

8.2. Financial Statements for the Year Ended 30 June 2020

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ENDORSED BY: Margaret Palmer, Director Corporate Services

ATTACHMENTS:

1. Financial Statements for the Year Ended 30 June 2020 [**8.2.1** - 107 pages]

PURPOSE:

To present the audited Financial Statements for the year ended 30 June 2020, which require certification and referral to the Audit Office of New South Wales.

EXECUTIVE SUMMARY:

The audited Financial Statements for the year ended 30 June 2020 consist of the following sections:

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

The net operating result for the year was a deficit of \$5.1 million. Excluding capital grants and contributions, the deficit was \$11.5 million.

The 2020 draft audited Financial Statements were presented to the Audit, Risk & Improvement Committee on 2 October 2020, together with the External Audit Engagement closing report.

In their Engagement Closing Report for the year ended 30 June 2020, the Audit Office of NSW noted that *as we have not identified any matters to report to management, a Management Letter will not be issued unless circumstances change before the independent auditor's reports are issued.*

The requirements of all accounting standards were adhered to, there were no misstatements and the statements were completed on a more timely basis than was the case the previous year.

FINANCIAL IMPLICATIONS:

The Income Statement within the 2019/20 Financial Statements discloses a net

operating deficit of \$5.1 million. Excluding grants and contributions provided for capital purposes, the deficit was \$11.5 million.

The Statement of Financial Position discloses net assets (equity) of \$1.23 billion as at 30 June 2020. This is an increase of \$69.2 million, despite the aforementioned net operating deficit, due to a gain on the revaluation of roads, footpaths and stormwater drainage.

Cash and investments total \$91.2 million, with \$83.8 million externally or internally restricted.

RECOMMENDATION:

1. **THAT** the attached 2020 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 30 November 2020.
4. **THAT** Councillor Baker immediately submit Related Party Disclosure forms in accordance with accounting and audit standards.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

5. Our Civic Leadership

5.1 Council leads the strategic direction of North Sydney

BACKGROUND

The Financial Statements for the year ending 30 June 2020 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 there under;
- 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 31 August 2020 in accordance with Section 413 of the Local Government Act. Following the completion of the external audit, Council received on 23 September 2020, the Closing Engagement Report on the final audited Financial Statements (Attachment 1).

The Financial Statements for the year ending 30 June 2020 were reviewed by the Audit, Risk & Improvement Committee on 2 October 2020.

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 2020 and placed on public exhibition.

CONSULTATION REQUIREMENTS

Community engagement is not required.

DETAIL

Net Operating Result

The Income Statement for the financial year ended 30 June 2020 discloses a net operating deficit of \$5.1 million, compared to a surplus of \$7.8 million forecast in the

Original Budget and a revised budget surplus of \$8.5 million forecast in the March Quarterly Budget Review.

Before capital grants and contributions, the deficit was \$11.5 million, compared to a surplus of \$4.7 million forecast in the Original Budget and a revised budget deficit of \$3.4 million forecast in the March Quarterly Budget Review.

While the impact of the COVID-19 pandemic was not as substantial as forecast in the March Quarterly Budget Review, it still resulted in significant shortfalls in revenue and some increases in expenditure and hence had a major effect on the operating result for the year.

The following table provides a breakdown of the impact of the pandemic and subsequent restrictions on key revenue streams.

Revenue Stream	Original Budget Shortfall (\$)	Original Budget Shortfall (%)
On-Street parking fees	\$1,180,796	12%
Off-Street parking fees	\$415,640	13%
Parking Fines	\$958,424	14%
Olympic Pool fees	\$705,046	27%
Hoarding Permit fees	\$607,370	21%
Construction (Work) Zone fees	\$697,786	17%
Property Rental	\$425,711	6%
Parks/Ovals Hire fees	\$395,683	33%
Outdoor Seating fees	\$323,157	38%
Total	\$5,709,613	

The actual net operating deficit of \$5.1 million was a \$13.6 million worse result than that forecast in the March Quarterly Budget Review. The reasons for this are listed below. The first three were non-cash in nature and their combined impact totalled \$13 million.

1. Depreciation was \$7.8 million higher than forecast. The majority of this variance arose from the revised assessment of the useful life of the North Sydney Olympic Pool complex prior to its redevelopment, which resulted in an additional \$6.2 million of depreciation above the amount allowed for in the budget.
2. The fair value of Council's investment property portfolio dropped by \$2.8 million over the year due to falling property values in Sydney during the June quarter. As the budget allowed for a \$1 million increase, this represented a \$3.8 million negative impact on the forecast result.
3. Net losses from the disposal of assets totalled \$922,000. During the year, property and infrastructure assets with a carrying value of \$1.1 million were replaced and the

resulting write-off turned the forecast modest gain from the disposal of assets into a loss. This represented a \$1.3 million negative impact on the forecast result.

4. User charges and fees, rental income and other income generated \$2 million more revenue than forecast. In the March Budget Review, it was recommended that the budget for these categories of revenue be reduced by \$6.6 million due the impact of the COVID-19 pandemic and subsequent restrictions put in place to reduce the spread of the virus. The actual impact was less than forecast, particularly for on-street parking fees and property rental, and this was the main reason for the positive variance in these revenue categories.
5. Revenue from grants and contributions was \$4.3 million lower than forecast, mainly due to the impact of the adoption of new accounting standards, AASB 15 and AASB 1058. Revenue from grants and contributions (other than developer contributions) is now required to be brought to account when the funds have been spent rather than when they are received, as was the case previously.
6. Employee costs were \$1.4 million higher than forecast, mainly due to an increase in the provision for employee leave entitlements.
7. Costs relating to the purchase of materials and the payment of contractors were \$2.9 million lower than forecast, mainly due the fact that a number of grant-supported projects were still underway. The unspent funding will need to be carried forward to 2020/21.

Financial Position

As at 30 June 2020, net assets totalled \$1.23 billion. Infrastructure, property, plant, equipment and investment properties accounted \$1.19 billion of this amount. Cash and investments totalled \$91.2 million; somewhat more than forecast as this includes \$19.4 million of funding which is required to be carried forward to 2020/21 to fund the completion of projects previously approved.

Of the \$19.4 million to be carried forward, the majority of projects had commenced prior to 30 June 2020 or have been tendered in the first quarter of the 2020/21 financial year. A list of the projects requiring funding to be carried forward will be included in the September Quarterly Budget Review.

Financial Performance Indicators

Council met or bettered the industry benchmark for five of the six of the financial performance indicators (refer to Note 28 of the General Purpose Financial Statements in the attached document).

The net operating deficit resulted in the Operating Performance ratio falling below the benchmark for the first time since 2013/14. Notwithstanding any ongoing impacts of

the COVID-19 pandemic, this ratio is forecast to be slightly below the benchmark again in 2020/21 before exceeding the benchmark for the remaining years of the current Long Term Financial Plan.

The Unrestricted Current ratio (2.82x), Debt Service Cover ratio (15.11x) and Cash Expense Cover ratio (9.98 months) all exceed the benchmark. This indicates that Council remains in a sound financial position with sufficient liquidity to meet its liabilities and debts. However, the deficit and specifically the reduction in cash revenues associated with COVID-19, negatively impacts Council's capacity to fund its Long Term Financial Plan.

Rates arrears increased from 2.05% in 2018/19 to 2.9% in 2019/20, not unexpected given the current economic climate. Nevertheless, this result still comfortably bettered the benchmark of 5%.

Infrastructure Asset Performance Indicators

Council failed to meet the benchmark for all three of the infrastructure asset performance indicators (refer to the Report on Infrastructure Assets in the Special Schedules within the attached document).

The Buildings and Infrastructure Renewals Ratio fell below the benchmark for the first time since 2013/14. This arose from the need to accelerate the depreciation of the North Sydney Olympic Pool complex prior to its closure for redevelopment, along with some capital projects not starting or finishing on schedule. The Asset Maintenance Ratio fell marginally short of the benchmark. Both ratios are forecast to meet the benchmark over the remaining years of the current Long Term Financial Plan.

The Infrastructure Backlog Ratio, while also failing to meet the benchmark has improved significantly over the last two years. After condition audits conducted on a number of infrastructure categories revealed the condition of some assets to be worse than previously thought, increased funding associated with the SRV allocated to these assets resulted in an \$11.3 million reduction in the infrastructure backlog in 2019/20. Nevertheless, at 30 June 2020, the cost to bring Council's infrastructure assets to the community's agreed service level was estimated to be \$30.6 million. This represents 4% of the net carrying value of our infrastructure. An ongoing commitment to the allocation of funds for the renewal of assets assessed as being in poor or very poor condition should see this ratio continue to improve over the remaining years of the current Long Term Financial Plan.

Completion of Related Parties Disclosures

As part of finalising the Annual Statements, all Key Management Personnel (i.e. all Councillors and senior staff) are required to complete Related Parties Disclosure forms. Despite repeated requests, forms remain outstanding from Councillor Baker. These need to be submitted in order to meet accounting and audit requirements.

North Sydney Council

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2020

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



North Sydney Council

GENERAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2020

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



North Sydney Council

General Purpose Financial Statements

for the year ended 30 June 2020

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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 2020

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

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

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

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

Who uses the Financial Statements?

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

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

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

North Sydney Council

General Purpose Financial Statements

for the year ended 30 June 2020

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

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

- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder;
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board; 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 26 October 2020.

Jilly Gibson
Mayor
26 October 2020

Stephen Barbour
Councillor
26 October 2020

Ken Gouldthorp
General Manager
26 October 2020

Garry Ross
Responsible Accounting Officer
26 October 2020

North Sydney Council

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Income from continuing operations				
62,627	Rates and annual charges	3a	62,883	58,831
31,549	User charges and fees	3b	28,255	33,691
8,523	Other revenues	3c	8,821	16,907
4,975	Grants and contributions provided for operating purposes	3d,3e	5,999	5,550
3,082	Grants and contributions provided for capital purposes	3d,3e	6,378	15,773
1,557	Interest and investment income	4	1,970	2,407
402	Net gains from the disposal of assets	6	–	–
1,030	Fair value increment on investment properties	12	–	2,205
7,436	Rental income	14e	7,011	–
–	Net share of interests in joint ventures and associates using the equity method	19	10	–
121,181	Total income from continuing operations		121,327	135,364
Expenses from continuing operations				
44,844	Employee benefits and on-costs	5a	46,194	44,992
342	Borrowing costs	5b	416	367
37,348	Materials and contracts	5c	37,342	36,799
21,504	Depreciation and amortisation	5d	29,351	22,111
9,353	Other expenses	5e	9,408	9,103
–	Net losses from the disposal of assets	6	922	1,481
–	Fair value decrement on investment properties	12	2,827	–
–	Net share of interests in joint ventures and associates using the equity method	19	–	3
113,391	Total expenses from continuing operations		126,460	114,856
7,790	Operating result from continuing operations		(5,133)	20,508
7,790	Net operating result for the year		(5,133)	20,508
7,790	Net operating result attributable to council		(5,133)	20,508
4,708	Net operating result for the year before grants and contributions provided for capital purposes		(11,511)	4,735

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

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

North Sydney Council

Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
Net operating result for the year (as per Income Statement)		(5,133)	20,508
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	11	78,573	–
Total items which will not be reclassified subsequently to the operating result		78,573	–
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		78,573	1,056
Total comprehensive income for the year		73,440	21,564
Total comprehensive income attributable to Council		73,440	21,564

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

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

North Sydney Council

Statement of Financial Position
as at 30 June 2020

\$ '000	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	9,235	14,083
Investments	7(b)	81,961	73,145
Receivables	8	6,393	5,967
Inventories	9a	33	57
Other	9b	378	244
Current assets classified as 'held for sale'	10	–	4,500
Total current assets		98,000	97,996
Non-current assets			
Receivables	8	335	450
Infrastructure, property, plant and equipment	11	1,099,318	1,019,274
Investment property	12	92,758	95,512
Right of use assets	14a	2,365	–
Investments accounted for using the equity method	19	20	10
Total non-current assets		1,194,796	1,115,246
Total assets		1,292,796	1,213,242
LIABILITIES			
Current liabilities			
Payables	15	22,015	20,767
Income received in advance	15	–	2,613
Contract liabilities	13	9,287	–
Lease liabilities	14b	303	–
Borrowings	15	846	811
Provisions	16	15,963	16,021
Total current liabilities		48,414	40,212
Non-current liabilities			
Lease liabilities	14b	2,096	–
Borrowings	15	7,254	8,100
Provisions	16	1,174	278
Total non-current liabilities		10,524	8,378
Total liabilities		58,938	48,590
Net assets		1,233,858	1,164,652
EQUITY			
Accumulated surplus	17	804,113	813,480
Revaluation reserves	17	429,745	351,172
Council equity interest		1,233,858	1,164,652
Total equity		1,233,858	1,164,652

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

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

North Sydney Council

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

\$ '000	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		813,480	351,172	1,164,652	789,766	357,878	1,147,644
Correction of prior period errors		–	–	–	2,150	(6,706)	(4,556)
Changes due to AASB 1058 and AASB 15 adoption	17	(4,234)	–	(4,234)	–	–	–
Restated opening balance		809,246	351,172	1,160,418	791,916	351,172	1,143,088
Net operating result for the year		(5,133)	–	(5,133)	20,508	–	20,508
Restated net operating result for the period		(5,133)	–	(5,133)	20,508	–	20,508
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	11	–	78,573	78,573	1,056	–	1,056
Other comprehensive income		–	78,573	78,573	1,056	–	1,056
Total comprehensive income		(5,133)	78,573	73,440	21,564	–	21,564
Equity – balance at end of the reporting period		804,113	429,745	1,233,858	813,480	351,172	1,164,652

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

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

North Sydney Council

Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Cash flows from operating activities				
Receipts:				
63,157	Rates and annual charges		63,118	58,153
31,617	User charges and fees		28,459	34,598
756	Investment and interest revenue received		1,766	2,909
7,568	Grants and contributions		15,940	19,194
3,600	Bonds, deposits and retention amounts received		2,874	3,546
15,321	Other		22,209	26,751
Payments:				
(44,307)	Employee benefits and on-costs		(45,673)	(42,880)
(36,566)	Materials and contracts		(40,412)	(41,441)
(379)	Borrowing costs		(422)	(321)
(3,600)	Bonds, deposits and retention amounts refunded		(2,048)	(4,118)
(9,372)	Other		(13,053)	(9,669)
27,795	Net cash provided (or used in) operating activities	18b	32,758	46,722
Cash flows from investing activities				
Receipts:				
50,000	Sale of investment securities		53,540	69,062
4,500	Sale of real estate assets		4,500	–
808	Sale of infrastructure, property, plant and equipment		773	690
Payments:				
(50,000)	Purchase of investment securities		(62,361)	(79,126)
–	Purchase of investment property		(73)	(66)
(28,585)	Purchase of infrastructure, property, plant and equipment		(32,945)	(28,518)
(23,277)	Net cash provided (or used in) investing activities		(36,566)	(37,958)
Cash flows from financing activities				
Payments:				
(811)	Repayment of borrowings and advances		(811)	(589)
–	Lease liabilities (principal repayments)		(229)	–
(811)	Net cash flow provided (used in) financing activities		(1,040)	(589)
3,707	Net increase/(decrease) in cash and cash equivalents		(4,848)	8,175
14,083	Plus: cash and cash equivalents – beginning of year	18a	14,083	5,908
17,790	Cash and cash equivalents – end of the year	18a	9,235	14,083
73,145	plus: Investments on hand – end of year	7(b)	81,961	73,145
90,935	Total cash, cash equivalents and investments		91,196	87,228

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 26/10/2020. 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.

(a) Historical cost convention

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

(b) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

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

- (i) estimated fair values of investment properties – refer Note 12
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 11
- (iii) employee benefit provisions – refer Note 16.

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables

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

Monies and other assets received by Council

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.

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.

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

Volunteer services

Volunteer services are services received by Council from individuals or other entities without charge or for consideration significantly less than the fair value of those services. While the measurement of the revenue is at fair value, it is reasonable to assume it is calculated using a comparable hourly rate and the annual total of hours of voluntary services provided.

Volunteer services are not recognised as they would not be purchased if not donated. The quantum of the donated services would not be possible given the constraints on budgets and resources.

New accounting standards and interpretations issued not yet effective

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

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

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

AASB 1059 Service Concession Arrangements: Grantors

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

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

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

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

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

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

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

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

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

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

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

AASB2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

AASB2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128

AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

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

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

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

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

Apart from the standards listed above, there are no other released standards and interpretations (with future effective dates) that are expected to have a material impact on Council.

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

New accounting standards adopted during the year

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

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

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 17.

Impacts of COVID-19 pandemic

The COVID-19 pandemic and the subsequent restrictions put in place to slow its spread had a detrimental effect on some of Council's revenue streams during the final four months of the year. The unfavourable variations from the budget caused by its impact are disclosed in Note 23.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note 2(b).										
\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Functions or activities										
Our Living Environment	22,775	24,813	39,993	33,003	(17,218)	(8,190)	467	197	336,643	329,160
Our Built Infrastructure	35,031	46,820	31,391	29,765	3,640	17,055	5,333	4,148	617,227	545,187
Our Future Planning	11,826	12,946	14,943	13,711	(3,117)	(765)	942	750	130,271	130,905
Our Social Vitality	1,532	2,518	7,846	8,300	(6,314)	(5,782)	1,038	1,005	76,123	74,848
Our Civic Leadership	50,163	48,267	32,287	30,077	17,876	18,190	1,616	1,510	132,532	131,292
Other	–	–	–	–	–	–	–	–	–	1,850
Total functions and activities	121,327	135,364	126,460	114,856	(5,133)	20,508	9,396	7,610	1,292,796	1,213,242

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

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 2020

Note 3. Revenue from continuing operations

\$ '000	AASB	2020	2019
(a) Rates and annual charges			
Ordinary rates			
Residential	1058 (1)	26,579	24,308
Business	1058 (1)	16,464	16,249
Less: pensioner rebates (mandatory)	1058 (1)	(147)	(148)
Less: pensioner rebates (Council policy)	1058 (1)	(120)	(121)
Rates levied to ratepayers		42,776	40,288
Pensioner rate subsidies received	1058 (1)	147	148
Total ordinary rates		42,923	40,436
Special rates			
Infrastructure levy	1058 (1)	1,918	1,780
Environmental levy	1058 (1)	2,153	1,997
Main street levies	1058 (1)	482	493
Rates levied to ratepayers		4,553	4,270
Total special rates		4,553	4,270
Annual charges			
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>			
Domestic waste management services	1058 (1)	14,802	13,521
Stormwater management services	1058 (1)	572	565
Section 611 charges	1058 (1)	69	74
Less: pensioner rebates (mandatory)	1058 (1)	(44)	(42)
Less: pensioner rebates (Council policy)	1058 (1)	(36)	(35)
Annual charges levied		15,363	14,083
Pensioner subsidies received:			
– Domestic waste management	1058 (1)	44	42
Total annual charges		15,407	14,125
TOTAL RATES AND ANNUAL CHARGES		62,883	58,831

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

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

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

Accounting policy for rates and charges

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

Pensioner rebates relate to reductions in rates and certain annual charges for eligible pensioners' place of residence in the local government council area that are not subsidised by the NSW Government. Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates and are in substance a rates payment.

2019 accounting policy

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

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
(b) User charges and fees			
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Domestic waste management services	15 (2)	1,235	1,321
Total specific user charges		1,235	1,321
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Planning and building regulation	1058 (2)	3,303	3,546
Planning and building regulation - Issue Of Notices/EPO	1058 (1)	6	–
Planning and building regulation - Sect 735A Certificates & DA Advertising	15 (1)	297	–
Regulatory / statutory fees	15 (2)	5,235	7,231
Regulatory / statutory fees - Hall Hire - Public Liability Insurance	1058 (1)	14	–
Regulatory / statutory fees - Rezoning Fees	1058 (2)	348	–
Section 10.7 certificates (EP&A Act)	1058 (1)	277	260
Section 603 certificates	1058 (1)	165	129
Total fees and charges – statutory/regulatory		9,645	11,166
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Swimming centres	15 (2)	1,924	2,687
Business trade waste	15 (2)	–	438
Community centres / facilities	15 (2)	90	162
Domestic waste management – other	15 (1)	44	33
Family day care	15 (2)	177	253
Library	15 (1)	71	107
On street parking	15 (2)	8,772	10,297
Off street parking	15 (2)	2,899	3,579
Ovals	15 (2)	815	1,300
Planning and building regulation (non-statutory)	15 (1)	634	594
Public events	15 (2)	71	102
Reinstatements	1058 (2)	1,541	1,486
Other - Fees	15 (2)	68	–
Other - Occupancy Certificate	1058 (2)	4	–
Other	15 (1)	265	166
Total fees and charges – other		17,375	21,204
TOTAL USER CHARGES AND FEES		28,255	33,691

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

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

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

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

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

Accounting policy for user charges and fees

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

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

2019 accounting policy

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

\$ '000	AASB	2020	2019
(c) Other revenues			
Advertising banner production and hire	15 (1)	31	46
Ex gratia rates	1058 (1)	45	44
Advertising on Council infrastructure	15 (2)	1,074	1,335
Better waste and recycling fund	15 (1)	105	105
Fines – parking	1058 (1)	5,916	7,138
Community housing accumulated surplus (from Link Housing)		–	289
Container Deposit Scheme refunds		–	130
Legal fees recovery – rates and charges (extra charges)	1058 (1)	–	22
Commissions and agency fees	15 (1)	3	5
Credit card payment surcharge	15 (1)	81	85
Fines – environmental and compliance	1058 (1)	39	55
Legal fees recovered	1058 (1)	499	91
Miscellaneous sales	15 (1)	21	26
New Years Eve event revenue	15 (1)	356	195
Other - Secondment reimbursement	15 (2)	86	–
Other	15 (1)	565	386
Rental income – investment properties (2019 only)		–	6,071
Rental income – other council properties (2019 only)		–	884
<u>TOTAL OTHER REVENUE</u>		<u>8,821</u>	<u>16,907</u>

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

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

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

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

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

Accounting policy for other revenue

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

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

2019 accounting policy:

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

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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.

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(d) Grants					
General purpose (untied)					
Current year allocation					
Financial assistance – general component	1058 (1)	785	742	–	–
Financial assistance – local roads component	1058 (1)	245	237	–	–
Payment in advance - future year allocation					
Financial assistance – general component	1058 (1)	831	769	–	–
Financial assistance – local roads component	1058 (1)	260	246	–	–
Total general purpose		2,121	1,994	–	–
Specific purpose					
Community care					
- Family day care child care benefit subsidy	15 (1)	672	766	–	–
- Family day care COVID-19 relief	15 (1)	29	–	–	–
- Vacation care	15 (1)	54	15	–	–
- Youth care	15 (1)	2	2	–	–
- Other Community Care	15 (1)	41	40	–	–
Environment Protection	15 (1)	45	23	–	–
Recreation and culture					
- Library Subsidy and Local Priority grant	1058 (1)	182	135	56	–
- Other Library grants	15 (1)	3	6	–	40
- Parks and gardens	1058 (2)	–	30	467	168
Town Planning	15 (1)	941	750	–	–
Transport					
- Bicycle facilities	1058 (2)	–	–	165	–
- Bus weight tax subsidy	1058 (1)	51	25	–	–
- Northern Beaches B-Line Project - Urban					
Landscaping Works	1058 (2)	–	67	3,669	3,203
- Pedestrian facilities	1058 (2)	–	–	66	73
- Roads safety	15 (1)	75	77	–	–
- Roads to Recovery	1058 (1)	305	–	–	–
- Traffic facilities	1058 (2)	–	–	242	–
- Traffic Route Lighting subsidy	1058 (1)	200	196	–	–
- Other roads funding	15 (1)	10	–	–	–
Total specific purpose		2,610	2,132	4,665	3,484
Total grants		4,731	4,126	4,665	3,484
Grant revenue is attributable to:					
– Commonwealth funding		976	771	136	123
– State funding		3,752	3,354	4,529	3,361
– Other funding		3	1	–	–
		4,731	4,126	4,665	3,484

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

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

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	Notes	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(e) Contributions					
Developer contributions:					
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.4 – contributions using planning agreements	1058 (1)	–	–	–	302
S 7.11 – contributions towards amenities/services	1058 (1)	–	–	1,713	11,862
Total developer contributions – cash		–	–	1,713	12,164
Non-cash contributions					
S 7.4 – contributions using planning agreements	1058 (1)	–	–	–	62
Total developer contributions non-cash		–	–	–	62
Total developer contributions	27	–	–	1,713	12,226
Other contributions:					
Cash contributions					
Environment protection	15 (1)	456	508	–	–
Recreation and culture	1058 (1)	–	–	–	63
RMS contributions (regional roads, block grant)	1058 (1)	703	891	–	–
Town planning	15 (1)	–	15	–	–
Traffic facilities	15 (1)	97	–	–	–
Other - Contribution to works	15 (1)	2	–	–	–
Other	1058 (1)	10	10	–	–
Total other contributions – cash		1,268	1,424	–	63
Total other contributions		1,268	1,424	–	63
Total contributions		1,268	1,424	1,713	12,289
TOTAL GRANTS AND CONTRIBUTIONS		5,999	5,550	6,378	15,773

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

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

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

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

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

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

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

continued on next page ...

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

The performance obligations are varied based on the agreement but include the provision of community care services, such as family day care and vacation care, road safety and the updating of Council's Local Environment Plan. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

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

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

Grant income

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

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

Capital grants

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

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

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

Contributions

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

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

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

Accounting policy prior to 1 July 2019

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

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

Operating grants

Unexpended at the close of the previous reporting period	487	29
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	–	487
Add: operating grants received for the provision of goods and services in a future period	128	–
Less: operating grants recognised in a previous reporting period now spent (2019 only)	–	(29)
Less: operating grants received in a previous reporting period now spent and recognised as income	(438)	–
Unexpended and held as externally restricted assets (operating grants)	177	487

The majority of unspent operating grant funding relates to a grant received from the NSW Department of Planning & Environment to fund the accelerated review of our Local Environment Plan. Of the amount received for milestones completed by 30 June 2020, \$111,000 was unspent.

Capital grants

Unexpended at the close of the previous reporting period	3,359	1,247
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	–	194
Add: capital grants received for the provision of goods and services in a future period	7,842	3,111
Less: capital grants recognised in a previous reporting period now spent (2019 only)	–	(1,193)
Less: capital grants received in a previous reporting period now spent and recognised as income	(3,359)	–
Unexpended and held as externally restricted assets (capital grants)	7,842	3,359

Unspent capital grant funding relates to a 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 which \$4.34 million was unspent at 30 June 2020) and a \$3.5 million grant from the NSW Department of Planning & Environment towards the provision of additional open space in Crows Nest.

Contributions

Unexpended at the close of the previous reporting period	20,535	13,684
Add: contributions recognised as income in the current period but not yet spent	–	206
Add: contributions received for the provision of goods and services in a future period	2,039	12,293
Less: contributions recognised in a previous reporting period now spent	(3,404)	(5,648)
Unexpended and held as externally restricted assets (contributions)	19,170	20,535

As at 30 June 2020, Council held \$18.8 million of unspent developer contributions levied under S7.11 or S7.4 of the Environmental Planning & Assessment Act, 1979. These funds, which form the majority of unspent contributions, will be utilised in future years to assist in the cost of providing local public infrastructure and facilities required as a consequence of development.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB 15 2020	AASB 1058 2020
(g) Disaggregation of material revenue streams		
The following shows the revenue recognition pattern for the material revenue streams of Council.		
Revenue recognition at a point in time		
Rates and annual charges	–	62,883
Financial assistance grants	–	2,121
User charges and fees	1,311	462
Grant revenue and non-developer contributions	2,427	1,507
Developer contributions	–	1,713
Fines	–	5,955
Sale of goods	21	–
Other	1,170	544
	<u>4,929</u>	<u>75,185</u>
Revenue recognised over time		
Grants to acquire or construct Council controlled assets	–	4,609
User charges and fees	21,286	5,196
Other	1,131	–
	<u>22,417</u>	<u>9,805</u>

Note 4. Interest and investment income

\$ '000	2020	2019
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	91	80
– Cash and investments	1,791	2,116
– Developer contributions	93	120
Fair value adjustments		
– Movements in investments at fair value through profit and loss	(5)	91
Total Interest and investment income	<u>1,970</u>	<u>2,407</u>
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	91	80
General Council cash and investments	1,785	2,207
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	84	109
– Section 7.4	10	11
Total interest and investment revenue	<u>1,970</u>	<u>2,407</u>

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.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

\$ '000	2020	2019
(a) Employee benefits and on-costs		
Salaries and wages	35,445	33,967
Employee leave entitlements (ELE)	6,300	6,897
Superannuation – defined contribution plans	3,331	3,182
Superannuation – defined benefit plan	826	927
Workers' compensation insurance	623	598
Fringe benefit tax (FBT)	186	151
Gratuities	437	126
Other	160	187
Total employee costs	47,308	46,035
Less: capitalised costs	(1,114)	(1,043)
TOTAL EMPLOYEE COSTS EXPENSED	46,194	44,992
Number of 'full-time equivalent' employees (FTE) at year end	392	399

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.

\$ '000	2020	2019
(b) Borrowing costs		
(i) Interest bearing liability costs		
Interest on leases	74	–
Interest on loans	342	367
Total interest bearing liability costs	416	367
Total interest bearing liability costs expensed	416	367
TOTAL BORROWING COSTS EXPENSED	416	367

Accounting policy for borrowing costs

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

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
(c) Materials and contracts		
Raw materials and consumables	4,258	4,087
Contractor costs		
– Agency staff	1,147	1,181
– Air quality monitoring	132	–
– Cash collection	366	387
– CBD marketing	146	265
– Cleaning of Council properties	451	374
– Community transport	182	173
– Computer hardware and software maintenance	1,426	1,380
– Family Day Care child care assistance	672	767
– Drainage maintenance	751	503
– Footpath maintenance	811	786
– Graffiti removal	132	129
– Internal audit program	114	79
– Mowing	989	1,027
– Other infrastructure maintenance	586	625
– Parking meter maintenance	881	989
– Parks, gardens and tree maintenance	1,873	2,018
– Property maintenance	3,976	4,145
– Property management	394	311
– Public events	744	815
– Roads maintenance	1,623	1,344
– Security	5	11
– Waste and recycling disposal	3,880	4,575
– Waste and recycling collection	6,620	5,503
– Other	1,200	1,144
Consultancy	1,635	1,280
Auditors remuneration	111	68
Infringement notice contract costs (SEINS)	792	932
Legal expenses:		
– Legal expenses: planning and development	1,396	1,672
– Legal expenses: debt recovery	–	22
– Legal expenses: other	49	207
Total materials and contracts	37,342	36,799
TOTAL MATERIALS AND CONTRACTS	37,342	36,799

Accounting policy for materials and contracts

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

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:**Audit and other assurance services**

Audit and review of financial statements ⁱ	109	66
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Remuneration for audit and other assurance services	109	66
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Total Auditor-General remuneration	109	66
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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
Non NSW Auditor-General audit firms:		
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	111	68

(i) The 2020 figure includes \$23K of costs relating to 2019 which were invoiced after the completion of the 2018/19 Financial Statements

\$ '000	Notes	2020	2019
(d) Depreciation, amortisation and impairment of non-financial assets			
Depreciation and amortisation			
Furniture and fittings		518	522
Office equipment		913	931
Land improvements (depreciable)		389	625
Plant and equipment		1,954	1,937
Infrastructure:	11		
– Buildings – specialised		2,756	2,706
– Buildings – non-specialised		30	31
– Footpaths		3,185	2,687
– Other structures		53	46
– Roads		5,673	5,637
– Stormwater drainage		2,013	2,016
– Swimming pools		6,552	381
– Other open space / recreational assets		1,217	788
– Other infrastructure		3,401	3,360
Right of use assets	14	263	–
Other assets:			
– Heritage collections		41	52
– Library books		393	392
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR IPP&E		29,351	22,111

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

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 11 for IPPE assets.

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

The redevelopment of the North Sydney Olympic Pool commencing in the 2020/21 financial year, will involve the demolition of substantial parts of the existing asset. Accounting standards require Council to revise the remaining life of the asset and recognise the write-down through an accelerated annual depreciation expense of an additional \$6.2 million.

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

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

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.

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	2020	2019
(e) Other expenses		
Advertising	185	175
Bad and doubtful debts	196	73
Bank charges	458	500
Community recycling centre rent	226	231
Contributions/levies to other levels of government		
– Department of planning levy	276	270
– Emergency services levy (includes FRNSW and SES levies)	1,328	1,274
– Land tax	25	26
– State Treasury (share of net parking infringement revenue)	54	–
Councillor expenses – mayoral fee	44	43
Councillor expenses – councillors' fees	203	198
Councillors' expenses (incl. mayor) – other (excluding fees above)	14	20
Donations, contributions and assistance to other organisations (Section 356)		
– Aboriginal Heritage Office	45	58
– Crows Nest Centre	455	396
– Crows Nest Mainstreet	16	16
– Neutral Bay Mainstreet	18	16
– North Sydney community centre	60	60
– Nutcote	47	48
– Other organisations	408	349
NSW Local Government Association membership	56	51
Electricity and heating	1,072	1,130
Insurance	1,959	1,883
Postage	376	373
Staff training	324	345
Staff travel expenses	244	254
Strata Levies	88	–
Street lighting	799	865
Telephone and communications	314	352
Valuation fees	56	72
Other	62	25
Total other expenses	9,408	9,103
TOTAL OTHER EXPENSES	9,408	9,103

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 2020

Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
Property (excl. investment property)			
Proceeds from disposal – property		–	–
Less: carrying amount of property assets sold/written off		–	(275)
Net gain/(loss) on disposal		–	(275)
Plant and equipment			
	11		
Proceeds from disposal – plant and equipment		840	627
Less: carrying amount of plant and equipment assets sold/written off		(694)	(535)
Net gain/(loss) on disposal		146	92
Infrastructure			
	11		
Proceeds from disposal – infrastructure		–	–
Less: carrying amount of infrastructure assets sold/written off		(1,068)	(1,298)
Net gain/(loss) on disposal		(1,068)	(1,298)
Investments			
	7(b)		
Proceeds from disposal/redemptions/maturities – investments		53,540	69,062
Less: carrying amount of investments sold/redeemed/matured		(53,540)	(69,062)
Net gain/(loss) on disposal		–	–
Non-current assets classified as 'held for sale'			
	10		
Proceeds from disposal – non-current assets 'held for sale'		4,500	–
Less: carrying amount of 'held for sale' assets sold/written off		(4,500)	–
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(922)	(1,481)

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 2020

Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
Cash and cash equivalents		
Cash on hand and at bank	9,081	10,984
Cash-equivalent assets		
– Deposits at call	154	3,099
Total cash and cash equivalents	<u>9,235</u>	<u>14,083</u>

Accounting policy for cash and cash equivalents

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

Note 7(b). Investments

\$ '000	2020 Current	2019 Current
Investments		
a. 'Financial assets at fair value through profit and loss'		
– 'Held for trading'	9,961	73,145
b. 'Financial assets at amortised cost'	72,000	–
Total Investments	<u>81,961</u>	<u>73,145</u>
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	<u>91,196</u>	<u>87,228</u>
Financial assets at fair value through the profit and loss		
NCD's, FRN's (with maturities > 3 months)	9,961	15,145
Long term deposits	–	58,000
Total	<u>9,961</u>	<u>73,145</u>
Financial assets at amortised cost		
Long term deposits	72,000	–
Total	<u>72,000</u>	<u>–</u>

Accounting policy for investments

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

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

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.

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

\$ '000	2020 Current	2019 Current
Total cash, cash equivalents and investments	91,196	87,228
attributable to:		
External restrictions	34,900	31,289
Internal restrictions	48,933	47,674
Unrestricted	7,363	8,265
	<u>91,196</u>	<u>87,228</u>

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020	2019
Details of restrictions		
External restrictions – included in liabilities		
Specific purpose unexpended grants – general fund (2020 only)	8,019	–
External restrictions – included in liabilities	8,019	–
External restrictions – other		
Developer contributions – general	18,785	20,147
Specific purpose unexpended grants (recognised as revenue) – general fund	–	3,846
Domestic waste management	6,818	5,734
Infrastructure levy	–	–
Environment levy	893	1,027
Mainstreet levies	–	133
Other specific purpose contributions	385	388
Waste and sustainability improvement funds	–	14
External restrictions – other	26,881	31,289
Total external restrictions	34,900	31,289
Internal restrictions		
Capital works	11,703	18,150
Community housing – capital purchases	963	963
Community housing – major maintenance	132	1,632
Deposits, retentions and bonds	10,804	9,978
Employees leave entitlement	8,569	8,149
I.T. hardware and software	299	193
Income producing projects	1,410	5,724
Insurance	77	625
Loan principal	24	836
Olympic Pool Redevelopment	13,089	–
Plant and vehicle replacement	1,863	1,424
Total internal restrictions	48,933	47,674
TOTAL RESTRICTIONS	83,833	78,963

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Purpose				
Rates and annual charges	1,495	237	770	336
Interest and extra charges	52	80	23	96
User charges and fees	1,173	–	1,462	–
Accrued revenues				
– Interest on investments	647	–	438	–
– Other income accruals	1,267	–	1,679	–
Government grants and subsidies	412	–	124	–
Net GST receivable	929	–	800	–
Outstanding infringements	704	–	850	–
Other debtors	8	18	18	18
Total	6,687	335	6,164	450
Less: provision of impairment				
User charges and fees	(294)	–	(197)	–
Total provision for impairment – receivables	(294)	–	(197)	–
TOTAL NET RECEIVABLES	6,393	335	5,967	450

\$ '000	2020	2019
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 9)	197	133
+ new provisions recognised during the year	196	–
– amounts already provided for and written off this year	(99)	–
Balance at the end of the year	294	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.

Impairment

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

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

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

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

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

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

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

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

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.

Rates and annual charges outstanding are secured against the property.

Note 9. Inventories and other assets

\$ '000	2020 Current	2019 Current
(a) Inventories		
Inventories at cost		
Stores and materials	6	2
Trading stock	27	55
Total inventories at cost	<u>33</u>	<u>57</u>
<u>TOTAL INVENTORIES</u>	<u>33</u>	<u>57</u>
(b) Other assets		
Prepayments	378	244
<u>TOTAL OTHER ASSETS</u>	<u>378</u>	<u>244</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 2020

Note 10. Non-current assets classified as held for sale

(i) Non-current assets

\$ '000	2020 Current	2019 Current
Non-current assets 'held for sale'		
Investment Property	–	4,500
Total non-current assets 'held for sale'	–	4,500

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

\$ '000	2020 Assets 'held for sale'	2019 Assets 'held for sale'
Opening balance	4,500	–
Less: carrying value of assets/operations sold ¹	(4,500)	–
Plus new transfers in:		
– Assets 'held for sale'	–	4,500
Closing balance of 'held for sale' non-current assets	–	4,500

(1) Council approved the sale of 261 Pacific Highway, North Sydney in May 2018. The property was transferred from "Investment Properties" to "Assets held for sale" with a contract settlement period of 18 months. The property sale was settled in November 2019.

Accounting policy for non-current assets classified as held for sale

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 2020

Note 11. Infrastructure, property, plant and equipment

	as at 30/06/19			Asset movements during the reporting period							as at 30/06/20		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000													
Capital work in progress	7,324	–	7,324	4,239	1,753	–	–	(1,090)	–	–	12,226	–	12,226
Plant and equipment	17,277	(9,911)	7,366	1,760	93	(668)	(1,954)	–	–	–	17,599	(11,002)	6,597
Office equipment	19,445	(16,691)	2,754	251	54	(26)	(913)	49	–	–	19,640	(17,471)	2,169
Furniture and fittings	8,859	(5,836)	3,023	80	–	–	(518)	–	–	–	8,939	(6,354)	2,585
Land:													
– Operational land	153,661	–	153,661	–	–	–	–	–	–	–	153,661	–	153,661
– Community land	104,825	–	104,825	–	–	–	–	–	–	–	104,825	–	104,825
– Crown land	51,503	–	51,503	–	–	–	–	–	–	–	51,503	–	51,503
Land improvements – depreciable	18,522	(4,601)	13,921	252	778	–	(389)	55	(2,766)	–	15,191	(3,340)	11,851
Infrastructure:													
– Buildings – non-specialised	1,415	(427)	988	26	–	–	(30)	–	–	–	1,441	(457)	984
– Buildings – specialised	206,498	(78,827)	127,671	890	504	–	(2,756)	100	768	–	209,414	(82,237)	127,177
– Other structures	2,223	(89)	2,134	–	25	–	(53)	120	144	–	2,570	(200)	2,370
– Roads	329,828	(114,982)	214,846	4,824	1,788	(547)	(5,673)	246	(912)	37,592	352,219	(100,055)	252,164
– Footpaths	95,945	(34,898)	61,047	7,048	168	(521)	(3,185)	211	–	14,319	117,860	(38,773)	79,087
– Stormwater drainage	198,872	(70,460)	128,412	2,292	447	–	(2,013)	118	–	15,871	201,754	(56,627)	145,127
– Swimming pools	22,488	(9,989)	12,499	–	–	–	(6,552)	–	–	–	22,488	(16,541)	5,947
– Other open space / recreational assets	11,648	(7,258)	4,390	806	–	–	(1,217)	6	2,766	10,791	25,799	(8,257)	17,542
– Other infrastructure	225,151	(104,756)	120,395	3,274	630	–	(3,401)	185	–	–	229,239	(108,156)	121,083
Other assets:													
– Heritage collections	2,393	(946)	1,447	30	15	–	(41)	–	–	–	2,438	(987)	1,451
– Library books	2,331	(1,263)	1,068	294	–	–	(393)	–	–	–	2,326	(1,357)	969
Total Infrastructure, property, plant and equipment	1,480,208	(460,934)	1,019,274	26,066	6,255	(1,762)	(29,088)	–	–	78,573	1,551,132	(451,814)	1,099,318

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

North Sydney Council

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

Note 11. Infrastructure, property, plant and equipment (continued)

\$ '000	as at 30/06/18			Asset movements during the reporting period						as at 30/06/19		
	Gross carrying amount restated	Accumulated depreciation restated	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Gross carrying amount restated	Accumulated depreciation restated	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	104,763	–	104,763	–	62	–	–	–	–	104,825	–	104,825
– Crown land	51,503	–	51,503	–	–	–	–	–	–	51,503	–	51,503
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).

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. 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. Council applies a brownfield approach to infrastructure revaluations.

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 at significantly below fair value, the assets are initially recognised at their fair value at acquisition date.

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

Plant and equipment	Years	Buildings	Years
Office equipment	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
		Fittings	25 to 30
Transportation assets	Years	Mechanical services	30 to 40
Sealed roads: surface	18 to 40	Other services	50 to 60
Sealed roads: structure	60 to 100		
Sealed roads: formation	200	Other sport and recreation assets	Years
Kerb and gutter	34 to 67	Playgrounds	15
Footpaths	10 to 60	Sports lighting	55
Traffic facilities	70	Park furniture	15 to 100
Street furniture	15 to 90	Sport and fitness	5 to 55
Bus shelters	50	Swimming pools	20 to 200
Stormwater drainage assets	Years	Depreciable land improvements	Years
Drainage pipes	70 to 100	Depreciable land improvements	5 to 100
Drainage pits	80		
Culverts	70 to 100	Other	Years
Gross pollutant traps	40 to 50	Other Structures	25 to 50
		Library collection	5
Other infrastructure	Years	Heritage collection	10 to 100
Lighting	20 to 35		
Seawalls	110		
Marine structures	25 to 50		
Fences	20 to 80		
Retaining walls	90		

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. 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.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Investment properties

\$ '000	2020	2019
(a) Reconciliation – owned investment property		
Reconciliation of annual movement:		
Opening balance	95,512	97,740
– Capitalised expenditure – this year	73	67
– Net gain/(loss) from fair value adjustments	(2,827)	2,205
– Classified as held for sale	–	(4,500)
CLOSING BALANCE – OWNED INVESTMENT PROPERTY	92,758	95,512

(b) Valuation basis (2019 only)

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Investment properties (continued)

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

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

\$ '000	2020	2019
(d) Leasing arrangements – Council as lessor (2019 only) ¹		
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
Later than 1 year but less than 5 years	–	12,219
Later than 5 years	–	11,890
Total minimum lease payments receivable	–	30,034

(1) Disclosures of leasing arrangements for 2020 are at Note 14. Leases

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

Rental income from investment property:		
– Minimum lease payments	–	6,071
Direct operating expenses on investment property:		
– that generated rental income	–	(2,548)
Net revenue contribution from investment property	–	3,523
plus:		
Fair value movement for year	(2,827)	2,205
Total income attributable to investment property	(2,827)	5,728

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 2020

Note 13. Contract assets and liabilities

\$ '000	Notes	2020 Current	2020 Non-current
Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets) ⁱ	(i)	7,842	–
Unexpended operating grants (received prior to performance obligation being satisfied) ⁱⁱ	(ii)	177	–
Unexpended operating contributions (received prior to performance obligation being satisfied)	(ii)	385	–
Total grants received in advance		8,404	–
User fees and charges received in advance:			
Swimming Centre fees ⁱⁱⁱ	(iii)	128	–
Hoarding Permit fees	(iii)	123	–
Outdoor Dining fees	(iii)	110	–
Work Zone Permit fees	(iii)	254	–
Rental income - investment properties	(iii)	142	–
Rental income - other	(iii)	88	–
Other	(iii)	38	–
Total user fees and charges received in advance		883	–
Total contract liabilities		9,287	–

(i) Council has received funding from the NSW Government to carry out public domain improvements along Military Road in Cremorne and Neutral Bay in conjunction with the B-Line project and for the Hume Street Park redevelopment in Crows Nest. The funds received are under an enforceable contract which require Council to construct identified assets which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. The revenue is expected to be recognised in the next 12 months.

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

(iii) The contract liability relates to user charges and fees received in advance prior to the revenue recognition criteria in AASB 15 being satisfied since the performance obligations are ongoing.

Significant changes in contract assets and liabilities

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

Accounting policy for contract assets and liabilities

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases

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

(i) Council as a lessee

Council does not have any material lease contracts over land and buildings, machinery or IT equipment.

Council entered a new waste disposal contract on 1 July 2019. Under the terms of the contract Council has the right to obtain substantially all the economic benefits from the waste collection vehicles supplied by the contractor for the duration of the contract. This results in a right of use asset for Council. Information relating to the right of use asset and associated balances and transactions is provided below.

Waste Disposal Contract

Council has a right of use asset as it has a right to obtain substantially all the economic benefits from the waste collection vehicles provided under the waste disposal contract.

Extension options

The waste collection contract contains an extension option to provide flexibility and certainty to Council operations. The extension is at Council's discretion.

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

\$ '000	Waste Disposal Contract	Total
(a) Right of use assets		
Additions to right-of-use assets	2,628	2,628
Depreciation charge	(263)	(263)
<u>RIGHT OF USE ASSETS</u>	<u>2,365</u>	<u>2,365</u>

\$ '000	2020 Current	2020 Non-current
(b) Lease liabilities		
Lease liabilities	303	2,096
<u>TOTAL LEASE LIABILITIES</u>	<u>303</u>	<u>2,096</u>

(i) The maturity analysis

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

\$ '000	< 1 year	1 – 5 years	> 5 years	Total	Total per Statement of Financial Position
Cash flows	303	1,211	1,211	2,725	2,399

\$ '000	2020
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North Sydney Council

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

Note 14. Leases (continued)

\$ '000	2020
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(c) Income Statement

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

Interest on lease liabilities	74
Depreciation of right of use assets	263
	337

(d) Statement of Cash Flows

Total cash outflow for leases (principal and interest)	303
	303

Leases at significantly below market value – concessionary / peppercorn leases

Council has a number of leases at significantly below market for land which is used for:

- land beautification
- dinghy storage
- boat ramps and jetties

The leases are generally between 1 and 5 years and require payments of a maximum amount of \$5,000 per year. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

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

Accounting policy

Accounting policies under AASB 16 – applicable from 1 July 2019

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

Council has estimated the standalone price of the right of use asset obtained from the waste collection contract. In making this estimate Council has maximised the use of observable information

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

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

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

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

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

Exceptions to lease accounting

continued on next page ...

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

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

Leases at significantly below market value / concessionary leases

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

(ii) Council as a lessor

(e) Operating leases

Council leases out a number of properties to commercial tenants and community groups as well as vehicles to Council employees; these leases have been classified as operating leases for financial reporting purposes and the assets are included as investment property (refer note 12) and IPP&E (refer in this note part (v) below) in the Statement of Financial Position.

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

\$ '000	2020
(i) Operating lease income	
Investment properties	
Lease income (excluding variable lease payments not dependent on an index or rate)	5,914
Other lease income	
Room/Facility Hire	791
Leaseback fees - council vehicles	306
Total income relating to operating leases	7,011
(ii) Operating lease expenses	
Investment properties	
Direct operating expenses that generated rental income	2,338
Total expenses relating to operating leases	2,338
(iii) Maturity analysis of contractual lease income	
Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:	
< 1 year	5,064
1–2 years	3,800
2–3 years	2,974
3–4 years	1,990
4–5 years	1,646
> 5 years	10,328
Total undiscounted contractual lease income receivable	25,802

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

\$ '000	Plant & Equipment 2020
(v) Reconciliation of IPP&E assets leased out as operating leases	
Opening balance as at 1 July 2019	2,121
Additions renewals	927
Carrying value of disposals	(533)
Depreciation expense	(576)
Closing balance as at 30 June 2020	1,939

(f) Finance leases

Council has no finance leases.

Accounting policy

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

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

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

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

During 2020 some of Council's rental property tenants were granted rent concessions related to Covid-19. Council has treated these concessions as a lease modification. Lease income from these leases, including the rent concessions related to Covid-19, will be recognised on a straight-line basis over the remaining term of the lease.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Payables				
Prepaid rates	584	–	–	–
Goods and services – operating expenditure	5,745	–	5,568	–
Goods and services – capital expenditure	3,026	–	3,650	–
Accrued expenses:				
– Borrowings	54	–	60	–
– Salaries and wages	1,035	–	848	–
– Other expenditure accruals	436	–	347	–
Security bonds, deposits and retentions	10,804	–	9,978	–
Other	331	–	316	–
Total payables	22,015	–	20,767	–
Income received in advance (2019 only)				
Payments received in advance	–	–	2,613	–
Total income received in advance	–	–	2,613	–
Borrowings				
Loans – secured ¹	846	7,254	811	8,100
Total borrowings	846	7,254	811	8,100
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>22,861</u>	<u>7,254</u>	<u>24,191</u>	<u>8,100</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 19.

\$ '000	2020	2019
(a) 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	5,359	7,136
Total payables and borrowings	5,359	7,136

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings (continued)

(b) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes			as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy Other non-cash movement	Closing balance
Loans – secured	8,911	(811)	–	–	–	8,100
Lease liabilities	–	–	–	–	2,399	2,399
TOTAL	8,911	(811)	–	–	2,399	10,499

\$ '000	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement	Closing balance
Loans – secured	9,500	(589)	–	–	–	8,911
TOTAL	9,500	(589)	–	–	–	8,911

\$ '000	2020	2019
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(c) Financing arrangements

(i) Unrestricted access was available at balance date to the following lines of credit:

Bank overdraft facilities ¹	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 subject to the notice period in accordance with the terms and conditions of the facility.

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

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.

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 borrowing costs.

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 2020

Note 16. Provisions

\$ '000	2020	2020	2019	2019
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits				
Annual leave	4,246	–	3,845	–
Sick leave	85	–	93	–
Long service leave	7,950	1,174	8,749	278
Gratuities	3,631	–	3,285	–
Other leave – RDO's	51	–	49	–
Sub-total – aggregate employee benefits	15,963	1,174	16,021	278
TOTAL PROVISIONS	15,963	1,174	16,021	278

\$ '000	2020	2019
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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	11,732	12,086
	11,732	12,086

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.

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

On-costs

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

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

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

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

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

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

Statement of Financial Position

(ii) AASB 15 and AASB 1058

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

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

Upfront fees - North Sydney Olympic Pool

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

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

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

Licences

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

Prepaid rates

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

Grants – operating

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Changes in presentation

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

- operating grants and contributions received during 2018/19 but unexpended as at 30 June 2019 totalling \$875,000 which had been recognised as revenue on receipt under AASB 1004 were recognised as contract liabilities as at 1 July 2019 and taken up as income during the year as the funds were spent;
- capital grants received during 2018/19 but unexpended as at 30 June 2019 totalling \$3.359 million which were recognised as revenue on receipt under AASB 1004 were recognised as contract liabilities as at 1 July 2019 and taken up as income during the year as the funds were spent; and
- total equity was reduced by \$4.234 million to offset the aforementioned amendments.

\$ '000	Balance at 1 July 2019
Opening contract balances at 1 July 2019	
Contract liabilities	
– Under AASB 15	875
– Under AASB 1058	3,359
Total Contract liabilities	<u>4,234</u>

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

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

Statement of Financial Position

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Carrying amount under previous revenue standards	Notes
Current liabilities					
Income received in advance	–	883	–	883	
Contract liabilities	9,287	(883)	(8,404)	–	
Total current liabilities	<u>48,414</u>	<u>–</u>	<u>(8,404)</u>	<u>40,010</u>	
Net assets	<u>1,233,858</u>	<u>–</u>	<u>8,404</u>	<u>1,242,262</u>	
Equity					
Accumulated surplus	804,113	–	8,404	812,517	
Total equity	<u>1,233,858</u>	<u>–</u>	<u>8,404</u>	<u>1,242,262</u>	

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

The adoption of AASB15 and AASB 1058 has resulted in the following changes to the Statement of Financial Position as at 30 June 2020:

- income received in advance from certain user charges and fees totalling \$813,000 which would previously have been shown as income received in advance is now included in contract liabilities;
- operating grants and contributions received but unexpended as at 30 June 2020 totalling \$562,000 are now shown as contract liabilities; and
- capital grants received but unexpended as at 30 June 2010 totalling \$7.842 million are shown as contract liabilities.

As a result of the aforementioned changes, total equity is \$8.404 million less than would have been the case prior to the adoption of AASB 15 and AASB 1058.

Income Statement

\$ '000	Income Statement and comprehen- sive income under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Income Statement and comprehen- sive income under previous revenue standards	Notes
<u>Income from continuing operations</u>					
Grants and contributions provided for operating purposes	5,999	–	(313)	5,686	
Grants and contributions provided for capital purposes	6,378	–	4,483	10,861	
Total Income from continuing operations	121,327	–	4,170	125,497	
Total Operating result from continuing operations	(5,133)	–	4,170	(963)	
Net operating result for the year	(5,133)	–	4,170	(963)	

The adoption of AASB 15 and AASB 1058 has resulted in the following changes to the Income Statement for the year ended 30 June 2020:

- operating grants and contributions received but unexpended as at 30 June 2019 totalling \$673,000 and subsequently spent during 2019/20 have been accounted for as revenue again in 2019/20;
- operating grants and contributions received during 2019/20 but unexpended as at 30 June 2020 totalling \$360,000 have been included in contract liabilities and not accounted for as revenue in 2019/20;
- capital grants and contributions received but unexpended as at 30 June 2019 totalling \$3.344 million and subsequently spent during 2019/20 have been accounted for as revenue again in 2019/20; and
- capital grants and contributions received during 2019/20 but unexpended as at 30 June 2020 totaling \$7.842 million have been included in contract liabilities and not accounted for as revenue in 2019/20.

The net effect of these changes was a \$4.170 million reduction in the net operating result for the year than would have been the case prior to the adoption of AASB15 and AASB 1058.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract liabilities	–	4,234	4,234
Total liabilities	48,590	4,234	52,824
Accumulated surplus	813,480	(4,234)	809,246
Total equity	(48,590)	(4,234)	(52,824)

(iii) AASB 16 Leases

Council as a lessee

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

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

Practical expedients used on transition

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

- Contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16.
- Lease liabilities have been discounted using the Council's incremental borrowing rate at 1 July 2019.
- Right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjustment by the any prepaid or accrued lease payments.
- A single discount rate was applied to all leases with similar characteristics.
- The right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset.
- Excluded leases with an expiry date prior to 30 June 2020 from the Statement of Financial Position, and lease expenses for these leases have been recorded on a straight-line basis over the remaining term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Financial statement impact of adoption of AASB 16

Prior to 1 July 2019 Council had no leases classified as operating leases, or leases significantly below market value off balance sheet.

Council recognised a right-of-use asset and lease liability of \$2.7m at 1 July 2019 as a result of entering a new waste collection contract on 1 July 2019.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 July 2019 was 3%.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Statement of cash flow information

\$ '000	Notes	2020	2019
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	9,235	14,083
Balance as per the Statement of Cash Flows		9,235	14,083
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		(5,133)	20,508
Adjust for non-cash items:			
Depreciation and amortisation		29,351	22,111
Net losses/(gains) on disposal of assets		922	1,481
Non-cash capital grants and contributions		–	(62)
Adoption of AASB 15/1058		(4,234)	–
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		5	(91)
– Investment property		2,827	(2,205)
Share of net (profits)/losses of associates/joint ventures using the equity method		(10)	3
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(341)	2,203
Increase/(decrease) in provision for impairment of receivables		97	64
Decrease/(increase) in inventories		24	1
Decrease/(increase) in other current assets		(134)	38
Increase/(decrease) in payables		177	822
Increase/(decrease) in accrued interest payable		(6)	46
Increase/(decrease) in other accrued expenses payable		276	(460)
Increase/(decrease) in other liabilities		(1,188)	815
Increase/(decrease) in contract liabilities		9,287	–
Increase/(decrease) in provision for employee benefits		838	1,448
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		32,758	46,722
(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 2020

Note 19. Interests in other entities

\$ '000	Council's share of net income		Council's share of net assets	
	2020	2019	2020	2019
Joint ventures	10	(3)	20	10
Total	10	(3)	20	10

Joint arrangements

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	2020	2019
Shorelink Library Network	Joint venture	Equity	20	10
Total carrying amounts – material joint ventures			20	10

(b) Details

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

(c) Relevant interests and fair values

\$ '000	Interest in outputs		Interest in ownership		Proportion of voting power	
	2020	2019	2020	2019	2020	2019
Shorelink Library Network	38.7%	38.7%	33.3%	33.3%	33.3%	33.3%

(d) Summarised financial information for joint ventures

\$ '000	Shorelink Library Network	
	2020	2019
Statement of financial position		
Current assets		
Cash and cash equivalents	111	79
Other current assets	–	2
Non-current assets		
	–	1
Current liabilities		
Other current liabilities	51	51
Net assets	60	31
Reconciliation of the carrying amount		
Opening net assets (1 July)	31	42

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Interests in other entities (continued)

\$ '000	Shorelink Library Network	
	2020	2019
Profit/(loss) for the period	29	(11)
Closing net assets	60	31
Council's share of net assets (%)	33.3%	33.3%
Council's share of net assets (\$)	20	10
Statement of comprehensive income		
Income	446	370
Interest income	1	2
Depreciation and amortisation	(1)	(2)
Other expenses	(417)	(371)
Profit/(loss) from continuing operations	29	(1)
Profit/(loss) for the period	29	(1)
Total comprehensive income	29	(1)
Share of income – Council (%)	38.7%	38.7%
Profit/(loss) – Council (\$)	11	–
Total comprehensive income – Council (\$)	11	–

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Commitments

\$ '000	2020	2019
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	1,600	253
Computer equipment	36	202
Computer software	18	–
Infrastructure	5,581	7,386
Library books	67	15
Other structures	78	248
Parking meters	66	–
Plant and equipment	585	300
Total commitments	8,031	8,404
These expenditures are payable as follows:		
Within the next year	8,031	8,404
Total payable	8,031	8,404
Sources for funding of capital commitments:		
Unrestricted general funds	67	15
Section 7.11 and 64 funds/reserves	1,461	661
Unexpended grants	712	3,263
Externally restricted reserves	200	221
Internally restricted reserves	5,591	4,244
Total sources of funding	8,031	8,404

Details of capital commitments

Infrastructure Capital works in North Sydney CBD, Neutral Bay and Crows Nest, various parks and marine structure upgrades.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Contingencies

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but 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 June this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

(iii) 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 2020

Note 21. Contingencies (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 2020, there were twenty three (23) Land and Environment Court matters ongoing and five (5) 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.

North Sydney Council

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

Note 22. Financial risk management

Risk management

Council's activities expose it to a variety of financial risks including (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 2020	Carrying value 2019	Fair value 2020	Fair value 2019
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	9,235	14,083	23,235	14,083
Receivables	6,728	6,417	6,726	6,417
Investments				
– 'Financial assets at amortised cost'	72,000	–	–	–
Fair value through profit and loss				
Investments				
– 'Held for trading'	9,961	73,145	67,961	73,145
Total financial assets	97,924	93,645	97,922	93,645
Financial liabilities				
Payables	22,015	20,767	22,000	20,767
Loans/advances	8,100	8,911	8,100	8,911
Lease liabilities	2,399	–	2,399	–
Total financial liabilities	32,514	29,678	32,499	29,678

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 there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Financial risk management (continued)

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

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

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

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2020				
Possible impact of a 10% movement in market values	996	996	(996)	(996)
Possible impact of a 1% movement in interest rates	913	913	(913)	(913)
2019				
Possible impact of a 10% movement in market values	1,515	1,515	(1,515)	(1,515)
Possible impact of a 1% movement in interest rates	874	874	(874)	(874)

(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 2020

Note 22. Financial risk management (continued)

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2020						
Gross carrying amount	1,495	144	8	27	58	1,732
2019						
Gross carrying amount	770	264	8	23	41	1,106

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2020						
Gross carrying amount	4,550	129	123	108	380	5,290
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	77.40%	5.56%
ECL provision	–	–	–	–	294	294
2019						
Gross carrying amount	4,710	134	110	16	538	5,508
Expected loss rate (%)	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%
ECL provision	7	–	–	–	1	8

(c) Liquidity risk ¹

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

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

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

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

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

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

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. 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
2020							
Trade/other payables	0.00%	10,804	–	–	–	10,804	21,431
Loans and advances	4.02%	–	1,159	5,793	2,607	9,559	8,100
Total financial liabilities		10,804	1,159	5,793	2,607	20,363	29,531
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

(1) A separate maturity analysis of lease liabilities is at Note 14. Leases

North Sydney Council

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

Note 23. Material budget variations

Council's original financial budget for 2019/20 was adopted by the Council on 24 June 2019 and is unaudited.

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

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
REVENUES				
User charges and fees	31,549	28,255	(3,294)	(10)% U
The COVID-19 pandemic had a significant impact on revenue from user charges and fees over the final four months of the year. Subsequent revenue shortfalls, particularly from on and off-street parking fees, some regulatory and statutory fees and the closure of North Sydney Olympic Pool, was the reason for the \$3.3 million (10%) unfavourable variance from the original budget.				
Operating grants and contributions	4,975	5,999	1,024	21% 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 additional funding from the NSW Department of Planning and Environment towards the acceleration of Council's Local Environmental Plan Review Program. This, along with the receipt of some other minor grants which were not included in the original budget, was the reason for the \$1 million (21%) favourable variance from budget.				
Capital grants and contributions	3,082	6,378	3,296	107% F
Subsequent to the adoption of the original budget, Council received additional funding from Transport for NSW for urban landscaping works along the Military Road corridor in conjunction with the Northern Beaches B-Line Program. Though partially offset by lower than forecast revenue from developer contributions, this was the main reason for the \$3.3 million (107%) favourable variance from budget.				
Interest and investment revenue	1,557	1,970	413	27% 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, was the reason for the \$413,000 (27%) favourable variance.				
Net gains from disposal of assets	402	-	(402)	100% U
During the year, property and infrastructure assets with a carrying amount of \$1.068 million were replaced. The resulting write-off turned the forecast modest gain from the disposal of assets into a loss, thereby creating an unfavourable variance for this revenue category and the net losses from disposal of assets expenses category.				
Fair value increment on investment property	1,030	-	(1,030)	100% U
Falling property values in Sydney during the June quarter had a negative impact on the fair value of Council's investment property portfolio and this turned the forecast \$1 million fair value increment into a \$2.8 million decrement, thereby creating an unfavourable variance for this revenue category and the fair value decrement on investment property expenses category.				

North Sydney Council

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

Note 23. Material budget variations

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

Borrowing costs	342	416	(74)	(22)%	U
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As a consequence of applying AASB 16, it has become necessary to recognise the embedded lease in the waste collection contract of vehicles used to collect domestic waste and recycling. The interest expense incurred from the lease of such vehicles used by the contractor engaged to collect domestic waste and recycling is disclosed on Note 15. It was not included in the original budget as an interest expense and was the reason for the \$74,000 (22%) unfavourable variance from budget in borrowing costs.

Depreciation and amortisation	21,504	29,351	(7,847)	(36)%	U
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Prior to its closure for redevelopment in 2020/21, the useful life of the North Sydney Olympic Pool complex has been revised. This necessitated the charging of an additional \$6.2 million of depreciation in 2019/20 above the amount forecast in the original budget. This was the primary reason for the \$7.8 million (36%) unfavourable variance from budget for depreciation and amortisation.

STATEMENT OF CASH FLOWS

Cash flows from operating activities	27,795	32,758	4,963	18%	F
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The receipt of grant funds in excess of that originally forecast, though partially offset by the impact of the COVID-19 pandemic on user charges and fees, was the reason for the favourable variance in net cash from operating activities.

Cash flows from investing activities	(23,277)	(36,566)	(13,289)	57%	U
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Delays in the commencement and/or completion of some capital projects, some of which are partially funded from the aforementioned unbudgeted grant funds, resulted in a greater pool of funds available for investment in the short-term. The subsequent purchase of investment securities was the reason for the unfavourable variance in net cash used in investing activities.

Cash flows from financing activities	(811)	(1,040)	(229)	28%	U
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As disclosed above, Council now recognises the embedded lease in the waste collection contract of vehicles used by the contractor engaged to collect domestic waste and recycling. The principal repayments outlaid for the lease of such vehicles was not originally budgeted for as a cash flow from financing activities and this 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 2020

Note 24. Fair Value Measurement

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

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

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

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

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

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

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

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

2020	Fair value measurement hierarchy			Total
	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				
– 'Held for trading'	–	9,961	–	9,961
Total financial assets	–	9,961	–	9,961
Investment property				
Investment properties	–	92,758	–	92,758
Total investment property	–	92,758	–	92,758
Infrastructure, property, plant and equipment				
Plant and equipment	–	–	6,597	6,597
Office equipment	–	–	2,169	2,169
Furniture and fittings	–	–	2,585	2,585
Operational land	–	67,387	86,274	153,661
Community land	–	–	156,328	156,328
Land improvements – depreciable	–	–	11,851	11,851
Buildings – non-specialised	–	836	148	984
Buildings – specialised	–	47	127,130	127,177
Other structures	–	–	2,370	2,370
Roads	–	–	252,165	252,165
Footpaths	–	–	79,087	79,087
Stormwater drainage	–	–	145,127	145,127
Swimming pools	–	–	5,947	5,947
Other open space/recreation assets	–	–	17,542	17,542
Other infrastructure assets	–	–	121,083	121,083
Heritage collections	–	–	1,450	1,450
Library books	–	–	969	969
Total infrastructure, property, plant and equipment	–	68,270	1,018,822	1,087,092

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North Sydney Council

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

Note 24. Fair Value Measurement (continued)

2019	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				
– ‘Held for trading’	–	58,141	–	58,141
Total financial assets	–	58,141	–	58,141
Investment property				
Investment properties	–	95,512	–	95,512
Total investment property	–	95,512	–	95,512
Infrastructure, property, plant and equipment				
Plant and equipment	–	–	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

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 (i.e. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

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

Investment property

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

continued on next page ...

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

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, Office Equipment, Furniture & Fittings

The cost approach using level 3 inputs was used to value Council's plant and equipment, office equipment and 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, i.e. land area, land values.

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
- 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

continued on next page ...

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

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:

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

Other Infrastructure Assets

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

Level 3 inputs:

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

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 2020

Note 24. Fair Value Measurement (continued)

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

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

\$ '000	Plant and equipment	Office equipment	Furniture and fittings	Operational Land	Community Land	Land improvements depreciable	Buildings non specialised	Building specialised	Other structures
2019									
Opening balance	8,374	2,397	3,433	86,274	156,266	14,119	168	127,243	2,175
Purchases (GBV)	1,464	1,288	112	–	62	427	–	3,381	5
Disposals (WDV)	(535)	–	–	–	–	–	–	(275)	–
Depreciation and impairment	(1,937)	(931)	(522)	–	–	(625)	(10)	(2,704)	(46)
Closing balance	7,366	2,754	3,023	86,274	156,328	13,921	158	127,645	2,134
2020									
Opening balance	7,366	2,754	3,023	86,274	156,328	13,921	158	127,645	2,134
Transfers from/(to) another asset class	–	–	–	–	–	(2,766)	–	768	144
Purchases (GBV)	1,853	354	80	–	–	1,085	–	1,469	145
Disposals (WDV)	(668)	(26)	–	–	–	–	–	–	–
Depreciation and impairment	(1,954)	(913)	(518)	–	–	(389)	(10)	(2,752)	(53)
Closing balance	6,597	2,169	2,585	86,274	156,328	11,851	148	127,130	2,370

\$ '000	Roads	Footpaths	Stormwater drainage	Swimming pools	Open space / recreation assets	Other infrastructure assets	Heritage collection	Library books	Total
2019									
Opening balance	212,023	58,029	127,990	12,863	3,617	120,992	1,494	1,093	938,550
Purchases (GBV)	9,136	6,327	2,438	17	505	2,763	5	367	28,297
Disposals (WDV)	(676)	(622)	–	–	–	–	–	–	(2,108)
Depreciation and impairment	(5,637)	(2,687)	(2,016)	(381)	(788)	(3,360)	(52)	(392)	(22,088)
FV gains – other comprehensive income	–	–	–	–	1,056	–	–	–	1,056
Closing balance	214,846	61,047	128,412	12,499	4,390	120,395	1,447	1,068	943,707
2020									
Opening balance	214,846	61,047	128,412	12,499	4,390	120,395	1,447	1,068	943,707

continued on next page ...

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

\$ '000	Roads	Footpaths	Stormwater drainage	Swimming pools	Open space / recreation assets	Other infrastructure assets	Heritage collection	Library books	Total
Transfers from/(to) another asset class	(912)	–	–	–	2,766	–	–	–	–
Purchases (GBV)	6,858	7,427	2,857	–	812	4,089	45	294	27,368
Disposals (WDV)	(547)	(521)	–	–	–	–	–	–	(1,762)
Depreciation and impairment	(5,673)	(3,185)	(2,013)	(6,552)	(1,217)	(3,401)	(41)	(393)	(29,064)
FV gains – other comprehensive income	37,592	14,319	15,871	–	10,791	–	–	–	78,573
Closing balance	252,164	79,087	145,127	5,947	17,542	121,083	1,451	969	1,018,822

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North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

(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 2020

Note 25. Related party disclosures

Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly. The KMP for North Sydney Council are the Mayor, Councillors, General Manager, Director Corporate Services, Director City Strategy, Director Community and Library Services, Director Engineering and Property Services and Director Open Space and Environmental Services.

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

\$ '000	2020	2019
Compensation:		
Short-term benefits (salaries, Mayoral Allowance, Councillors fees)	2,076	1,972
Post-employment benefits (superannuation)	142	148
Other long-term benefits (increase in employee leave entitlements)	36	53
Total	2,254	2,173

Note 26. Events occurring after the reporting date

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

Commencement of owner occupation at Ward Street Car Park

Ward Street car park comprises a four-level concrete car park facility with space for approximately 550 cars located in the North Sydney CBD. This property was leased to Wilsons Parking under a 50-year lease that ended on 23 August 2020. While leased, the property was classified as Investment Property for financial reporting as it was primarily held to earn rental income.

Upon expiry of the lease Council took possession of the property and commenced operation as a commercial car park. The fair value of Ward Street car park as at August 2020 has been assessed at \$42.9 million. Therefore, in the 2020/21 reporting period a transfer of \$42.9million from Investment Property to Infrastructure, Property Plant and Equipment will take place.

Because of the uncertainty resulting from covid-19 the effect of this change on Council's income statement cannot be accurately estimated. However, the change in use is expected to result in a reduction in rental income and an increase in user fees and charges. There will also be an increase in depreciation expense for buildings a result of the property being classified under IPPE and an increase in materials and contracts due to the operating costs associated with operating the property as a commercial car park.

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/06/19				as at 30/06/20			
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000		Cash	Non-cash					
Traffic Improvements	1,540	37	–	3	(887)	–	693	–
St Leonards Public Domain	846	–	–	3	3	–	852	–
Other Public Domain	431	57	–	1	–	–	489	–
North Sydney Public Domain	3,871	109	–	12	(493)	–	3,499	–
Open Space Increased Capacity	–	830	–	–	(1,744)	914	–	(5,391)
Open Space Acquisitions	5,681	425	–	44	–	(755)	5,395	6,989
Olympic Pool	–	41	–	–	–	(41)	–	(602)
Library Premises & Equipment	–	44	–	–	–	(44)	–	(242)
Library Acquisitions	112	14	–	1	–	–	127	–
Indoor Sports Centre	27	13	–	–	–	–	40	–
Community Centres	–	74	–	–	–	(74)	–	(754)
Child Care	1,668	50	–	6	(48)	–	1,676	–
Affordable Housing	3,419	–	–	12	–	–	3,431	–
Administration	635	19	–	2	–	–	656	–
S7.11 contributions – under a plan	18,230	1,713	–	84	(3,169)	–	16,858	–
Total S7.11 and S7.12 revenue under plans	18,230	1,713	–	84	(3,169)	–	16,858	–
S7.4 planning agreements	1,917	–	–	10	–	–	1,927	–
Total contributions	20,147	1,713	–	94	(3,169)	–	18,785	–

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North Sydney Council

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

Note 27. Statement of developer contributions (continued)

\$ '000	as at 30/06/19						as at 30/06/20	
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
S7.11 Contributions – under a plan								
NORTH SYDNEY PLAN 2004								
Administration	635	19	–	2	–	–	656	–
Affordable Housing	3,419	–	–	12	–	–	3,431	–
Indoor Sports Centre	27	13	–	–	–	–	40	–
Community Centres	–	74	–	–	–	(74)	–	(754)
Child Care	1,668	50	–	6	(48)	–	1,676	–
Library Premises & Equipment	–	44	–	–	–	(44)	–	(242)
Library Acquisitions	112	14	–	1	–	–	127	–
Olympic Pool	–	41	–	–	–	(41)	–	(602)
North Sydney Public Domain	3,871	109	–	12	(493)	–	3,499	–
Open Space Increased Capacity	–	830	–	–	(1,744)	914	–	(5,391)
Open Space Acquisitions	5,681	425	–	44	–	(755)	5,395	6,989
Other Public Domain	431	57	–	1	–	–	489	–
St Leonards Public Domain	846	–	–	3	3	–	852	–
Traffic Improvements	1,540	37	–	3	(887)	–	693	–
Total	18,230	1,713	–	84	(3,169)	–	16,858	–

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator ³ 2020	2019	Prior periods 2018	2017	Benchmark
1. Operating performance ratio						
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(7,767)	(6.76)%	3.34%	7.08%	5.92%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	114,944					
2. Own source operating revenue ratio						
Total continuing operating revenue excluding all grants and contributions ¹	108,945	89.80%	83.98%	89.35%	80.31%	>60.00%
Total continuing operating revenue	121,322					
3. Unrestricted current ratio						
Current assets less all external restrictions	62,684	2.82x	3.45x	2.20x	3.51x	>1.50x
Current liabilities less specific purpose liabilities	22,198					
4. Debt service cover ratio						
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	22,000	15.11x	27.62x	91.17x	84.31x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	1,456					
5. Rates, annual charges, interest and extra charges outstanding percentage						
Rates, annual and extra charges outstanding	1,864	2.90%	2.05%	1.29%	1.13%	<5.00%
Rates, annual and extra charges collectible	64,199					
6. Cash expense cover ratio						
Current year's cash and cash equivalents plus all term deposits	81,235	9.50	8.74	6.69	7.80	>3.00
Monthly payments from cash flow of operating and financing activities	8,554	mths	mths	mths	mths	mths

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

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

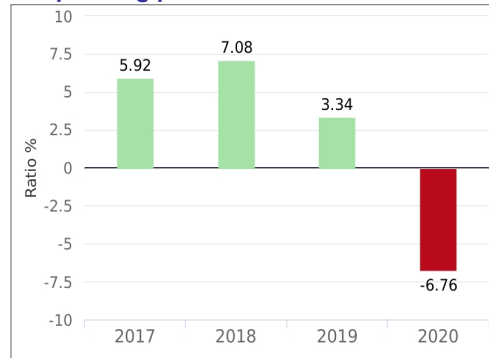
(3) Council includes "Land improvements – depreciable" as an asset class in these ratios

North Sydney Council

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

Note 28(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 2019/20 result

2019/20 ratio (6.76)%

This ratio failed to achieve the benchmark for the first time since 2013/14. There were two main reasons for this. Firstly, a revised assessment of the useful life of the North Sydney Olympic Pool complex prior to its redevelopment in 2020/21 resulted in an additional \$6.2 million of depreciation costs in 2019/20. Secondly, the COVID-19 pandemic and subsequent restrictions had a detrimental effect on revenue over the last four months of the year with shortfalls totalling \$5.3 million.

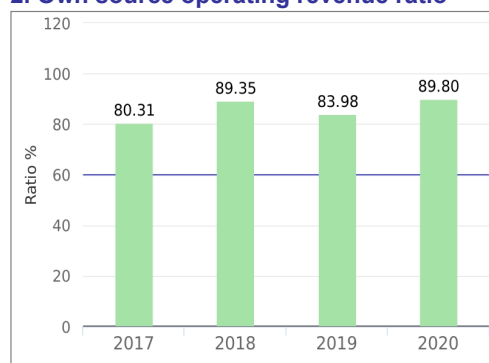
Benchmark: — > 0.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

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

Commentary on 2019/20 result

2019/20 ratio 89.80%

This ratio comfortably achieved the benchmark and has done so for many years. In 2019/20, 89.8% of Council's operating revenue was derived from internal funding sources, i.e. other than from grants and contributions.

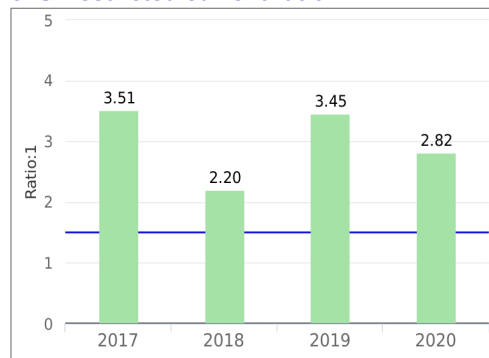
Benchmark: — > 60.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

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

Commentary on 2019/20 result

2019/20 ratio 2.82x

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 2020, for every \$1 of current liabilities to be funded from unrestricted cash, \$2.82 was available.

Benchmark: — > 1.50x

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

Ratio achieves benchmark

Ratio is outside benchmark

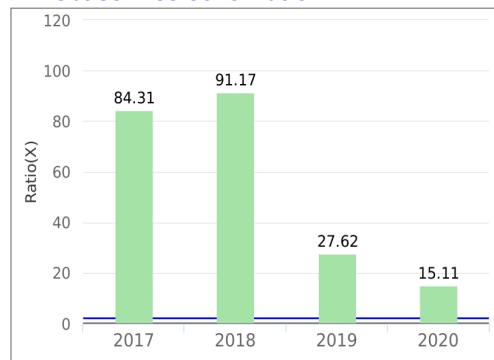
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North Sydney Council

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

Note 28(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 2019/20 result

2019/20 ratio 15.11x

This ratio has achieved the benchmark every year since Council commenced a controlled borrowing program in 2015/16. Excluding non-cash items such as fair value adjustments, depreciation and net losses from the disposal assets from the operating result, there was sufficient funds to cover annual interest payments 15.11 times.

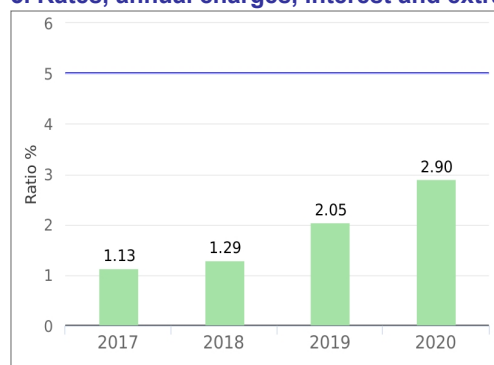
Benchmark: — > 2.00x

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

Ratio achieves benchmark

Ratio is outside benchmark

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



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

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

Commentary on 2019/20 result

2019/20 ratio 2.90%

Council no longer offsets overpaid rates against outstanding rates when calculating uncollected rates and annual charges. This has resulted in an increase in this ratio over the past two years. Nevertheless, it still comfortably achieved the benchmark. This is a reflection of the ongoing effectiveness of Council's recovery efforts.

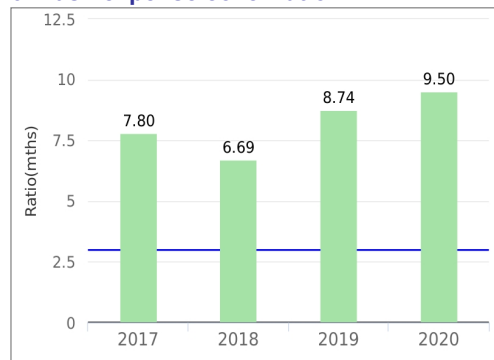
Benchmark: — < 5.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

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

Commentary on 2019/20 result

2019/20 ratio 9.50 mths

This ratio comfortably achieved the benchmark and has done so for many years. At 30 June 2020, in the absence of any additional cash flows, 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 9.98 months.

Benchmark: — > 3.00mths

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

Ratio achieves benchmark

Ratio is outside benchmark

North Sydney Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29. 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 (Deputy 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

General Purpose Financial Statements
for the year ended 30 June 2020

North Sydney Council

General Purpose Financial Statements
for the year ended 30 June 2020

North Sydney Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2020

Shaping a progressive, diverse and vibrant North Sydney community.



North Sydney Council

Special Purpose Financial Statements

for the year ended 30 June 2020

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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 2020

Special Purpose Financial Statements
for the year ended 30 June 2020

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

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

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

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

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

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

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

Jilly Gibson
Mayor
26 October 2020

Stephen Barbour
Councillor
26 October 2020

Ken Gouldthorp
General Manager
26 October 2020

Garry Ross
Responsible Accounting Officer
26 October 2020

North Sydney Council

Income Statement – Commercial Properties
for the year ended 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
Income from continuing operations		
Other income	6,620	7,163
Total income from continuing operations	<u>6,620</u>	<u>7,163</u>
Expenses from continuing operations		
Employee benefits and on-costs	14	8
Materials and contracts	2,251	2,394
Depreciation, amortisation and impairment	234	234
Calculated taxation equivalents	757	603
Loss on revaluation	472	–
Other expenses	720	741
Total expenses from continuing operations	<u>4,448</u>	<u>3,980</u>
Surplus (deficit) from continuing operations before capital amounts	<u>2,172</u>	<u>3,183</u>
Surplus (deficit) from continuing operations after capital amounts	2,172	3,183
Surplus (deficit) from all operations before tax	2,172	3,183
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(597)	(875)
SURPLUS (DEFICIT) AFTER TAX	<u>1,575</u>	<u>2,308</u>
Plus accumulated surplus	102,857	105,281
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	757	603
– Corporate taxation equivalent	597	875
Add:		
Less:		
– Dividend paid	(3,107)	(6,210)
Closing accumulated surplus	<u>102,679</u>	<u>102,857</u>
Return on capital %	30.0%	43.3%

North Sydney Council

Income Statement – Waste Management

for the year ended 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
Income from continuing operations		
Access charges	14,723	13,444
User charges	1,235	1,321
Fees	44	471
Grants and contributions provided for non-capital purposes	44	42
Total income from continuing operations	16,046	15,278
Expenses from continuing operations		
Employee benefits and on-costs	1,293	1,551
Borrowing costs	74	–
Materials and contracts	10,565	10,117
Depreciation, amortisation and impairment	263	–
Calculated taxation equivalents	19	35
Other expenses	32	35
Total expenses from continuing operations	12,246	11,738
Surplus (deficit) from continuing operations before capital amounts	3,800	3,540
Surplus (deficit) from continuing operations after capital amounts	3,800	3,540
Surplus (deficit) from all operations before tax	3,800	3,540
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(1,045)	(974)
SURPLUS (DEFICIT) AFTER TAX	2,755	2,566
Plus accumulated surplus	4,348	2,051
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	19	35
– Corporate taxation equivalent	1,045	974
Less:		
– Dividend paid	(1,685)	(1,278)
Closing accumulated surplus	6,482	4,348

North Sydney Council

Income Statement – Car Parking Services

for the year ended 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
Income from continuing operations		
Fees	3,085	3,787
Total income from continuing operations	<u>3,085</u>	<u>3,787</u>
Expenses from continuing operations		
Employee benefits and on-costs	446	328
Materials and contracts	910	926
Depreciation, amortisation and impairment	908	896
Calculated taxation equivalents	513	318
Other expenses	475	445
Total expenses from continuing operations	<u>3,252</u>	<u>2,913</u>
Surplus (deficit) from continuing operations before capital amounts	(167)	874
Surplus (deficit) from continuing operations after capital amounts	<u>(167)</u>	<u>874</u>
Surplus (deficit) from all operations before tax	<u>(167)</u>	<u>874</u>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(240)
SURPLUS (DEFICIT) AFTER TAX	<u>(167)</u>	<u>634</u>
Plus accumulated surplus	58,085	58,832
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	513	318
– Corporate taxation equivalent	–	240
Less:		
– Dividend paid	(937)	(1,939)
Closing accumulated surplus	<u>57,494</u>	<u>58,085</u>
Return on capital %	(0.1)%	0.7%
Subsidy from Council	1,216	708

North Sydney Council

Income Statement – North Sydney Function Centre
for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
Fees	539	861
Total income from continuing operations	539	861
Expenses from continuing operations		
Employee benefits and on-costs	225	422
Materials and contracts	461	608
Depreciation, amortisation and impairment	48	49
Other expenses	216	330
Total expenses from continuing operations	950	1,409
Surplus (deficit) from continuing operations before capital amounts	(411)	(548)
Surplus (deficit) from continuing operations after capital amounts	(411)	(548)
Surplus (deficit) from all operations before tax	(411)	(548)
SURPLUS (DEFICIT) AFTER TAX	(411)	(548)
Plus accumulated surplus	1,220	1,322
Plus adjustments for amounts unpaid:		
Add:		
– Subsidy paid/contribution to operations	433	446
Closing accumulated surplus	1,242	1,220
Return on capital %	(17.7)%	(23.0)%
Subsidy from Council	431	580

North Sydney Council

Income Statement – Development Applications
for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
Fees	1,449	1,340
Total income from continuing operations	<u>1,449</u>	<u>1,340</u>
Expenses from continuing operations		
Employee benefits and on-costs	4,785	4,682
Materials and contracts	261	225
Calculated taxation equivalents	213	206
Other expenses	603	605
Total expenses from continuing operations	<u>5,862</u>	<u>5,718</u>
Surplus (deficit) from continuing operations before capital amounts	<u>(4,413)</u>	<u>(4,378)</u>
Surplus (deficit) from continuing operations after capital amounts	(4,413)	(4,378)
Surplus (deficit) from all operations before tax	(4,413)	(4,378)
SURPLUS (DEFICIT) AFTER TAX	<u>(4,413)</u>	<u>(4,378)</u>
Plus accumulated surplus	(1,381)	(1,199)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	213	206
Add:		
– Subsidy paid/contribution to operations	4,083	3,990
Closing accumulated surplus	<u>(1,498)</u>	<u>(1,381)</u>
Subsidy from Council	4,413	4,378

North Sydney Council

Statement of Financial Position – Commercial Properties

as at 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
ASSETS		
Current assets		
Receivables	438	156
Total current assets	<u>438</u>	<u>156</u>
Non-current assets		
Infrastructure, property, plant and equipment	7,248	7,352
Investment property	95,113	95,512
Total non-current assets	<u>102,361</u>	<u>102,864</u>
TOTAL ASSETS	<u>102,799</u>	<u>103,020</u>
LIABILITIES		
Current liabilities		
Payables	120	163
Total current liabilities	<u>120</u>	<u>163</u>
TOTAL LIABILITIES	<u>120</u>	<u>163</u>
NET ASSETS	<u>102,679</u>	<u>102,857</u>
EQUITY		
Accumulated surplus	102,679	102,857
TOTAL EQUITY	<u>102,679</u>	<u>102,857</u>

North Sydney Council

Statement of Financial Position – Waste Management

as at 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	6,810	5,734
Receivables	289	206
Total current assets	7,099	5,940
Non-current assets		
Right of use assets	2,365	–
Total non-current assets	2,365	–
TOTAL ASSETS	9,464	5,940
LIABILITIES		
Current liabilities		
Payables	284	1,330
Lease Liability	303	–
Provisions	280	258
Total current liabilities	867	1,588
Non-current liabilities		
Lease Liability	2,096	–
Provisions	19	4
Total non-current liabilities	2,115	4
TOTAL LIABILITIES	2,982	1,592
NET ASSETS	6,482	4,348
EQUITY		
Accumulated surplus	6,482	4,348
TOTAL EQUITY	6,482	4,348

North Sydney Council

Statement of Financial Position – Car Parking Services

as at 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	3	8
Receivables	–	5
Total current assets	<u>3</u>	<u>13</u>
Non-current assets		
Infrastructure, property, plant and equipment	119,243	119,826
Total non-current assets	<u>119,243</u>	<u>119,826</u>
TOTAL ASSETS	<u>119,246</u>	<u>119,839</u>
LIABILITIES		
Current liabilities		
Payables	118	142
Provisions	118	103
Total current liabilities	<u>236</u>	<u>245</u>
Non-current liabilities		
Provisions	9	2
Total non-current liabilities	<u>9</u>	<u>2</u>
TOTAL LIABILITIES	<u>245</u>	<u>247</u>
NET ASSETS	<u>119,001</u>	<u>119,592</u>
EQUITY		
Accumulated surplus	57,494	58,085
Revaluation reserves	61,507	61,507
TOTAL EQUITY	<u>119,001</u>	<u>119,592</u>

North Sydney Council

Statement of Financial Position – North Sydney Function Centre

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Cash and cash equivalents	10	11
Receivables	14	29
Inventories	11	32
Total current assets	<u>35</u>	<u>72</u>
Non-current assets		
Infrastructure, property, plant and equipment	2,322	2,387
Total non-current assets	<u>2,322</u>	<u>2,387</u>
TOTAL ASSETS	<u>2,357</u>	<u>2,459</u>
LIABILITIES		
Current liabilities		
Provisions	5	126
Total current liabilities	<u>5</u>	<u>126</u>
Non-current liabilities		
Provisions	–	2
Total non-current liabilities	<u>–</u>	<u>2</u>
TOTAL LIABILITIES	<u>5</u>	<u>128</u>
NET ASSETS	<u>2,352</u>	<u>2,331</u>
EQUITY		
Accumulated surplus	1,242	1,220
Revaluation reserves	1,110	1,111
TOTAL EQUITY	<u>2,352</u>	<u>2,331</u>

North Sydney Council

Special Purpose Financial Statements 2020

Statement of Financial Position – Development Applications

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
LIABILITIES		
Current liabilities		
Payables	9	–
Provisions	1,373	1,354
Total current liabilities	<u>1,382</u>	<u>1,354</u>
Non-current liabilities		
Provisions	116	27
Total non-current liabilities	<u>116</u>	<u>27</u>
TOTAL LIABILITIES	<u>1,498</u>	<u>1,381</u>
NET ASSETS	<u>(1,498)</u>	<u>(1,381)</u>
EQUITY		
Accumulated surplus	(1,498)	(1,381)
TOTAL EQUITY	<u>(1,498)</u>	<u>(1,381)</u>

North Sydney Council

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

Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the 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

continued on next page ...

North Sydney Council

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

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.

continued on next page ...

North Sydney Council

Special Purpose Financial Statements 2020

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

Note 1. Significant Accounting Policies (continued)

(ii) Subsidies

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

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

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 0.88% at 30 June 2020.

(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 2020

Special Purpose Financial Statements
for the year ended 30 June 2020

North Sydney Council

SPECIAL SCHEDULES
for the year ended 30 June 2020

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



North Sydney Council

Special Schedules

for the year ended 30 June 2020

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North Sydney Council

Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2019/20
Notional general income calculation ¹			
Last year notional general income yield	a	48,530	45,266
Plus or minus adjustments ²	b	(131)	360
Notional general income	c = a + b	48,399	45,626
Permissible income calculation			
Or rate peg percentage	e	7.00%	7.00%
Or plus rate peg amount	i = e x (c + g)	3,388	3,194
Sub-total	k = (c + g + h + i + j)	51,787	48,820
Plus (or minus) last year's carry forward total	l	36	(248)
Less valuation objections claimed in the previous year	m	(1)	(8)
Sub-total	n = (l + m)	35	(256)
Total permissible income	o = k + n	51,822	48,564
Less notional general income yield	p	51,765	48,529
Catch-up or (excess) result	q = o - p	58	35
Plus income lost due to valuation objections claimed ⁴	r	153	1
Carry forward to next year ⁶	t = q + r + s	211	36

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 2020

Asset Class	Asset Category	Estimated cost				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	2019/20 Required maintenance ^a	2019/20 Actual maintenance			1	2	3	4	5		
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000							
(a) Report on Infrastructure Assets - Values														
Buildings	Buildings	539	539	2,654	2,642	128,161	210,855	69.0%	23.0%	6.0%	1.0%	1.0%		
	Sub-total	539	539	2,654	2,642	128,161	210,855	69.0%	23.0%	6.0%	1.0%	1.0%		
Other structures	Other structures	–	–	–	–	2,370	2,570	78.0%	21.0%	1.0%	0.0%	0.0%		
	Sub-total	–	–	–	–	2,370	2,570	78.0%	21.0%	1.0%	0.0%	0.0%		
Roads	Sealed roads	1,089	1,089	1,336	1,267	190,404	256,146	34.0%	38.0%	23.0%	5.0%	0.0%		
	Footpaths	489	489	2,116	2,193	79,087	117,860	27.0%	40.0%	26.0%	6.0%	1.0%		
	Other road assets	510	510	94	72	61,761	96,073	17.0%	49.0%	29.0%	4.0%	1.0%		
	Sub-total	2,088	2,088	3,546	3,532	331,251	470,079	28.8%	40.7%	25.0%	5.0%	0.5%		
Stormwater drainage	Stormwater drainage	20,435	20,435	913	945	145,127	201,754	56.0%	30.0%	2.0%	2.0%	10.0%		
	Sub-total	20,435	20,435	913	945	145,127	201,754	56.0%	30.0%	2.0%	2.0%	10.0%		
Open space / recreational assets	Swimming pools	–	–	787	655	5,947	22,488	50.0%	43.0%	7.0%	0.0%	0.0%		
	Other	69	69	953	881	17,542	25,799	31.0%	34.0%	33.0%	2.0%	0.0%		
	Sub-total	69	69	1,740	1,536	23,489	48,287	39.8%	38.2%	20.9%	1.1%	0.0%		
Other infrastructure assets	Other	6,933	6,933	1,401	1,389	121,083	229,239	9.0%	39.0%	38.0%	11.0%	3.0%		
	Sub-total	6,933	6,933	1,401	1,389	121,083	229,239	9.0%	39.0%	38.0%	11.0%	3.0%		

continued on next page ...

North Sydney Council

Report on Infrastructure Assets (continued)

as at 30 June 2020

Asset Class	Asset Category	Estimated cost		2019/20 Required maintenance ^a	2019/20 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000					
Land	Land improvements – depreciable	582	582	–	–	11,851	15,191	73.0%	15.0%	4.0%	4.0%	4.0%
improvements	Sub-total	582	582	–	–	11,851	15,191	73.0%	15.0%	4.0%	4.0%	4.0%
TOTAL - ALL ASSETS		30,646	30,646	10,254	10,044	763,332	1,177,975	37.9%	34.9%	19.7%	4.8%	2.7%

(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 2020

\$ '000	Amounts 2020	Indicator ³ 2020	2019	Prior periods 2018	2017	Benchmark
Infrastructure asset performance indicators (consolidated) *						
Buildings and infrastructure renewals ratio ¹						
Asset renewals ²	20,045					
Depreciation, amortisation and impairment	25,269	79.33%	121.48%	199.63%	233.52%	>=100.00%
Infrastructure backlog ratio ¹						
Estimated cost to bring assets to a satisfactory standard ⁴	30,646					
Net carrying amount of infrastructure assets	763,332	4.01%	6.24%	6.77%	0.00%	<2.00%
Asset maintenance ratio						
Actual asset maintenance	10,044					
Required asset maintenance	10,254	97.95%	95.35%	107.92%	99.53%	>100.00%
Cost to bring assets to agreed service level						
Estimated cost to bring assets to an agreed service level set by Council	30,646					
Gross replacement cost	1,177,975	2.60%	3.77%	4.10%	0.00%	

(*) 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

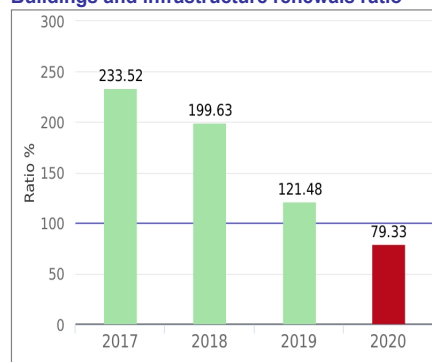
(4) As there is no standard industry practice for identifying the estimated cost to bring assets to a satisfactory standard, Council has elected to use the estimated cost of fully renewing infrastructure assets assessed to be in category 5 (very poor condition) as the estimated cost to bring assets to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

North Sydney Council

Report on Infrastructure Assets (continued)

as at 30 June 2020

Buildings and infrastructure renewals ratio



Buildings and infrastructure renewals ratio

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

Commentary on result	
19/20 ratio	79.33%
Prior to its closure for redevelopment in 2020/21, the useful life of the North Sydney Olympic Pool complex has been revised. This necessitated the charging of an additional \$6.1 million of depreciation in 2019/20 and resulted in this ratio falling below the benchmark for first time since 2013/14. Council has an ongoing commitment to ensuring that sufficient funds are allocated to the replacement and renewal of our infrastructure assets to offset the rate at which they are depreciating.	

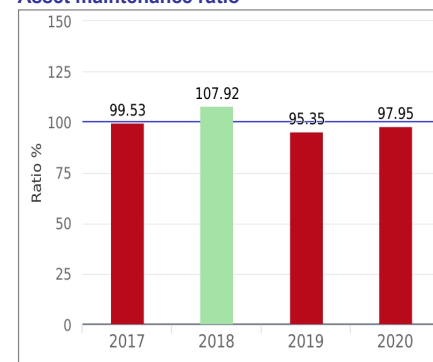
Benchmark: — >= 100.00%

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

■ Ratio achieves benchmark

■ Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

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

Commentary on result	
19/20 ratio	97.95%
While this ratio was again slightly below the benchmark in 2019/20, 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.	

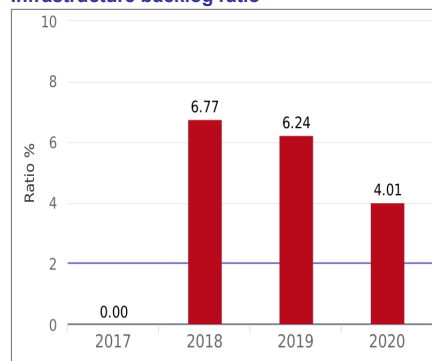
Benchmark: — > 100.00%

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

■ Ratio achieves benchmark

■ Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

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

Commentary on result	
19/20 ratio	4.01%
After condition audits conducted on a number of infrastructure categories revealed the condition of some assets to be worse than previously thought, increased funding allocated to these assets has resulted in an \$11.3 million reduction to the infrastructure backlog in 2019/20 and a corresponding improvement in this ratio. Nevertheless, at 30 June 2020, the backlog was estimated to be \$30.6 million, which represents 4.01% of the net carrying amount of our infrastructure.	

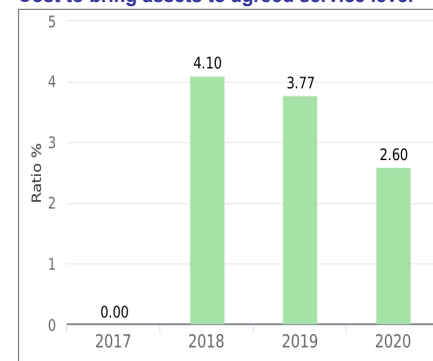
Benchmark: — < 2.00%

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

■ Ratio achieves benchmark

■ Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

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

Commentary on result	
19/20 ratio	2.60%
As at 30 June 2020, the cost to bring Council's infrastructure assets to the community's agreed service level was estimated to be \$30.6 million. This represented 2.6% of the gross replacement cost of our infrastructure, a gradual improvement over the last two years.	