10	230
Deposits, retentions and bonds	275	341
Airport Reserve	519	454
Buildings Infrastructure	726	1,321
Crown Reserves Management	68	68
Election Costs	145	127
FAG Payments Received in Advance	3,846	3,758
Friends of the Crossing Theatre	59	63
Housing (Doctors) Reserve	152	152
Narrabri CBD Masterplan	92	136
Office Equipment	–	26
Parks & Gardens (Bulk Water Sale Reserve)	234	234
Parks & Gardens (Tree Replacement Reserve)	–	7
Quarries Restoration and Improvements	341	301
Risk Management	142	181
RMS Single Invitation Contract (warranty)	100	100
Roads Infrastructure Reserve	–	498
Roads Infrastructure (Stormwater) Reserve	425	572
Roads: Narrabri West (Old Turrawan Rd) Masterplan	150	150
Service Reviews Reserve	–	200
Smart Community Strategies	100	250
Statutory Land Planning Reserve	209	245
Strategic Project Master Planning	150	450
Swimming Pools	835	952
Tonnage Payments – Gravel (upgrade)	113	–
Tonnage Payments – Mining	223	2,083
Waste Management	523	621
Less: Land Acquisition for N2IP (borrowed from internal restrictions) - refer Note 9 ¹	(2,800)	–

Total internal restrictions

	<u>8,373</u>	<u>16,559</u>
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TOTAL RESTRICTIONS

	<u>36,462</u>	<u>51,332</u>
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(1) Rather than borrow externally, Council has borrowed from IPPE internal restrictions to fund land purchases for its N2IP project. The loan is over 4 years at 2%. This option provides the flexibility to repay the internal loan off sooner as land is sold.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Purpose				
Rates and annual charges	2,866	–	1,931	–
Interest and extra charges	401	–	287	–
User charges and fees	3,257	–	923	–
Accrued revenues				
– Interest on investments	198	–	555	–
– Other income accruals	1,762	–	2,726	–
Government grants and subsidies	5	–	4,551	–
Net GST receivable	2,871	–	1,373	–
Other debtors	242	–	219	–
Total	11,602	–	12,565	–
Less: provision of impairment				
Rates and annual charges	(21)	–	(21)	–
Interest and extra charges	(16)	–	(16)	–
User charges and fees	(33)	–	(33)	–
Net GST receivable	(1,540)	–	–	–
Other debtors	(34)	–	–	–
Total provision for impairment – receivables	(1,644)	–	(70)	–
TOTAL NET RECEIVABLES	9,958	–	12,495	–
Externally restricted receivables				
Water supply				
– Specific purpose grants	–	–	2,313	–
– Rates and availability charges	352	–	637	–
– Other	1,104	–	665	–
Sewerage services				
– Specific purpose grants	–	–	77	–
– Rates and availability charges	430	–	339	–
– Other	250	–	214	–
Total external restrictions	2,136	–	4,245	–
Unrestricted receivables	7,822	–	8,250	–
TOTAL NET RECEIVABLES	9,958	–	12,495	–

\$ '000	2020	2019
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	1,644	70
Balance at the end of the year	1,644	70

Accounting policy for receivables**Recognition and measurement**

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

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

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

Impairment

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, 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, including forward-looking information.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold, ie. rates and annual charges are secured against the property.

For non-rates debtors, Council uses the presumption that an asset which is more than 90 days past due has seen a significant increase in credit risk.

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

- the other party is unlikely to pay its credit obligations in full, without recourse by 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, 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 one.

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

Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and / or there is no realistic prospect of recovery, eg. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Receivables that have been written off are not subject to enforcement activity.

Where 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 properties.

Note 9. Inventories and other assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	4,485	–	1,675	–
Stores and materials	471	–	396	–
Trading stock	882	–	921	–
TOTAL INVENTORIES	5,838	–	2,992	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets (continued)

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(b) Other assets				
Prepayments	358	–	362	–
TOTAL OTHER ASSETS	358	–	362	–

(i) Other disclosures

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Details for real estate development				
Residential (Shannon Estate)	1,675	–	1,675	–
Industrial / commercial (N2IP Land)	2,810	–	–	–
Total real estate for resale	4,485	–	1,675	–

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

Represented by:

Acquisition costs	4,485	–	1,675	–
Total costs	4,485	–	1,675	–
Total real estate for resale	4,485	–	1,675	–

Movements:

Real estate assets at beginning of the year	1,675	–	1,675	–
– Purchases and other costs	2,810	–	–	–
Total real estate for resale	4,485	–	1,675	–

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

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

\$ '000	2020	2019
Real estate for resale	4,485	1,675
	4,485	1,675

Accounting policy for inventories and other assets**Raw materials and stores, work in progress and finished goods**

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

Land held for resale/capitalisation of borrowing costs

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

	as at 30/06/19			Asset movements during the reporting period								as at 30/06/20		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000														
Capital work in progress	26,206	–	26,206	24,322	3,839	–	–	(4,405)	(2,810)	–	–	47,152	–	47,152
Plant and equipment	16,674	(6,819)	9,855	1,952	–	(562)	(1,146)	2	–	–	–	17,552	(7,451)	10,101
Office equipment	1,816	(1,313)	503	58	263	(13)	(196)	324	–	–	–	2,297	(1,358)	939
Furniture and fittings	1,517	(1,022)	495	–	–	–	(75)	86	–	–	–	1,603	(1,097)	506
Land:														
– Crown land	4,387	–	4,387	–	–	–	–	–	–	–	–	4,387	–	4,387
– Operational land	8,443	–	8,443	–	215	(14)	–	–	–	–	–	8,644	–	8,644
– Community land	1,211	–	1,211	–	–	–	–	–	–	–	–	1,211	–	1,211
Land improvements – depreciable	5,475	(1,974)	3,501	2	–	–	(88)	–	–	–	–	5,477	(2,062)	3,415
Infrastructure:														
– Buildings	41,332	(15,908)	25,424	140	–	(32)	(778)	78	–	–	–	41,404	(16,572)	24,832
– Other structures	24,399	(4,694)	19,705	365	927	(65)	(718)	781	–	–	–	26,382	(5,387)	20,995
– Roads	209,140	(21,955)	187,185	1,421	–	(866)	(4,362)	958	–	–	–	210,123	(25,787)	184,336
– Bridges	37,958	(11,454)	26,504	–	–	(461)	(445)	1,723	–	(1,103)	–	38,100	(11,882)	26,218
– Footpaths	7,859	(2,932)	4,927	–	–	–	(134)	–	–	–	–	7,859	(3,066)	4,793
– Bulk earthworks (non-depreciable)	91,785	–	91,785	–	–	–	–	–	–	–	–	91,785	–	91,785
– Stormwater drainage	9,678	(4,836)	4,842	–	–	–	(120)	–	–	–	–	9,678	(4,956)	4,722
– Water supply network	66,003	(38,248)	27,755	16	–	–	(947)	272	–	–	255	66,918	(39,567)	27,351
– Sewerage network	99,705	(67,150)	32,555	587	–	–	(1,127)	19	–	–	298	101,258	(68,926)	32,332
– Swimming pools	10,732	(3,384)	7,348	85	30	–	(218)	89	–	–	–	10,936	(3,602)	7,334
– Other open space/recreational assets	2,550	(1,213)	1,337	108	75	(5)	(93)	73	–	–	–	2,790	(1,295)	1,495
Reinstatement, rehabilitation and restoration assets (refer Note 11):														
– Tip assets	8,665	–	8,665	–	–	–	(730)	–	(5,373)	–	–	3,292	(730)	2,562
Total Infrastructure, property, plant and equipment	675,535	(182,902)	492,633	29,056	5,349	(2,018)	(11,177)	–	(8,183)	(1,103)	553	698,848	(193,738)	505,110

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	as at 30/06/18			Asset movements during the reporting period						as at 30/06/19		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ⁽¹⁾	Carrying value of disposals	Depreciation expense	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	8,394	–	8,394	17,812	–	–	–	–	–	26,206	–	26,206
Plant and equipment	16,042	(6,618)	9,424	2,261	(851)	(979)	–	–	–	16,674	(6,819)	9,855
Office equipment	1,816	(1,158)	658	–	–	(155)	–	–	–	1,816	(1,313)	503
Furniture and fittings	1,517	(951)	566	–	–	(71)	–	–	–	1,517	(1,022)	495
Land:												
– Operational land	9,991	–	9,991	–	(145)	–	145	(1,548)	–	8,443	–	8,443
– Community land	3,068	–	3,068	–	–	–	–	(1,857)	–	1,211	–	1,211
Land improvements – depreciable	5,475	(1,885)	3,590	–	–	(89)	–	–	–	5,475	(1,974)	3,501
– Crown land	–	–	–	–	–	–	–	–	4,387	4,387	–	4,387
Infrastructure:												
– Buildings	41,331	(15,132)	26,199	–	(164)	(781)	170	–	–	41,332	(15,908)	25,424
– Other structures	24,399	(4,019)	20,380	–	–	(675)	–	–	–	24,399	(4,694)	19,705
– Roads	247,294	(95,448)	151,846	–	–	(3,645)	–	–	38,984	209,140	(21,955)	187,185
– Bridges	31,218	(8,120)	23,098	–	–	(442)	–	–	3,848	37,958	(11,454)	26,504
– Footpaths	5,499	(1,920)	3,579	–	–	(133)	–	–	1,481	7,859	(2,932)	4,927
– Bulk earthworks (non-depreciable)	91,740	–	91,740	–	–	–	–	–	45	91,785	–	91,785
– Stormwater drainage	9,677	(4,714)	4,963	–	–	(121)	–	–	–	9,678	(4,836)	4,842
– Water supply network	64,964	(36,680)	28,284	–	–	(966)	–	–	437	66,003	(38,248)	27,755
– Sewerage network	98,135	(64,837)	33,298	–	–	(1,256)	–	–	513	99,705	(67,150)	32,555
– Swimming pools	10,732	(3,177)	7,555	–	–	(207)	–	–	–	10,732	(3,384)	7,348
– Other open space/recreational assets	2,550	(1,131)	1,419	–	–	(82)	–	–	–	2,550	(1,213)	1,337
Reinstatement, rehabilitation and restoration assets (refer Note 17):												
– Tip assets	–	–	–	–	–	–	8,665	–	–	8,665	–	8,665
Total Infrastructure, property, plant and equipment	673,842	(245,790)	428,052	20,073	(1,160)	(9,602)	8,980	(3,405)	49,695	675,535	(182,902)	492,633

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

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

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

Plant and Equipment	Years	Buildings	Years
Office equipment	2 to 10	Buildings: masonry	50 to 150
Office furniture	5 to 30	Buildings: other	10 to 60
Computer equipment	2 to 5		
Vehicles	3 to 5	Water and Sewer Assets	
Heavy plant / road making equipment	10 to 15	Reservoirs	80 to 100
Other plant and equipment	5 to 15	Bores	60
		Reticulation pipes: PVC	80
Other Equipment		Reticulation pipes: other	50 to 100
Playground equipment	10 to 20	Pumps and telemetry	15 to 30
Benches, seats, etc.	10 to 30	Water meters	10 to 15
Transportation Assets		Stormwater Assets	
Sealed roads: surface	20	Drains	80
Sealed roads: structure	90	Culverts	80
Unsealed roads	30	Flood control structures	80
Bridges: concrete	100		
Bridges: other	100	Other Infrastructure Assets	
Footpaths: bitumen	20	Swimming pools	20 to 60
Footpaths: concrete	90	Other open space / recreational assets	10 to 40
Kerb & gutter	50 to 140	Other infrastructure	10 to 50
Bulk earthworks	Infinite		

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

Land under roads

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

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

Council has not acquired any land for roadways after 1 July 2008, when asset recognition is required in accordance with AASB 116 Property, Plant and Equipment.

Notes to the Financial Statements

for the year ended 30 June 2020

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

Crown reserves

Crown reserves under Council's care and control are recognised as assets of 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

Council does not believe it has 'control' over Rural Fire Services assets. Until such time as discussions on this matter have concluded and the legislation changed, Council will not recognise these assets in its financial statements.

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

\$ '000	as at 30/06/20			as at 30/06/19		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	18,232	–	18,232	11,010	–	11,010
Plant and equipment	244	221	23	244	221	23
Office equipment	5	5	–	5	5	–
Land						
– Operational land	260	–	260	260	–	260
Buildings	178	101	77	178	97	81
Other structures	92	25	67	92	25	67
Infrastructure	66,918	39,567	27,351	66,003	38,248	27,755
Total water supply	85,929	39,919	46,010	77,792	38,596	39,196
Sewerage services						
WIP	5,240	–	5,240	2,141	–	2,141
Plant and equipment	114	106	8	114	106	8
Furniture and fittings	3	3	–	3	3	–
Land						
– Operational land	1,688	–	1,688	1,688	–	1,688
Buildings	419	264	155	419	255	164
Other structures	158	68	90	158	68	90
Infrastructure	101,258	68,926	32,332	99,705	67,150	32,555
Total sewerage services	108,880	69,367	39,513	104,228	67,582	36,646
TOTAL RESTRICTED IPP&E	194,809	109,286	85,523	182,020	106,178	75,842

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. Contract assets and liabilities

\$ '000		2020 Current	2020 Non-current
(a) Contract assets			
Government grants		5,028	–
Total Contract assets		5,028	–

\$ '000	Notes	2020 Current	2020 Non-current
(b) Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	184	–
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	877	–
Unexpended operating contributions (received prior to performance obligation being satisfied)	(ii)	568	–
Total grants received in advance		1,629	–
Total contract liabilities		1,629	–

Notes

(i) Council has received funding to construct infrastructure assets. 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 being satisfied since the performance obligations are ongoing.

\$ '000		2020 Current	2020 Non-current
(i) Contract liabilities relating to restricted assets			
Externally restricted assets			
Unspent grants held as contract liabilities (excl. Water & Sewer)		779	–
Contract liabilities relating to externally restricted assets		779	–
Total contract liabilities relating to restricted assets		779	–
Total contract liabilities relating to unrestricted assets		850	–
Total contract liabilities		1,629	–

Significant changes in contract assets and liabilities

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 contract liabilities is primarily due to grants in the scope of AASB 15 and capital grants received by Council to acquire or construct assets under its control. Previously, revenue was recognised on receipt of the funds.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. Contract assets and liabilities (continued)

Accounting policy for contract assets and liabilities

Where amounts billed to customers are based on the achievement of various milestones established in a 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.

Note 12. Leases

(ii) Council as a lessor

Operating leases

Amounts recognised in the Income Statement relating to operating leases where Council is a lessor, or sub-lessor, are shown below:

\$ '000	2020
(i) Operating lease income	
Staff housing	108
Other	19
Total income relating to operating leases	127

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.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Payables				
Goods and services – operating expenditure	228	–	74	–
Accrued expenses:				
– Borrowings	3	–	4	–
– Salaries and wages	381	–	222	–
– Employee expense oncosts	254	8	244	5
– Other expenditure accruals	3,009	–	1,926	–
Government departments and agencies	70	–	242	–
Prepaid rates	690	–	–	–
Security bonds, deposits and retentions	84	191	149	191
Friends of The Crossing Theatre funds	59	–	63	–
Kamilaroi Highway Group funds	75	–	63	–
Leards Forest Environmental trust	216	–	253	–
Other	80	–	57	–
Total payables	5,149	199	3,297	196
Income received in advance (2019 only)				
Payments received in advance	–	–	549	–
Total income received in advance	–	–	549	–
Borrowings				
Loans – secured ¹	554	4,596	763	5,150
Total borrowings	554	4,596	763	5,150
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>5,703</u>	<u>4,795</u>	<u>4,609</u>	<u>5,346</u>

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

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

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	415	–	–	–
Sewer	1,232	–	–	–
Other	568	–	–	–
Total payables and borrowings relating to restricted assets	2,215	–	–	–
Total payables and borrowings relating to unrestricted assets	3,488	4,795	4,609	5,346
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>5,703</u>	<u>4,795</u>	<u>4,609</u>	<u>5,346</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Payables and borrowings (continued)

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

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

Payables – security bonds, deposits and retentions	42	6
Other liabilities	280	316
Total payables and borrowings	322	322

(c) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	5,913	(763)	–	–	–	–	5,150
TOTAL	5,913	(763)	–	–	–	–	5,150

\$ '000	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement	Closing balance
Loans – secured	6,749	(836)	–	–	–	5,913
TOTAL	6,749	(836)	–	–	–	5,913

\$ '000	2020	2019
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(d) Financing arrangements**(i) Unrestricted access was available at balance date to the following lines of credit:**

Credit cards/purchase cards	300	300
Total financing arrangements	300	300

Drawn facilities as at balance date:

– Credit cards/purchase cards	6	25
Total drawn financing arrangements	6	25

Undrawn facilities as at balance date:

– Credit cards/purchase cards	294	275
Total undrawn financing arrangements	294	275

Additional financing arrangements information**Breaches and defaults**

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

Security over loans

Loans are secured over future cash flows.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Payables and borrowings (continued)

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 Council comprise trade payables and borrowings.

Payables

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

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the 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.

Note 14. Provisions

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Provisions				
Employee benefits				
Annual leave	1,145	–	1,061	–
Sick leave	267	–	326	–
Long service leave	2,232	112	2,571	80
Other leave (TIL, RDO)	167	–	144	–
Sub-total – aggregate employee benefits	3,811	112	4,102	80
Asset remediation/restoration:				
Asset remediation/restoration (future works)	233	3,164	–	8,665
Sub-total – asset remediation/restoration	233	3,164	–	8,665
TOTAL PROVISIONS	4,044	3,276	4,102	8,745

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

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

Provisions – employees benefits	1,918	2,150
	1,918	2,150

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Provisions (continued)

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

\$ '000	Asset remediation	Total
2020		
At beginning of year	8,665	8,665
Revised costs	(5,268)	(5,268)
Total provisions at end of year	3,397	3,397
2019		
At beginning of year	–	–
Revised costs	8,665	8,665
Total provisions at end of year	8,665	8,665

Nature and purpose of non-employee benefit provisions**Asset remediation**

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

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

Employee benefits**Short-term obligations**

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

Other long-term employee benefit obligations

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

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Provisions (continued)

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

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

Restoration

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

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

Rehabilitation

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Revaluation reserves and changes in accounting policies

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

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

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

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

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

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

Statement of Financial Position

(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.

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. Council 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, 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Revaluation reserves and changes in accounting policies (continued)

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, Council has also amended the presentation of certain items to align them with the requirements of AASB 15 and AASB 1058.

\$ '000	Balance at 1 July 2019
Opening contract balances at 1 July 2019	
Contract liabilities	
– Under AASB 1058	1,561
Total Contract liabilities	<u>1,561</u>

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

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

Statement of Financial Position

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur-e ment	Carrying amount under previous revenue standards	Notes
Current assets					
Cash and cash equivalents	3,517	–	–	3,517	
Investments	33,000	–	–	33,000	
Receivables	9,958	5,028	–	14,986	
Inventories	5,838	–	–	5,838	
Contract assets	5,028	(5,028)	–	–	
Other	358	–	–	358	
Total current assets	<u>57,699</u>	<u>–</u>	<u>–</u>	<u>57,699</u>	

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Revaluation reserves and changes in accounting policies (continued)

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur-e ment	Carrying amount under previous revenue standards	Notes
Current liabilities					
Payables	5,149	(690)	–	4,459	
Income received in advance	–	690	–	690	
Contract liabilities	1,629	–	(1,629)	–	
Borrowings	554	–	–	554	
Provisions	4,044	–	–	4,044	
Total current liabilities	11,376	–	(1,629)	9,747	
Non-current assets					
Infrastructure, property, plant and equipment	505,110	–	–	505,110	
Investments accounted for using equity method	256	–	–	256	
Total non-current assets	505,366	–	–	505,366	
Non-current liabilities					
Payables	199	–	–	199	
Borrowings	4,596	–	–	4,596	
Provisions	3,276	–	–	3,276	
Total Non-current liabilities	8,071	–	–	8,071	
Net assets	543,618	–	1,629	545,247	
Equity					
Accumulated surplus	243,336	–	1,629	244,965	
Revaluation reserves	300,282	–	–	300,282	
Council equity interest	543,618	–	1,629	545,247	
Total equity	543,618	–	1,629	545,247	

Prior to the adoption of AASBs 15 and 1058, all revenues were recognised when it could be reliably measured, it was probable that future economic benefits would flow and when Council obtained control over the assets comprising the receipt. Under the new standards, income is not recognised until performance obligations have been satisfied under the terms of an enforceable contract.

Income Statement

\$ '000	Income Statement and comprehen- sive income under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Income Statement and comprehen- sive income under previous revenue standards	Notes
Income from continuing operations					
Rates and annual charges	20,897	–	–	20,897	
User charges and fees	8,060	–	–	8,060	
Other revenues	1,808	–	–	1,808	

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Revaluation reserves and changes in accounting policies (continued)

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
Grants and contributions provided for operating purposes	12,848	–	877	13,725	
Grants and contributions provided for capital purposes	12,001	–	752	12,753	
Interest and investment income	1,101	–	–	1,101	
Rental income	127	–	–	127	
Net share of interests in joint ventures and associates using the equity method	9	–	–	9	
Total Income from continuing operations	56,851	–	1,629	58,480	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	16,147	–	–	16,147	
Borrowing costs	346	–	–	346	
Materials and contracts	13,103	–	–	13,103	
Depreciation and amortisation	11,177	–	–	11,177	
Other expenses	6,104	–	–	6,104	
Net losses from the disposal of assets	1,552	–	–	1,552	
Total Expenses from continuing operations	48,429	–	–	48,429	
Total Operating result from continuing operations	8,422	–	1,629	10,051	
Net operating result for the year	8,422	–	1,629	10,051	
Total comprehensive income	7,872	–	1,629	9,501	

This reflects the effect of the new standards at 30 June 2020 following initial recognition (1 July 2019) and transactional activity during the 2019/20 financial year.

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

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract liabilities	–	1,561	1,561
Total liabilities	22,802	1,561	24,363
Accumulated surplus	236,475	(1,561)	234,914
Total equity	537,307	(1,561)	535,746

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Statement of cash flow information

\$ '000	Notes	2020	2019
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	3,517	1,380
Balance as per the Statement of Cash Flows		3,517	1,380
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		8,422	10,145
Adjust for non-cash items:			
Depreciation and amortisation		11,177	9,602
Net losses/(gains) on disposal of assets		1,552	576
Adoption of AASB 15/1058		(1,561)	–
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		–	38
Share of net (profits)/losses of associates/joint ventures using the equity method		(9)	(20)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		963	(5,380)
Increase/(decrease) in provision for impairment of receivables		1,574	–
Decrease/(increase) in inventories		(36)	75
Decrease/(increase) in other current assets		4	325
Decrease/(increase) in contract assets		(5,028)	–
Increase/(decrease) in payables		154	74
Increase/(decrease) in accrued interest payable		(1)	(2)
Increase/(decrease) in other accrued expenses payable		1,242	(787)
Increase/(decrease) in other liabilities		(89)	244
Increase/(decrease) in contract liabilities		1,629	–
Increase/(decrease) in provision for employee benefits		(259)	314
Increase/(decrease) in other provisions		(5,268)	–
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		14,466	15,204

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Interests in other entities

Associates

The following information is provided for associates that are individually material to the Council. Included are the amounts as per the individual associates' financial statements, adjusted for fair-value adjustments at acquisition date and differences in accounting policies, rather than the Council's share.

(a) Net carrying amounts – Council's share

\$ '000	Nature of relationship	Measurement method	2020	2019
Central Northern Regional Libraries	Associate		256	247
Total carrying amounts – material associates			256	247

(b) Details

Principal activity	Place of business
Central Northern Regional Libraries	Public Library Services
	Tamworth

(c) Relevant interests and fair values

\$ '000	Interest in outputs		Interest in ownership		Proportion of voting power	
	2020	2019	2020	2019	2020	2019
Central Northern Regional Libraries	14%	14%	14%	14%	14%	14%

(d) Summarised financial information for associates

\$ '000	CNRL	
	2020	2019
Statement of financial position		
Current assets		
Cash and cash equivalents	614	508
Non-current assets		
	1,179	1,221
Net assets	1,793	1,729
Reconciliation of the carrying amount		
Opening net assets (1 July)	1,729	1,586
Profit/(loss) for the period	64	143
Closing net assets	1,793	1,729
Council's share of net assets (%)	14%	14%
Council's share of net assets (\$)	256	247
Statement of comprehensive income		
Income	1,617	1,620
Interest income	9	13
Depreciation and amortisation	(390)	(273)
Other expenses	(1,172)	(1,217)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Interests in other entities (continued)

\$ '000	CNRL	
	2020	2019
Profit/(loss) from continuing operations	64	143
Total comprehensive income	64	143
Share of income – Council (%)	14%	14%
Profit/(loss) – Council (\$)	9	20
Total comprehensive income – Council (\$)	9	20

Accounting policy for associates

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

If Council's share of losses of an associate equals or exceeds its interest in the associate, Council discontinues recognising its share of further losses. Council's share in the associates gains or losses arising from transactions between itself and its associate are eliminated.

Adjustments are made to the associates accounting policies where they are different from those of Council, for the purposes of the consolidated financial statements.

Note 18. Commitments

\$ '000	2020	2019
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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

Plant and equipment	1,210	681
Other structures	–	841
Roads	–	960
Footpaths	–	143
Water supply network	444	4,552
Sewerage network	10,648	–
Total commitments	12,302	7,177

These expenditures are payable as follows:

Within the next year	12,302	7,177
Total payable	12,302	7,177

Sources for funding of capital commitments:

Future grants and contributions	11,092	5,248
Unexpended grants	–	288
Internally restricted reserves	1,210	1,641
Total sources of funding	12,302	7,177

Details of capital commitments

Council has contractual commitments for the following projects: Narrabri Water Augmentation, Wee Waa and Boggabri Sewerage Treatment Plant upgrades and some major plant (fleet) replacements. All projects are expected to be completed in the 2020/21 financial year.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Contingencies

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

LIABILITIES NOT RECOGNISED**1. Guarantees****(i) Defined benefit superannuation contribution plans**

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

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

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

Funding arrangements:

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

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

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

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

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

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

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

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

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Contingencies (continued)

of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of Council.

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2020 was \$60,542.90. The last valuation of the Scheme was performed by Mr Richard Boyfield (FIAA) as at 30 June 2019.

The amount of additional contributions included in the total employer contribution advised above is \$60,542.90. Council's expected contribution to the plan for the next annual reporting period is \$81,097.08.

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

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

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

Based on a Past Service Liabilities methodology, the share of this deficit that is broadly attributed to Council is 0.16%.

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

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

Investment return	5.75% per annum
Salary inflation *	3.50% per annum
Increase in CPI	2.50% per annum

* Plus promotional increases

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Contingencies (continued)

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

(iv) Other guarantees

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

2. Other liabilities**(i) Third party claims**

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

Council believes that it is appropriately covered for such claims through its insurance coverage.

Other Matters:

Council has had legal proceedings, brought against it by the Environmental Protection Authority (EPA), determined in the Local Court on 27 July 2020.

Council was convicted of two offences that resulted in a total fine of \$35,000. Council was also ordered to pay the EPA's costs of \$37,340.

ASSETS NOT RECOGNISED**(i) Land under roads**

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30 June 2008.

Note 20. Financial risk management

Risk management

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

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

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

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

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

\$ '000	Carrying value 2020	Carrying value 2019	Fair value 2020	Fair value 2019
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	3,517	1,380	3,517	1,380
Receivables	9,958	12,495	9,958	12,495
Investments				
– 'Financial assets at amortised cost'	33,000	50,000	33,000	50,000
Total financial assets	46,475	63,875	46,475	63,875

continued on next page ...

Page 52

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Financial risk management (continued)

\$ '000	Carrying value 2020	Carrying value 2019	Fair value 2020	Fair value 2019
Financial liabilities				
Payables	5,348	3,493	5,348	3,493
Loans/advances	5,150	5,913	5,150	5,913
Total financial liabilities	10,498	9,406	10,498	9,406

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.

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

Council's finance area manages the cash and Investments portfolio.

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

The risks associated with the instruments held are:

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

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

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2020				
Possible impact of a 1% movement in interest rates	365	365	(365)	(365)
2019				
Possible impact of a 1% movement in interest rates	510	510	(510)	(510)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Financial risk management (continued)

(b) Credit risk

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

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

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

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

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

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

Credit risk profile**Receivables – rates and annual charges**

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

\$ '000	Not yet overdue	Overdue	Total
2020			
Overdue	–	2,866	2,866
2019			
Overdue	–	1,931	1,931

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2020						
Gross carrying amount	6,469	255	304	37	1,671	8,736
ECL provision	–	–	18	2	1,587	1,607
2019						
Gross carrying amount	3,055	6,193	85	873	428	10,634
ECL provision	–	–	1	17	15	33

(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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Financial risk management (continued)

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.

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in:		Total cash outflows	Actual carrying values
				1 - 5 Years	> 5 Years		
2020							
Trade/other payables	0.00%	275	4,383	–	–	4,658	4,658
Loans and advances	3.08%	–	554	2,239	2,357	5,150	5,150
2019							
Trade/other payables	0.00%	340	3,153	–	–	3,493	3,493
Loans and advances	3.99%	–	5,468	817	–	6,285	5,913

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Material budget variations

Council's original financial budget for 2019/20 was adopted on 25/06/2019 and is unaudited.

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

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
REVENUES				
Rates and annual charges	21,215	20,897	(318)	(1)% U
User charges and fees	10,948	8,060	(2,888)	(26)% U
Council received \$1,361k less than budgeted for in TfNSW charges (for work on state roads not controlled by Council). This is a very difficult item to budget for as it relies on the works program of Transport for NSW. Gravel sales (\$475k) and waste disposal tip fees (\$381k) were also significantly lower than expected.				
Other revenues	2,231	1,808	(423)	(19)% U
Council was down \$294k in sales revenue from The Crossing Theatre as a result of Covid-19. Other immaterial losses from both user charges and other incomes streams resulted from pandemic restrictions.				
Operating grants and contributions	10,976	12,848	1,872	17% F
Council received an additional \$1,072k in Roads to Recovery funding and \$780k from various drought relief and economic stimulus grant packages.				
Capital grants and contributions	14,829	12,001	(2,828)	(19)% U
Augmentation works for Boggabri & Wee Waa sewerage treatment plants didn't get as far as expected resulting in \$3,725k less grant monies claimed. Council also received stimulus grants specifically for capital improvements that were not budgeted for.				
Interest and investment revenue	1,498	1,101	(397)	(27)% U
Income from investments was significantly effected by a falling monetary market.				
Rental income	–	127	127	∞ F
This new line item has resulted from adoption of the new accounting standards and was not separately budgeted for.				
Joint ventures and associates – net profits	–	9	9	∞ F
EXPENSES				
Employee benefits and on-costs	16,367	16,147	220	1% F
Borrowing costs	252	346	(94)	(37)% U
Unwinding NPV discount for future tips rehabilitation works of \$105k was not budgeted for.				
Materials and contracts	13,976	13,103	873	6% F
Depreciation and amortisation	10,045	11,177	(1,132)	(11)% U

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Material budget variations (continued)

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
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Depreciation of \$730k for Tip assets was not budgeted for. The asset was established after the original budget was adopted.

Other expenses	5,429	6,104	(675)	(12)%	U
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Council has had better than expected cost results in the following: Advertising, Agency Collection Fees, Bank Charges, Insurances, Electricity, Printing & Stationery. Upon assessment of provision for doubtful debts, Council included \$1,540k as provision for GST receivables. There is an internal GST reporting issue that Council hopes to resolve quickly. Council did not undertake an external asset revaluation during the year which led to savings in Valuation costs.

Net losses from disposal of assets	–	1,552	(1,552)	∞	U
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Council did not budget for profit or loss on disposal of plant and infrastructure assets as they are generally expected to be immaterial.

STATEMENT OF CASH FLOWS

Cash flows from operating activities	25,690	14,466	(11,224)	(44)%	U
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This variation flows through from the variations noted in the Income Statement already detailed.

Cash flows from investing activities	(25,761)	(11,566)	14,195	(55)%	F
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Council's net sale of investment securities was under estimated.

Cash flows from financing activities	(763)	(763)	–	0%	F
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Note 22. Fair Value Measurement

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

– Infrastructure, property, plant and equipment

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

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

2020		Fair value measurement hierarchy			Total
\$ '000	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements (IPP&E)					
Plant & Equipment	30/06/17	–	–	10,101	10,101
Office Equipment	30/06/17	–	–	939	939
Furniture & Fittings	30/06/17	–	–	506	506
Crown Land	30/06/19	–	–	4,387	4,387
Operational Land	30/06/18	–	–	8,644	8,644
Community Land	30/06/16	–	–	1,211	1,211
Land Improvements	30/06/16	–	–	3,415	3,415
Buildings	30/06/18	–	–	24,832	24,832
Other Structures	30/06/16	–	–	20,995	20,995
Roads	30/06/19	–	–	184,336	184,336
Bridges	30/06/19	–	–	26,218	26,218
Footpaths	30/06/19	–	–	4,793	4,793
Bulk Earthworks	30/06/19	–	–	91,785	91,785
Stormwater Drainage	30/06/14	–	–	4,722	4,722
Water Supply Network	30/06/17	–	–	27,351	27,351
Sewerage Network	30/06/17	–	–	32,332	32,332
Swimming Pools	30/06/16	–	–	7,334	7,334
Other Open Space / Recreational Assets	30/06/16	–	–	1,495	1,495
Reinstatement, rehabilitation & restoration of tip assets	01/07/19	–	–	2,562	2,562
Total infrastructure, property, plant & equipment		–	–	457,958	457,958
2019					
		Fair value measurement hierarchy			Total
\$ '000	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements (IPP&E)					
Plant & Equipment	30/06/17	–	–	9,855	9,855
Office Equipment	30/06/17	–	–	503	503
Furniture & Fittings	30/06/17	–	–	495	495
Crown Land	30/06/19	–	–	4,387	4,387
Operational Land	30/06/18	–	–	8,443	8,443
Community Land	30/06/16	–	–	1,211	1,211
Land Improvements	30/06/16	–	–	3,501	3,501
Buildings	30/06/18	–	–	25,424	25,424
Other Structures	30/06/16	–	–	19,705	19,705
Roads	30/06/19	–	–	187,185	187,185
Bridges	30/06/19	–	–	26,504	26,504
Footpaths	30/06/19	–	–	4,927	4,927
Bulk Earthworks	30/06/19	–	–	91,785	91,785
Stormwater Drainage	30/06/14	–	–	4,842	4,842
Water Supply Network	30/06/17	–	–	27,755	27,755
Sewerage Network	30/06/17	–	–	32,555	32,555
Swimming Pools	30/06/16	–	–	7,348	7,348
Other Open Space / Recreational Assets	30/06/16	–	–	1,337	1,337
Reinstatement, rehabilitation & restoration of tip assets	30/06/19	–	–	8,665	8,665
Total infrastructure, property, plant & equipment		–	–	466,427	466,427

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

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

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

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

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

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

Plant & Equipment, Office Equipment and Furniture & Fittings

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

- Plant and Equipment - Graders, trucks, rollers, tractors and motor vehicles.
- Office Equipment - Computers, photocopiers, calculators etc.
- Furniture & Fittings - Chairs, desks and display boards.

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

Crown, Operational & Community Land

Crown, Operational & Community Land are based on either the Land Value provided by the Valuer General or an average unit rate based on the Land Value for similar properties where the Valuer General did not provide a Land Value having regard to the highest and best use for the land. Operational Land is based on the Valuer General's land value as these are representative of the actual market values in the Narrabri Shire LGA. As these rates were not considered to be observable market evidence they have been classified a level 3.

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

Land Improvements

Land Improvements include the Wee Waa Levee, sporting ovals, cemeteries, etc. The cost approach has been utilised whereby replacement cost was estimated for each asset by taking into account a range of factors. No market based evidence (level 2) could be supported, therefore these assets were all classified as having been valued using level 3 valuation inputs.

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

Buildings

Buildings are valued using the Rawlinson's Construction Guide in June 2013 using the cost approach. The approach estimated the replacement cost for each building by componentising the building into significant parts. While all buildings were physically inspected and the unit rates based on square metres from Rawlinson's Construction Guide, no market based evidence (level 2) could not be established. As such these assets were classified as having been valued as Level 3 valuation inputs.

While the costs were current and the impact of depreciation negligible, the building has been classified as level 3 as they are immaterial in relation to the overall value of the asset type.

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

Other Structures

Other Structures comprise of Aerodrome runway, lighting, irrigation systems, fencing etc. The cost approach has been utilised whereby replacement cost was estimated for each asset by taking into account a range of factors. No market based evidence (level 2) could be supported, therefore these assets were all classified as having been valued using level 3 valuation inputs.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

Roads, Bridges, Footpaths and Bulk Earthworks

Roads comprise road carriageway, roadside shoulders, kerb & gutter.

All roads, bridges, footpaths and bulk earthwork assets were valued using level 3 valuation inputs using the cost approach. This approach estimates the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors.

While unit rates are based on quantitative dimensional units such as square metres or lineal metres and can be supported from market evidence (level 2), other inputs such as estimates of useful lives, remaining life profiles and asset conditions require extensive professional judgement which impacts significantly on the final determination of the assets fair value.

As a result, the valuation is classified as having been valued using level 3 valuation inputs.

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

Stormwater Drainage

Assets within this class comprise pits and pipes.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar could be supported from market evidence, other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets.

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

Water Supply Network

Assets within this class comprise reservoirs, pumping stations and water pipelines.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence, other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. These assets are indexed each year in line with the NSW Reference Rates Manual as publish by the Office of Water.

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

Sewerage Network

Assets within this class comprise treatment works, pumping stations and sewerage mains.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence, other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. These assets are indexed each year in line with the NSW Reference Rates Manual as publish by the Office of Water.

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

Swimming Pools

Assets within this class comprise Council's Aquatic Centre and other outdoor swimming pools.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

Swimming pools were valued in-house by experienced staff using the cost approach. The approach estimated the replacement cost for each pool by componentising its significant parts.

While some elements of gross replacement values may be supported from market evidence (level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

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

Other Open Space / Recreational Assets

Assets within this class comprise playground equipment, BBQs, outdoor fitness facilities, etc. The cost approach has been utilised whereby replacement cost was estimated for each asset by taking into account a range of factors. No market based evidence (level 2) could be supported as such these assets were all classified as having been valued using level 3 valuation inputs.

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

Reinstatement, Rehabilitation and Restoration of Tip Assets

Assets within this class are recognised to establish a provision for the expected value of restoration costs of landfill sites throughout the Shire.

Assets were valued using level 3 valuation inputs using the cost approach. Unit rates are based on quantitative dimensional units such as cubic metres; and time and resources required; and is supported from market evidence (level 2) and a documented waste facilities closure plan (timeline).

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

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

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

\$ '000	P&E, Office Equip & Furniture	Land & Improves	Buildings & Other structures	Transport and other assets	Stormwater drainage
2019					
Opening balance	10,648	16,649	46,579	270,263	4,963
Purchases (GBV)	2,261	–	–	–	–
Disposals (WDV)	(851)	(145)	(164)	–	–
Depreciation and impairment	(1,205)	(89)	(1,456)	(4,220)	(121)
FV gains – other comprehensive income	–	982	–	44,358	–
Transfers to Held for Sale	–	145	170	–	–
Closing balance	10,853	17,542	45,129	310,401	4,842
2020					
Opening balance	10,853	17,542	45,129	310,401	4,842
Purchases (GBV)	2,273	217	1,432	1,421	–
Disposals (WDV)	(575)	(14)	(97)	(1,327)	–
Depreciation and impairment	(1,417)	(88)	(1,496)	(4,941)	(120)
Transfers from works in progress	412	–	859	2,681	–
FV gains – other comprehensive income	–	–	–	(1,103)	–
Closing balance	11,546	17,657	45,827	307,132	4,722

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

\$ '000	Water supply network	Sewerage network	Pools, Other Open Space Rec Assets	Total
2019				
Opening balance	28,284	33,298	8,974	419,658
Purchases (GBV)	–	–	–	2,261
Disposals (WDV)	–	–	–	(1,160)
Depreciation and impairment	(966)	(1,256)	(289)	(9,602)
FV gains – other comprehensive income	437	513	–	46,290
Transfers to Held for Sale	–	–	–	315
Closing balance	27,755	32,555	8,685	457,762
2020				
Opening balance	27,755	32,555	8,685	457,762
Purchases (GBV)	16	587	298	6,244
Disposals (WDV)	–	–	(5)	(2,018)
Depreciation and impairment	(947)	(1,127)	(311)	(10,447)
Transfers from works in progress	272	19	162	4,405
FV gains – other comprehensive income	255	298	–	(550)
Closing balance	27,351	32,332	8,829	455,396

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

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

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
Infrastructure, property, plant and equipment			
Plant & Equipment	10,101	Cost used to approximate fair value	<ul style="list-style-type: none"> • Depreciated Historical Cost • Remaining Useful Life • Residual Value
Office Equipment	939	Cost used to approximate fair value	<ul style="list-style-type: none"> • Depreciated Historical Cost • Remaining Useful Life • Residual Value
Furniture / Fittings	506	Cost used to approximate fair value	<ul style="list-style-type: none"> • Depreciated Historical Cost • Remaining Useful Life • Residual Value
Crown Land	4,387	Land values for similar land averaged m ² rate	<ul style="list-style-type: none"> • Land Value (price per m²)
Operational Land	8,644	Land values for similar land averaged m ² rate	<ul style="list-style-type: none"> • Land Value (price per m²)
Community Land	1,211	Land values obtained from NSW Valuer-General	<ul style="list-style-type: none"> • Land Value (price per m²)
Land Improvements	3,415	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life • Residual Value
Buildings	24,832	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life • Residual Value
Other Structures	20,995	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life • Residual Value

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
Roads	184,336	Unit rates per m ² or length	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life • Residual Value
Bridges	26,218	Unit rates per m ² or length	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life
Footpaths	4,793	Unit rates per m ² or length	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life
Bulk Earthworks	91,785	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life • Residual Value
Stormwater Drainage	4,722	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life
Water Supply Network	27,351	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life
Sewerage Network	32,332	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life
Swimming Pools	7,334	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life • Residual Value
Other Open Space / Recreational Assets	1,495	Cost used to approximate fair value	<ul style="list-style-type: none"> • Gross Replacement Cost • Asset Condition • Remaining Useful Life • Residual Value

(4) Highest and best use

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. 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:

\$ '000	2020	2019
Compensation:		
Short-term benefits	976	1,030
Post-employment benefits	76	83
Other long-term benefits	329	241
Total	1,381	1,354

(b) Other transactions with KMP and their related parties

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. 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	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)	
\$ '000	Cash	Non-cash							
Roads	7	–	–	–	–	–	7	–	
Parking	19	–	–	1	–	–	20	–	
Open space	32	–	–	–	–	–	32	–	
Community facilities	24	–	–	–	–	–	24	–	
Other	42	–	–	1	–	–	43	–	
Bushfire	19	–	–	–	–	–	19	–	
S7.11 contributions – under a plan	143	–	–	2	–	–	145	–	
S7.12 levies – under a plan	1,043	91	–	12	(121)	–	1,025	–	
Total S7.11 and S7.12 revenue under plans	1,186	91	–	14	(121)	–	1,170	–	
S7.4 planning agreements	10,753	–	–	126	(2,325)	–	8,554	–	
Total contributions	11,939	91	–	140	(2,446)	–	9,724	–	

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Result by fund

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	16,075	2,069	3,187
User charges and fees	6,001	2,279	92
Interest and investment revenue	652	258	191
Other revenues	1,762	46	–
Grants and contributions provided for operating purposes	12,848	–	–
Grants and contributions provided for capital purposes	5,821	4,554	1,626
Rental income	127	–	–
Share of interests in joint ventures and associates using the equity method	9	–	–
Total income from continuing operations	43,295	9,206	5,096
Expenses from continuing operations			
Employee benefits and on-costs	14,628	1,076	443
Borrowing costs	346	–	–
Materials and contracts	9,647	2,234	1,968
Depreciation and amortisation	9,083	953	1,141
Other expenses	4,862	840	402
Net losses from the disposal of assets	1,552	–	–
Total expenses from continuing operations	40,118	5,103	3,954
Operating result from continuing operations	3,177	4,103	1,142
Net operating result for the year	3,177	4,103	1,142
Net operating result attributable to each council fund	3,177	4,103	1,142
Net operating result for the year before grants and contributions provided for capital purposes	(2,644)	(451)	(484)

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Result by fund (continued)

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	2,869	458	190
Investments	17,500	8,000	7,500
Receivables	7,822	1,456	680
Inventories	5,838	–	–
Contract assets	2,422	1,231	1,375
Other	358	–	–
Total current assets	36,809	11,145	9,745
Non-current assets			
Infrastructure, property, plant and equipment	419,587	46,010	39,513
Investments accounted for using the equity method	256	–	–
Total non-current assets	419,843	46,010	39,513
TOTAL ASSETS	456,652	57,155	49,258
LIABILITIES			
Current liabilities			
Payables	3,502	415	1,232
Contract liabilities	1,629	–	–
Borrowings	554	–	–
Provisions	4,044	–	–
Total current liabilities	9,729	415	1,232
Non-current liabilities			
Payables	199	–	–
Borrowings	4,596	–	–
Provisions	3,276	–	–
Total non-current liabilities	8,071	–	–
TOTAL LIABILITIES	17,800	415	1,232
Net assets	438,852	56,740	48,026
EQUITY			
Accumulated surplus	192,723	36,096	14,517
Revaluation reserves	246,129	20,644	33,509
Council equity interest	438,852	56,740	48,026
Total equity	438,852	56,740	48,026

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Amounts	Indicator	Prior periods			Benchmark
	2020	2020	2019	2018	2017	
1. Operating performance ratio						
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(2,036)	(4.54)%	1.05%	12.02%	18.15%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	44,841					
2. Own source operating revenue ratio						
Total continuing operating revenue excluding all grants and contributions ¹	31,993	56.28%	59.46%	71.70%	58.82%	>60.00%
Total continuing operating revenue	56,842					
3. Unrestricted current ratio						
Current assets less all external restrictions	20,383	3.32x	4.25x	4.60x	5.16x	>1.50x
Current liabilities less specific purpose liabilities	6,142					
4. Debt service cover ratio						
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	9,487	8.55x	8.95x	11.82x	13.08x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	1,109					
5. Rates, annual charges, interest and extra charges outstanding percentage						
Rates, annual and extra charges outstanding	3,230	13.87%	9.92%	8.04%	7.64%	<10.00%
Rates, annual and extra charges collectible	23,295					
6. Cash expense cover ratio						
Current year's cash and cash equivalents plus all term deposits	36,517	9.63 mths	16.16 mths	17.18 mths	19.50 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	3,791					

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2020	2019	2020	2019	2020	2019	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(3.00)%	(0.50)%	(9.69)%	18.69%	(13.95)%	(9.54)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	56.11%	60.83%	50.53%	45.84%	68.09%	88.26%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	3.32x	4.25x	26.86x	∞	7.91x	∞	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	7.51x	6.46x	∞	∞	∞	∞	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	13.62%	9.02%	16.70%	15.64%	13.38%	10.70%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	9.46	11.10	∞	48.82	∞	67.10	>3.00
Payments from cash flow of operating and financing activities	mths	mths		mths		mths	mths

(1) - (2) Refer to Notes at Note 22a above.

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

END OF AUDITED FINANCIAL STATEMENTS

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27. Council information and contact details

Principal place of business:

46-48 Maitland Street
Narrabri NSW 2390

Contact details

Mailing Address:

PO Box 261
Narrabri NSW 2390

Telephone: 02 6799 6866

Facsimile: 02 6799 6888

Opening hours:

8:35am - 5:00pm
Monday to Friday

Internet: www.narrabri.nsw.gov.au

Email: council@narrabri.nsw.gov.au

Officers

General Manager

Mr Stewart Todd

Responsible Accounting Officer

Mr Tim McClellan

Public Officer

Mr Lindsay Mason

Auditors

The Audit Office of New South Wales
Level 19, Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000

Elected members

Mayor

Cr Ron Campbell

Councillors

Cr Cameron Staines (Deputy Mayor)

Cr Maxine Booby

Cr Ron Campey

Cr Lloyd Finlay

Cr Robert Kneale

Cr Annie McMahan

Cr Catherine Redding

Other information

ABN: 95 717 801 656



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Narrabri Shire Council

To the Councillors of Narrabri Shire Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 21 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

30 November 2020
SYDNEY



Cr Ron Campbell
 Mayor
 Narrabri Shire Council
 PO Box 261
 NARRABRI NSW 2390

Contact: Chris Harper
 Phone no: 02 9275 7374
 Our ref: D2027749/1767

30 November 2020

Dear Mayor

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

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

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

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

INCOME STATEMENT

Operating result

	2020 \$m	2019 \$m	Variance %
Rates and annual charges revenue	20.9	20.4	↑ 2.5
Grants and contributions revenue	24.8	21.7	↑ 14.3
Operating result from continuing operations	8.4	10.1	↓ -16.8
Net operating result before capital grants and contributions	(3.6)	(0.1)	↓ -3,500

The Council's operating result from continuing operations (\$8.4 million, including depreciation and amortisation expense of \$11.2 million) was \$1.7 million lower than the 2018–19 result. This is primarily due to the increases in grants and contributions (\$3.1 million) and rates and annual charges (\$525,000) described below being more than offset by:

- an increase in employee benefits and oncosts expenditure of \$662,000 due mainly to salary increases
- an increase in other expenses of \$1.5 million due mainly to a provision for doubtful debts relating to GST receivables
- an increase in depreciation and amortisation of \$1.6 million due to a reassessment of replacement costs for Road and Bridge assets as part of the revaluation conducted in 2018-19
- net losses on disposals of assets of \$1.6 million compared to a net loss on disposal of assets in 2018-19 of \$576,000 as Council disposed roads and bridges which were subsequently replaced.

The net operating result before capital grants and contributions resulted in a deficit of \$3.6 million which was \$3.5 million lower than the 2018–19 result. This is predominately due to the increases in expenditure identified.

Rates and annual charges revenue (\$20.9 million) increased by \$525,000 (2.5 per cent) in 2019–20 mainly due to rate peg increases.

Grants and contributions revenue (\$24.8 million) increased by \$3.1 million (14.3 per cent) in 2019–20 mainly due to:

- an increase in recreation and culture funding of \$1.3 million for community projects being funded by stronger country communities and drought communities programs
- an increase in roads to recovery funding of \$1.7 million due to increases under the funding program
- an increase in transport grants of \$1.4 million due to continuing capital works on the Culgoora Road and Tarrario Bridge projects
- an increase in sewerage services capital grants of \$1.2 million due to timing in the works being completed on the Boggabri and Wee Waa sewerage treatment plants.

The increases in grant funding have been offset by a decrease to:

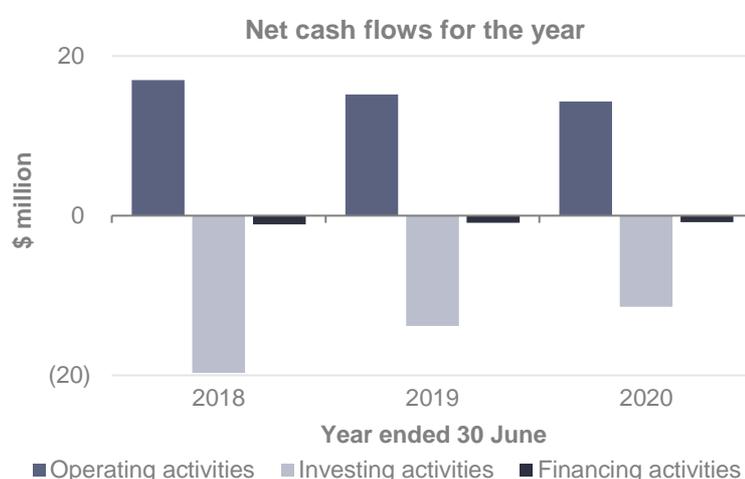
- water supplies capital funding of \$1.2 million due to Council finalising works on the Narrabri water supply
- community care funding of \$872,000 due to one off funding received in the prior year.

STATEMENT OF CASH FLOWS

Cash flows from operating activities decreased mainly due to a decrease in cash inflows from user charges and fees due to the drought impacting collection of debtors.

Cash flows used in investing activities decreased due to a net cash inflow from investment securities as Council utilised term deposits to fund capital works projects.

Cash flows from financing activities remains similar year on year and reflects repayment of borrowings.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	28.1	34.8	<ul style="list-style-type: none"> Major external cash restrictions include water fund, sewer fund, and developer contributions. External restrictions decreased due to capital works occurring on water and sewer infrastructure and developer contribution restrictions decreased as Council completed their obligations. Major internal restrictions related to Financial Assistance Grant payments received in advance. Internal restrictions decreased during the year as Council reconsidered internal restrictions to ensure sufficient funds were available to fund operations. Additionally, Council utilised internal restrictions to acquire land for the Northern NSW Inland Port.
Internal restrictions	8.4	16.5	
Unrestricted	0.1	0.1	
Cash and investments	36.6	51.4	

PERFORMANCE

Performance measures

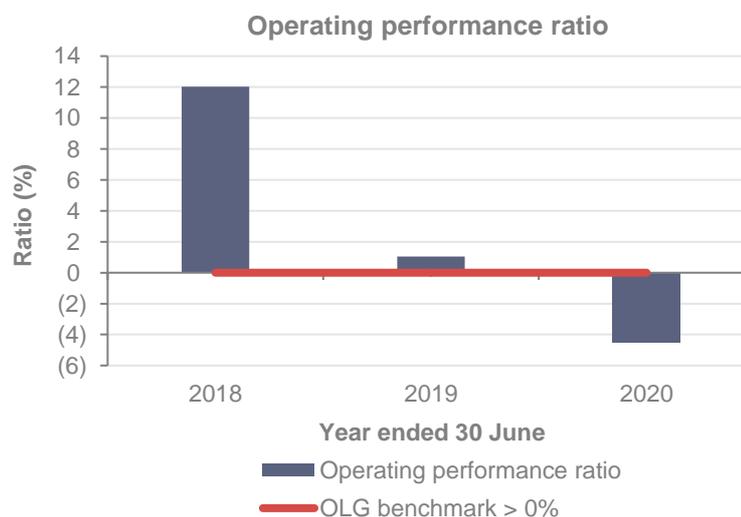
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

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.

Council did not meet the OLG benchmark for the current reporting period.

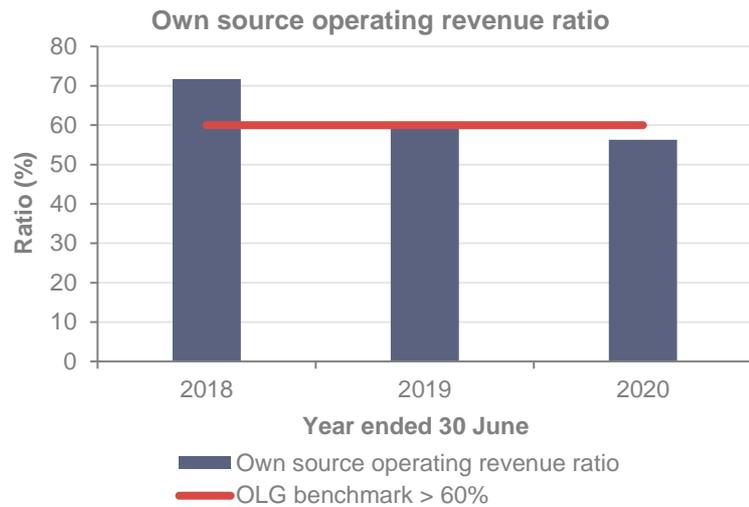
The operating performance ratio declined compared to 2018-19 due to increased depreciation expense following increases in asset additions and the revaluation of road infrastructure in the prior year.



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 ratio is below the benchmark set by OLG as Council relies on government grants and contributions to assist in funding operations.

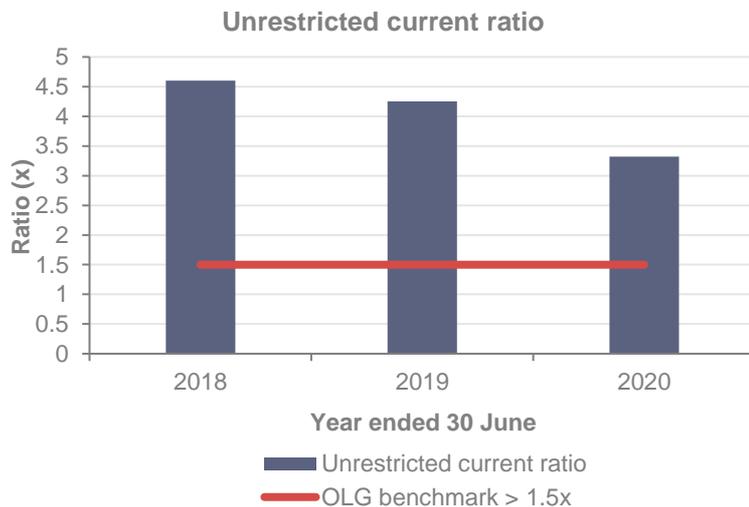


Unrestricted current ratio

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 continues to exceed the OLG benchmark for the current reporting period.

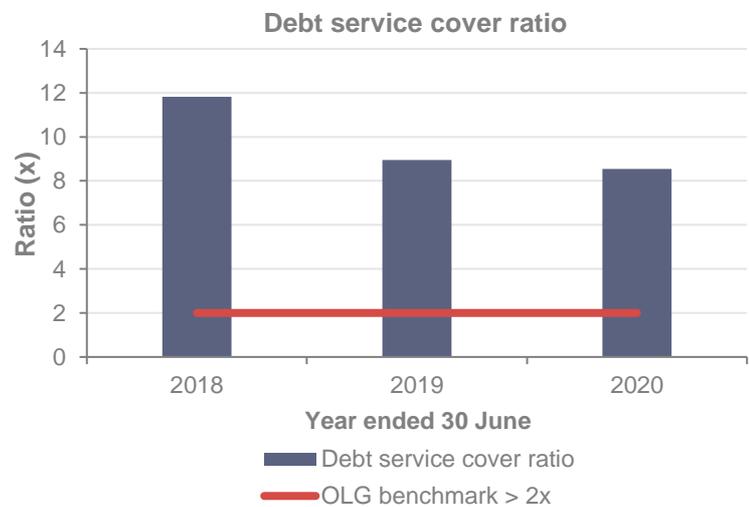
The unrestricted current ratio has reduced compared to 2018-19. This is due to the implementation of new accounting standards resulting in the recognition of contract liabilities.



Debt service cover ratio

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

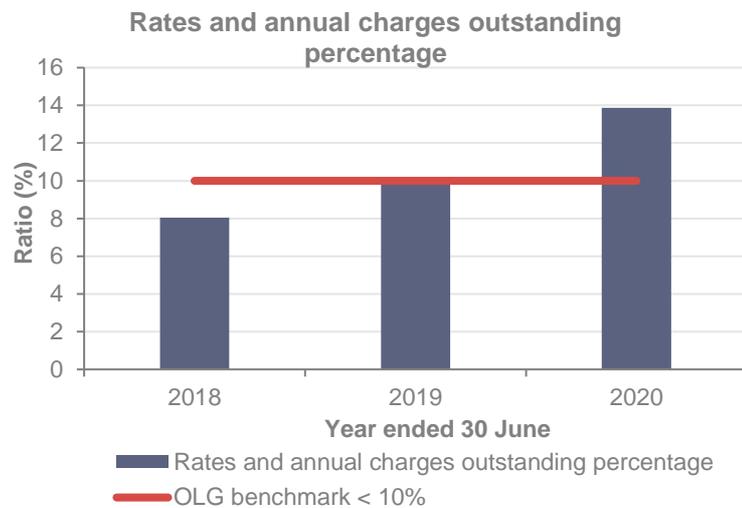
The Council exceeded the OLG benchmark for the current reporting period.



Rates and annual charges outstanding percentage

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

The Council did not meet the OLG benchmark for the current reporting period. No recoverability action was taken on debtors during the year due to the drought conditions.

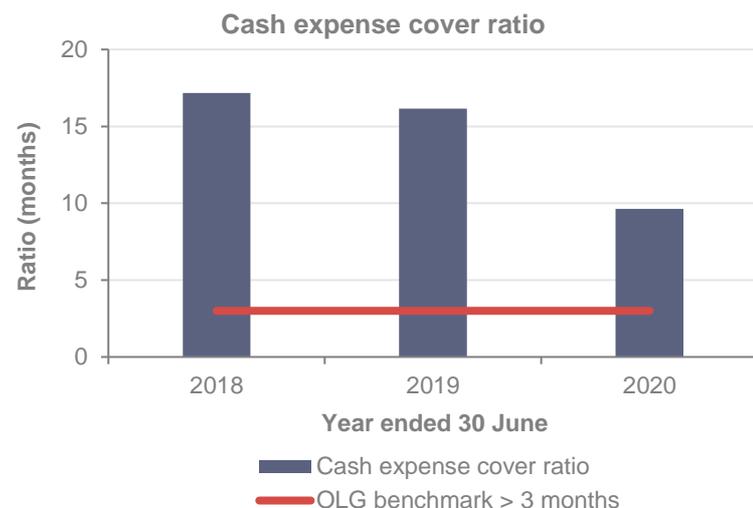


Cash expense cover ratio

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

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

The cash expense cover ratio declined compared to 2018-19 due to decreased investment balances and overall increases in operating expenditure.



Infrastructure, property, plant and equipment renewals

- Council's Infrastructure, Property, Plant and Equipment renewal expenditure was \$29.1 million, a \$9.0 million increase compared to 2018-19
- Infrastructure renewal expenditure represents 260 per cent of the depreciation, amortisation and impairment for the year
- Major renewals were for roads (\$1.4 million), plant and equipment (\$2.0 million) and capital work in progress (\$24.3 million)
- At 30 June 2020 the major renewal in capital work in progress related to the water supply augmentation (\$4.9 million), the upgrade to Culgoora Road (\$4.4 million) and Tarriaro Bridge Works (\$2.3 million).

OTHER MATTERS

Impact of new accounting standards

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

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

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

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

The Council recognised a \$1.6 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards which included first time recognition of contract liabilities of \$1.6 million.

The Council disclosed the impact of adopting the new Revenue Standards in Note 15.

AASB 16 'Leases'

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

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

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

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

Legislative compliance

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

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



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

cc: Mr Stewart Todd, General Manager
Mr Grahame Marchant, Chair of the Audit, Risk and Improvement Committee
Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment
Mr Tim McClellan, Manager Finance Services
Mr Geoff Allen, Principal, Forsyths

Narrabri Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020

*A strong and vibrant regional growth centre providing a
quality living environment for the entire Shire community*



Special Purpose Financial Statements

for the year ended 30 June 2020

Contents	Page
Statement by Councillors & Management	3
Special Purpose Financial Statements	
Income Statement – Water Supply Business Activity	4
Income Statement – Sewerage Business Activity	5
Statement of Financial Position – Water Supply Business Activity	6
Statement of Financial Position – Sewerage Business Activity	7
Note 1 – Significant Accounting Policies	8
Auditor's Report on Special Purpose Financial Statements	11

Background

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

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

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

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

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

Special Purpose Financial Statements

for the year ended 30 June 2020

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 27 October 2020.



Cr Ron Campbell
Mayor
27 October 2020



Cr Cameron Staines
Deputy Mayor
27 October 2020



Mr Stewart Todd
General Manager
27 October 2020



Mr Tim McClellan
Responsible Accounting Officer
27 October 2020

Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	2,069	1,880
User charges	2,229	2,713
Fees	50	43
Interest	258	335
Grants and contributions provided for non-capital purposes	–	150
Other income	46	15
Total income from continuing operations	4,652	5,136
Expenses from continuing operations		
Employee benefits and on-costs	1,076	795
Materials and contracts	2,234	2,011
Depreciation, amortisation and impairment	953	972
Other expenses	840	398
Total expenses from continuing operations	5,103	4,176
Surplus (deficit) from continuing operations before capital amounts	(451)	960
Grants and contributions provided for capital purposes	4,554	5,740
Surplus (deficit) from continuing operations after capital amounts	4,103	6,700
Surplus (deficit) from all operations before tax	4,103	6,700
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(264)
SURPLUS (DEFICIT) AFTER TAX	4,103	6,436
Plus accumulated surplus	31,993	25,293
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	264
Less:		
Closing accumulated surplus	36,096	31,993
Return on capital %	(1.0)%	2.4%
Subsidy from Council	856	–
Calculation of dividend payable:		
Surplus (deficit) after tax	4,103	6,436
Less: capital grants and contributions (excluding developer contributions)	(4,554)	(5,740)
Surplus for dividend calculation purposes	–	696
Potential dividend calculated from surplus	–	348

Income Statement – Sewerage Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	3,187	3,104
User charges	66	20
Liquid trade waste charges	26	39
Fees	–	–
Interest	191	265
Grants and contributions provided for non-capital purposes	–	–
Total income from continuing operations	3,470	3,428
Expenses from continuing operations		
Employee benefits and on-costs	443	534
Materials and contracts	1,968	1,760
Depreciation, amortisation and impairment	1,141	1,270
Other expenses	402	191
Total expenses from continuing operations	3,954	3,755
Surplus (deficit) from continuing operations before capital amounts	(484)	(327)
Grants and contributions provided for capital purposes	1,626	456
Surplus (deficit) from continuing operations after capital amounts	1,142	129
Surplus (deficit) from all operations before tax	1,142	129
SURPLUS (DEFICIT) AFTER TAX	1,142	129
Plus accumulated surplus	13,375	13,246
Plus adjustments for amounts unpaid:		
Less:		
Closing accumulated surplus	14,517	13,375
Return on capital %	(1.2)%	(0.9)%
Subsidy from Council	832	811
Calculation of dividend payable:		
Surplus (deficit) after tax	1,142	129
Less: capital grants and contributions (excluding developer contributions)	(1,626)	(456)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	458	171
Investments	8,000	10,300
Receivables	1,456	3,615
Contract assets	1,231	–
Total current assets	11,145	14,086
Non-current assets		
Infrastructure, property, plant and equipment	46,010	39,196
Total non-current assets	46,010	39,196
TOTAL ASSETS	57,155	53,282
LIABILITIES		
Current liabilities		
Payables	415	–
Total current liabilities	415	–
TOTAL LIABILITIES	415	–
NET ASSETS	56,740	53,282
EQUITY		
Accumulated surplus	36,096	31,993
Revaluation reserves	20,644	21,289
TOTAL EQUITY	56,740	53,282

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	190	96
Investments	7,500	9,500
Receivables	680	630
Contract assets	1,375	–
Total current assets	9,745	10,226
Non-current assets		
Infrastructure, property, plant and equipment	39,513	36,646
Total non-current assets	39,513	36,646
TOTAL ASSETS	49,258	46,872
LIABILITIES		
Current liabilities		
Payables	1,232	–
Total current liabilities	1,232	–
TOTAL LIABILITIES	1,232	–
NET ASSETS	48,026	46,872
EQUITY		
Accumulated surplus	14,517	13,375
Revaluation reserves	33,509	33,497
TOTAL EQUITY	48,026	46,872

Narrabri Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

a. Narrabri Shire Council Water Supplies

Supply operations servicing Baan Baa, Bellata, Boggabri, Gwabegar, Pilliga, Narrabri and Wee Waa.

b. Narrabri Shire Council Sewerage Service

Sewerage reticulation and treatment operations servicing Boggabri, Narrabri and Wee Waa.

Category 2

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

Nil

Monetary amounts

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

Narrabri Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

(i) Taxation equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – 27.5%

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

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

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

The payment of taxation equivalent charges, referred to the Best Practice Management of Water Supply and Sewer guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

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

Income tax

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

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

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

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

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

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

Note 1. Significant Accounting Policies (continued)

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

(ii) Subsidies

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

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

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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

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

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

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

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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Narrabri Shire Council

To the Councillors of Narrabri Shire Council

Opinion

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

The Declared Business Activities of the Council are:

- Water Supply
- Sewerage.

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

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



Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

30 November 2020
SYDNEY

Narrabri Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2020

*A strong and vibrant regional growth centre providing a
quality living environment for the entire Shire community*



Special Schedules

for the year ended 30 June 2020

Contents

Page

Special Schedules

Permissible income for general rates

3

Report on Infrastructure Assets - Values

7

Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2019/20
Notional general income calculation ¹			
Last year notional general income yield	a	13,538	13,174
Plus or minus adjustments ²	b	6	8
Notional general income	c = a + b	13,544	13,182
Permissible income calculation			
Or rate peg percentage	e	2.60%	2.70%
Or plus rate peg amount	i = e x (c + g)	352	356
Sub-total	k = (c + g + h + i + j)	13,896	13,538
Plus (or minus) last year's carry forward total	l	4	8
Sub-total	n = (l + m)	4	8
Total permissible income	o = k + n	13,900	13,546
Less notional general income yield	p	13,545	13,538
Catch-up or (excess) result	q = o - p	355	8
Less unused catch-up ⁵	s	(7)	(4)
Carry forward to next year ⁶	t = q + r + s	348	4

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



INDEPENDENT AUDITOR'S REPORT
Special Schedule - Permissible income for general rates
Narrabri Shire Council

To the Councillors of Narrabri Shire Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

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

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

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

Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

30 November 2020
SYDNEY

Report on Infrastructure Assets as at 30 June 2020

Asset Class	Asset Category	Estimated cost		2019/20 Required maintenance \$ '000	2019/20 Actual maintenance \$ '000	Net carrying amount \$ '000	Gross replacement cost (GRC) \$ '000	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard \$ '000	to bring to the agreed level of service set by Council ^a \$ '000					1	2	3	4	5
(a) Report on Infrastructure Assets - Values												
Buildings	Buildings	3,126	3,126	779	214	24,832	41,404	14.0%	52.0%	25.0%	9.0%	0.0%
	Sub-total	3,126	3,126	779	214	24,832	41,404	14.0%	52.0%	25.0%	9.0%	0.0%
Other structures	Other structures	567	567	166	247	20,995	26,382	50.0%	20.0%	29.0%	1.0%	0.0%
	Sub-total	567	567	166	247	20,995	26,382	50.0%	20.0%	29.0%	1.0%	0.0%
Roads	Sealed roads	135	2,695	1,145	2,377	119,044	134,766	80.0%	18.0%	2.0%	0.0%	0.0%
	Unsealed roads	845	11,544	1,782	2,234	37,787	41,227	24.0%	48.0%	27.0%	1.0%	0.0%
	Kerb & gutter	239	24,915	28	2	27,505	34,130	4.0%	23.0%	72.0%	1.0%	0.0%
	Bridges	2,991	3,810	72	10	26,218	38,100	55.0%	35.0%	1.0%	4.0%	5.0%
	Footpaths	417	3,222	27	6	4,793	7,589	1.0%	58.0%	36.0%	5.0%	0.0%
	Bulk earthworks	—	—	—	—	91,785	91,785	36.0%	64.0%	0.0%	0.0%	0.0%
	Sub-total	4,627	46,186	3,054	4,629	307,132	347,597	49.8%	36.9%	11.9%	0.8%	0.5%
Water supply network	Water supply network	12,971	12,971	806	1,358	27,351	66,918	18.0%	11.0%	44.0%	27.0%	0.0%
	Sub-total	12,971	12,971	806	1,358	27,351	66,918	18.0%	11.0%	44.0%	27.0%	0.0%
Sewerage network	Sewerage network	25,027	25,027	411	831	32,332	101,258	12.0%	9.0%	35.0%	44.0%	0.0%
	Sub-total	25,027	25,027	411	831	32,332	101,258	12.0%	9.0%	35.0%	44.0%	0.0%
Stormwater drainage	Stormwater drainage	629	629	10	1	4,722	9,678	1.0%	45.0%	32.0%	19.0%	3.0%
	Sub-total	629	629	10	1	4,722	9,678	1.0%	45.0%	32.0%	19.0%	3.0%
Open space / recreational assets	Swimming pools	951	951	230	391	7,332	10,936	24.0%	32.0%	34.0%	10.0%	0.0%
	Other	198	198	221	211	1,497	2,790	2.0%	34.0%	58.0%	6.0%	0.0%
	Sub-total	1,149	1,149	451	602	8,829	13,726	19.5%	32.4%	38.9%	9.2%	0.0%
TOTAL - ALL ASSETS		48,096	89,655	5,677	7,882	426,193	606,963	36.1%	29.7%	21.9%	11.9%	0.4%

(a) The estimated cost to bring to the agreed level of service is high as Council is yet to undertake consultation on satisfactory condition of its assets with the community.

Infrastructure asset condition assessment 'key'

1 Excellent/very good No work required (normal maintenance)

Report on Infrastructure Assets - Values (continued)

as at 30 June 2020

2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	Amounts 2020	Indicator 2020	2019	Prior periods 2018	2017	Benchmark
Infrastructure asset performance indicators (consolidated) *						
Buildings and infrastructure renewals ratio ¹						
Asset renewals ²	<u>4,734</u>					
Depreciation, amortisation and impairment	<u>8,942</u>	52.94%	0.00%	94.34%	136.91%	>=100.00%
Infrastructure backlog ratio ¹						
Estimated cost to bring assets to a satisfactory standard	<u>48,096</u>					
Net carrying amount of infrastructure assets	<u>426,193</u>	11.29%	12.92%	9.24%	10.18%	<2.00%
Asset maintenance ratio						
Actual asset maintenance	<u>7,882</u>					
Required asset maintenance	<u>5,677</u>	138.84%	151.68%	99.97%	110.56%	>100.00%
Cost to bring assets to agreed service level						
Estimated cost to bring assets to an agreed service level set by Council	<u>89,655</u>	14.77%	16.23%	5.72%	6.26%	
Gross replacement cost	<u>606,963</u>					

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

(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2020	2019	2020	2019	2020	2019	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²							
Depreciation, amortisation and impairment	60.15%	0.00%	1.69%	0.00%	52.09%	0.00%	>=100.00%
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	2.76%	3.20%	47.42%	61.46%	77.41%	81.62%	<2.00%
Asset maintenance ratio							
Actual asset maintenance							
Required asset maintenance	127.65%	123.43%	168.49%	244.47%	202.19%	343.65%	>100.00%
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	11.77%	12.39%	19.38%	25.84%	24.72%	26.65%	

(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.