

**Report to General Manager**

Attachments:

1. Financial Statements for the Year Ended 30 June 2019

SUBJECT: Financial Statements for the Year Ended 30 June 2019**AUTHOR:** Garry Ross, Manager Financial Services**ENDORSED BY:** Margaret Palmer, Director Corporate Services**EXECUTIVE SUMMARY:**

The audited Financial Statements for the year ended 30 June 2019 consists of the following sections:

- Section I – General Purpose Financial Statements;
- Section II – Special Purpose Financial Statements; and
- Section III – Special Schedules.

FINANCIAL IMPLICATIONS:

As at 30 June 2019, North Sydney Council has Net Assets totalling \$1.16 billion. This is an increase of \$25.5 million from the previously reported financial year.

The 2019 Financial Statements disclose a Net Operating Surplus of \$20.5 million. Excluding grants and contributions provided for capital purposes, the surplus was \$4.7 million. This amounts to 4% of non- capital revenues and indicates that Council’s recurrent revenues and expenditures remain slightly in surplus.

Comment by Responsible Accounting Officer:

The 2019 draft audited Financial Statements were presented to the Audit, Risk & Improvement Committee on 8 October 2019, together with the External Audit Engagement Closing Report.

RECOMMENDATION:

1. **THAT** the attached 2019 audited Financial Statements be endorsed by Council.
 2. **THAT** Council authorise the completion of the “Statement by Councillors and Management” for the General Purpose Financial Statements and the Special Purpose Financial Statements.
 3. **THAT** in accordance with Section 418(1) of the Local Government Act, 1993, both the audited financial reports and the auditor’s reports on the financial statements (Section 417(2) LGA), be placed on public exhibition and reported to the Council meeting on 25 November 2019.
-

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

Direction: All Directions

Outcome: All Outcomes

BACKGROUND

The Financial Statements for the year ending 30 June 2019 have been prepared in accordance with:

- Section 413 of the Local Government Act, 1993,
- The Local Government Act 1993 (as amended) and the Regulations made thereunder,
- The Australian Accounting Standards and professional pronouncements, and
- The Local Government Code of Accounting Practice and Financial Reporting.

The Draft Financial Statements were provided to the external auditors on 30 August 2019 in accordance with Section 413 of the Local Government Act. Following the completion of the external audit, Council received on 4 October 2019, the Closing Engagement Report on the final audited Financial Statements (Attachment 1).

The Financial Statements for the year ending 30 June 2019 were reviewed by the Audit, Risk & Improvement Committee on 8 October 2019 (refer to item 1 of this agenda)

In accordance with the end of financial year audit process, Council are required to sign the “Statement by Councillors and Management” prior to the Audit Office providing the signed Independent Auditor’s report and the report on the Conduct of the audit.

The completed Financial Statements are to be forwarded to the Office of Local Government by 31 October 2019 and placed on public exhibition.

CONSULTATION REQUIREMENTS

Community engagement will be undertaken in accordance with Council’s Community Engagement Protocol.

SUSTAINABILITY STATEMENT

The following table provides a summary of the key sustainability implications:

QBL Pillar	Implications
Environment	• There are no perceived short or long-term environmental implications.
Social	• There are no perceived short or long-term social implications.
Economic	• Council’s financial performance is sustainable, in the short term.
Governance	• Compliance with all legislative requirements and statutory obligations.

DETAIL

The Income Statement for the financial year ended 30 June 2019 discloses a net Operating Surplus \$20.5 million, compared to a surplus of \$7.3 million forecast in the Original Budget and a revised budget surplus of \$9.2 million forecast in the March Quarterly Budget Review.

Before grants and contributions provided for capital purposes the surplus was \$4.7 million, compared to a surplus of \$2.4 million forecast in the Original Budget and a revised budget surplus of \$69,000 forecast in the March Quarterly Budget Review.

In order to reconcile the Net Operating Result to the budget result, a number of adjustments are necessary to exclude those budget items not represented in the Income Statement.

A reconciliation of the audited Operating Surplus from Continuing Operations to the budget result is as follows:

	Original Budget (\$'000)	Revised Budget at 31 March 2019 (\$'000)	Actual (\$'000)
Net Operating Surplus before Capital Items	2,476	69	4,735
<i>plus</i>			
Capital Grants and Contributions	4,850	9,148	15,773
Surplus from Continuing Operations	7,326	9,217	20,508
<i>plus</i>			
Depreciation	21,000	22,100	22,112
Proceeds from Disposal of Plant	808	808	627
Net Losses from Disposal of Infrastructure, Property, Plant & Equipment	-	-	1,481
Increase in Provision for Employee Leave Entitlements	-	-	1,456
<i>less</i>			
Capital Expenditure (other than Plant Purchases)	(22,628)	(41,591)	(27,621)
Plant Purchases	(2,110)	(2,110)	(1,216)
Net Gains from Disposal of Infrastructure, Property, Plant & Equipment	(402)	(402)	-
Loan Principal Repaid	-	(589)	(589)
Increase in Fair Value of Investment Properties	(1,005)	-	(2,205)
In-kind Developer Contribution	-	-	(62)
Revised Budget Surplus/(Deficit) before net transfers to/from Reserves	2,989	(12,567)	14,491
Net transfers (to)/from Reserves	(2,989)	12,567	(11,353)
Revised Budget Surplus	-	-	3,138
Additional revenue transferred to Capital Works Reserve in December Budget Review	-	-	1,500
Original Budget Surplus	-	-	4,638

The \$3.1 million revised budget surplus was transferred to the Capital Works Reserve. Earlier in the year, \$1.5 million was transferred to the Capital Works Reserve in the December Quarterly Budget Review.

As at 30 June 2019, net assets totalled \$1.16 billion. Infrastructure, property, plant, equipment and investment properties accounted \$1.11 billion of this amount. Cash and investments totaled \$87 million; somewhat more than forecast as this includes \$14.9 million of funding which was required to be carried forward to 2019/20 to fund the completion of discretionary (mainly capital) projects unfinished at 30 June 2019.

Of the \$14.9 million carried forward, the majority of projects had commenced prior to 30 June 2019 or have been tendered in the first quarter of the 2019/20 financial year.

Council met or bettered the industry benchmark for all six of the financial performance indicators and one of the three infrastructure management performance indicators.

As at 30 June 2019, the estimated cost to bring infrastructure assets to a satisfactory standard was \$42 million, based on fully renewing all assets assessed as being in very poor condition (Category 5). This resulted in an Infrastructure Backlog Ratio of 6.12%, which is above the industry benchmark of 2%.

If infrastructure assets currently in poor or very poor condition (Category 4 & 5) were included, \$104 million of funding, 15.1% would be the Infrastructure Backlog Ratio required to bring them to a satisfactory standard.

In 2019, IPART partly approved North Sydney Council's Special Rate Variation (SRV) application that was largely driven by the need to increase revenue to maintain service levels and increase the allocation of funds to infrastructure renewal.

North Sydney Council

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2019

*Shaping a progressive, diverse and vibrant North Sydney
community.*



North Sydney Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

*Shaping a progressive, diverse and vibrant North Sydney
community.*



North Sydney Council

General Purpose Financial Statements

for the year ended 30 June 2019

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Overview

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

200 Miller Street
North Sydney NSW 2060

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

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

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

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

North Sydney Council

General Purpose Financial Statements

for the year ended 30 June 2019

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 2019.

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.

North Sydney Council

General Purpose Financial Statements

for the year ended 30 June 2019

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 28 October 2019.

Jilly Gibson

Mayor

28 October 2019

Stephen Barbour

Councillor

28 October 2019

Ken Gouldthorp

General Manager

28 October 2019

Garry Ross

Responsible Accounting Officer

28 October 2019

North Sydney Council

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
59,293	Rates and annual charges	3a	58,831	56,505
29,640	User charges and fees	3b	33,691	33,208
1,645	Interest and investment revenue	3c	2,407	2,653
15,590	Other revenues	3d	16,907	17,835
4,335	Grants and contributions provided for operating purposes	3e,3f	5,550	4,300
4,850	Grants and contributions provided for capital purposes	3e,3f	15,773	8,625
<u>Other income:</u>				
402	Net gains from the disposal of assets	5	–	–
1,005	Fair value increment on investment properties	11	2,205	–
116,760	Total income from continuing operations		135,364	123,126
Expenses from continuing operations				
44,214	Employee benefits and on-costs	4a	44,992	41,006
336	Borrowing costs	4b	367	302
34,563	Materials and contracts	4c	36,799	36,734
21,000	Depreciation and amortisation	4d	22,111	19,127
9,321	Other expenses	4e	9,103	9,238
–	Net losses from the disposal of assets	5	1,481	692
–	Fair value decrement on investment properties	11	–	212
–	Net share of interests in joint ventures and associates using the equity method	16	3	20
109,434	Total expenses from continuing operations		114,856	107,331
7,326	Operating result from continuing operations		20,508	15,795
7,326	Net operating result for the year		20,508	15,795
7,326	Net operating result attributable to council		20,508	15,795
2,476	Net operating result for the year before grants and contributions provided for capital purposes		4,735	7,170

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

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

North Sydney Council

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		20,508	15,795
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10	–	93,266
Total items which will not be reclassified subsequently to the operating result		–	93,266
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Other movements		1,056	–
Total items which will be reclassified subsequently to the operating result when specific conditions are met		1,056	–
Total other comprehensive income for the year		1,056	93,266
Total comprehensive income for the year		21,564	109,061
Total comprehensive income attributable to Council		21,564	109,061

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under *AASB 139 Financial Instruments: Recognition and Measurement*

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

North Sydney Council

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	Restated 2018 ¹	Restated 1 July 2017
ASSETS				
Current assets				
Cash and cash equivalent assets	6(a)	14,083	5,908	6,172
Investments	6(b)	73,145	63,081	74,606
Receivables	7	5,967	8,397	9,897
Inventories	8a	57	58	46
Other	8b	244	282	273
Current assets classified as 'held for sale'	9i	4,500	–	–
Total current assets		<u>97,996</u>	<u>77,726</u>	<u>90,994</u>
Non-current assets				
Receivables	7	450	287	326
Infrastructure, property, plant and equipment	10	1,019,274	1,013,603	892,742
Investment property	11a	95,512	97,740	97,623
Investments accounted for using the equity method	16	10	13	33
Total non-current assets		<u>1,115,246</u>	<u>1,111,643</u>	<u>990,724</u>
TOTAL ASSETS		<u>1,213,242</u>	<u>1,189,369</u>	<u>1,081,718</u>
LIABILITIES				
Current liabilities				
Payables	12	20,767	20,656	20,309
Income received in advance	12	2,613	1,233	1,844
Borrowings	12	811	9,500	–
Provisions	13	16,021	14,667	15,849
Total current liabilities		<u>40,212</u>	<u>46,056</u>	<u>38,002</u>
Non-current liabilities				
Payables	12	–	41	–
Borrowings	12	8,100	–	9,500
Provisions	13	278	184	189
Total non-current liabilities		<u>8,378</u>	<u>225</u>	<u>9,689</u>
TOTAL LIABILITIES		<u>48,590</u>	<u>46,281</u>	<u>47,691</u>
Net assets		<u>1,164,652</u>	<u>1,143,088</u>	<u>1,034,027</u>
EQUITY				
Accumulated surplus	14a	813,480	791,916	776,121
Revaluation reserves	14a	351,172	351,172	257,906
Council equity interest		<u>1,164,652</u>	<u>1,143,088</u>	<u>1,034,027</u>
Total equity		<u>1,164,652</u>	<u>1,143,088</u>	<u>1,034,027</u>

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

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

North Sydney Council

Statement of Changes in Equity
for the year ended 30 June 2019

\$ '000	Notes	2019			2018 ¹		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		789,766	357,878	1,147,644	773,971	264,612	1,038,583
Correction of prior period errors	14b	2,150	(6,706)	(4,556)	2,150	(6,706)	(4,556)
Restated opening balance		791,916	351,172	1,143,088	776,121	257,906	1,034,027
Net operating result for the year		20,508	–	20,508	15,795	–	15,795
Restated net operating result for the period		20,508	–	20,508	15,795	–	15,795
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10	1,056	–	1,056	–	93,266	93,266
Other comprehensive income		1,056	–	1,056	–	93,266	93,266
Total comprehensive income		21,564	–	21,564	15,795	93,266	109,061
Equity – balance at end of the reporting period		813,480	351,172	1,164,652	791,916	351,172	1,143,088

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under *AASB 139 Financial Instruments: Recognition and Measurement*

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

North Sydney Council

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
<u>Receipts</u>				
59,106	Rates and annual charges		58,153	56,178
31,302	User charges and fees		34,598	33,997
1,645	Investment and interest revenue received		2,909	3,145
9,382	Grants and contributions		19,194	13,374
4,000	Bonds, deposits and retention amounts received		3,546	4,015
16,424	Other		26,751	25,701
<u>Payments</u>				
(44,108)	Employee benefits and on-costs		(42,880)	(42,863)
(38,301)	Materials and contracts		(41,441)	(39,544)
(336)	Borrowing costs		(321)	(301)
(3,000)	Bonds, deposits and retention amounts refunded		(4,118)	(2,414)
(12,208)	Other		(9,669)	(13,307)
23,906	Net cash provided (or used in) operating activities	15b	46,722	37,981
Cash flows from investing activities				
<u>Receipts</u>				
45,660	Sale of investment securities		69,062	44,514
889	Sale of infrastructure, property, plant and equipment		690	1,497
<u>Payments</u>				
(40,000)	Purchase of investment securities		(79,126)	(33,000)
–	Purchase of investment property		(66)	(329)
(24,738)	Purchase of infrastructure, property, plant and equipment		(28,518)	(50,927)
(18,189)	Net cash provided (or used in) investing activities		(37,958)	(38,245)
Cash flows from financing activities				
<u>Payments</u>				
–	Repayment of borrowings and advances		(589)	–
–	Net cash flow provided (used in) financing activities		(589)	–
5,717	Net increase/(decrease) in cash and cash equivalents		8,175	(264)
2,000	Plus: cash and cash equivalents – beginning of year	15a	5,908	6,172
7,717	Cash and cash equivalents – end of the year	15a	14,083	5,908
Additional Information:				
46,473	plus: Investments on hand – end of year	6(b)	73,145	63,081
54,190	Total cash, cash equivalents and investments		87,228	68,989

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 28/10/2019. Council has the power to amend and reissue these financial statements.

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

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

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

Council is a not for-profit entity.

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

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

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

and are clearly marked.

(a) New and amended standards adopted by Council

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2019.

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 14.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

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

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

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Monies and other assets received by Council

(a) The Consolidated Fund

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

(b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies. Council does not have a separate Trust Fund.

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 have been published that are not mandatory for 30 June 2019 reporting periods (and which have not been early adopted by Council).

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

AASB 16 Leases

AASB 16 will result (for YE 19/20 and beyond) in almost all operating leases being recognised on the balance sheet by Council (alongside existing finance leases) with the distinction between operating and finance leases removed.

Under the new standard, a financial liability (ie. a lease liability) and an asset (ie. a right to use the leased item) will be recognised for nearly all arrangements where Council commits itself to paying a rental fee for the use of a specific asset.

The only exceptions are short-term and low-value leases which are exempt from the accounting (but not disclosure) requirements of AASB 16 - Leases.

Council staff have reviewed all of Council's leasing arrangements over the last 12 months taking into consideration the new lease accounting rules in AASB 16 (applicable from 1/7/19).

AASB 16 will (on the whole) affect Council's accounting for existing operating lease agreements that are in place as at 30/6/19.

As at the end of this reporting period, lease agreements currently in place will have no material impact on Council's reported financial position, performance and/or disclosures.

AASB 15 Revenue from Contracts with Customers and associated amending standards.

AASB15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Accounting policy changes will arise in the timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

Each revenue stream will need to be assessed but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

The changes in revenue recognition requirements in AASB15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB15 is expected to have no material impact on Council's reported financial position, performance and/or disclosures.

AASB 1058 Income of NFP Entities

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contributions.

Under AASB 1058 the future timing of income recognition will depend on whether the transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service) related to an asset (such as cash or another asset) received by an entity.

AASB 1058 also applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives.

Upon initial recognition of the asset, this standard requires council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable accounting standard, such as:

- (a) contributions by owners
- (b) revenue, or a contract liability arising from a contract with a customer
- (c) a lease liability
- (d) a financial instrument, or
- (e) a provision.

If the transaction is a transfer of a financial asset to enable council to acquire or construct a recognisable non-financial asset to be controlled by council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the excess of the fair value of the transfer over any related amounts recognised. Council will then recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable council to acquire or construct a recognisable non-financial asset to be controlled by council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

The specific impacts of AASB1058 for Council are expected to have no material impact on Council's reported financial position, performance and/or disclosures.

AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities

This Standard provides a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below market terms and conditions, principally to enable the entity to further its objectives (for example, concessionary or peppercorn leases).

The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases

As per a NSW Office of Local Government recommendation, Council has elected to measure right-of-use assets (under a concessionary or peppercorn lease) at cost. The standard requires additional disclosures be provided in relation to below market-value leases measured at cost.

The specific impacts of AASB2018-8 for Council are expected to have no material impact on Council's reported financial position, performance and/or disclosures.

Council has not applied any pronouncements before its operative date in the annual reporting period beginning 1 July 2018.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Our Living Environment	24,813	24,924	33,003	32,156	(8,190)	(7,232)	197	35	329,160	329,675
Our Built Infrastructure	46,820	36,782	29,765	25,831	17,055	10,951	4,148	3,219	545,187	541,269
Our Future Planning	12,946	13,589	13,711	12,981	(765)	608	750	5	130,905	131,637
Our Social Vitality	2,518	2,720	8,300	7,758	(5,782)	(5,038)	1,005	888	74,848	74,262
Our Civic Leadership	48,267	45,111	30,077	28,605	18,190	16,506	1,510	1,521	131,292	112,526
Other	–	–	–	–	–	–	–	–	1,850	–
Total functions and activities	135,364	123,126	114,856	107,331	20,508	15,795	7,610	5,668	1,213,242	1,189,369

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Our Living Environment

Encompasses but is not limited to bushland management, environmental sustainability, recreational facilities, tree preservation and community gardens.

Our Built Infrastructure

Encompasses but is not limited to asset management, land use planning, development and design, heritage preservation, streetscapes, compliance and traffic and transport planning.

Our Future Planning

Encompasses but is not limited to economic development, tourism and our commercial centres and shopping villages.

Our Social Vitality

Encompasses but is not limited to community services, arts and culture, access and safety, housing, health and wellbeing, recreational planning and volunteering.

Our Civic Leadership

Encompasses but is not limited to governance (i.e. how Council is managed).

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	24,308	24,171
Business	16,249	14,796
Less: pensioner rebates (mandatory)	(148)	(147)
Less: pensioner rebates (Council policy)	(121)	(120)
Rates levied to ratepayers	40,288	38,700
Pensioner rate subsidies received	148	147
Total ordinary rates	40,436	38,847
Special rates		
Infrastructure levy	1,780	1,759
Environmental levy	1,997	1,938
Main street levies	493	483
Rates levied to ratepayers	4,270	4,180
Total special rates	4,270	4,180
Annual charges		
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>		
Domestic waste management services	13,521	12,878
Stormwater management services	565	561
Section 611 charges	74	74
Less: pensioner rebates (mandatory)	(42)	(42)
Less: pensioner rebates (Council policy)	(35)	(35)
Annual charges levied	14,083	13,436
Pensioner subsidies received:		
– Domestic waste management	42	42
Total annual charges	14,125	13,478
TOTAL RATES AND ANNUAL CHARGES	58,831	56,505

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

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts.

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

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates.

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.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
<small>(per s.502 - specific 'actual use' charges)</small>		
Domestic waste management services	1,321	1,254
Total specific user charges	1,321	1,254
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Planning and building regulation	3,546	5,046
Regulatory / statutory fees	7,231	6,630
Section 10.7 certificates (EP&A Act)	260	285
Section 603 certificates	129	147
Total fees and charges – statutory/regulatory	11,166	12,108
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Swimming centres	2,687	2,537
Business trade waste	438	380
Community centres / facilities	162	85
Domestic waste management – other	33	26
Family day care	253	184
Library	107	116
On street parking	10,297	9,879
Off street parking	3,579	3,301
Ovals	1,300	1,371
Planning and building regulation (non-statutory)	594	563
Public events	102	67
Reinstatements	1,486	1,166
Other	166	171
Total fees and charges – other	21,204	19,846
TOTAL USER CHARGES AND FEES	33,691	33,208

Accounting policy for user charges and fees

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

(c) Interest and investment revenue (including losses)

Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	80	84
– Cash and investments	2,116	2,528
– Developer contributions	120	52
Fair value adjustments		
– Movements in investments at fair value through profit and loss	91	(11)
TOTAL INTEREST AND INVESTMENT REVENUE	2,407	2,653

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	80	84
General Council cash and investments	2,207	2,517
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	109	46
– Section 7.4	11	6
Total interest and investment revenue	2,407	2,653

Accounting policy for interest and investment revenue

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

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

\$ '000	Notes	2019	2018
(d) Other revenues			
Advertising banner production and hire		46	40
Advertising on Council infrastructure		1,335	1,451
Better waste and recycling fund		105	107
Commissions and agency fees		5	2
Community housing accumulated surplus (from Link Housing)		289	1,031
Container Deposit Scheme refunds		130	–
Credit card payment surcharge		85	2
Ex gratia rates		44	39
Fines – environmental and compliance		55	168
Fines – parking		7,138	7,055
Insurance bonuses, rebates and claim recoveries		–	54
Legal fees recovered		91	662
Miscellaneous sales		26	2
New Years Eve event revenue		195	46
Other charges for overdue rates and charges		22	3
Rental income – investment property	11	6,071	6,193
Rental income – other council properties		884	792
Other		386	188
TOTAL OTHER REVENUE		16,907	17,835

Accounting policy for other revenue

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

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	742	744	–	–
Financial assistance – local roads component	237	237	–	–
Payment in advance - future year allocation				
Financial assistance – general component	769	777	–	–
Financial assistance – local roads component	246	245	–	–
Total general purpose	1,994	2,003	–	–
Specific purpose				
Community care:	–	–	–	–
- Aged care	–	62	–	–
- Family day care child care benefit subsidy	766	585	–	–
- Vacation care	15	15	–	–
- Youth care	2	2	–	–
- Other Community Care	40	39	–	–
Economic development	–	5	–	–
Environment Protection	23	15	–	–
- Library – per capita	135	136	–	–
- Library – special projects	6	–	40	49
- Parks and gardens	30	–	168	20
Town Planning	750	–	–	–
- Bicycle facilities	–	82	–	2,215
- Bus weight tax subsidy	25	–	–	–
- Pedestrian facilities	–	–	73	184
- Roads safety	77	64	–	–
- Traffic Route Lighting subsidy	196	192	–	–
- Other roads funding	67	–	3,203	–
Total specific purpose	2,132	1,197	3,484	2,468
Total grants	4,126	3,200	3,484	2,468
Grant revenue is attributable to:				
– Commonwealth funding	771	585	123	–
– State funding	3,354	2,615	3,361	2,468
– Other funding	1	–	–	–
	4,126	3,200	3,484	2,468

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.4 – contributions using planning agreements		–	–	302	–
S 7.11 – contributions towards amenities/services		–	–	11,862	5,970
Total developer contributions – cash		–	–	12,164	5,970
Non-cash contributions					
S 7.4 – contributions using planning agreements		–	–	62	–
Total developer contributions non-cash		–	–	62	–
Total developer contributions	24	–	–	12,226	5,970
Other contributions:					
Cash contributions					
Bicycle facilities		–	–	–	32
Drainage		–	–	–	1
Environment protection		508	430	–	–
Recreation and culture		–	–	63	–
RMS contributions (regional roads, block grant)		891	490	–	–
Streetscape improvements		–	–	–	154
Town planning		15	180	–	–
Other		10	–	–	–
Total other contributions – cash		1,424	1,100	63	187
Total other contributions		1,424	1,100	63	187
Total contributions		1,424	1,100	12,289	6,157
TOTAL GRANTS AND CONTRIBUTIONS		5,550	4,300	15,773	8,625

Accounting policy for grants and contributions

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

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

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

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

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

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.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	29	–
Add: operating grants recognised in the current period but not yet spent	487	24
Add: operating grants received for the provision of goods and services in a future period	–	5
Less: operating grants recognised in a previous reporting period now spent	(29)	–
Unexpended and held as restricted assets (operating grants)	487	29

During 2018/19, Council was successful in obtaining a \$2.5 million grant from the NSW Department of Planning & Environment to fund the accelerated review of our Local Environment Plan. Of this amount, \$750,000 was received in 2018/19 with the balance due in 2019/20. Of the \$750,000 received, \$323,000 had been spent by 30 June 2019. The remaining \$427,000 is scheduled to be spent in 2019/20 along with the additional \$1.75 million still to be received.

A further two operating grants were partially or wholly unspent as at 30 June 2019: a \$30,000 grant received from the NSW Office of Local Government to assist in the implementation of the new *Crown Land Management Act 2016* which came into force on 1 July 2018 and a \$39,000 grant received from NSW Roads & Maritime Services to assist in the implementation of the 40 km/h High Pedestrian Activity Area Program. The unexpended funds are scheduled to be utilised in 2019/20.

Capital grants

Unexpended at the close of the previous reporting period	1,247	(1)
Add: capital grants recognised in the current period but not yet spent	194	1,248
Add: capital grants received for the provision of goods and services in a future period	3,111	–
Less: capital grants recognised in a previous reporting period now spent	(1,193)	–
Unexpended and held as restricted assets (capital grants)	3,359	1,247

During 2018/19, Council was successful in obtaining a \$9.4 million grant from Transport for NSW towards the cost of urban landscaping works along the Military Road corridor in conjunction with the Northern Beaches B-Line Program. Of this amount, \$3.2 million was received in 2018/19 with the balance due in 2019/20. Of the \$3.2 million received, \$92,000 had been spent by 30 June 2019. The remaining \$3.11 million is scheduled to be spent in 2019/20 along with the additional \$6.2 million still to be received.

A further \$249,000 of capital grant funding was unexpended as at 30 June 2019. This consisted of six grants received towards the improvement traffic facilities and parks, the works for which were incomplete at balance date but are scheduled to be finished in 2019/20.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
Contributions		
Unexpended at the close of the previous reporting period	13,684	23,254
Add: contributions recognised in the current period but not yet spent	206	75
Add: contributions received for the provision of goods and services in a future period	12,293	1,864
Less: contributions recognised in a previous reporting period now spent	(5,648)	(11,509)
Unexpended and held as restricted assets (contributions)	20,535	13,684

As at 30 June 2019, Council held \$20.15 million of unspent developer contributions levied under S7.11 or S7.4 of the Environmental Planning & Assessment Act, 1979. These funds will be utilised in future years to assist in the cost of providing local public infrastructure and facilities required as a consequence of development.

The majority of the remaining \$385,000 of unspent contributions consisted of funds received from Hunters Hill, Mosman, Lane Cove, Ryde and Willoughby Councils towards costs incurred by North Sydney operating a Community Recycling Centre at Artarmon. These funds are proposed to be spent during 2019/20.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	33,967	32,096
Employee leave entitlements (ELE)	6,897	5,276
Superannuation – defined contribution plans	3,182	2,971
Superannuation – defined benefit plan	927	962
Workers' compensation insurance	598	473
Fringe benefit tax (FBT)	151	232
Gratuities	126	(215)
Other	187	233
Total employee costs	46,035	42,028
Less: capitalised costs	(1,043)	(1,022)
TOTAL EMPLOYEE COSTS EXPENSED	44,992	41,006
Number of 'full-time equivalent' employees (FTE) at year end	399	373

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 18 for more information.

(b) Borrowing costs

(i) Interest bearing liability costs

Interest on loans	367	302
Total interest bearing liability costs expensed	367	302
TOTAL BORROWING COSTS EXPENSED	367	302

Accounting policy for borrowing costs

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	4,087	4,474
– Agency staff	1,181	1,402
– Cash collection	387	393
– CBD marketing	265	100
– Cleaning of Council properties	374	403
– Community transport	173	172
– Computer hardware and software maintenance	1,380	1,415
– Family Day Care child care assistance	767	585
– Drainage maintenance	503	471
– Footpath maintenance	786	641
– Graffiti removal	129	133
– Internal audit program	79	73
– Mowing	1,027	1,096
– Other infrastructure maintenance	625	778
– Parking meter maintenance	989	980
– Parks, gardens and tree maintenance	2,018	1,665
– Property maintenance	4,145	3,928
– Property management	311	348
– Public events	815	575
– Roads maintenance	1,344	968
– Security	11	5
– Waste and recycling collection	5,503	5,150
– Waste and recycling disposal	4,575	4,597
– Other	1,144	1,194
Consultancy	1,280	2,100
Auditors remuneration ²	68	81
Infringement notice contract costs (SEINS)	932	949
Legal expenses:		
– Legal expenses: planning and development	1,672	1,498
– Legal expenses: debt recovery	22	265
– Legal expenses: other	207	295
Total materials and contracts	36,799	36,734
<u>TOTAL MATERIALS AND CONTRACTS</u>	<u>36,799</u>	<u>36,734</u>

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

Auditors of the Council - NSW Auditor-General:

(i) Audit and other assurance services

Audit and review of financial statements	66	79
Remuneration for audit and other assurance services	66	79
Total Auditor-General remuneration	66	79

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
Non NSW Auditor-General audit firms		
(i) Audit and other assurance services		
Audit of regulatory returns	2	2
Remuneration for audit and other assurance services	2	2
Total remuneration of non NSW Auditor-General audit firms	2	2
Total Auditor remuneration	68	81
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E		
Depreciation and amortisation		
Furniture and fittings	522	502
Office equipment	931	963
Land improvements (depreciable)	625	512
Plant and equipment	1,937	1,982
Infrastructure:		
– Buildings – specialised	2,706	3,151
– Buildings – non-specialised	31	38
– Footpaths	2,687	1,709
– Other structures	46	26
– Roads	5,637	3,818
– Stormwater drainage	2,016	1,665
– Swimming pools	381	397
– Other open space / recreational assets	788	547
– Other infrastructure	3,360	3,400
Other assets:		
– Heritage collections	52	30
– Library books	392	387
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR IPP&E</u>	<u>22,111</u>	<u>19,127</u>

Accounting policy for depreciation, amortisation and impairment expenses of intangibles and IPP&E

Depreciation and amortisation

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

Depreciation is capitalised where in-house assets have contributed to new assets.

Impairment of non-financial assets

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

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

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

\$ '000	2019	2018
(e) Other expenses		
Advertising	175	148
Bad and doubtful debts	73	26
Bank charges	500	462
Community recycling centre rent	231	225
Contributions/levies to other levels of government		
– Department of planning levy	270	263
– Emergency services levy (includes FRNSW and SES levies)	1,274	1,367
– Land tax	26	25
– Other contributions/levies	–	5
Councillor expenses – mayoral fee	43	41
Councillor expenses – councillors' fees	198	190
Councillors' expenses (incl. mayor) – other (excluding fees above)	20	28
– Aboriginal Heritage Office	58	42
– Crows Nest Centre	396	396
– Crows Nest Mainstreet	16	16
– Neutral Bay Mainstreet	16	16
– North Sydney community centre	60	70
– Nutcote	48	45
– Other organisations	349	351
NSW Local Government Association membership	51	35
Election expenses	–	371
Electricity and heating	1,130	1,072
Insurance	1,883	1,798
Postage	373	346
Staff training	345	341
Staff travel expenses	254	333
Street lighting	865	886
Telephone and communications	352	241
Valuation fees	72	74
Other	25	25
Total other expenses	9,103	9,238
TOTAL OTHER EXPENSES	9,103	9,238

Accounting policy for other expenses

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2019	2018
Property (excl. investment property)			
Proceeds from disposal – property		–	127
Less: carrying amount of property assets sold/written off		(275)	(21)
Net gain/(loss) on disposal		(275)	106
Plant and equipment			
	10		
Proceeds from disposal – plant and equipment		627	1,370
Less: carrying amount of plant and equipment assets sold/written off		(535)	(1,224)
Net gain/(loss) on disposal		92	146
Infrastructure			
	10		
Less: carrying amount of infrastructure assets sold/written off		(1,298)	(944)
Net gain/(loss) on disposal		(1,298)	(944)
Investments			
	6(b)		
Proceeds from disposal/redemptions/maturities – investments		69,062	44,514
Less: carrying amount of investments sold/redeemed/matured		(69,062)	(44,514)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(1,481)	(692)

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 derecognised.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	10,984	4,839
Cash-equivalent assets		
– Deposits at call	3,099	1,069
Total cash and cash equivalents	14,083	5,908

Accounting policy for cash and cash equivalents

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

Note 6(b). Investments

\$ '000	2019 Current	2018 Current
Investments		
a. 'Financial assets at fair value through profit and loss'		
– 'Held for trading'	73,145	63,081
Total Investments	73,145	63,081
<u>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</u>	<u>87,228</u>	<u>68,989</u>
Financial assets at fair value through the profit and loss		
Long term deposits	58,000	49,000
NCD's, FRN's (with maturities > 3 months)	15,145	14,081
Total	73,145	63,081

Accounting policy for investments

Accounting policy under AASB 9 – applicable from 1 July 2018

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument. On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

Financial assets through profit or loss

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

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

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

Classification

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

Recognition and derecognition

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

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

Impairment of financial assets

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

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

\$ '000	2019 Current	2018 Current
Total cash, cash equivalents and investments	87,228	68,989
attributable to:		
External restrictions	31,289	18,923
Internal restrictions	47,674	45,520
Unrestricted	8,265	4,546
	<u>87,228</u>	<u>68,989</u>

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	2019	2018
Details of restrictions		
External restrictions – other		
Developer contributions – general	20,147	13,449
Specific purpose unexpended grants	3,846	1,276
Domestic waste management	5,734	2,861
Environment levy	1,027	984
Infrastructure levy	–	24
Mainstreet levies	133	56
Other specific purpose contributions	388	235
Waste and sustainability improvement funds	14	38
External restrictions – other	31,289	18,923
Total external restrictions	31,289	18,923
Internal restrictions		
Capital works	18,150	14,585
Community housing – capital purchases	963	963
Community housing – major maintenance	1,632	1,364
Deposits, retentions and bonds	9,978	10,549
Employees leave entitlement	8,149	7,425
I.T. hardware and software	193	781
Income producing projects	5,724	6,015
Insurance	625	851
Loan principal	836	1,425
Plant and vehicle replacement	1,424	539
Property maintenance	–	1,023
Total internal restrictions	47,674	45,520
TOTAL RESTRICTIONS	78,963	64,443

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
Rates and annual charges	770	336	444	194
Interest and extra charges	23	96	24	75
User charges and fees	1,462	–	1,690	–
Accrued revenues				
– Interest on investments	438	–	940	–
– Other income accruals	1,679	–	1,310	–
Government grants and subsidies	124	–	2,330	–
Net GST receivable	800	–	783	–
Outstanding infringements	850	–	1,004	–
Other debtors	18	18	5	18
Total	6,164	450	8,530	287
Less: provision of impairment				
User charges and fees	(197)	–	(133)	–
Total provision for impairment – receivables	(197)	–	(133)	–
TOTAL NET RECEIVABLES	5,967	450	8,397	287
Externally restricted receivables				
Domestic waste management	206	–	185	–
Stormwater management	10	–	10	–
Other				
– Environmental levy	35	–	33	–
– Infrastructure levy	31	–	30	–
– Mainstreet levies	14	–	9	–
Total external restrictions	296	–	267	–
Unrestricted receivables	5,671	450	8,130	287
TOTAL NET RECEIVABLES	5,967	450	8,397	287

\$ '000	2019	2018
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 9)	133	133
Balance at the end of the period	133	133

Accounting policy for receivables

Recognition and measurement

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

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

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

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

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

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

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

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

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

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired.

When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

Rates and annual charges outstanding are secured against the property.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets

\$ '000	2019 Current	2018 Current
(a) Inventories		
Inventories at cost		
Stores and materials	2	–
Trading stock	55	58
Total inventories at cost	<u>57</u>	<u>58</u>
<u>TOTAL INVENTORIES</u>	<u>57</u>	<u>58</u>
 (b) Other assets		
Prepayments	244	282
<u>TOTAL OTHER ASSETS</u>	<u>244</u>	<u>282</u>

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.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Non-current assets classified as held for sale

(i) Non-current assets

\$ '000	2019 Current	2018 Current
Non-current assets 'held for sale'		
Investment Property	4,500	–
Total non-current assets 'held for sale'	<u>4,500</u>	<u>–</u>

(ii) Reconciliation of non-current assets 'held for sale'

\$ '000	2019 Assets 'held for sale'	2018 Assets 'held for sale'
Opening balance	–	–
<u>Plus new transfers in:</u>		
– Assets 'held for sale'	4,500	–
Closing balance of 'held for sale' non-current assets	<u>4,500</u>	<u>–</u>

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2018 ²			Asset movements during the reporting period						as at 30/6/2019		
	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	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	6,935	–	6,935	1,785	700	–	–	(2,096)	–	7,324	–	7,324
Plant and equipment	16,995	(8,621)	8,374	1,164	115	(535)	(1,937)	185	–	17,277	(9,911)	7,366
Office equipment	18,158	(15,761)	2,397	1,091	95	–	(931)	102	–	19,445	(16,691)	2,754
Furniture and fittings	8,747	(5,314)	3,433	86	6	–	(522)	20	–	8,859	(5,836)	3,023
Land:												
– Operational land	153,661	–	153,661	–	–	–	–	–	–	153,661	–	153,661
– Community land	156,266	–	156,266	–	62	–	–	–	–	156,328	–	156,328
Land improvements – depreciable	18,095	(3,976)	14,119	–	400	–	(625)	27	–	18,522	(4,601)	13,921
Infrastructure:												
– Buildings – non-specialised	1,266	(395)	871	134	–	–	(31)	14	–	1,415	(427)	988
– Buildings – specialised	203,574	(76,303)	127,271	2,774	134	(275)	(2,706)	473	–	206,498	(78,827)	127,671
– Other structures	2,218	(43)	2,175	–	5	–	(46)	–	–	2,223	(89)	2,134
– Roads	323,244	(111,221)	212,023	7,508	1,137	(676)	(5,637)	491	–	329,828	(114,982)	214,846
– Footpaths	91,424	(33,395)	58,029	5,981	–	(622)	(2,687)	346	–	95,945	(34,898)	61,047
– Stormwater drainage	196,433	(68,443)	127,990	2,080	193	–	(2,016)	165	–	198,872	(70,460)	128,412
– Swimming pools	22,471	(9,608)	12,863	9	–	–	(381)	8	–	22,488	(9,989)	12,499
– Other open space / recreational assets	11,145	(7,528)	3,617	385	108	–	(788)	12	1,056	11,648	(7,258)	4,390
– Other infrastructure	222,388	(101,396)	120,992	1,982	528	–	(3,360)	253	–	225,151	(104,756)	120,395
Other assets:												
– Heritage collections	2,388	(894)	1,494	–	5	–	(52)	–	–	2,393	(946)	1,447
– Library books	2,324	(1,231)	1,093	367	–	–	(392)	–	–	2,331	(1,263)	1,068
Total Infrastructure, property, plant and equipment	1,457,732	(444,129)	1,013,603	25,346	3,488	(2,108)	(22,111)	–	1,056	1,480,208	(460,934)	1,019,274

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

(2) These columns have been restated

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	as at 30/6/2017 ²			Asset movements during the reporting period							as at 30/6/2018 ²		
	Gross carrying amount restated	Accumulated depreciation restated	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount restated	Accumulated depreciation restated	Net carrying amount
Capital work in progress	25,296	–	25,296	1,681	623	–	–	(20,665)	–	–	6,935	–	6,935
Plant and equipment	16,204	(8,403)	7,801	3,779	–	(1,224)	(1,982)	–	–	–	16,995	(8,621)	8,374
Office equipment	17,689	(14,887)	2,802	404	175	(21)	(963)	–	–	–	18,158	(15,761)	2,397
Furniture and fittings	8,499	(4,812)	3,687	159	69	–	(502)	20	–	–	8,747	(5,314)	3,433
Land:													
– Operational land	81,247	–	81,247	–	3,831	–	–	–	–	68,583	153,661	–	153,661
– Community land	156,266	–	156,266	–	–	–	–	–	–	–	156,266	–	156,266
Land improvements – depreciable	16,856	(3,464)	13,392	326	855	–	(512)	58	–	–	18,095	(3,976)	14,119
Infrastructure:													
– Buildings – non-specialised	2,194	(1,613)	581	77	–	–	(38)	–	–	251	1,266	(395)	871
– Buildings – specialised	168,001	(83,849)	84,152	4,604	2,322	–	(3,151)	17,514	214	21,616	203,574	(76,303)	127,271
– Other structures	1,209	(17)	1,192	–	935	–	(26)	74	–	–	2,218	(43)	2,175
– Roads	316,513	(110,181)	206,332	8,965	1,080	(685)	(3,818)	149	–	–	323,244	(111,221)	212,023
– Footpaths	84,098	(32,822)	51,276	8,105	167	(259)	(1,709)	449	–	–	91,424	(33,395)	58,029
– Stormwater drainage	193,877	(66,778)	127,099	2,284	187	–	(1,665)	85	–	–	196,433	(68,443)	127,990
– Swimming pools	25,093	(14,705)	10,388	56	–	–	(397)	–	–	2,816	22,471	(9,608)	12,863
– Other open space/recreational assets	10,072	(6,981)	3,091	549	268	–	(547)	256	–	–	11,145	(7,528)	3,617
– Other infrastructure	213,658	(98,095)	115,563	4,808	2,175	–	(3,400)	2,060	(214)	–	222,388	(101,396)	120,992
Other assets:													
– Heritage collections	2,277	(790)	1,487	26	11	–	(30)	–	–	–	2,388	(894)	1,494
– Library books	7,403	(6,313)	1,090	390	–	–	(387)	–	–	–	2,324	(1,231)	1,093
Total Infrastructure, property, plant and equipment	1,346,452	(453,710)	892,742	36,213	12,698	(2,189)	(19,127)	–	–	93,266	1,457,732	(444,129)	1,013,603

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

(2) These columns have been restated

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent 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.

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

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

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

Land is not depreciated. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Council will obtain ownership at the end of the lease term. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Plant and equipment	Years	Buildings	Years
Office equipment	3 to 10	Buildings	25 to 150
Computer equipment	3 to 8	Building components	
Furniture	5 to 10	Substructure	60 to 200
Vehicles	5	Superstructure	60 to 200
Other plant and equipment	5 to 10	Roof cladding	50 to 60
		Finishes	25 to 30
Transportation assets	Years	Fittings	25 to 30
Sealed roads: surface	15 to 50	Mechanical services	30 to 40
Sealed roads: structure	60 to 100	Other services	50 to 60
Sealed roads: formation	200		
Kerb and gutter	70	Other sport and recreation assets	Years
Footpaths	10 to 50	Playgrounds	20
Traffic facilities	50	Sports lighting	10 to 25
Street furniture	15 to 50	Park furniture	10
Bus shelters	50	Sport and fitness	10 to 20
		Other	10 to 20
Stormwater drainage assets	Years	Swimming pools	20 to 200
Drainage pipes	70 to 100		
Drainage pits	80	Depreciable land improvements	Years
Culverts	70 to 100	Depreciable land improvements	5 to 100
Gross pollutant traps	80		
Other infrastructure	Years	Other	Years
Lighting	20 to 35	Library collection	5
Seawalls	110	Heritage collection	10 to 100
Marine structures	25 to 50		
Fences	20 to 80		
Retaining walls	90		

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Land under roads

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

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

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

Crown reserves

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

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.

Note 11. Investment property

\$ '000	2019	2018
(a) Investment property at fair value		
Investment property on hand	95,512	97,740
Reconciliation of annual movement:		
Opening balance	97,740	97,623
– Capitalised expenditure – this year	67	329
– Net gain/(loss) from fair value adjustments	2,205	(212)
– Classified as held for sale	(4,500)	–
CLOSING BALANCE – INVESTMENT PROPERTY	95,512	97,740

(b) Valuation basis

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

The 2019 revaluations were based on independent assessments made by:
Adam Wallace AAPI CPV.

(c) Contractual obligations at reporting date

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Investment property (continued)

\$ '000	2019	2018
(d) Leasing arrangements – Council as lessor		
The investment properties are leased to tenants under long-term operating leases with rentals payable monthly.		
Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:		
Within 1 year	5,925	6,064
Later than 1 year but less than 5 years	12,219	13,880
Later than 5 years	11,890	14,729
Total minimum lease payments receivable	30,034	34,673
(e) Investment property income and expenditure – summary		
Rental income from investment property:		
– Minimum lease payments	6,071	6,193
Direct operating expenses on investment property:		
– that generated rental income	(2,548)	(2,317)
Net revenue contribution from investment property	3,523	3,876
plus:		
Fair value movement for year	2,205	(212)
Total income attributable to investment property	5,728	3,664

Accounting policy for investment property

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services – operating expenditure	5,568	–	4,746	–
Goods and services – capital expenditure	3,650	–	3,382	41
Accrued expenses:				
– Borrowings	60	–	14	–
– Salaries and wages	848	–	481	–
– Other expenditure accruals	347	–	1,174	–
Security bonds, deposits and retentions	9,978	–	10,550	–
Other	316	–	309	–
Total payables	20,767	–	20,656	41
Income received in advance				
Payments received in advance	2,613	–	1,233	–
Total income received in advance	2,613	–	1,233	–
Borrowings				
Loans – secured ¹	811	8,100	9,500	–
Total borrowings	811	8,100	9,500	–
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>24,191</u>	<u>8,100</u>	<u>31,389</u>	<u>41</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	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Domestic waste management	1,330	–	782	–
Special rate levies	146	–	111	–
Stormwater management	–	–	4	–
Payables and borrowings relating to externally restricted assets	1,476	–	897	–
Total payables and borrowings relating to restricted assets	1,476	–	897	–
Total payables and borrowings relating to unrestricted assets	22,715	8,100	30,492	41
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>24,191</u>	<u>8,100</u>	<u>31,389</u>	<u>41</u>

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

\$ '000	2019	2018
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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	7,136	7,361
Total payables and borrowings	7,136	7,361

(c) Changes in liabilities arising from financing activities

\$ '000	as at 30/6/2018					as at 30/6/2019
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	9,500	(589)	–	–	–	8,911
TOTAL	9,500	(589)	–	–	–	8,911

\$ '000	as at 30/6/2017					as at 30/6/2018
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	9,500	–	–	–	–	9,500
TOTAL	9,500	–	–	–	–	9,500

\$ '000	2019	2018
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(d) Financing arrangements**(i) Unrestricted access was available at balance date to the following lines of credit:**

Bank overdraft facilities ¹	500	500
Credit cards/purchase cards	350	350
Total financing arrangements	850	850

Undrawn facilities as at balance date:

– Bank overdraft facilities	500	500
– Credit cards/purchase cards	350	350
Total undrawn financing arrangements	850	850

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. 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 the Council comprise trade payables, bank and other loans.

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.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	3,845	–	3,571	–
Sick leave	93	–	86	–
Long service leave	8,749	278	8,290	184
Gratuities	3,285	–	2,671	–
Other leave – RDO's	49	–	49	–
Sub-total – aggregate employee benefits	16,021	278	14,667	184
<u>TOTAL PROVISIONS</u>	<u>16,021</u>	<u>278</u>	<u>14,667</u>	<u>184</u>

(a) Provisions relating to restricted assets

Externally restricted assets				
Domestic waste management	258	4	210	2
Provisions relating to externally restricted assets	258	4	210	2
Total provisions relating to restricted assets	258	4	210	2
Total provisions relating to unrestricted assets	15,763	274	14,457	182
<u>TOTAL PROVISIONS</u>	<u>16,021</u>	<u>278</u>	<u>14,667</u>	<u>184</u>

\$ '000	2019	2018
---------	------	------

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

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

Provisions – employees benefits	12,086	10,932
	<u>12,086</u>	<u>10,932</u>

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

(c) Description of and movements in provisions

\$ '000	ELE provisions					
	Annual leave	Sick leave	Long service leave	RDO's	Gratuities	Total
2019						
At beginning of year	3,571	86	8,474	49	2,671	14,851
Additional provisions	2,906	17	1,984	–	740	5,647
Amounts used (payments)	(2,632)	(10)	(1,431)	–	(126)	(4,199)
Total ELE provisions at end of period	3,845	93	9,027	49	3,285	16,299
2018						
At beginning of year	3,632	100	8,613	52	3,641	16,038
Additional provisions	2,739	–	1,240	–	655	4,634
Amounts used (payments)	(2,800)	(14)	(1,379)	(3)	(755)	(4,951)
Remeasurement effects	–	–	–	–	(870)	(870)
Total ELE provisions at end of period	3,571	86	8,474	49	2,671	14,851

Accounting policy for provisions

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

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

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.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. 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.

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

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

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

Nature of prior-period error

In accordance with applicable accounting standards Council made assessments during the reporting period to determine whether the carrying amount of each asset class was materially consistent with its fair value. The assessments identified material differences between the carrying amount and fair value of the land improvements and other open space and recreation assets asset classes resulting from three separate issues.

Some expenditure initially capitalised under the land improvements and other open space and recreation assets classes in prior periods was found to relate to construction of physical assets that Council classifies under the footpaths and other infrastructure asset classes. Investigations determined that these assets had been included in revaluations of the footpaths and other infrastructure assets classes completed in prior periods and were therefore overstated. The carrying amount of assets overstated as a result of this error was \$6.7 million in total, \$6.5 million under the land improvements asset class and \$200,000 under the other open space and recreation assets asset class.

The carrying amounts of both asset classes were also found to include a small number of assets that had been disposed of in prior periods and were therefore overstated. The carrying amount of assets overstated as a result of this error was \$900,000 in total of which nearly all was for assets classified under the land improvements asset class.

In previous reporting periods Council has used depreciated historic cost as a representation of fair value for the land improvements and other open space and recreation assets asset classes. Council's assessment of the carrying amount of these asset classes compared with their fair value showed that this approach did not provide an accurate representation of fair value. As there was insufficient time to complete a comprehensive valuation of both asset classes in the current reporting period the depreciated historic cost of assets within these classes were indexed using the Rawlinsons Construction Cost Guide Sydney Building index to improve the approximation of fair value and reduce the likelihood of a material difference between the carrying amount and fair value for both classes. As a result, the carrying amount of the land improvements asset class was increased by \$2.8 million and the carrying amount of the other open space and recreation assets asset class was increased by \$300,000. Council will complete a comprehensive valuation of both asset classes that will be included in the general-purpose financial statements for the next reporting period.

The errors identified above have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2017) and taking the adjustment through to the accumulated surplus and revaluation reserves at that date.

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

Statement of Financial Position

\$ '000	Original Balance 1 July, 2017	Impact Increase/ (decrease)	Restated Balance 1 July, 2017
Changes to the opening Statement of Financial Position at 1 July 2017			
Infrastructure, property, plant and equipment	897,298	(4,556)	892,742
Total assets	1,086,274	(4,556)	1,081,718
Total liabilities	47,691	–	47,691
Accumulated surplus	773,971	2,150	776,121
Revaluation reserves	264,612	(6,706)	257,906
Total equity	1,038,583	(4,556)	1,034,027

Adjustments to the comparative figures for the year ended 30 June 2018

Statement of Financial Position

\$ '000	Original Balance 30 June, 2018	Impact Increase/ (decrease)	Restated Balance 30 June, 2018
Infrastructure, property, plant and equipment	1,018,159	(4,556)	1,013,603
Total assets	1,193,925	(4,556)	1,189,369
Total liabilities	46,281	–	46,281
Accumulated surplus	789,766	2,150	791,916
Revaluation reserves	357,878	(6,706)	351,172
Total equity	1,147,644	(4,556)	1,143,088

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

During the year, Council adopted a number of new accounting standards. The impact of the adoption and associated transition disclosures are shown below.

Classification of financial assets

The financial assets of Council have been reclassified into one of the following categories on adoption of AASB 9, based primarily on the business model in which a financial asset is managed and its contractual cash flow characteristics are:

- measured at amortised cost
- fair value through profit or loss
- fair value through other comprehensive income – equity instruments

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an ECL model in AASB 9 for assets measured at amortised cost. This has resulted in the earlier recognition of credit loss (bad debt provisions).

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	14,083	5,908
Balance as per the Statement of Cash Flows		14,083	5,908
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		20,508	15,795
Adjust for non-cash items:			
Depreciation and amortisation		22,111	19,127
Net losses/(gains) on disposal of assets		1,481	692
Non-cash capital grants and contributions		(62)	–
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		(91)	11
– Investment property		(2,205)	212
Share of net (profits)/losses of associates/joint ventures using the equity method		3	20
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		2,203	1,539
Increase/(decrease) in provision for impairment of receivables		64	–
Decrease/(increase) in inventories		1	(12)
Decrease/(increase) in other current assets		38	(9)
Increase/(decrease) in payables		822	457
Increase/(decrease) in accrued interest payable		46	1
Increase/(decrease) in other accrued expenses payable		(460)	427
Increase/(decrease) in other liabilities		815	908
Increase/(decrease) in provision for employee benefits		1,448	(1,187)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		46,722	37,981
(c) Non-cash investing and financing activities			
S7.4 contributions 'in kind'		62	–
Total non-cash investing and financing activities		62	–

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Interests in other entities

\$ '000	Council's share of net income		Council's share of net assets	
	2019	2018	2019	2018
Joint ventures	(3)	(20)	10	13
Total	(3)	(20)	10	13

Joint arrangements

(i) Joint ventures

The following information is provided for joint ventures that are individually material to the Council. Included are the total amounts as per the joint venture 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	2019	2018
			Shorelink Library Network	Joint venture
Total carrying amounts – material joint ventures			10	13

(b) Details

Principal activity		Place of business
Shorelink Library Network	Automation of regional public library services	North Sydney

(c) Relevant interests and fair values

	Interest in outputs		Interest in ownership		Proportion of voting power	
	Shorelink Library Network	38.7%	31.4%	33.3%	32.1%	33.3%

(d) Summarised financial information for joint ventures

\$ '000	Shorelink Library Network	
	2019	2018
Statement of financial position		
Current assets		
Cash and cash equivalents	79	141
Other current assets	2	10
Non-current assets	1	2
Current liabilities		
Other current liabilities	51	111
Net assets	31	42
Reconciliation of the carrying amount		
Opening net assets (1 July)	42	137

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Interests in other entities (continued)

\$ '000	Shorelink Library Network	
	2019	2018
Profit/(loss) for the period	(11)	(95)
Closing net assets	31	42
Council's share of net assets (%)	33.3%	32.1%
Council's share of net assets (\$)	10	13
Statement of comprehensive income		
Income	370	574
Interest income	2	3
Depreciation and amortisation	(2)	(3)
Other expenses	(371)	(628)
Profit/(loss) from continuing operations	(1)	(54)
Profit/(loss) for the period	(1)	(54)
Total comprehensive income	(1)	(54)
Share of income – Council (%)	38.7%	31.4%
Profit/(loss) – Council (\$)	–	(20)
Total comprehensive income – Council (\$)	–	(20)

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Commitments

\$ '000	2019	2018
Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	253	2,045
Computer equipment	202	240
Infrastructure	7,386	11,609
Library books	15	8
Other structures	248	217
Plant and equipment	300	341
Total commitments	8,404	14,460
These expenditures are payable as follows:		
Within the next year	8,404	14,460
Total payable	8,404	14,460
Sources for funding of capital commitments:		
Unrestricted general funds	15	17
Section 7.11 and 64 funds/reserves	661	3,221
Unexpended grants	3,263	1,037
Externally restricted reserves	221	377
Internally restricted reserves	4,244	9,808
Total sources of funding	8,404	14,460

Details of capital commitments

Infrastructure Capital works in North Sydney CBD, Neutral Bay and Cremorne.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Contingencies and other assets/liabilities not recognised

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council participates in an employer-sponsored defined benefit superannuation scheme, and makes contributions as determined by the superannuation scheme's trustees.

Member councils bear responsibility of ensuring there are sufficient funds available to pay out the required benefits as they fall due.

The schemes most recent full actuarial review indicated that the net assets of the scheme were not sufficient to meet the accrued benefits of the schemes defined member category with member councils required to make significantly higher contributions in future years.

The Local Government Superannuation Scheme is a defined benefit plan that has been deemed to be a "multi-employer fund" for the purposes of AASB 119 Employee Benefits. Accordingly, Council has not recorded any net liability from its defined benefit scheme obligations in accordance with AASB 119.

Future contributions made to the defined benefit scheme to rectify the net deficit position will be recognised as an expense when they become payable - similar to the accounting for defined contributions plan.

(ii) Statewide Limited

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

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

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

(iii) Other guarantees

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

2. Other liabilities

(i) Third party claims

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

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

(ii) Potential land acquisitions due to planning restrictions imposed by Council

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Contingencies and other assets/liabilities not recognised (continued)

(iii) Legal Claims

Council is the planning authority for its area under the Environmental Planning and Assessment Act 1979. Pursuant to that Act, certain persons dissatisfied by a planning decision of the Council may appeal to the Land and Environment Court. It is the Court's normal practice in Class 1 proceedings that parties bear their own legal costs. In Class 4 proceedings, costs usually follow the event.

As at 30 June 2019, there were twenty eight (28) Land and Environment Court matters ongoing and nine (9) Local Court matters to be prosecuted. All known costs have been recognised but the amount of further costs cannot be known until the appeals are determined.

ASSETS NOT RECOGNISED

(i) Land under roads

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

(ii) Repayment of community funds

In 2001, Council entered into an agreement to fund building works relating to child care services in return for specific and continuing obligations from the service provider in relation to the provision of additional child care services.

In the event that such services are not provided to the levels agreed, Council has the right to be repaid its contribution to the building works at a rate amortised over the term of the agreement.

Council is not aware of any circumstances that would require it to seek the repayment of the funds in accordance with the Contractual Deed of Agreement.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management

Risk management

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

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

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk. Financial risk management is carried out by Council's finance section under policies approved by the Council.

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

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	14,083	5,908	14,083	5,908
Receivables	6,417	8,684	6,417	8,684
Fair value through profit and loss				
Investments				
– 'Held for trading'	73,145	63,081	73,145	63,081
Total financial assets	93,645	77,673	93,645	77,673
Financial liabilities				
Payables	20,767	20,697	20,767	20,697
Loans/advances	8,911	9,500	8,911	9,500
Total financial liabilities	29,678	30,197	29,678	30,197

Fair value is determined as follows:

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

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

Council's Finance area manages the cash and investments portfolio with the assistance of independent advisors.

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

The risks associated with the instruments held are:

- **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.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

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

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

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 10% movement in market values	1,514,526	1,514,526	(1,514,526)	(1,514,526)
Possible impact of a 1% movement in interest rates	873,994	873,994	(873,994)	(873,994)
2018				
Possible impact of a 10% movement in market values	1,412	1,412	(1,412)	(1,412)
Possible impact of a 1% movement in interest rates	692	692	(692)	(692)

(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. Council also encourages ratepayers to pay their rates by the due date through incentives.

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

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

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors. There are no material receivables that have been subjected to a re-negotiation of repayment terms.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

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	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
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Credit risk profile

2019

Gross carrying amount	770	264	8	23	41	1,106
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2018

Gross carrying amount	444	122	8	23	41	638
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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 2019 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
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2019

Gross carrying amount	4,710	134	110	16	538	5,508
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Expected loss rate (%)	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%
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ECL provision	7	–	–	–	1	8
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2018

Gross carrying amount	7,575	187	48	12	357	8,179
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Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
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ECL provision	–	–	–	–	–	–
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(c) Liquidity risk

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

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

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

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk 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 and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2019							
Trade/other payables	0.00%	9,978	10,789	–	–	20,767	20,767
Loans and advances	4.02%	–	1,159	5,793	3,765	10,717	8,911
Total financial liabilities		9,978	11,948	5,793	3,765	31,484	29,678
2018							
Trade/other payables	0.00%	10,550	10,106	–	–	20,656	20,697
Loans and advances	2.65%	–	336	1,770	10,503	12,609	9,500
Total financial liabilities		10,550	10,442	1,770	10,503	33,265	30,197

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Material budget variations

Council's original budget for 2018/19 was adopted by the Council on 25 June 2018 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	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
Rates and annual charges	59,293	58,831	(462)	(1)% U
User charges and fees	29,640	33,691	4,051	14% F
Additional revenue generated from increased development in the North Sydney CBD resulted in Construction Zone and Plant Permit fees exceeding original forecasts by \$1.1M and \$631K respectively. Greater than expected revenue from road and footpath reinstatement fees (\$836K), on-street parking fees (\$802K), off-street parking fees (\$351K) and North Sydney Olympic Pool fees (\$294K) also contributed significantly to the favourable variance for this line item.				
Interest and investment revenue	1,645	2,407	762	46% F
Council traditionally adopts a conservative approach when budgeting for returns from its investment portfolio. This, along with a greater than anticipated pool of funds available for investment due to delays in the commencement and/or completion of some capital projects and the increased revenue from user charges and fees and grants and contributions, was the reason for the favourable variance in interest and investment revenue.				
Other revenues	15,590	16,907	1,317	8% F
Operating grants and contributions	4,335	5,550	1,215	28% F
The actual amount of grants received often depends on decisions made by the State and Commonwealth governments after the original budget was adopted. Subsequent to the adoption of the budget, Council received a \$750,000 grant from the NSW Department of Planning and Environment to fund the acceleration of Council's Local Environmental Plan Review Program. This grant and additional revenue from the Family Day Care Child Care Assistance Subsidy and the R.M.S. Regional Roads Repair Program contribution was the main reason for the favourable variance for this line item.				
Capital grants and contributions	4,850	15,773	10,923	225% F
The favourable variance for this line item can be primarily attributed to greater than expected revenue from developer contributions which exceeded the amount originally forecast by \$9.2M. Subsequent to the adoption of the original budget, Council received funding of \$3.2M from Transport for NSW for urban landscaping works along the Military Road corridor in conjunction with the Northern Beaches B-Line Program. Partially offsetting this, the receipt of a budgeted \$1.75M grant from the NSW Department of Planning and Environment towards the Hume Street Park redevelopment in Crows Nest was delayed until 2019/20.				
Net gains from disposal of assets	402	–	(402)	100% U
During the year, property and infrastructure assets with a carrying amount of \$1.6M were replaced. The resulting write-off turned the forecast modest gain from the disposal of assets into a loss thus creating an unfavourable variance for this line item.				
Fair value increment on investment property	1,005	2,205	1,200	119% F
Council has entered into a contract for the sale of one investment property, the terms of which included a delayed settlement. The sale price of this property represented a significant premium over its previous fair value. The fair value of the property was adjusted at balance date and this resulted in the favourable variance for this line item.				

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Material budget variations (continued)

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
EXPENSES				
Employee benefits and on-costs	44,214	44,992	(778)	(2)% U
Borrowing costs	336	367	(31)	(9)% U
Materials and contracts	34,563	36,799	(2,236)	(6)% U
Depreciation and amortisation	21,000	22,111	(1,111)	(5)% U
Other expenses	9,321	9,103	218	2% F
Net losses from disposal of assets	–	1,481	(1,481)	∞ U
As disclosed above, property assets with a carrying amount of \$1.6M were replaced during the year. The resulting write-off turned the forecast modest gain from the disposal of assets into a loss thus creating an unfavourable variance on this line item.				
Joint ventures and associates – net losses	–	3	(3)	∞ U

STATEMENT OF CASH FLOWS

Net cash provided from (used in) operating activities	23,906	46,722	22,816	95% F
As disclosed above, the amount of revenue raised from user charges and fees, interest from investments and grants and contributions was well in excess of that forecast in the original budget and this was the reason for the favourable variance in net cash provided from operating activities.				
Net cash provided from (used in) investing activities	(18,189)	(37,958)	(19,769)	109% U
While \$13.3 million of funding allocated to capital projects in 2018/19 remained unspent at 30 June 2019, \$18 million was unspent at 30 June 2018, carried forward and subsequently spent during 2018/19. The difference of \$4.7 million was not forecast when the original budget was prepared and this was the main reason for the unfavourable variance in net cash used in investing activities.				
Net cash provided from (used in) financing activities	–	(589)	(589)	∞ U
During the year, Council restructured its loan portfolio from interest only repayments to principal and interest repayments. The unbudgeted repayments in loan principal was the reason for the unfavourable variance in net cash used in financing activities.				

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement

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

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

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

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

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

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

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

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

2019	Notes	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobserv- able inputs	
Recurring fair value measurements					
Financial assets					
Investments	6(b)				
– 'Held for trading'		–	58,141	–	58,141
Total financial assets		–	58,141	–	58,141
Financial liabilities					
Total financial liabilities	12	–	–	–	–
Investment property					
Investment properties	11	–	95,512	–	95,512
Total investment property		–	95,512	–	95,512
Infrastructure, property, plant and equipment					
Plant and equipment	10	–	–	7,366	7,366
Office equipment		–	–	2,754	2,754
Furniture and fittings		–	–	3,023	3,023
Operational land		–	67,387	86,274	153,661
Community land		–	–	156,328	156,328
Land improvements – depreciable		–	–	13,921	13,921
Buildings – non-specialised		–	830	158	988
Buildings – specialised		–	26	127,645	127,671
Other structures		–	–	2,134	2,134
Roads		–	–	214,846	214,846
Footpaths		–	–	61,047	61,047
Stormwater drainage		–	–	128,412	128,412
Swimming pools		–	–	12,499	12,499
Other open space/recreation assets		–	–	4,390	4,390
Other infrastructure assets		–	–	120,395	120,395
Heritage collections		–	–	1,447	1,447
Library books		–	–	1,068	1,068
Total infrastructure, property, plant and equipment		–	68,243	943,707	1,011,950

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

2019	Notes	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobserv- able inputs	
Non-recurring fair value measurements					
Non-current assets classified as 'held for sale'					
Investment property	9	–	4,500	–	4,500
Total NCA's classified as 'held for sale'		–	4,500	–	4,500

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

2018	Notes	Fair value measurement hierarchy			Total ¹
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobserv- able inputs	
Recurring fair value measurements					
Financial assets					
Investments	6(b)				
– ‘Held for trading’		–	63,081	–	63,081
Total financial assets		–	63,081	–	63,081
Financial liabilities					
Total financial liabilities	12	–	–	–	–
Investment property					
Investment properties	11	–	97,740	–	97,740
Total investment property		–	97,740	–	97,740
Infrastructure, property, plant and equipment					
Plant and equipment	10	–	–	8,374	8,374
Office equipment		–	–	2,397	2,397
Furniture and fittings		–	–	3,433	3,433
Operational land		–	67,387	86,274	153,661
Community land		–	–	156,266	156,266
Land improvements – depreciable		–	–	14,119	14,119
Buildings – non-specialised		–	703	168	871
Buildings – specialised		–	28	127,243	127,271
Other structures		–	–	2,175	2,175
Roads		–	–	212,023	212,023
Footpaths		–	–	58,029	58,029
Stormwater drainage		–	–	127,990	127,990
Swimming pools		–	–	12,863	12,863
Other open space/recreation assets		–	–	3,617	3,617
Other infrastructure assets		–	–	120,992	120,992
Heritage collections		–	–	1,494	1,494
Library books		–	–	1,093	1,093
Total infrastructure, property, plant and equipment		–	68,118	938,550	1,006,668
Non-recurring fair value measurements					
Non-current assets classified as ‘held for sale’					
Investment property	9	–	–	–	–
Total NCA’s classified as ‘held for sale’		–	–	–	–

(1) The 2018 table has been restated

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

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

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

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

Investment property

The market approach using level 2 inputs was used to value Council's investment properties.

Level 2 inputs:

- Quoted prices for similar assets in active markets
- Comparison of rate per square metre of floor area

The 2018 revaluations were based on Independent Assessments made by Ms Elise Wallace of Australis Advisory Group Pty Ltd. There has been no change to the valuation process during the reporting period.

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

Plant & Equipment

The cost approach using level 3 inputs was used to value Council's plant and equipment.

Level 3 inputs:

- Depreciated historic cost
- Useful life

Office Equipment

The cost approach using level 3 inputs was used to value Council's office equipment.

Level 3 inputs:

- Depreciated historic cost
- Useful life

Furniture & Fittings

The cost approach using level 3 inputs was used to value Council's furniture and fittings.

Level 3 inputs:

- Depreciated historic cost
- Useful life

Operational Land

The market approach using level 3 inputs was used to value Council's operational land.

Level 3 inputs:

- Rate per square metre from the sales evidence available

Community Land

The market approach using level 3 inputs was used to value Council's community land.

Level 3 inputs:

- Inputs to Valuer General valuations

Land Improvements - depreciable

The cost approach using level 3 inputs was used to value Council's depreciable land improvements.

Level 3 inputs:

- Depreciated historic cost
- Useful life

Non specialised buildings

The cost approach using level 3 inputs was used to value Council's non specialised buildings.

Level 3 inputs:

- Components
- Cost
- Residual value
- Useful life
- Asset condition

Specialised buildings

The cost approach using level 3 inputs was used to value Council's specialised buildings.

Level 3 inputs:

- Components
- Cost
- Residual value
- Useful life

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

- Asset condition

Roads

The cost approach using level 3 inputs was used to value Council's road assets.

Level 3 inputs:

- Unit rates
- Useful life
- Remaining life
- Residual value

Footpaths

The cost approach using level 3 inputs was used to value Council's footpath assets.

Level 3 inputs:

- Unit rates
- Useful life
- Remaining life
- Residual value

Stormwater Drainage

The cost approach using level 3 inputs was used to value Council's stormwater drainage assets.

Level 3 inputs:

- Unit rates
- Useful life
- Remaining life
- Residual value

Swimming Pools

The costs approach using level 3 inputs was used to value Council's swimming pools.

Level 3 inputs:

- Components
- Cost
- Residual value
- Useful life
- Asset condition

Open Space/Recreation Assets

The cost approach using level 3 inputs was used to value Council's open space/recreation assets.

Level 3 inputs:

- Depreciated historic cost
- Useful life

Other Infrastructure Assets

The cost approach using level 3 inputs was used to value Council's other infrastructure assets.

Level 3 inputs:

- Components
- Cost
- Residual value
- Useful life
- Asset condition

Heritage Collections

The cost approach using level 3 inputs was used to value Council's heritage collections.

Level 3 inputs:

- Depreciated historic cost
- Useful life

Library Books

The cost approach using level 3 inputs was used to value Council's library books.

Level 3 inputs:

- Depreciated historic cost
- Useful life

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

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

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

\$ '000	Plant and equipment	Office equipment	Furniture and fittings	Operational Land	Community Land
2018					
Opening balance	7,801	2,802	3,687	81,247	156,266
Transfers from/(to) level 2 FV hierarchy	–	–	–	(28,649)	–
Purchases (GBV)	3,779	579	248	3,831	–
Disposals (WDV)	(1,224)	(21)	–	–	–
Depreciation and impairment	(1,982)	(963)	(502)	–	–
FV gains – other comprehensive income	–	–	–	29,845	–
Closing balance	8,374	2,397	3,433	86,274	156,266
2019					
Opening balance	8,374	2,397	3,433	86,274	156,266
Purchases (GBV)	1,464	1,288	112	–	62
Disposals (WDV)	(535)	–	–	–	–
Depreciation and impairment	(1,937)	(931)	(522)	–	–
Closing balance	7,366	2,754	3,023	86,274	156,328

\$ '000	Land improvements depreciable	Buildings non specialised	Building specialised	Other structures	Roads
2018					
Opening balance	13,392	581	84,152	1,192	206,332
Transfers from/(to) level 2 FV hierarchy	–	(463)	(130)	–	–
Transfers from/(to) another asset class	–	–	214	–	–
Purchases (GBV)	1,239	–	24,440	1,009	10,194
Disposals (WDV)	–	–	–	–	(685)
Depreciation and impairment	(512)	(8)	(3,144)	(26)	(3,818)
FV gains – other comprehensive income	–	58	21,711	–	–
Closing balance	14,119	168	127,243	2,175	212,023
2019					
Opening balance	14,119	168	127,243	2,175	212,023
Purchases (GBV)	427	–	3,381	5	9,136
Disposals (WDV)	–	–	(275)	–	(676)
Depreciation and impairment	(625)	(10)	(2,704)	(46)	(5,637)
Closing balance	13,921	158	127,645	2,134	214,846

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

\$ '000	Footpaths	Stormwater drainage	Swimming pools	Open space / recreation assets	Other infrastructure assets
2018					
Opening balance	51,276	127,099	10,388	3,091	115,563
Transfers from/(to) another asset class	–	–	–	–	(214)
Purchases (GBV)	8,721	2,556	56	1,073	9,043
Disposals (WDV)	(259)	–	–	–	–
Depreciation and impairment	(1,709)	(1,665)	(397)	(547)	(3,400)
FV gains – other comprehensive income	–	–	2,816	–	–
Closing balance	58,029	127,990	12,863	3,617	120,992
2019					
Opening balance	58,029	127,990	12,863	3,617	120,992
Purchases (GBV)	6,327	2,438	17	505	2,763
Disposals (WDV)	(622)	–	–	–	–
Depreciation and impairment	(2,687)	(2,016)	(381)	(788)	(3,360)
FV gains – other comprehensive income	–	–	–	1,056	–
Closing balance	61,047	128,412	12,499	4,390	120,395

\$ '000		Heritage collection	Library books	Total
2018				
Opening balance		1,487	1,090	867,446
Transfers from/(to) level 2 FV hierarchy	21 4(b)	–	–	(29,242)
Purchases (GBV)		37	390	67,195
Disposals (WDV)		–	–	(2,189)
Depreciation and impairment		(30)	(387)	(19,090)
FV gains – other comprehensive income		–	–	54,430
Closing balance		1,494	1,093	938,550
2019				
Opening balance		1,494	1,093	938,550
Purchases (GBV)		5	367	28,297
Disposals (WDV)		–	–	(2,108)
Depreciation and impairment		(52)	(392)	(22,088)
FV gains – other comprehensive income		–	–	1,056
Closing balance		1,447	1,068	943,707

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 (30/6/19)	Valuation technique/s	Unobservable inputs
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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/19)	Valuation technique/s	Unobservable inputs
Infrastructure, property, plant and equipment			
Plant and equipment	7,366	Cost approach	Depreciated historic cost Useful life
Office equipment	2,755	Cost approach	Depreciated historic cost Useful life
Furniture and fittings	3,022	Cost approach	Depreciated historic cost Useful life
Operational Land	153,662	Market approach	Rate per square metre
Community Land	156,327	Market approach	Rate per square metre
Land improvements - depreciable	13,920	Cost approach	Depreciated historic cost Useful life
Buildings - non specialised	989	Cost approach	Components Cost Residual value Useful life Condition
Building - specialised	127,671	Cost approach	Components Cost Residual value Useful life Condition
Other structures	2,133	Cost approach	Depreciated historic cost Useful life
Roads	214,846	Cost approach	Unit Rates Useful life Remaining life Residual Value
Footpaths	61,048	Cost approach	Unit Rates Useful life Remaining life Residual Value
Stormwater drainage	128,410	Cost approach	Unit Rates Useful life Remaining life Residual Value
Swimming pools	12,499	Cost approach	Components Cost Residual value Useful life Condition
Open space / recreation assets	4,391	Cost approach	Depreciated historic cost Useful life
Other infrastructure assets	120,394	Cost approach	Components Cost Residual value Useful life
Heritage collection	1,446	Cost approach	Depreciated historic cost Useful life
Library books	1,068	Cost approach	Depreciated historic cost Useful life

(5) Highest and best use

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Related Party Transactions

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 KMP for North Sydney Council are the Mayor, Councillors, General Manager, Director of Corporate Services, Director of City Strategy, Director of Community and Library Services, Director of Engineering and Property Services, and Director of Open Space and Environmental Services.

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

\$ '000	2019	2018
Compensation:		
Short-term benefits (salaries, Mayoral Allowance, Councillors fees)	1,972	2,484
Post-employment benefits (superannuation)	148	145
Other long-term benefits (increase in employee leave entitlements)	53	(839)
Total	2,173	1,790

Note 23. Events occurring after the reporting date

Council is unaware of any material or significant 'non-adjusting events' that should be disclosed.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	as at 30/6/2018			as at 30/6/2019				
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Traffic Improvements	1,095	544	–	6	(105)	–	1,540	–
St Leonards Public Domain	696	157	–	4	(11)	–	846	–
Other Public Domain	396	33	–	2	–	–	431	–
North Sydney Public Domain	–	8,345	–	17	(3,281)	(1,210)	3,871	–
Open Space Increased Capacity	–	1,158	–	–	(1,192)	34	–	(4,476)
Open Space Acquisitions	4,127	571	–	53	–	930	5,681	6,234
Olympic Pool	31	165	–	–	(840)	644	–	(644)
Library Premises & Equipment	–	144	–	–	(10)	(134)	–	(286)
Library Acquisitions	64	47	–	1	–	–	112	–
Indoor Sports Centre	–	51	–	–	–	(24)	27	–
Community Centres	–	240	–	–	–	(240)	–	(828)
Child Care	1,486	322	–	7	(147)	–	1,668	–
Affordable Housing	3,403	–	–	16	–	–	3,419	–
Administration	547	85	–	3	–	–	635	–
S7.11 contributions – under a plan	11,845	11,862	–	109	(5,586)	–	18,230	–
Total S7.11 and S7.12 revenue under plans	11,845	11,862	–	109	(5,586)	–	18,230	–
S7.4 planning agreements	1,604	302	62	11	–	–	1,917	–
Total contributions	13,449	12,164	62	120	(5,586)	–	20,147	–

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. Statement of developer contributions (continued)

\$ '000	as at 30/6/2018						as at 30/6/2019	
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
S7.11 Contributions – under a plan								
NORTH SYDNEY PLAN 2004								
Administration	547	85	–	3	–	–	635	–
Affordable Housing	3,403	–	–	16	–	–	3,419	–
Indoor Sports Centre	–	51	–	–	–	(24)	27	–
Community Centres	–	240	–	–	–	(240)	–	(828)
Child Care	1,486	322	–	7	(147)	–	1,668	–
Library Premises & Equipment	–	144	–	–	(10)	(134)	–	(286)
Library Acquisitions	64	47	–	1	–	–	112	–
Olympic Pool	31	165	–	–	(840)	644	–	(644)
North Sydney Public Domain	–	8,345	–	17	(3,281)	(1,210)	3,871	–
Open Space Increased Capacity	–	1,158	–	–	(1,192)	34	–	(4,476)
Open Space Acquisitions	4,127	571	–	53	–	930	5,681	6,234
Other Public Domain	396	33	–	2	–	–	431	–
St Leonards Public Domain	696	157	–	4	(11)	–	846	–
Traffic Improvements	1,095	544	–	6	(105)	–	1,540	–
Total	11,845	11,862	–	109	(5,586)	–	18,230	–

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	Amounts	Indicator ³	Prior periods		Benchmark	
	2019	2019	2018	2017		2016
1. Operating performance ratio						
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	3,923	3.34%	7.08%	5.92%	1.46%	>0.00%
Total continuing operating revenue excluding capital grants and contributions	117,295					
2. Own source operating revenue ratio						
Total continuing operating revenue excluding all grants and contributions ¹	111,555	83.83%	89.35%	80.31%	63.67%	>60.00%
Total continuing operating revenue ¹	133,068					
3. Unrestricted current ratio						
Current assets less all external restrictions	66,411	3.45x	2.20x	3.51x	3.30x	>1.50x
Current liabilities less specific purpose liabilities	19,256					
4. Debt service cover ratio						
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	26,401	27.62x	91.17x	84.31x	62.39x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	956					
5. Rates, annual charges, interest and extra charges outstanding percentage						
Rates, annual and extra charges outstanding	1,225	2.06%	1.29%	1.13%	1.05%	<5.00%
Rates, annual and extra charges collectible	59,480					
6. Cash expense cover ratio						
Current year's cash and cash equivalents plus all term deposits	72,083	8.74	6.69	7.80	8.00	>3.00
Monthly payments from cash flow of operating and financing activities	8,251					

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

(2) Excludes impairment/revaluation decrements, net loss on sale of assets, and net loss on share of interests in joint ventures and associates

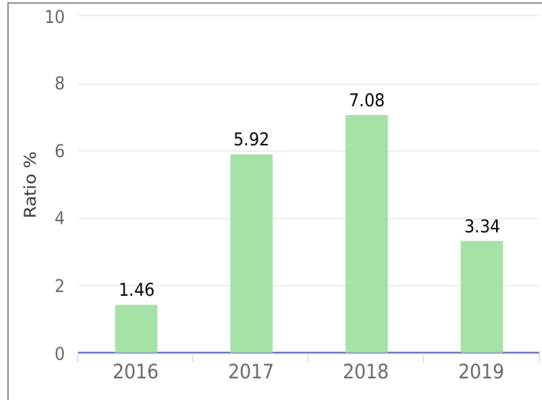
(3) Council includes "Land improvements – depreciable" as an asset class in these ratios

North Sydney Council

Notes to the Financial Statements
for the year ended 30 June 2019

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

1. Operating performance ratio



Purpose of operating performance ratio

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

Commentary on 2018/19 result

2018/19 ratio 3.34%

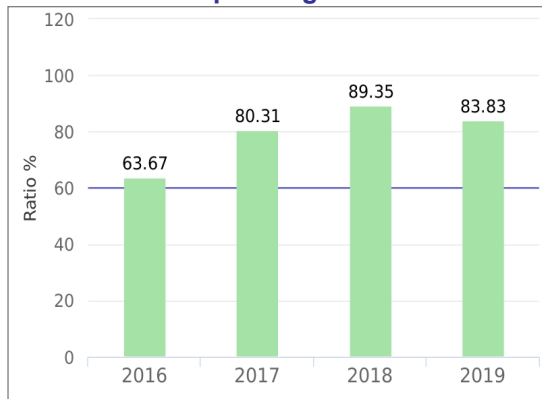
Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

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

Commentary on 2018/19 result

2018/19 ratio 83.83%

This ratio comfortably achieved the benchmark and has done so for many years. In 2018/19, 83.83% of Council's operating revenue was derived from internal funding sources, i.e. other than from grants and contributions.

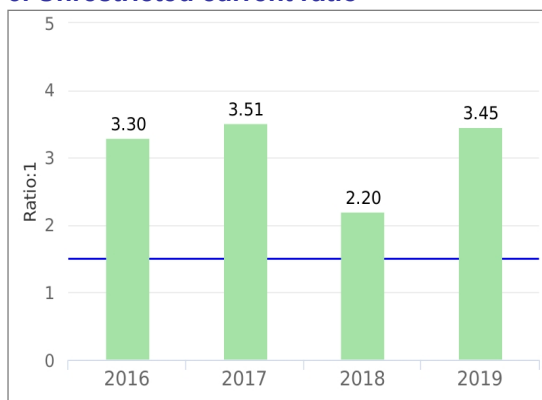
Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

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

Commentary on 2018/19 result

2018/19 ratio 3.45x

This ratio comfortably achieved the benchmark and has done so for many years. This is a reflection of Council's ongoing capacity to meet obligations for its unrestricted activities in the short term. At 30 June 2019, for every \$1 of current liabilities to be funded from unrestricted cash, \$3.45 was available.

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

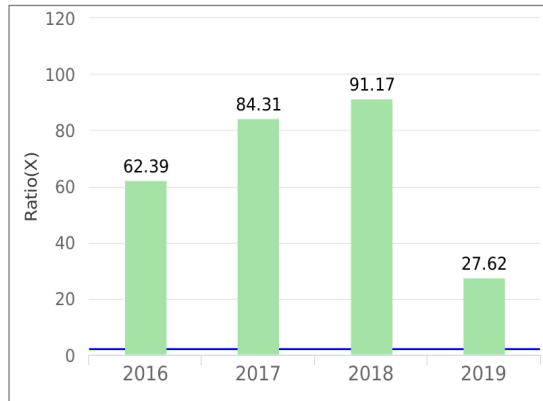
Ratio is outside benchmark

North Sydney Council

Notes to the Financial Statements
for the year ended 30 June 2019

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

4. Debt service cover ratio



Purpose of debt service cover ratio

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

Commentary on 2018/19 result

2018/19 ratio 27.62x

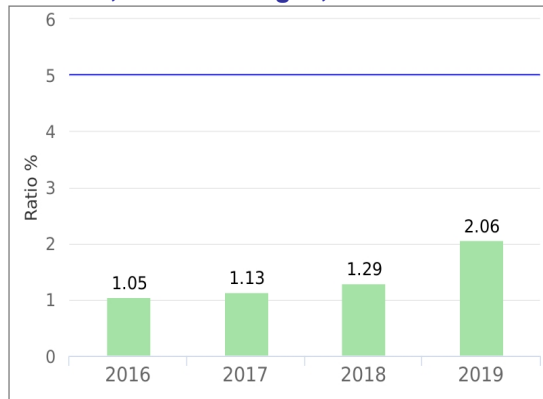
Benchmark: — > 2.00x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

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



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

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

Commentary on 2018/19 result

2018/19 ratio 2.06%

While increasing over the past four years, this ratio still comfortably achieved the benchmark. This is a reflection of the ongoing effectiveness of Council's recovery efforts.

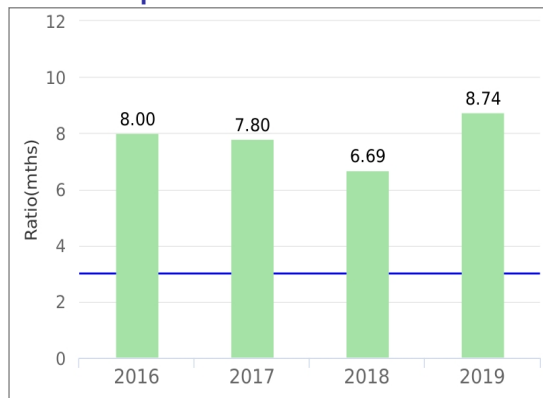
Benchmark: — < 5.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

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

Commentary on 2018/19 result

2018/19 ratio 8.74 mths

This ratio comfortably achieved the benchmark and has done so for many years. At 30 June 2019, in the absence of any additional cash inflows, Council had sufficient cash and funds invested in term deposits which could be redeemed should the need arise to continue paying for its immediate expenses for 8.74 months.

Benchmark: — > 3.00mths

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 26. Financial review

(a) Review and commentary on Council's financial result

Review and commentary on Council's financial result

\$ '000	2019	2018	2017	2016	2015
(b) Key financial figures of Council over the past 5 years					
Inflows:					
Rates and annual charges revenue	58,831	56,505	51,678	49,204	46,539
User charges revenue	33,691	33,208	29,814	25,474	24,812
Interest and investment revenue (losses)	2,407	2,653	3,561	3,968	4,613
Grants income – operating and capital	7,610	5,668	6,754	4,891	3,719
Total income from continuing operations	135,364	123,126	133,517	160,796	116,219
Sale proceeds from I,PP&E	690	1,497	3,620	1,204	1,408
Outflows:					
Employee benefits and on-cost expenses	44,992	41,006	41,367	40,544	38,756
Borrowing costs	367	302	277	–	–
Materials and contracts expenses	36,799	36,734	34,159	34,421	30,891
Total expenses from continuing operations	114,856	107,331	108,057	99,236	93,644
Total cash purchases of I,PP&E	28,518	50,927	55,256	49,249	30,582
Total loan repayments (incl. finance leases)	589	–	–	–	–
Operating surplus/(deficit) (excl. capital income)	4,735	7,170	69,820	13,856	7,032
Financial position figures					
Current assets	97,996	77,726	90,994	107,917	109,100
Current liabilities	40,212	46,056	38,002	41,444	33,575
Net current assets	57,784	31,670	52,992	66,473	75,525
Available working capital (Unrestricted net current assets)	7,069	2,784	3,364	3,812	4,785
Cash and investments – unrestricted	8,265	4,546	5,322	12,946	9,124
Cash and investments – internal restrictions	47,674	45,520	49,806	52,834	64,316
Cash and investments – total	87,228	68,989	80,778	100,955	103,141
Total borrowings outstanding (Loans, advances and finance leases)	8,911	9,500	9,500	9,720	172
Total value of I,PP&E (excl. land and earthworks)	1,170,219	1,147,805	1,108,939	895,195	835,542
Total accumulated depreciation	460,934	444,129	453,710	355,418	341,097
Indicative remaining useful life (as a % of GBV)	61%	61%	59%	60%	59%

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 27. Council information and contact details

Principal place of business:

200 Miller Street
North Sydney NSW 2060

Contact details**Mailing Address:**

PO Box 12
North Sydney 2059

Telephone: 02 9936 8100

Facsimile: 02 9936 8177

Opening hours:

9:00am - 5:00pm
Monday to Friday

Internet: www.northsydney.nsw.gov.au

Email: council@northsydney.nsw.gov.au

Officers**GENERAL MANAGER**

Ken Gouldthorp

RESPONSIBLE ACCOUNTING OFFICER

Garry Ross

Public Officer

Margaret Palmer

Auditors

Auditor General
The Audit Office of New South Wales
Level 15, 1 Margaret Street
SYDNEY NSW 2000

Elected members**MAYOR**

Jilly Gibson

Councillors

Councillor Stephen Barbour (Depty Mayor)
Councillor Zoe Baker
Councillor MaryAnn Beregi
Councillor Kathy Brodie
Councillor Tony Carr
Councillor Alanya Drummond
Councillor Samuel Gunning
Councillor Jessica Keen
Councillor Ian Mutton

Other information

ABN: 32 353 260 317

North Sydney Council

Financial Statements 2019

General Purpose Financial Statements

for the year ended 30 June 2019

Independent Auditor's Report

Please upift Council's Audit Report PDF (opinion) for inclusion in the GPFS report (via the Home screen).

North Sydney Council

Financial Statements 2019

General Purpose Financial Statements

for the year ended 30 June 2019

Independent Auditor's Report

Please upift Council's Audit Report PDF (commentary) for inclusion in the GPFS report (via the Home screen).

North Sydney Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

*Shaping a progressive, diverse and vibrant North Sydney
community.*



North Sydney Council

Special Purpose Financial Statements 2019

Special Purpose Financial Statements

for the year ended 30 June 2019

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Background

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

North Sydney Council

Special Purpose Financial Statements 2019

Special Purpose Financial Statements

for the year ended 30 June 2019

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 28 October 2019.

Jilly Gibson

Mayor

28 October 2019

Stephen Barbour

Councillor

28 October 2019

Ken Gouldthorp

General Manager

28 October 2019

Garry Ross

Responsible Accounting Officer

28 October 2019

North Sydney Council

Special Purpose Financial Statements 2019

Income Statement – Commercial Properties

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
Other income	7,163	6,897
Total income from continuing operations	7,163	6,897
Expenses from continuing operations		
Employee benefits and on-costs	8	4
Materials and contracts	2,394	2,194
Depreciation, amortisation and impairment	234	287
Calculated taxation equivalents	603	606
Loss on revaluation	–	7,359
Other expenses	741	657
Total expenses from continuing operations	3,980	11,107
Surplus (deficit) from continuing operations before capital amounts	3,183	(4,210)
Surplus (deficit) from continuing operations after capital amounts	3,183	(4,210)
Surplus (deficit) from all operations before tax	3,183	(4,210)
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(875)	–
SURPLUS (DEFICIT) AFTER TAX	2,308	(4,210)
Plus accumulated surplus	105,281	104,734
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	603	606
– Corporate taxation equivalent	875	–
Add:		
– Subsidy paid/contribution to operations	–	4,151
Less:		
– Dividend paid	(6,210)	–
Closing accumulated surplus	102,857	105,281
Return on capital %	43.3%	(56.5)%
Subsidy from Council	–	4,406

North Sydney Council

Special Purpose Financial Statements 2019

Income Statement – Waste Management

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
Access charges	13,444	12,801
User charges	1,321	1,254
Fees	471	407
Grants and contributions provided for non-capital purposes	42	42
Total income from continuing operations	15,278	14,504
Expenses from continuing operations		
Employee benefits and on-costs	1,551	1,460
Materials and contracts	10,117	10,112
Calculated taxation equivalents	35	36
Other expenses	35	30
Total expenses from continuing operations	11,738	11,638
Surplus (deficit) from continuing operations before capital amounts	3,540	2,866
Surplus (deficit) from continuing operations after capital amounts	3,540	2,866
Surplus (deficit) from all operations before tax	3,540	2,866
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(974)	(788)
SURPLUS (DEFICIT) AFTER TAX	2,566	2,078
Plus accumulated surplus	2,051	(65)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	35	36
– Corporate taxation equivalent	974	788
Less:		
– Dividend paid	(1,278)	(786)
Closing accumulated surplus	4,348	2,051

North Sydney Council

Special Purpose Financial Statements 2019

Income Statement – Car Parking Services

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
Fees	3,787	3,521
Total income from continuing operations	3,787	3,521
Expenses from continuing operations		
Employee benefits and on-costs	328	255
Materials and contracts	926	795
Depreciation, amortisation and impairment	896	1,222
Calculated taxation equivalents	318	321
Other expenses	445	471
Total expenses from continuing operations	2,913	3,064
Surplus (deficit) from continuing operations before capital amounts	874	457
Surplus (deficit) from continuing operations after capital amounts	874	457
Surplus (deficit) from all operations before tax	874	457
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(240)	(126)
SURPLUS (DEFICIT) AFTER TAX	634	331
Plus accumulated surplus	58,832	58,661
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	318	321
– Corporate taxation equivalent	240	126
Less:		
– Dividend paid	(1,939)	(607)
Closing accumulated surplus	58,085	58,832
Return on capital %	0.7%	0.4%
Subsidy from Council	708	2,713

North Sydney Council

Income Statement – North Sydney Function Centre for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
Fees	861	933
Total income from continuing operations	861	933
Expenses from continuing operations		
Employee benefits and on-costs	422	395
Materials and contracts	608	610
Depreciation, amortisation and impairment	49	78
Other expenses	330	354
Total expenses from continuing operations	1,409	1,437
Surplus (deficit) from continuing operations before capital amounts	(548)	(504)
Surplus (deficit) from continuing operations after capital amounts	(548)	(504)
Surplus (deficit) from all operations before tax	(548)	(504)
SURPLUS (DEFICIT) AFTER TAX	(548)	(504)
Plus accumulated surplus	1,322	1,143
Plus adjustments for amounts unpaid:		
Add:		
– Subsidy paid/contribution to operations	446	683
Closing accumulated surplus	1,220	1,322
Return on capital %	(23.0)%	(20.4)%
Subsidy from Council	580	569

North Sydney Council

Special Purpose Financial Statements 2019

Income Statement – Development Applications

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
Fees	1,340	1,494
Total income from continuing operations	<u>1,340</u>	<u>1,494</u>
Expenses from continuing operations		
Employee benefits and on-costs	4,682	4,068
Materials and contracts	225	231
Calculated taxation equivalents	206	195
Other expenses	605	563
Total expenses from continuing operations	<u>5,718</u>	<u>5,057</u>
Surplus (deficit) from continuing operations before capital amounts	<u>(4,378)</u>	<u>(3,563)</u>
Surplus (deficit) from continuing operations after capital amounts	(4,378)	(3,563)
Surplus (deficit) from all operations before tax	(4,378)	(3,563)
SURPLUS (DEFICIT) AFTER TAX	<u>(4,378)</u>	<u>(3,563)</u>
Plus accumulated surplus	(1,199)	(1,358)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	206	195
Add:		
– Subsidy paid/contribution to operations	3,990	3,528
Closing accumulated surplus	<u>(1,381)</u>	<u>(1,198)</u>
Subsidy from Council	4,378	3,563

North Sydney Council

Special Purpose Financial Statements 2019

**Statement of Financial Position –
for the year ended 30 June 2019**

\$ '000	2019	2018
<u>TOTAL EQUITY</u>	<u>—</u>	<u>—</u>

North Sydney Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Commercial Properties

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Current assets		
Receivables	156	241
Total current assets	156	241
Non-current assets		
Infrastructure, property, plant and equipment	7,352	7,456
Investment property	95,512	97,740
Total non-current assets	102,864	105,196
TOTAL ASSETS	103,020	105,437
LIABILITIES		
Current liabilities		
Payables	163	156
Total current liabilities	163	156
TOTAL LIABILITIES	163	156
NET ASSETS	102,857	105,281
EQUITY		
Accumulated surplus	102,857	105,281
<u>TOTAL EQUITY</u>	<u>102,857</u>	<u>105,281</u>

North Sydney Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Waste Management

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	5,734	2,861
Receivables	206	186
Total current assets	5,940	3,047
TOTAL ASSETS	5,940	3,047
LIABILITIES		
Current liabilities		
Payables	1,330	782
Provisions	258	210
Total current liabilities	1,588	992
Non-current liabilities		
Payables	–	2
Provisions	4	2
Total non-current liabilities	4	4
TOTAL LIABILITIES	1,592	996
NET ASSETS	4,348	2,051
EQUITY		
Accumulated surplus	4,348	2,051
<u>TOTAL EQUITY</u>	<u>4,348</u>	<u>2,051</u>

North Sydney Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Car Parking Services

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	8	8
Receivables	5	20
Total current assets	13	28
Non-current assets		
Infrastructure, property, plant and equipment	119,826	120,535
Total non-current assets	119,826	120,535
TOTAL ASSETS	119,839	120,563
LIABILITIES		
Current liabilities		
Payables	142	139
Provisions	103	84
Total current liabilities	245	223
Non-current liabilities		
Provisions	2	1
Total non-current liabilities	2	1
TOTAL LIABILITIES	247	224
NET ASSETS	119,592	120,339
EQUITY		
Accumulated surplus	58,085	58,832
Revaluation reserves	61,507	61,507
TOTAL EQUITY	119,592	120,339

North Sydney Council

Special Purpose Financial Statements 2019

Statement of Financial Position – North Sydney Function Centre

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Cash and cash equivalents	11	6
Receivables	29	20
Inventories	32	33
Total current assets	72	59
Non-current assets		
Infrastructure, property, plant and equipment	2,387	2,475
Total non-current assets	2,387	2,475
TOTAL ASSETS	2,459	2,534
LIABILITIES		
Current liabilities		
Provisions	126	100
Total current liabilities	126	100
Non-current liabilities		
Provisions	2	1
Total non-current liabilities	2	1
TOTAL LIABILITIES	128	101
NET ASSETS	2,331	2,433
EQUITY		
Accumulated surplus	1,220	1,322
Revaluation reserves	1,111	1,111
TOTAL EQUITY	2,331	2,433

North Sydney Council

Special Purpose Financial Statements 2019

Statement of Financial Position – Development Applications

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
LIABILITIES		
Current liabilities		
Provisions	1,354	1,182
Total current liabilities	<u>1,354</u>	<u>1,182</u>
Non-current liabilities		
Provisions	27	16
Total non-current liabilities	<u>27</u>	<u>16</u>
TOTAL LIABILITIES	<u>1,381</u>	<u>1,198</u>
NET ASSETS	<u>(1,381)</u>	<u>(1,198)</u>
EQUITY		
Accumulated surplus	(1,381)	(1,198)
TOTAL EQUITY	<u>(1,381)</u>	<u>(1,198)</u>

North Sydney Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the SPFS for 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 SPFS 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 SPFS have been prepared in accordance with the Local Government Act 1993 (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 NCP.

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 NCP 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. Commercial Properties

Managed rental Property portfolio.

b. Waste Management

Waste collection and disposal (Domestic, Trade and recyclables).

c. Car Parking Services

Permanent and casual off street parking facilities subject to charges

Category 2

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

a. North Sydney Oval Function Centre

Bar and catering facilities for hire to the public and members.

b. Development Applications

North Sydney Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

Building, Development and Subdivision approval processing.

Monetary amounts

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

(i) Taxation equivalent charges

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

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 SPFS.

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

Notional rate applied (%)

Corporate 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.

Income tax

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

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

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

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

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

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

North Sydney Council

Special Purpose Financial Statements 2019

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

(ii) Subsidies

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

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

Accordingly, 'subsidies disclosed' (in relation to NCP) 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 1.32% at 30 June 2019.

(iv) Dividends

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

North Sydney Council

Special Purpose Financial Statements 2019

Special Purpose Financial Statements
for the year ended 30 June 2019

Please upift Council's Audit Report PDF (opinion) for inclusion in the SPFS report (via the Home screen).

North Sydney Council

SPECIAL SCHEDULES
for the year ended 30 June 2019

*Shaping a progressive, diverse and vibrant North Sydney
community.*



North Sydney Council

Special Schedules

for the year ended 30 June 2019

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North Sydney Council

Permissible income for general rates for the year ended 30 June 2019

\$ '000		Calculation 2019/20	Calculation 2018/19
Notional general income calculation ¹			
Last year notional general income yield	a	45,266	43,311
Plus or minus adjustments ²	b	360	491
Notional general income	c = a + b	45,626	43,802
Permissible income calculation			
Or rate peg percentage	e	7.00%	2.30%
Or plus rate peg amount	$i = e \times (c + g)$	3,194	1,007
Sub-total	k = (c + g + h + i + j)	48,820	44,809
Plus (or minus) last year's carry forward total	l	(248)	201
Less valuation objections claimed in the previous year	m	(8)	-
Sub-total	n = (l + m)	(256)	201
Total permissible income	o = k + n	48,564	45,010
Less notional general income yield	p	48,529	45,266
Catch-up or (excess) result	q = o - p	35	(256)
Plus income lost due to valuation objections claimed ⁴	r	1	8
Carry forward to next year ⁶	t = q + r + s	36	(248)

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (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.

North Sydney Council

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
(a) Report on Infrastructure Assets - Values												
Buildings	Buildings	187	187	2,374	2,492	128,659	207,914	72.0%	21.0%	5.0%	1.0%	1.0%
	Sub-total	187	187	2,374	2,492	128,659	207,914	72.0%	21.0%	5.0%	1.0%	1.0%
Other structures	Other structures	–	–	–	–	2,134	2,222	92.0%	8.0%	0.0%	0.0%	0.0%
	Sub-total	–	–	–	–	2,134	2,222	92.0%	8.0%	0.0%	0.0%	0.0%
Roads	Sealed roads	5,008	5,008	1,253	1,056	156,495	232,095	43.0%	35.0%	16.0%	3.0%	3.0%
	Footpaths	900	900	2,326	2,158	61,047	95,945	28.0%	16.0%	46.0%	9.0%	1.0%
	Other road assets	1,084	1,084	113	129	58,351	97,732	13.0%	48.0%	32.0%	6.0%	1.0%
	Sub-total	6,992	6,992	3,692	3,343	275,893	425,772	32.7%	33.7%	26.4%	5.0%	2.2%
Stormwater drainage	Stormwater drainage	24,680	24,680	876	718	128,411	198,870	42.0%	4.0%	38.0%	3.0%	13.0%
	Sub-total	24,680	24,680	876	718	128,412	198,870	42.0%	4.0%	38.0%	3.0%	13.0%
Open space / recreational assets	Swimming pools	–	–	808	818	12,498	22,488	55.0%	42.0%	3.0%	0.0%	0.0%
	Other	2,620	2,620	1,054	1,066	4,391	11,649	24.0%	9.0%	5.0%	38.0%	24.0%
	Sub-total	2,620	2,620	1,862	1,884	16,889	34,137	44.4%	30.7%	3.7%	13.0%	8.2%
Other infrastructure assets	Other	6,552	6,552	1,614	1,497	120,395	225,150	8.0%	40.0%	38.0%	11.0%	3.0%
	Sub-total	6,552	6,552	1,614	1,497	120,395	225,150	8.0%	40.0%	38.0%	11.0%	3.0%

North Sydney Council

Report on Infrastructure Assets (continued)

as at 30 June 2019

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Land improvements - depreciable	Land improvements – depreciable	948	948	–	–	13,920	18,521	70.0%	13.0%	5.0%	7.0%	5.0%
	Sub-total	948	948	–	–	13,920	18,521	70.0%	13.0%	5.0%	7.0%	5.0%
TOTAL - ALL ASSETS		41,979	41,979	10,418	9,934	686,302	1,112,586	37.8%	26.8%	25.7%	5.4%	4.3%

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

Infrastructure asset condition assessment 'key'

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

North Sydney Council

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts		Indicator ³	Prior periods		Benchmark
	2019	2019		2018	2017	
Infrastructure asset performance indicators (consolidated) *						
Buildings and infrastructure renewals ratio ¹						
Asset renewals ²	22,202					
Depreciation, amortisation and impairment	18,277	121.48%	199.63%	233.52%	322.62%	>=100.00%
Infrastructure backlog ratio ¹						
Estimated cost to bring assets to a satisfactory standard ⁴	41,979					
Net carrying amount of infrastructure assets	686,302	6.12%	6.77%	–	–	<2.00%
Asset maintenance ratio						
Actual asset maintenance	9,934					
Required asset maintenance	10,418	95.35%	107.92%	99.53%	106.80%	>100.00%
Cost to bring assets to agreed service level						
Estimated cost to bring assets to an agreed service level set by Council	41,979					
Gross replacement cost	1,112,586	3.77%	4.10%	–	–	

(*) 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.

(3) Council includes "Land improvements – depreciable" as an asset class in these ratios

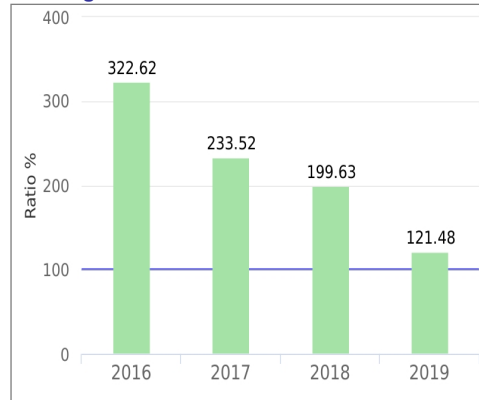
(4) As there is no standard industry practice for identifying the estimated cost to bring assets to a satisfactory standard, Council has elected to use the estimated cost of fully renewing infrastructure assets assessed to be in category 5 (very poor condition) as the estimated cost to bring assets to a satisfactory standard.

North Sydney Council

Report on Infrastructure Assets (continued)

as at 30 June 2019

Buildings and infrastructure renewals ratio ¹



Infrastructure renewals ratio

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

Commentary on result	
18/19 ratio	121.48%
This ratio again exceeded the benchmark, as has been the case since 2013/14. This is a reflection of Council's commitment to ensuring that sufficient funds are allocated to the replacement and renewal of our infrastructure to offset the rate at which they are depreciating.	

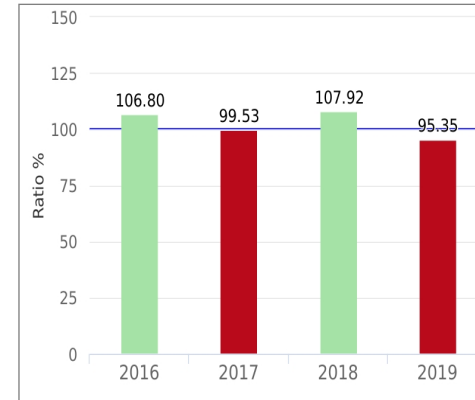
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

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

Commentary on result	
18/19 ratio	95.35%
While this ratio has fallen slightly below the benchmark in 2018/19, it has been at or about the benchmark every year since 2013/14. This is an indication that Council has been allocating sufficient funds to the maintenance of its infrastructure assets to prevent the infrastructure backlog from increasing.	

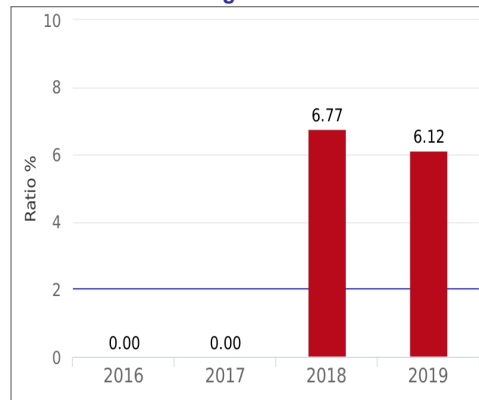
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Infrastructure backlog ratio ¹



Infrastructure backlog ratio

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

Commentary on result	
18/19 ratio	6.12%
Condition audits conducted on a number of categories of infrastructure assets over the last two years have revealed that the condition of some assets is worse than previously thought. Focusing capital renewal expenditure on these assets has resulted in this ratio improving slightly in 2018/19. Nevertheless, at 30 June 2019, the backlog was estimated to be \$42 million, which represents 6.12% of the net carrying amount of our infrastructure. This is above the benchmark of 2%.	

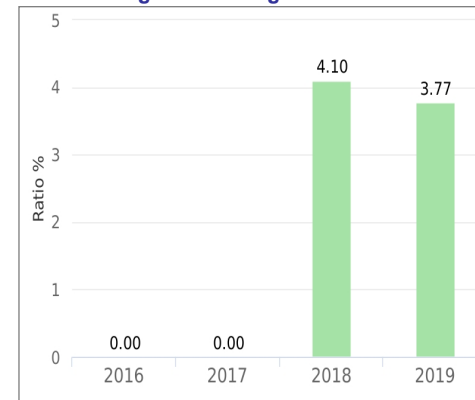
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

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

Commentary on result	
18/19 ratio	3.77%
As stated above, audits undertaken over the last two years revealed the condition of some infrastructure to be worse than previously thought. As at 30 June 2019, the cost to bring those assets to the community's agreed service level was estimated to be \$42 million. This was 3.77% of the gross replacement cost of our infrastructure, an improvement on the 4.10% at 30 June 2018.	

(1) Excludes Work In Progress (WIP)