

Muswellbrook Shire Council
**General Purpose
Financial Statements**

for year ended 30 June 2017



**muswellbrook
shire council**

Muswellbrook Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

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Overview

- (i) These financial statements are General Purpose Financial Statements and cover the operations for Muswellbrook Shire Council.
- (ii) Muswellbrook Shire Council is a body politic of NSW, Australia – being constituted as a local government area by proclamation and is duly empowered by the *Local Government Act 1993* (LGA).

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).

- (iii) All figures presented in these financial statements are presented in Australian currency.
 - (iv) These financial statements were authorised for issue by the Council on 30 October 2017. Council has the power to amend and reissue these financial statements.
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Muswellbrook Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

Understanding Council's financial statements

Introduction

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

What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2017.

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

About the Councillor/Management Statement

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

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

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

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

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

Who uses the financial statements?

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

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

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

Muswellbrook Shire Council

General Purpose Financial Statements for the year ended 30 June 2017

Statement by Councillors and Management

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

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

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

To the best of our knowledge and belief, these financial 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.

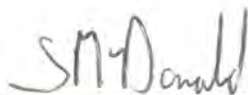
Signed in accordance with a resolution of Council made on 12 September 2017.



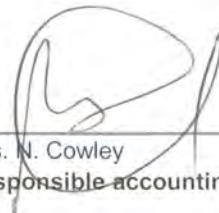
Cr. M. Rush
Mayor



Cr. S. Bailey
Councillor



Mr. S. McDonald
General manager



Mrs. N. Cowley
Responsible accounting officer

Muswellbrook Shire Council

Income Statement

for the year ended 30 June 2017

Budget ¹ 2017	\$ '000	Notes	Actual 2017	Actual 2016
Income from continuing operations				
Revenue:				
19,377	Rates and annual charges	3a	19,243	18,420
13,529	User charges and fees	3b	11,592	11,495
2,254	Interest and investment revenue	3c	2,392	2,586
2,325	Other revenues	3d	3,124	1,563
6,251	Grants and contributions provided for operating purposes	3e,f	9,413	9,023
3,964	Grants and contributions provided for capital purposes	3e,f	5,732	15,638
Other income:				
—	Net gains from the disposal of assets	5	86	4
—	Net share of interests in joint ventures and associates using the equity method	19	14	2
47,700	Total income from continuing operations		51,596	58,731
Expenses from continuing operations				
13,696	Employee benefits and on-costs	4a	13,817	12,876
1,716	Borrowing costs	4b	1,379	973
10,823	Materials and contracts	4c	10,883	12,542
11,287	Depreciation and amortisation	4d	10,409	9,874
—	Impairment	4d	—	600
4,905	Other expenses	4e	5,060	7,060
42,427	Total expenses from continuing operations		41,548	43,925
5,273	Operating result from continuing operations		10,048	14,806
Discontinued operations				
—	Net profit/(loss) from discontinued operations	24	—	—
5,273	Net operating result for the year		10,048	14,806
5,273	Net operating result attributable to Council		10,048	14,806
—	Net operating result attributable to non-controlling interests		—	—
Net operating result for the year before grants and contributions provided for capital purposes				
1,309			4,316	(832)

¹ Original budget as approved by Council – refer Note 16

Muswellbrook Shire Council

Statement of Comprehensive Income
for the year ended 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
Net operating result for the year (as per Income Statement)		10,048	14,806
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	(8,708)	2,330
Total items which will not be reclassified subsequently to the operating result		(8,708)	2,330
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		(8,708)	2,330
Total comprehensive income for the year		1,340	17,136
Total comprehensive income attributable to Council		1,340	17,136
Total comprehensive income attributable to non-controlling interests		—	—

Muswellbrook Shire Council

Statement of Financial Position
as at 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
ASSETS			
Current assets			
Cash and cash equivalents	6a	6,154	2,319
Investments	6b	15,253	9,416
Receivables	7	7,798	7,888
Inventories	8	1,741	2,116
Other	8	156	102
Non-current assets classified as 'held for sale'	22	—	—
Total current assets		31,102	21,841
Non-current assets			
Investments	6b	26,750	38,919
Receivables	7	—	—
Inventories	8	—	—
Infrastructure, property, plant and equipment	9	570,307	569,080
Investments accounted for using the equity method	19	105	91
Investment property	14	21,915	20,675
Intangible assets	25	—	—
Total non-current assets		619,077	628,765
TOTAL ASSETS		650,179	650,606
LIABILITIES			
Current liabilities			
Payables	10	5,249	5,529
Income received in advance	10	—	—
Borrowings	10	806	987
Provisions	10	3,076	3,185
Total current liabilities		9,131	9,701
Non-current liabilities			
Payables	10	—	—
Income received in advance	10	—	—
Borrowings	10	24,855	26,393
Provisions	10	5,625	5,284
Total non-current liabilities		30,480	31,677
TOTAL LIABILITIES		39,611	41,378
Net assets		610,568	609,228
EQUITY			
Retained earnings	20	316,286	306,238
Revaluation reserves	20	294,282	302,990
Other reserves	20	—	—
Council equity interest		610,568	609,228
Non-controlling equity interests		—	—
Total equity		610,568	609,228

This statement should be read in conjunction with the accompanying notes.

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Muswellbrook Shire Council

Statement of Cash Flows
for the year ended 30 June 2017

Budget 2017	\$ '000	Notes	Actual 2017	Actual 2016
Cash flows from operating activities				
Receipts:				
19,377	Rates and annual charges		17,409	18,207
13,529	User charges and fees		11,614	10,646
2,254	Investment and interest revenue received		2,366	2,571
10,215	Grants and contributions		16,674	24,423
–	Bonds, deposits and retention amounts received		189	296
2,325	Other		2,653	4,000
Payments:				
(13,094)	Employee benefits and on-costs		(13,676)	(12,519)
(13,125)	Materials and contracts		(11,074)	(12,687)
(1,716)	Borrowing costs		(1,029)	(634)
–	Bonds, deposits and retention amounts refunded		(193)	(305)
(3,205)	Other		(5,114)	(9,383)
16,560	Net cash provided (or used in) operating activities	11b	19,819	24,615
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		14,099	8,839
–	Sale of real estate assets		690	–
77	Sale of infrastructure, property, plant and equipment		154	339
Payments:				
–	Purchase of investment securities		(7,767)	(11,000)
(10,000)	Purchase of investment property		(2,420)	(15,180)
(30,804)	Purchase of infrastructure, property, plant and equipment		(18,972)	(25,288)
–	Purchase of real estate assets		–	(26)
(40,727)	Net cash provided (or used in) investing activities		(14,216)	(42,316)
Cash flows from financing activities				
Receipts:				
–	Proceeds from borrowings and advances		–	13,500
Payments:				
(800)	Repayment of borrowings and advances		(1,768)	(2,776)
(800)	Net cash flow provided (used in) financing activities		(1,768)	10,724
(24,967)	Net increase/(decrease) in cash and cash equivalents		3,835	(6,977)
–	Plus: cash and cash equivalents – beginning of year	11a	2,319	9,296
(24,967)	Cash and cash equivalents – end of the year	11a	6,154	2,319
Additional Information:				
plus:	Investments on hand – end of year	6b	42,003	48,335
Total cash, cash equivalents and investments			48,157	50,654

Please refer to Note 11 for additional cash flow information.

This statement should be read in conjunction with the accompanying notes.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

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Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies

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.

(a) Basis of preparation

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

(i) New and amended standards adopted by Council

AASB 124 Related Party Disclosures was adopted during the year, the impact of this standard had no impact on reporting financial position or performance, however note 28 has been added.

(ii) Early adoption of standards

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

(iii) 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 property, plant and equipment and investment property.

(iv) 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
- (ii) Estimated fair values of infrastructure, property, plant and equipment,
- (iii) Estimated tip remediation provisions.

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 in Note 7.

(b) Revenue recognition

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.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is measured on major income categories as follows:

(i) Rates, annual charges, grants and contributions

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules.

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

Control over granted assets/contributed assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and is valued at their fair value 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 in Note 3(g). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

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.

(ii) User charges and fees

User charges and fees (including parking fees and fines) are recognised as revenue when the service has been provided or when the penalty has been applied, whichever first occurs.

(iii) Sale of infrastructure, property, plant and equipment

The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

(iv) Interest

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

(v) Rent

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

(vi) Dividend income

Revenue is recognised when the Council's right to receive the payment is established, which is generally when shareholders approve the dividend.

(vii) Other income

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

(c) Principles of consolidation

(i) The Consolidated Fund

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

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

- General purpose operations
- Water service
- Sewerage service
- Commercial Buildings

(ii) The Trust Fund

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

Trust monies and property held by Council but not subject to the control of Council have been excluded from these reports. A separate statement of monies held in the Trust Fund is available for inspection at the Council office by any person free of charge.

(iii) County Councils

Council is a member of the Upper Hunter Weeds Authority, a body corporate established under the Local Government Act 1993 (NSW) to control

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

noxious plants. Council is one of three constituent members and neither controls nor significantly influences the County Council. Accordingly, the County Council has not been consolidated in the financial statements.

Council is of the opinion that it neither controls nor significantly influences the above county council and accordingly this entity has not been consolidated or otherwise included within these financial statements.

(iv) Interests in other entities

Subsidiaries

Council has no interest in any subsidiaries.

Joint arrangements

The Council has determined that it has only a joint venture.

Joint ventures/associates

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

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

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

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

(d) Leases

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

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

Lease income from operating leases where Council is a lessor is recognised as income on a straight-line basis over the lease term.

(e) Impairment of assets

Intangible assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Cash and cash equivalents

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

Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

(g) Inventories

(i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value.

Cost comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on 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.

(ii) Inventory held for distribution

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

(iii) Land held for resale/capitalisation of borrowing costs

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

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

(h) Non-current assets (or disposal groups) held for sale and discontinued operations

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 continuing use.

They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets; assets arising from employee benefits; financial assets; and investment properties that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

(i) Investments and other financial assets

Classification

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which that are classified as non-current assets.

Loans and receivables are included in other receivables (note 8) and receivables (note 7) in the Statement of Financial Position.

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

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

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant

amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, that are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

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

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Impairment

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

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

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Council may measure impairment on the basis of an instrument's fair value using an observable market price.

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

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or

financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is recognised in the income statement within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

Investment Policy

Council has an approved investment policy complying with Section 625 of the Local Government Act 1993 (NSW) and Clause 212 of the Local Government (General) Regulation 2005 (NSW).

Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an investment policy that complies with the Act and ensures that it, or its representatives, exercise the care, diligence and skill that a prudent person would exercise in investing Council funds.

Council amended its policy following revisions to the Ministerial Local Government Investment Order (the Order) arising from the Cole Inquiry recommendations. Certain investments the Council holds are no longer prescribed; however, they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

(j) Fair value estimation – financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

(k) Infrastructure, property, plant and equipment (IPPE)

Council's assets have been progressively revalued to fair value in accordance with a staged implementation advised by the Office of Local Government. At reporting date, the following classes of IPPE were stated at their fair value:

Externally valued:

- Operational land
- Community land
- Buildings – specialised/non-specialised

Internally valued:

- Roads assets including roads, bridges and footpaths
- Bulk earthworks
- Stormwater drainage
- Swimming pools
- Other open space/recreational assets
- Other infrastructure
- Water and Sewerage networks.

As approximated by depreciated historical cost:

- Plant and equipment
- Land improvements
- Other structures
- Other assets

Non-specialised assets with short useful lives are measured at depreciated historical cost as an approximation of fair value. Council has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

Water and sewerage network assets are indexed annually between full revaluations in accordance with the latest indices provided in the NSW Office of Water Rates Reference Manual.

For all other asset classes, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, Council determines the asset's fair value and revalue the asset to that amount. Full revaluations are undertaken for all assets on a five-year cycle.

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

Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

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

Depreciation

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:

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Plant and equipment

- Office equipment	5 to 10 years
- Office furniture	10 to 20 years
- Computer equipment	4 years
- Vehicles	5 to 8 years
- Heavy plant/road making equipment	5 to 8 years
- Other plant and equipment	5 to 15 years

Other equipment

- Playground equipment	5 to 15 years
- Benches, seats etc.	10 to 20 years

Buildings

- Buildings: masonry	50 to 100 years
- Buildings: other	20 to 40 years

Water and sewer assets

- Dams and reservoirs	80 to 100 years
- Bores	20 to 40 years
- Reticulation pipes: PVC	70-80 years
- Reticulation pipes: other	25 to 75 years
- Pumps and telemetry	15 to 20 years

Stormwater assets

- Drains	80 to 100 years
- Culverts	50 to 80 years
- Flood control structures	80 to 100 years

Transportation assets

- Sealed roads: surface	20 years
- Sealed roads: structure	50 years
- Unsealed roads	20 years
- Bridge: concrete	100 years
- Bridge: other	50 years
- Road pavements	60 years
- Kerb, gutter and footpaths	40 years

Other infrastructure assets

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

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

(l) Investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council.

Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, Council uses alternative valuation methods such as recent prices in less active markets, or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income.

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

(m) 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.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

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

(o) 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.

(p) 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.

(q) Employee benefits

(i) 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.

(ii) Other long-term employee benefit obligations

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

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

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

(iii) 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.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Defined Benefit Plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the Statement of Financial Position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligation is based on expected future payments that arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable.

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named the 'Local Government Superannuation Scheme – Pool B'.

This scheme has been deemed to be a 'multi-employer fund' for the purposes of AASB 119.

Sufficient information is not available to account for the Scheme as a defined benefit plan (in accordance with AASB 119) because the assets to the scheme are pooled together for all Councils.

The last valuation of the scheme was performed by Mr Richard Boyfield of Mercer Consulting (Australia) Pty Ltd AFS License #411770 on 2nd December 2016 and covers the period ended 30 June 2016.

However the position is monitored annually and the actuary has estimated that as at 30 June 2017 the prior period deficit still exists.

Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit.

Council's share of that deficiency cannot be accurately calculated as the scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. However, the share of the deficit that can broadly be attributed to Council is 0.26% as at 30 June 2017.

For this reason, no liability for the deficiency has been recognised in these financial statements.

Council has, however, disclosed a contingent liability in Note 18 to reflect the possible obligation that may arise should the scheme require immediate payment to correct the deficiency.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2017 was \$182,516.

Defined Contribution 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.

(r) 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.

(s) Self-insurance

Council has decided to self-insure for various risks, including public liability and professional indemnity.

A provision for self-insurance has been made to recognise outstanding claims, the amount of which is detailed in Note 10. Council also maintains cash and

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

investments to meet expected future claims; these are detailed in Note 6(c).

(t) Intangible assets

Council has not classified any assets as intangible.

(u) 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.

(v) Rural fire service assets

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

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

(w) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the

taxation authority is included with other receivables or payables in the Statement of Financial Position.

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

(x) New accounting standards and interpretations issued not yet effective

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

As at the date of authorisation of the financial statements, the standards and interpretations listed below were in issue but not yet effective.

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

- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15
- AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities
- AASB 2016-7 Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities

Effective for annual reporting periods beginning on or after 13 February 2017

AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014- 16 Cycle

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 1. Summary of significant accounting policies (continued)

Effective for annual reporting periods beginning on or after 13 December 2017

AASB 2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments

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

- AASB 9 Financial Instruments (December 2009)
- AASB 15 Revenue from Contracts with Customers
- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)
- AASB 2014-1 Amendments to Australian Accounting Standards (Part E)
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)AASB 1057 Application of Australian Accounting Standards
- AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts

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

- AASB 16 Leases
- AASB 16 Leases (Appendix D)
- AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities
- AASB 1058 Income of Not-for-Profit Entities
- AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities

The full impact of these standards has yet to be ascertained or quantified but will range from additional and/or revised disclosures to changes in

how certain transactions and balances are accounted for.

(y) Rounding of amounts

Unless otherwise indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars.

(z) Comparative figures

To ensure comparability with the current reporting period's figures, some comparative period line items and amounts may have been reclassified or individually reported for the first time within these financial statements and/or the notes.

(aa) Disclaimer

Nothing contained within these statements may be taken to be an admission of any liability to any person under any circumstance.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current and non-current)	
	Original budget 2017	Actual 2017	Actual 2016	Original budget 2017	Actual 2017	Actual 2016	Original budget 2017	Actual 2017	Actual 2016	Actual 2017	Actual 2016	Actual 2017	Actual 2016
Governance	–	–	–	478	535	410	(478)	(535)	(410)	–	–	–	–
Administration	698	949	151	4,823	4,800	5,504	(4,125)	(3,851)	(5,353)	–	7	45,564	48,626
Public order and safety	619	367	311	1,086	1,066	1,001	(467)	(699)	(690)	276	266	4,381	4,187
Health	–	–	–	246	271	–	(246)	(271)	–	–	–	273	301
Environment	8,066	10,804	4,684	8,944	7,975	6,542	(878)	2,829	(1,858)	232	59	482	505
Community services and education	254	189	49	518	469	615	(264)	(280)	(566)	152	49	22,054	16,982
Housing and community amenities	128	141	2,838	969	1,428	1,229	(841)	(1,287)	1,609	177	136	5,731	5,376
Water supplies	6,206	6,385	6,145	4,774	4,606	4,537	1,432	1,779	1,608	129	34	64,283	62,883
Sewerage services	5,777	4,779	6,858	3,285	3,229	3,131	2,492	1,550	3,727	35	1,009	61,611	64,960
Recreation and culture	1,114	975	2,012	5,261	5,314	5,856	(4,147)	(4,339)	(3,844)	17	13	47,429	48,494
Transport and communication	5,942	5,911	13,915	9,699	9,699	12,165	(3,757)	(3,788)	1,750	4,413	9,462	373,552	370,508
Economic affairs	3,168	3,051	5,961	2,344	2,156	2,935	824	895	3,026	303	4,647	24,714	27,693
Total functions and activities	31,972	33,551	42,924	42,427	41,548	43,925	(10,455)	(7,997)	(1,001)	5,734	15,682	650,074	650,515
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	14	2	–	–	–	–	14	2	–	–	105	91
General purpose income ¹	15,728	18,031	15,805	–	–	–	15,728	18,031	15,805	4,898	3,386	–	–
Operating result from continuing operations	47,700	51,596	58,731	42,427	41,548	43,925	5,273	10,048	14,806	10,632	19,068	650,179	650,606

1. Includes: rates and annual charges (incl. ex-gratia), untied general purpose grants and unrestricted interest and investment income.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

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

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

GOVERNANCE

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

ADMINISTRATION

Includes corporate support and other support services, engineering works, and any Council policy compliance.

PUBLIC ORDER AND SAFETY

Includes Council's fire and emergency services levy, fire protection, emergency services, beach control, enforcement of regulations and animal control.

HEALTH

Includes immunisation, food control, health centres etc.

ENVIRONMENT

Includes noxious plants and insect/vermin control; other environmental protection; solid waste management, including domestic waste; other waste management; other sanitation; and garbage, street cleaning, drainage and stormwater management.

COMMUNITY SERVICES AND EDUCATION

Includes administration and education; social protection (welfare); migrant, Aboriginal and other community services and administration (excluding accommodation – as it is covered under 'housing and community amenities'); youth services; aged and disabled persons services; children's services, including family day care; child care; and other family and children services.

HOUSING AND COMMUNITY AMENITIES

Includes public cemeteries; public conveniences; street lighting; town planning; other community amenities, including housing development and accommodation for families and children, aged persons, disabled persons, migrants and Indigenous persons.

WATER SUPPLIES

SEWERAGE SERVICES

RECREATION AND CULTURE

Includes public libraries; museums; art galleries; community centres and halls, including public halls and performing arts venues; sporting grounds and venues; swimming pools; parks; gardens; lakes; and other sporting, recreational and cultural services.

TRANSPORT AND COMMUNICATION

Urban local, urban regional, includes sealed and unsealed roads, bridges, footpaths, parking areas, and aerodromes.

ECONOMIC AFFAIRS

Includes camping areas and caravan parks; tourism and area promotion; industrial development promotion; sale yards and markets; real estate development; commercial nurseries; and other business undertakings.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 3. Income from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Rates and annual charges			
Ordinary rates			
Residential		4,802	4,716
Farmland		1,282	1,366
Mining		4,780	4,231
Business		1,146	1,149
Total ordinary rates		12,010	11,462
Special rates			
Nil			
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		2,106	1,933
Stormwater management services		156	155
Water supply services		1,459	1,445
Sewerage services		3,373	3,293
Waste management services (non-domestic)		139	132
Total annual charges		7,233	6,958
<u>TOTAL RATES AND ANNUAL CHARGES</u>		<u>19,243</u>	<u>18,420</u>

Council has used 2015 year valuations provided by the NSW Valuer General in calculating its rates.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(b) User charges and fees			
Specific user charges (per s.502 – specific ‘actual use’ charges)			
Water supply services		3,059	2,913
Sewerage services		516	488
Total user charges		3,575	3,401
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Building regulation		104	120
Inspection services		52	42
Private works – section 67		48	64
Regulatory/ statutory fees		94	140
Section 149 certificates (EPA Act)		52	95
Section 603 certificates		23	19
Town planning		22	21
Development/building control		163	216
Water and sewer related sales		412	525
DECCW levy recovered		1,610	1,506
Total fees and charges – statutory/regulatory		2,580	2,748
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Cemeteries		75	61
Community centres		41	32
Fire and emergency services levy (FESL) implementation		76	–
Leaseback fees – Council vehicles		53	59
Leisure centre		30	34
Library and art gallery		50	55
Park rents		16	30
RMS (formerly RTA) charges (state roads not controlled by Council)		1,442	1,732
Swimming centres		563	529
Waste disposal tipping fees		2,939	2,664
Gym centre		79	83
Road vehicle permits		27	30
Other		46	37
Total fees and charges – other		5,437	5,346
TOTAL USER CHARGES AND FEES		11,592	11,495

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Interest and investment revenue (including losses)			
Interest			
– Interest on overdue rates and annual charges (incl. special purpose rates)		157	117
– Interest earned on investments (interest and coupon payment income)		2,235	2,407
Impairment (losses)/reversals			
– Investments other than available for sale		–	107
Amortisation of premiums and discounts			
– ‘Held to maturity’ investments		–	(45)
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>		<u>2,392</u>	<u>2,586</u>
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		157	117
General Council cash and investments		966	840
Restricted investments/funds – external:			
Development contributions			
– Section 94		82	96
– Section 64		603	641
Water fund operations		428	727
Sewerage fund operations		156	165
Total interest and investment revenue recognised		<u>2,392</u>	<u>2,586</u>
(d) Other revenues			
Fair value increments – investment properties	14	545	–
Rental income – investment properties	14	2,219	1,097
Rental income – other council properties		192	204
Fines		42	41
Legal fees recovery – rates and charges (extra charges)		–	22
Insurance claim recoveries		9	130
Insurance rebates		117	69
<u>TOTAL OTHER REVENUE</u>		<u>3,124</u>	<u>1,563</u>

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(e) Grants				
General purpose (untied)				
Financial assistance – general component	3,504	2,448	–	–
Financial assistance – local roads component	1,315	860	–	–
Pensioners' rates subsidies – general component	79	78	–	–
Total general purpose	4,898	3,386	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	35	34	–	–
– Sewerage	35	34	–	–
– Domestic waste management	34	32	–	–
Bushfire and emergency services	216	247	60	19
Community care	118	49	–	–
Economic development	–	–	303	4,647
Employment and training programs	34	7	–	–
Environmental protection	95	59	–	–
Heritage and cultural	52	10	–	–
Library	–	3	–	–
LIRS subsidy	69	77	–	–
Recreation and culture	–	–	17	15
Street lighting	57	57	–	–
Transport (roads to recovery)	960	979	–	–
Transport (other roads and bridges funding)	1,459	2,838	1,949	5,511
Planning	68	14	–	–
Waste management	79	90	–	–
Sewerage services	–	–	–	960
Water supplies	–	–	94	–
Total specific purpose	3,311	4,530	2,423	11,152
Total grants	8,209	7,916	2,423	11,152
Grant revenue is attributable to:				
– Commonwealth funding	5,778	4,287	–	25
– State funding	2,431	3,629	2,423	11,127
	8,209	7,916	2,423	11,152

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 3. Income from continuing operations (continued)

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
(f) Contributions				
Developer contributions:				
(s93 & s94 – EP&A Act, s64 of the LGA):				
S 93F – contributions using planning agreements	572	–	1,363	1,812
S 94 – contributions towards amenities/services	387	469	49	21
S 94A – fixed development consent levies	–	–	93	228
S 64 – water supply contributions	–	–	328	–
S 64 – sewerage service contributions	–	–	497	–
S 64 – stormwater contributions	–	–	2	1
Developer provided infrastructure roads/drainage	–	–	–	386
Developer provided infrastructure water	–	–	–	89
Developer provided infrastructure sewer	–	–	–	129
Total developer contributions	959	469	2,332	2,666
Other contributions:				
Bushfire services	–	–	325	–
Community services	79	254	–	–
Heritage/cultural	3	2	–	–
Recreation and culture	72	59	90	18
Roads and bridges	–	–	509	1,750
Environmental officer/monitoring	24	203	–	–
Library operations	67	120	53	52
Total other contributions	245	638	977	1,820
Total contributions	1,204	1,107	3,309	4,486
TOTAL GRANTS AND CONTRIBUTIONS	9,413	9,023	5,732	15,638

\$ '000	Actual 2017	Actual 2016
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(g) Unspent grants and contributions**Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:**

Unexpended at the close of the previous reporting period	23,273	20,714
Add: grants and contributions recognised in the current period but not yet spent:	504	24,235
Less: grants and contributions recognised in a previous reporting period now spent:	(1,385)	(21,676)

Net increase (decrease) in restricted assets during the period	(881)	2,559
Unexpended and held as restricted assets	22,392	23,273

Comprising:

– Specific purpose unexpended grants	941	1,824
– Developer contributions	21,451	21,449
	22,392	23,273

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
(a) Employee benefits and on-costs			
Salaries and wages		11,876	11,166
Employee termination costs		170	14
Travel expenses		290	228
Employee leave entitlements (ELE)		1,205	1,556
Superannuation		1,281	1,251
Workers' compensation insurance		297	243
Fringe benefit tax (FBT)		97	93
Payroll tax		93	50
Training costs (other than salaries and wages)		253	254
Sick leave insurance		2	1
Protective clothing		48	41
Staff appreciation		13	11
Total employee costs		15,625	14,908
Less: capitalised costs		(1,808)	(2,032)
<u>TOTAL EMPLOYEE COSTS EXPENSED</u>		<u>13,817</u>	<u>12,876</u>
Number of 'full-time equivalent' employees (FTE) at year end		164	165
Number of 'full-time equivalent' employees (FTE) at year end (incl. vacancies)		186	184
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		1,029	634
Total interest bearing liability costs expensed		1,029	634
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	26	301	283
Interest applicable on interest free (and favourable) loans to Council		49	56
Total other borrowing costs		350	339
<u>TOTAL BORROWING COSTS EXPENSED</u>		<u>1,379</u>	<u>973</u>

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Materials and contracts			
Raw materials and consumables		9,725	11,361
Auditors remuneration ⁽¹⁾		129	78
Legal expenses:			
– Legal expenses: planning and development		28	78
– Legal expenses: debt recovery		–	22
– Legal expenses: other		44	52
Operating leases:			
– Operating lease rentals: minimum lease payments ⁽²⁾		50	75
Waste collection		897	866
Venue manager		10	10
<u>TOTAL MATERIALS AND CONTRACTS</u>		<u>10,883</u>	<u>12,542</u>
1. Auditor remuneration			
a. During the year, the following fees were incurred for services provided by the Auditor-General:			
(i) Audit and other assurance services			
– Audit and review of financial statements: Auditor-General		63	–
Remuneration for audit and other assurance services		63	–
Total Auditor-General remuneration		63	–
b. During the year, the following fees were incurred for services provided by the other Council's Auditors:			
(i) Audit and other assurance services			
– Audit and review of financial statements: Council's Auditor		16	47
– Other audit and assurance services: Internal Auditor		50	31
Remuneration for audit and other assurance services		66	78
Total remuneration of other Council's Auditors		66	78
Total Auditor remuneration		129	78
2. Operating lease payments are attributable to:			
Computers		50	75
		50	75

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(d) Depreciation, amortisation and impairment			
Plant and equipment		1,201	1,160
Office equipment		165	166
Furniture and fittings		92	92
Land improvements (depreciable)		110	112
Infrastructure:			
– Buildings – non-specialised		1	1
– Buildings – specialised		537	277
– Other structures		366	306
– Roads		3,658	3,522
– Bridges		605	605
– Footpaths		305	281
– Stormwater drainage		595	593
– Water supply network		1,439	1,438
– Sewerage network		1,198	1,196
Other assets			
– Other		137	125
Total gross depreciation and amortisation costs		10,409	9,874
Less: capitalised costs		–	–
Total depreciation and amortisation costs		10,409	9,874
Impairment			
Infrastructure:			
– Buildings – specialised		–	600
Total gross impairment costs		–	600
Total impairment costs		–	600
TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED		10,409	10,474

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(e) Other expenses			
Advertising		60	41
Bank charges		53	50
Cleaning		199	178
Community facility contribution		130	130
Contributions/levies to other levels of government			
– Emergency services levy (includes FRNSW, SES, and RFS levies)		24	28
– NSW fire brigade levy		41	39
– NSW rural fire service levy		335	296
– Upper Hunter Weeds Authority		79	78
– Waste levy		1,851	1,895
Councillor expenses – mayoral fee		24	24
Councillor expenses – councillors' fees		131	127
Councillors' expenses (incl. mayor) – other (excluding fees above)		21	15
Donations, contributions and assistance to other organisations (Section 356)		85	159
Electricity and heating		720	707
Fair value decrements – investment properties	14	–	1,967
Insurance		686	724
Postage		26	25
Printing and stationery		38	23
Street lighting		398	380
Telephone and communications		105	112
Valuation fees		54	62
<u>TOTAL OTHER EXPENSES</u>		<u>5,060</u>	<u>7,060</u>

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	Actual 2017	Actual 2016
Plant and equipment			
Proceeds from disposal – plant and equipment		154	339
Less: carrying amount of plant and equipment assets sold/written off		(116)	(197)
Net gain/(loss) on disposal		38	142
Infrastructure			
Less: carrying amount of infrastructure assets sold/written off		(165)	(138)
Net gain/(loss) on disposal		(165)	(138)
Real estate assets held for sale			
Proceeds from disposal – real estate assets		690	–
Less: carrying amount of real estate assets sold/written off		(477)	–
Net gain/(loss) on disposal		213	–
Financial assets			
Proceeds from disposal/redemptions/maturities – financial assets		14,099	8,839
Less: carrying amount of financial assets sold/redeemed/matured		(14,099)	(8,839)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		86	4

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 6a. – Cash assets and Note 6b. – investments

\$ '000	Notes	2017 Actual Current	2017 Actual Non-current	2016 Actual Current	2016 Actual Non-current
Cash and cash equivalents (Note 6a)					
Cash on hand and at bank		4,098	–	754	–
Cash-equivalent assets ¹					
– Deposits at call		2,056	–	1,565	–
Total cash and cash equivalents		6,154	–	2,319	–
Investments (Note 6b)					
– Long term deposits		11,753	10,250	4,000	23,653
– NCD's, FRN's (with maturities > 3 months)		3,500	15,500	–	13,250
– Other long term financial assets		–	1,000	5,416	2,016
Total investments		15,253	26,750	9,416	38,919
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS		21,407	26,750	11,735	38,919

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

**Cash, cash equivalents and investments were
classified at year end in accordance with
AASB 139 as follows:**

Cash and cash equivalents

a. 'At fair value through the profit and loss'	6,154	–	2,319	–
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Investments

a. 'Held to maturity'	15,253	26,750	9,416	38,919
Investments	15,253	26,750	9,416	38,919

Refer to Note 27. Fair value measurement for information regarding the fair value of investments held.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

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

\$ '000	2017 Actual Current	2017 Actual Non-current	2016 Actual Current	2016 Actual Non-current
Total cash, cash equivalents and investments	21,407	26,750	11,735	38,919
attributable to:				
External restrictions (refer below)	8,675	27,716	8,850	29,211
Internal restrictions (refer below)	4,691	7,072	2,691	9,708
Unrestricted	3	—	194	—
	13,369	34,788	11,735	38,919

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
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Details of restrictions

External restrictions – included in liabilities

Nil

External restrictions – other

Developer contributions – general (D)	5,619	3,413	(2,371)	6,661
Developer contributions – water fund (D)	6,161	563	—	6,724
Developer contributions – sewer fund (D)	9,669	—	(1,603)	8,066
Specific purpose unexpended grants (F)	834	107	—	941
Specific purpose unexpended grants-water fund (F)	30	—	(30)	—
Specific purpose unexpended grants-sewer fund (F)	960	—	(960)	—
Water supplies (G)	12,806	—	(784)	12,022
Sewerage services (G)	1,626	—	(103)	1,523
Domestic waste management (G)	356	2,325	(2,227)	454
External restrictions – other	38,061	6,408	(8,078)	36,391
Total external restrictions	38,061	6,408	(8,078)	36,391

D Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).

F Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1 (b))

G Water, sewerage, domestic waste management (DWM) and other special rates/levies/charges are externally restricted assets and must be applied for the purposes for which they were raised.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

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

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
Internal restrictions				
Plant and vehicle replacement	411	881	(449)	843
Infrastructure replacement	1,170	–	(402)	768
Employees leave entitlement	868	133	–	1,001
Deposits, retentions and bonds	611	60	–	671
Carpark replacement	45	–	(35)	10
Road works contingency	486	507	(507)	486
Land bank development	3	–	–	3
Building replacement	378	–	(145)	233
Art gallery	33	–	(5)	28
Administrative	152	25	(10)	167
Environmental	230	16	(69)	177
Waste management centre	4,667	–	(1,952)	2,715
Aquatic centre	115	60	(101)	74
Stormwater management	297	156	(15)	438
Carry over works 15/16 operational	446	–	(230)	216
Carry over works 15/16 capital	1,438	–	(301)	1,137
Carry over works 16/17 capital	–	1,657	–	1,657
Recreation	771	214	(377)	608
Builders Rubble	–	61	–	61
Legal matters	42	–	–	42
Infrastructure works	125	–	–	125
Heritage Matters	18	–	–	18
Strategic town planning	93	–	(93)	–
Building Capacity	–	92	–	92
Road Closure	–	28	–	28
Carry over works 16/17 operational	–	165	–	165
Total internal restrictions	12,399	4,055	(4,691)	11,763
TOTAL RESTRICTIONS	50,460	10,463	(12,769)	48,154

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 7. Receivables

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		3,081	—	1,247	—
User charges and fees		1,887	—	1,909	—
Accrued revenues					
– Interest on investments		735	—	709	—
Amounts due from other councils		130	—	1	—
Government grants and subsidies		260	—	2,114	—
Net GST receivable		342	—	366	—
Waste depot charges		477	—	626	—
On site management system		21	—	22	—
Community enhancement		635	—	748	—
RMS IPWO's		277	—	186	—
Other debtors		16	—	23	—
Total		7,861	—	7,951	—
Less: provision for impairment					
User charges and fees		(52)	—	(52)	—
Other debtors		(11)	—	(11)	—
Total provision for impairment – receivables		(63)	—	(63)	—
<u>TOTAL NET RECEIVABLES</u>		<u>7,798</u>	<u>—</u>	<u>7,888</u>	<u>—</u>
Externally restricted receivables					
Water supply					
– Rates and availability charges		153	—	88	—
– Other		726	—	580	—
Sewerage services					
– Rates and availability charges		544	—	381	—
– Other		79	—	73	—
Domestic waste management		149	—	168	—
Total external restrictions		1,651	—	1,290	—
Internally restricted receivables					
Nil					
Unrestricted receivables		6,147	—	6,598	—
TOTAL NET RECEIVABLES		7,798	—	7,888	—

Notes on debtors above:

- (i) Rates and annual charges outstanding are secured against the property.
- (ii) Doubtful rates debtors are provided for where the value of the property is less than the debt outstanding.
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates and charges at 8.50% (2016 8.50%).
Generally all other receivables are non-interest bearing.
- (iv) Please refer to Note 15 for issues concerning credit risk and fair value disclosures.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 8. Inventories and other assets

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Real estate for resale (refer below)		1,497	—	1,974	—
Stores and materials		201	—	99	—
Other		43	—	43	—
Total inventories at cost		1,741	—	2,116	—
(ii) Inventories at net realisable value (NRV)					
Nil					
<u>TOTAL INVENTORIES</u>		<u>1,741</u>	<u>—</u>	<u>2,116</u>	<u>—</u>
(b) Other assets					
Prepayments		156	—	102	—
<u>TOTAL OTHER ASSETS</u>		<u>156</u>	<u>—</u>	<u>102</u>	<u>—</u>

Externally restricted assets

There are no restrictions applicable to the above assets.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 8. Inventories and other assets (continued)

\$ '000	2017		2016	
	Current	Non-current	Current	Non-current
Other disclosures				
(a) Details for real estate development				
Residential	282	—	309	—
Industrial/commercial	1,215	—	1,665	—
Total real estate for resale	1,497	—	1,974	—
(Valued at the lower of cost and net realisable value)				
Represented by:				
Acquisition costs	1,497	—	1,974	—
Total costs	1,497	—	1,974	—
Total real estate for resale	1,497	—	1,974	—
Movements:				
Real estate assets at beginning of the year	1,974	—	1,948	—
– Purchases and other costs	—	—	26	—
– WDV of sales (expense) 5	(477)	—	—	—
Total real estate for resale	1,497	—	1,974	—

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

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

	2017	2016
Real estate for resale	760	1,234
	760	1,234

(c) Inventory write downs

There were no amounts recognised as an expense relating to the write down of inventory balances held during the year.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 9a. Infrastructure, property, plant and equipment

Asset class	as at 30/6/2016				Asset movements during the reporting period							as at 30/6/2017				
	At cost	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Tfrs from/(to) investment properties	Revaluation increments to equity (ARR)	At cost	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000																
Capital work in progress	–	8,928	–	8,928	1,826	5,463	–	–	(532)	–	–	–	15,685	–	–	15,685
Plant and equipment	–	13,908	9,950	3,958	569	507	(116)	(1,201)	–	–	–	–	–	14,650	10,932	3,718
Office equipment	–	2,504	2,007	497	–	301	–	(165)	–	–	–	–	–	2,805	2,172	633
Furniture and fittings	–	1,394	693	701	–	52	–	(92)	–	–	–	–	–	1,446	785	661
Land:																
– Operational land	–	8,341	–	8,341	–	43	–	–	–	–	–	–	–	8,384	–	8,384
– Community land	–	11,795	–	11,795	–	–	–	–	–	–	–	(1,797)	–	9,998	–	9,998
Land improvements – depreciable	–	4,398	779	3,619	–	192	–	(110)	49	–	–	–	–	4,638	888	3,750
Infrastructure:																
– Buildings – non-specialised	–	3,043	573	2,470	–	–	–	(1)	–	331	–	–	–	3,373	573	2,800
– Buildings – specialised	–	57,523	5,097	52,426	428	281	–	(537)	–	(331)	1,725	–	–	59,027	5,036	53,991
– Other structures	–	8,209	1,911	6,298	290	250	–	(343)	65	–	–	–	–	8,815	2,255	6,560
– Roads	–	357,883	86,807	271,076	3,540	463	(135)	(3,658)	18	(467)	–	–	–	361,233	90,398	270,835
– Bridges	–	59,745	16,538	43,207	221	–	–	(605)	–	–	–	–	–	59,966	17,143	42,823
– Footpaths	–	13,857	3,416	10,441	225	536	(30)	(305)	–	467	–	–	–	15,038	3,704	11,334
– Stormwater drainage	–	58,207	19,923	38,284	115	–	–	(595)	–	–	–	–	–	58,322	20,518	37,804
– Water supply network	–	86,848	38,025	48,823	1,234	716	–	(1,439)	81	–	–	401	–	93,286	43,470	49,816
– Sewerage network	–	86,936	33,548	53,388	259	1,199	–	(1,198)	319	–	–	(7,312)	–	85,904	39,246	46,658
Other assets:																
– Heritage collections	–	4,331	–	4,331	–	70	–	–	–	–	–	–	–	4,401	–	4,401
– Other	–	1,366	1,124	242	12	107	–	(137)	–	–	–	–	–	1,484	1,260	224
Reinstatement, rehabilitation and restoration assets (refer Note 26):																
– Tip assets	–	2,191	1,936	255	–	–	–	(23)	–	–	–	–	–	2,191	1,959	232
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	–	791,407	222,327	569,080	8,719	10,180	(281)	(10,409)	–	–	1,725	(8,708)	15,685	794,961	240,339	570,307

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

Refer to Note 27. Fair value measurement for information regarding the fair value of other infrastructure, property, plant and equipment.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

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

\$ '000 Class of asset	Actual 2017			Actual 2016		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
Plant and equipment	571	337	234	495	293	202
Office equipment	87	87	—	87	87	—
Furniture and fittings	21	14	7	21	13	8
Land						
– Operational land	582	—	582	582	—	582
Infrastructure	94,683	43,470	51,213	88,067	38,025	50,042
Total water supply	95,944	43,908	52,036	89,252	38,418	50,834
Sewerage services						
Plant and equipment	383	262	121	295	256	39
Office equipment	29	29	—	29	29	—
Furniture and fittings	2	2	—	2	2	—
Land						
– Operational land	1,172	—	1,172	1,172	—	1,172
– Community land	45	—	45	50	—	50
Infrastructure	90,883	39,246	51,637	88,779	33,548	55,231
Total sewerage services	92,514	39,539	52,975	90,327	33,835	56,492
TOTAL RESTRICTED I,PP&E	188,458	83,447	105,011	179,579	72,253	107,326

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

Impairment losses recognised in the Income Statement:

In December 2015, the Denman Memorial Hall was badly damaged by fire	—	(600)
Total impairment losses	—	(600)

IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L

4(d)

<u>—</u>	<u>(600)</u>
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Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
Payables					
Goods and services – operating expenditure		1,524	–	1,613	–
Goods and services – capital expenditure		2,782	–	3,179	–
Accrued expenses:					
– Salaries and wages		210	–	–	–
Security bonds, deposits and retentions		671	–	675	–
Other		62	–	62	–
Total payables		5,249	–	5,529	–
Income received in advance					
Nil					
Borrowings					
Loans – secured ¹		806	24,855	987	26,393
Total borrowings		806	24,855	987	26,393
Provisions					
Employee benefits:					
Annual leave		1,477	–	1,413	–
Long service leave		1,540	320	1,700	280
Other leave		59	–	72	–
Sub-total – aggregate employee benefits		3,076	320	3,185	280
Asset remediation/restoration (future works)	26	–	5,305	–	5,004
Total provisions		3,076	5,625	3,185	5,284
TOTAL PAYABLES, BORROWINGS AND PROVISIONS					
		9,131	30,480	9,701	31,677
(i) Liabilities relating to restricted assets					
		2017		2016	
		Current	Non-current	Current	Non-current
Externally restricted assets					
Water		1,470	1,956	1,040	2,213
Sewer		1,284	727	947	788
Domestic waste management		89	–	68	–
Liabilities relating to externally restricted assets		2,843	2,683	2,055	3,001
Internally restricted assets					
Nil					
Total liabilities relating to restricted assets		2,843	2,683	2,055	3,001
Total liabilities relating to unrestricted assets		6,288	27,797	7,646	28,676
TOTAL PAYABLES, BORROWINGS AND PROVISIONS		9,131	30,480	9,701	31,677

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 15.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 10a. Payables, borrowings and provisions (continued)

	Actual 2017	Actual 2016
\$ '000		

(ii) Current liabilities 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.

Provisions – employees benefits	2,346	2,314
Payables – security bonds, deposits and retentions	165	170
	2,511	2,484

Note 10b. Description of and movements in provisions

Class of provision	2016	2017				Closing balance as at 30/6/17
	Opening balance as at 1/7/16	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	
Annual leave	1,413	926	(862)	–	–	1,477
Long service leave	1,980	220	(340)	–	–	1,860
Other leave	72	(13)	–	–	–	59
Asset remediation	5,004	–	–	301	–	5,305
TOTAL	8,469	1,133	(1,202)	301	–	8,701

- a. Employees leave entitlements and on-costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- b. Asset remediation, reinstatement and restoration provisions represent the present value estimate of future costs Council will incur in order to remove, restore and remediate assets and/or activities as a result of past operations.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2017	Actual 2016
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	6,154	2,319
Less bank overdraft	10	—	—
Balance as per the Statement of Cash Flows		6,154	2,319
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		10,048	14,806
Adjust for non-cash items:			
Depreciation and amortisation		10,409	9,874
Net losses/(gains) on disposal of assets		(86)	(4)
Non-cash capital grants and contributions		(325)	(604)
Impairment losses recognition – I,PP&E		—	600
Impairment losses/(prior period reversals) – financial investments		—	(107)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment properties		(545)	1,967
Amortisation of premiums, discounts and prior period fair valuations			
– ‘Held to maturity’ financial assets		—	45
– Interest exp. on interest-free loans received by Council (previously fair valued)		49	56
Unwinding of discount rates on reinstatement provisions		301	283
Share of net (profits) or losses of associates/joint ventures		(14)	(2)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		90	(2,429)
Decrease/(increase) in inventories		(102)	41
Decrease/(increase) in other assets		(54)	(74)
Increase/(decrease) in payables		(89)	(186)
Increase/(decrease) in other accrued expenses payable		210	—
Increase/(decrease) in other liabilities		(4)	(8)
Increase/(decrease) in employee leave entitlements		(69)	357
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		19,819	24,615

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 11. Statement of cash flows – additional information (continued)

\$ '000	Notes	Actual 2017	Actual 2016
(c) Non-cash investing and financing activities			
Other dedications		—	604
Other non-cash items (Rural Fire Service)		325	—
Total non-cash investing and financing activities		325	604
(d) Financing arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Bank overdraft facilities ⁽¹⁾		750	750
Credit cards/purchase cards		77	77
Total financing arrangements		827	827

1. The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.
Interest rates on overdrafts are interest rates on loans and other payables are disclosed in Note 15.

(ii) Secured loan liabilities

Loans are secured by a mortgage over future years rate revenue only.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2017	Actual 2016
(a) Capital commitments (exclusive of GST)			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Property, plant and equipment			
Buildings		10	2,377
Plant and equipment		1,336	—
Road Infrastructure		1,081	6,870
Land		44	—
Sewerage Infrastructure		27,300	—
Other		1,330	932
Investment property			
— Buildings		35,209	179
Total commitments		66,310	10,358
These expenditures are payable as follows:			
Within the next year		66,310	10,358
Total payable		66,310	10,358
Sources for funding of capital commitments:			
Unrestricted general funds		—	1,090
Future grants and contributions		9,539	7,040
Unexpended grants		1,361	2,228
Internally restricted reserves		1,966	—
New loans (to be raised)		53,444	—
Total sources of funding		66,310	10,358

Details of capital commitments

Projects that have not been completed in the 2016/17 financial year but have capital commitments.

(b) Operating lease commitments (non-cancellable)

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

Within the next year	41	13
Later than one year and not later than 5 years	82	—
Total non-cancellable operating lease commitments	123	13

b. Non-cancellable operating leases include the following assets:

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

Conditions relating to operating leases:

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

(c) Investment property commitments

Council has received grant funding that allows for the partial funding of the refurbishment and repurposing of Loxton House in Bridge St Muswellbrook.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 13a. Statement of performance measurement – indicators (consolidated)

\$ '000	Amounts 2017	Indicator 2017	Prior periods 2016 2015		Benchmark
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	3,671	8.12%	2.62%	-3.09%	>0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	45,219				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	35,806	70.28%	58.01%	53.60%	>60.00%
Total continuing operating revenue ⁽¹⁾	50,951				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	20,016	5.30x	2.03x	1.82x	>1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	3,777				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	15,459	4.91x	3.35x	4.18x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	3,147				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	3,081	14.92%	6.36%	5.20%	< 5% Metro <10% Rural
Rates, annual and extra charges collectible	20,647				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	28,157	10.28 mths	9.4 mths	14.0 mths	> 3 mths
Payments from cash flow of operating and financing activities	2,738				

Notes

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

⁽²⁾ Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

⁽³⁾ Refer to Note 10(a).

⁽⁴⁾ Refer to Note 10(a)(ii) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 13b. Statement of performance measurement – indicators (by fund)

	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
\$ '000	2017	2016	2017	2016	2017	2016	
Local government industry indicators – by fund							
1. Operating performance ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
less operating expenses							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	8.16%	-2.13%	2.11%	12.70%	15.36%	22.42%	>0.00%
2. Own source operating revenue ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
Total continuing operating revenue ⁽¹⁾	64.46%	49.98%	92.44%	97.97%	89.39%	80.51%	>60.00%
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾							
Current liabilities less specific purpose liabilities ^(3, 4)	5.30x	2.03x	2.71x	3.77x	0.92x	1.30x	>1.5x

Notes

(1) - (4) Refer to Notes at Note 13a(i) above.

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

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 13b. Statement of performance measurement – indicators (by fund) (continued)

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2017	2016	2017	2016	2017	2016	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation		2.43x	4.26x	5.88x	16.68x	19.64x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	4.49x						
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	15.14%	5.25%	10.23%	6.24%	15.98%	11.30%	<10% Rural
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	6.71	4.88	24.21	30.71	23.87	32.43	> 3 months
Payments from cash flow of operating and financing activities	months	months	months	months	months	months	

Notes

(1) Refer to Notes at Note 13a(i) above.

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

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 14. Investment properties

\$ '000	Notes	Actual 2017	Actual 2016
(a) Investment properties at fair value			
<u>Investment properties on hand</u>		<u>21,915</u>	<u>20,675</u>
Reconciliation of annual movement:			
Opening balance		20,675	8,861
– Acquisitions		2,054	12,310
– Capitalised expenditure – this year		366	2,870
– Net gain/(loss) from fair value adjustments		545	(1,967)
– Transfers from/(to) owner occupied (Note 9)		(1,725)	(1,399)
CLOSING BALANCE – INVESTMENT PROPERTIES		<u>21,915</u>	<u>20,675</u>

(b) Valuation basis

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

The 2017 revaluations were based on independent assessments made by:
Property Valuations NSW with a market appraisal of each of the properties.

(c) Contractual obligations at reporting date

Refer to Note 12 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements – Council as lessor

Details of leased investment properties are as follows;

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	4,144	1,761
Later than 1 year but less than 5 years	12,656	2,279
Later than 5 years	2,978	864
Total minimum lease payments receivable	<u>19,778</u>	<u>4,904</u>

(e) Investment property income and expenditure – summary

Rental income from investment properties:		
– Minimum lease payments	2,219	1,097
Direct operating expenses on investment properties:		
– that generated rental income	(941)	(374)
Net revenue contribution from investment properties	<u>1,278</u>	<u>723</u>
plus:		
Fair value movement for year	<u>545</u>	<u>(1,967)</u>
Total income attributable to investment properties	<u>1,823</u>	<u>(1,244)</u>

Refer to Note 27. Fair value measurement for information regarding the fair value of investment properties held.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 15. Financial risk management

\$ '000

Risk management

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

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

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

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

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

	Carrying value		Fair value	
	2017	2016	2017	2016
Financial assets				
Cash and cash equivalents	6,154	2,319	6,154	2,319
Investments				
– 'Held to maturity'	42,003	48,335	42,864	48,602
Receivables	7,798	7,888	7,798	7,888
Total financial assets	55,955	58,542	56,816	58,809
Financial liabilities				
Payables	5,249	5,529	5,249	5,529
Loans/advances	25,661	27,380	25,661	27,380
Total financial liabilities	30,910	32,909	30,910	32,909

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.

Refer to Note 27. Fair value measurement for information regarding the fair value of financial assets and liabilities.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

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

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

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

The risks associated with the investments held are:

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

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

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

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

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2017				
Possible impact of a 1% movement in interest rates	482	482	482	482
2016				
Possible impact of a 1% movement in interest rates	506	506	506	506

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

(b) Credit risk

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

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

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

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

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

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.

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

		2017 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
(i) Ageing of receivables – %					
Current (not yet overdue)		100%	53%	100%	19%
Overdue		0%	47%	0%	81%
		100%	100%	100%	100%
		Rates and annual charges	Other receivables	Rates and annual charges	Other receivables
(ii) Ageing of receivables – value					
Rates and annual charges	Other receivables				
Current	Current	–	663	–	2,324
< 1 year overdue	0 – 30 days overdue	1,849	1,448	892	–
1 – 2 years overdue	31 – 60 days overdue	770	48	214	1,669
2 – 5 years overdue	61 – 90 days overdue	308	923	123	12
> 5 years overdue	> 91 days overdue	154	1,698	18	2,699
		3,081	4,780	1,247	6,704
(iii) Movement in provision for impairment of receivables				2017	2016
Balance at the beginning of the year				63	63
Balance at the end of the year				63	63

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 15. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

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

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
2017									
Trade/other payables	671	4,578	—	—	—	—	—	5,249	5,249
Loans and advances	18,539	1,809	1,809	1,809	1,653	1,653	1,653	28,925	25,661
Total financial liabilities	19,210	6,387	1,809	1,809	1,653	1,653	1,653	34,174	30,910
2016									
Trade/other payables	675	4,854	—	—	—	—	—	5,529	5,529
Loans and advances	19,309	2,361	1,809	1,809	1,653	1,653	6,129	34,723	27,380
Total financial liabilities	19,984	7,215	1,809	1,809	1,653	1,653	6,129	40,252	32,909

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 the diversification of borrowing types, maturities and interest rate structures.

The following interest rates were applicable to Council's borrowings at balance date:

	2017		2016	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	5,249	0.00%	5,529	0.00%
Loans and advances – fixed interest rate	19,852	3.75%	21,571	3.85%
Loans and advances – variable interest rate	5,809	3.22%	5,809	3.22%
	<u>30,910</u>		<u>32,909</u>	

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 16. Material budget variations

\$ '000

Council's original financial budget for 16/17 was adopted by the Council on 27 June 2016.

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

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

Note that for variations* of budget to actual :

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

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

\$ '000	2017 Budget	2017 Actual	2017 Variance*	
REVENUES				
Rates and annual charges	19,377	19,243	(134)	(1%) U
User charges and fees	13,529	11,592	(1,937)	(14%) U
This variance relates to a wide range of User Fees and Charges that were not received to the same extent that had been achieved in previous years. The major variances that occurred were in regard to activities such as a newly acquired commercial building (\$625K) and a commercial buildings(\$122K) were less than expected. Also less than expected Water Usage Charges (\$244K) and infringements (\$55K).				
Interest and investment revenue	2,254	2,392	138	6% F
Other revenues	2,325	3,124	799	34% F
This result is mainly due to more than expected receipt of building lease fees, however these had been included in their entity in the subsequent quarterly reviews for 2016/17 financial year.				
Operating grants and contributions	6,251	9,413	3,162	51% F
This variation is mainly brought about the early payment of the 50% 2017/18 Financial Assistance Grant. These payments are recorded in the year of receipt rather than the year they pertain to as Council accepts control of the funds upon the receipt.				
Capital grants and contributions	3,964	5,732	1,768	45% F
There are a number of major revenues in this category that are not included in the original estimates due to the difficulty faced in the making a meaningful estimate. Major items in this category included Section 64 payments (\$704K), additional amounts received for Voluntary Planning Agreements (\$290K) and receipting of (\$1.181K) grant funding for the Denman Intersection project that was a carry over program from the previous year.				
Net gains from disposal of assets	–	86	86	0% F
Joint ventures and associates - net profits	–	14	14	0% F

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 16. Material budget variations (continued)

\$ '000	2017 Budget	2017 Actual	2017 ----- Variance* -----	
EXPENSES				
Employee benefits and on-costs	13,696	13,817	(121)	(1%) U
Borrowing costs	1,716	1,379	337	20% F
Planned borrowing for 2016/17 was able to be delayed until 2017/18 for a commercial property purchase.				
Materials and contracts	10,823	10,883	(60)	(1%) U
This difference between budget and actual occurred across a range of activities conducted by Council 2016/17. They occurred for a variety of reasons including non-completion of the activity. Examples of these activities include Sewerage Treatment, Roads to Recovery, Waste Management services and Investigation and Design projects.				
Depreciation and amortisation	11,287	10,409	878	8% F
Other expenses	4,905	5,060	(155)	(3%) U

Budget variations relating to Council's Cash Flow Statement include:

Cash flows from operating activities	16,560	19,819	3,259	19.7% F
This result is due to the higher than expected receipt of grant funding.				
Cash flows from investing activities	(40,727)	(14,216)	26,511	(65.1%) F
This has resulted from delays in the completion of a range of capital work. That have been carried over to 2017/18.				
Cash flows from financing activities	(800)	(1,768)	(968)	121.0% U
This has resulted from Council not undertaking proposed borrowings in 2016/17.				

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 17. Statement of developer contributions

\$ '000

Council recovers contributions, raises levies and enters into planning agreements on development works that are subject to a development consent issued by Council. All contributions must be spent/utilised for the specific purpose they were levied and any interest applicable to unspent funds must be attributed to remaining funds.

The following tables detail the receipt, interest and use of the above contributions and levies and the value of all remaining funds which are 'restricted' in their future use.

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
	210	1	–	8	–	–	219	–
Drainage	700	46	–	27	–	–	773	–
Roads	2	–	–	–	–	–	2	–
Parking	540	2	–	20	–	–	562	–
Open space	69	–	–	3	–	–	72	–
Community facilities	71	–	–	3	(13)	–	61	–
Tourism	96	–	–	3	–	–	99	–
Bushfire	327	2	–	11	(9)	–	331	–
Social Infrastructure	2,015	51	–	75	(22)	–	2,119	–
S94 contributions – under a plan	109	93	–	7	(156)	–	53	–
S94A levies – under a plan	2,124	144	–	82	(178)	–	2,172	–
Total S94 revenue under plans	3,495	2,322	–	–	(1,329)	–	4,488	–
S94 not under plans	15,830	825	–	603	(2,467)	–	14,791	–
S64 contributions	21,449	3,291	–	685	(3,974)	–	21,451	–
Total contributions								

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN

PURPOSE	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					
Drainage	210	1	–	8	–	–	219	–
Roads	700	46	–	27	–	–	773	–
Parking	2	–	–	–	–	–	2	–
Open space	540	2	–	20	–	–	562	–
Community facilities	69	–	–	3	–	–	72	–
Tourism	71	–	–	3	(13)	–	61	–
Bushfire	96	–	–	3	–	–	99	–
Social Infrastructure	327	2	–	11	(9)	–	331	–
Total	2,015	51	–	75	(22)	–	2,119	–

S94A LEVIES – UNDER A PLAN

CONTRIBUTION PLAN

PURPOSE	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					
S94A Levies	109	93	–	7	(156)	–	53	–
Total	109	93	–	7	(156)	–	53	–

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 17. Statement of developer contributions (continued)

\$ '000

S94 CONTRIBUTIONS – NOT UNDER A PLAN

VOLUNTARY PLANNING AGREEMENTS

PURPOSE	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					
Roads	–	560	–	–	(503)	–	57	–
Community facilities	2,705	1,363	–	–	(715)	–	3,353	–
Recreation	99	325	–	–	–	–	424	–
Wybong Uplands Strategy	491	–	–	–	(37)	–	454	–
Education	200	–	–	–	–	–	200	–
Environment	–	74	–	–	(74)	–	–	–
Total	3,495	2,322	–	–	(1,329)	–	4,488	–

S64 contributions

PURPOSE	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					
Water	6,161	328	–	235	–	–	6,724	–
Sewer	9,669	497	–	368	(2,467)	–	8,067	–
Total	15,830	825	–	603	(2,467)	–	14,791	–

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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 benefit member category with member councils required to make significantly higher contributions in future years.

The Local Government Superannuation Scheme however is unable to provide Council with an accurate estimate of its share of the net deficit and 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 plans.

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

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

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

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

(iv) Other guarantees

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

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

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

\$ '000

LIABILITIES NOT RECOGNISED (continued):

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) S94 plans

Council levies section 94/94A contributions upon various development across the Council area through the required contributions plans.

As part of these plans, Council has received funds for which it will be required to expend the monies in accordance with those plans.

As well, these plans indicate proposed future expenditure to be undertaken by Council, which will be funded by making levies and receipting funds in future years or where a shortfall exists by the use of Council's general funds.

These future expenses do not yet qualify as liabilities as of the reporting date, but represent Council's intention to spend funds in the manner and timing set out in those plans.

(iii) 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.

ASSETS NOT RECOGNISED:

(i) Land under roads

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

(ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

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

\$ '000

(iii) Contribution to Muswellbrook Cinema

During 2014/15 Council made a conditional loan to the owners of the Muswellbrook Cinema with the aim of facilitating the establishment of the cinema. The loan amount was \$650K and is only repayable in the event of the conditions set out in the agreement between the owners and Council are not met. The loan is secured by bank guarantees issued in favour of Council. The amount repayable decreases in each of the years between 2014/15 and 2018/19.

The cinema has met all the necessary requirements during 2016/17 and as such the value of the loan outstanding has been reduced to \$390K.

The loan was issued in accordance with Council's Community Strategic Plan and after an appropriate period of public consultation.

As the works are completed the effected coal mines will be invoiced for their contributions based upon the costs of the work and their assessed impact on Thomas Mitchell Drive.

Related Assets and Liabilities Not Recognised

As a result of the Thomas Mitchell Drive Contribution Study and the planning and approval conditions related to that, Council has an obligation to undertake road works on Thomas Mitchell Drive. These take the form of a completion of upgrading works, two reseals and rehabilitation. The reseals are planned for around 2023 and 2031 and the rehabilitation between 2035 and 2040.

The costs of these works is estimated at \$9.74M in 2013 dollars. As the works are undertaken, coal mines deemed to be the major contributors to the need for the works are required to make a monetary contribution toward the works. In total, these mines are required to pay 39.1% of the actual cost of the works.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 19. Interests in other entities

\$ '000

Council's objectives can and in some cases are best met through the use of separate entities and operations.

These operations and entities range from 100% ownership and control through to lower levels of ownership and control via co-operative arrangements with other councils, bodies and other outside organisations.

The accounting and reporting for these various entities, operations and arrangements varies in accordance with accounting standards, depending on the level of council's (i) interest and (ii) control and the type (form) of entity/operation, as follows;

Controlled entities (subsidiaries)

Note 19(a)

Operational arrangements where Council's control (but not necessarily interest) exceeds 50%.

Joint ventures and associates

Note 19(b)

Joint ventures are operational arrangements where the parties that have joint control have rights to the net assets of the arrangement.

Associates are separate entities where Council has significant influence over the operations (but neither controls nor jointly controls them).

Joint operations

Note 19(c)

Operational arrangements where the parties that have joint control have rights to specific assets and obligations for specific liabilities relating to the arrangement rather than a right to the net assets of the arrangement.

Unconsolidated structured entities

Note 19(d)

Unconsolidated structured entities represent "special vehicles" that Council has an interest in but which are not controlled by Council and therefore not consolidated as a subsidiary, joint arrangement or associate. Attributes of structured entities include restricted activities, a narrow and well-defined objective and insufficient equity to finance its activities without financial support.

Subsidiaries, joint arrangements and associates not recognised

Note 19(e)

Accounting recognition:

- (i) Subsidiaries disclosed under Note 19(a) and joint operations disclosed at Note 19(c) are accounted for on a 'line by line' consolidation basis within the Income Statement and Statement of Financial Position.
- (ii) Joint ventures and associates as per Note 19(b) are accounted for using the equity accounting method and are disclosed as a 1 line entry in both the Income Statement and Statement of Financial Position.

	Council's share of net income		Council's share of net assets	
	Actual 2017	Actual 2016	Actual 2017	Actual 2016
Joint ventures	14	2	105	91
Associates	—	—	—	—
Total	14	2	105	91

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 19. Interests in other entities (continued)

\$ '000

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

Council has no interest in any controlled entities (subsidiaries).

(b) Joint ventures and associates

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

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2017	2016
Strategic Services Australia Ltd	Joint Venture	Equity Method	105	91
Total carrying amounts – material joint ventures and associates			105	91

(b) Details

Name of entity	Principal activity	Place of business
Strategic Services Australia Ltd	Local Government Services	Thornton

(c) Relevant interests and fair values

Name of entity	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
	2017	2016	2017	2016	2017	2016	2017	2016
	n/a	n/a	4%	4%	4%	4%	8%	8%

(d) Summarised financial information for joint ventures and associates

	Strategic Services Australia Ltd	
	2017	2016
Statement of financial position		
Current assets		
Cash and cash equivalents	217	212
Other current assets	1,393	1,043
Non-current assets	4,129	4,827
Current liabilities		
Financial liabilities (excl. accounts payable)	2,575	3,307
Other current liabilities	477	294
Non-current liabilities	219	342
Net assets	2,468	2,139
Reconciliation of the carrying amount		
Opening net assets (1 July)	2,557	2,084
Profit/(loss) for the period	328	473
Closing net assets	2,885	2,557
Council's share of net assets (%)	4.3%	4.3%
Council's share of net assets (\$)	105	91

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 19. Interests in other entities (continued)

\$ '000

(b) Joint ventures and associates (continued)

(d) Summarised financial information for joint ventures and associates (continued)

	Strategic Services Australia Ltd	
	2017	2016
Statement of comprehensive income		
Income	6,213	6,947
Depreciation and amortisation	(221)	(358)
Interest expense	(97)	(109)
Other expenses	(5,909)	(6,611)
Profit/(loss) from continuing operations	(14)	(131)
Profit/(loss) from discontinued operations	343	603
Profit/(loss) for period	329	472
Total comprehensive income	329	472
Share of income – Council (%)	4.3%	4.3%
Profit/(loss) – Council (\$)	14	20
Less Other Changes in Equity	–	(18)
Total comprehensive income – Council (\$)	14	2

(c) Joint operations

Council has no interest in any joint operations.

(d) Unconsolidated structured entities

Council has no unconsolidated structured entities

(e) Subsidiaries, joint arrangements and associates not recognised

All subsidiaries, joint arrangements and associates have been recognised in this financial report.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 20. Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

\$ '000	Notes	Actual 2017	Actual 2016
(a) Retained earnings			
Movements in retained earnings were as follows:			
Balance at beginning of year (from previous years audited accounts)		306,238	291,432
a. Net operating result for the year		10,048	14,806
Balance at end of the reporting period		316,286	306,238

(b) Revaluation reserves**(i) Reserves are represented by:**

– Infrastructure, property, plant and equipment revaluation reserve	294,282	302,990
Total	294,282	302,990

(ii) Reconciliation of movements in reserves:**Infrastructure, property, plant and equipment revaluation reserve**

– Opening balance	302,990	300,660
– Revaluations for the year	9(a) (8,708)	2,330
– Balance at end of year	294,282	302,990

TOTAL VALUE OF RESERVES

294,282	302,990
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(iii) 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.

(c) Correction of error/s relating to a previous reporting period

Council made no correction of errors during the current reporting period.

(d) Voluntary changes in accounting policies

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

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 21. Financial result and financial position by fund

Income Statement by fund \$ '000	Actual 2017	Actual 2017	Actual 2017	Actual 2017
Continuing operations	DWM	Water	Sewer	General¹
Income from continuing operations				
Rates and annual charges	2,244	1,459	3,373	12,167
User charges and fees	12	3,396	516	7,668
Interest and investment revenue	16	663	289	1,424
Other revenues	—	133	306	2,685
Grants and contributions provided for operating purposes	34	134	35	9,210
Grants and contributions provided for capital purposes	—	328	497	4,907
Other income				
Net gains from disposal of assets	—	—	—	86
Share of interests in joint ventures and associates using the equity method	—	—	—	14
Total income from continuing operations	2,306	6,113	5,016	38,161
Expenses from continuing operations				
Employee benefits and on-costs	83	1,169	976	11,589
Borrowing costs	—	155	54	1,170
Materials and contracts	2,163	2,521	1,368	4,831
Depreciation and amortisation	—	1,482	1,204	7,723
Impairment	—	—	—	—
Other expenses	3	244	214	4,599
Total expenses from continuing operations	2,249	5,571	3,816	29,912
Operating result from continuing operations	57	542	1,200	8,249
Discontinued operations				
Net profit/(loss) from discontinued operations	—	—	—	—
Net operating result for the year	57	542	1,200	8,249
Net operating result attributable to each council fund	57	542	1,200	8,249
Net operating result attributable to non-controlling interests	—	—	—	—
Net operating result for the year before grants and contributions provided for capital purposes	57	214	703	3,342

¹ General fund refers to all Council's activities other than Water, Sewer and DWM

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

Muswellbrook Shire Council

Notes to the Financial Statements
as at 30 June 2017

Note 21. Financial result and financial position by fund (continued)

Statement of Financial Position by fund \$ '000	Actual 2017	Actual 2017	Actual 2017	Actual 2017
	DWM	Water	Sewer	General ¹
ASSETS				
Current assets				
Cash and cash equivalents	—	—	—	6,154
Investments	91	4,659	2,428	8,075
Receivables	149	879	623	6,147
Inventories	—	—	—	1,741
Other	—	—	—	156
Total current assets	240	5,538	3,051	22,273
Non-current assets				
Investments	363	14,087	7,161	5,139
Receivables	—	1,451	—	(1,451)
Inventories	—	—	—	—
Infrastructure, property, plant and equipment	—	52,036	52,975	465,296
Investments accounted for using the equity method	—	—	—	105
Investment property	—	—	—	21,915
Intangible assets	—	—	—	—
Total non-current assets	363	67,574	60,136	491,004
TOTAL ASSETS	603	73,112	63,187	513,277
LIABILITIES				
Current liabilities				
Payables	89	799	952	3,409
Income received in advance	—	—	—	—
Borrowings	—	257	62	487
Provisions	—	414	270	2,392
Total current liabilities	89	1,470	1,284	6,288
Non-current liabilities				
Payables	—	—	—	—
Borrowings	—	1,956	727	22,172
Provisions	—	—	—	5,625
Total non-current liabilities	—	1,956	727	27,797
TOTAL LIABILITIES	89	3,426	2,011	34,085
Net assets	514	69,686	61,176	479,192
EQUITY				
Retained earnings	514	38,028	45,770	231,974
Revaluation reserves	—	31,658	15,406	247,218
Total equity	514	69,686	61,176	479,192

¹ General Fund refers to all Council's activities other than Water, Sewer and DWM

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

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 22. 'Held for sale' non-current assets and disposal groups

\$ '000

Council did not classify any non-current assets or disposal groups as 'held for sale'.

Note 23. Events occurring after the reporting date

Events that occur between the end of the reporting period (30 June 2017) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

Council has adopted the date of receipt of the Auditors' Report as the applicable 'authorised for issue' date relating to these General Purpose Financial Statements.

Accordingly, the 'authorised for issue' date is 30/10/17.

Events that occur after the reporting period represent one of two types:

(i) Events that provide evidence of conditions that existed at the reporting period

These financial statements (and the figures therein) incorporate all 'adjusting events' that provided evidence of conditions that existed at 30 June 2017.

(ii) Events that provide evidence of conditions that arose after the reporting period

These financial statements (and figures therein) do not incorporate any 'non-adjusting events' that have occurred after 30 June 2017 and which are only indicative of conditions that arose after 30 June 2017.

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

Muswellbrook Shire Council has purchased an additional commercial building in Muswellbrook. The settlement of the Muswellbrook Market Place was on 15 August 2017. The deposit was paid in 16/17 financial year and was taken up in Investment Properties (Note 14). The purchase price was \$35M and was funded from Borrowings, taken up in the 17/18 Financial year.

Note 24. Discontinued operations

Council has not classified any of its operations as 'discontinued'.

Note 25. Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance.

Council is unaware of any control over intangible assets that warrant recognition in the financial statements, including either internally generated and developed assets or purchased assets.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 26. Reinstatement, rehabilitation and restoration liabilities

\$ '000

Council has legal/public obligations to make restore, rehabilitate and reinstate the following assets/operations:

Asset/operation	Estimated year of restoration	NPV of provision	
		2017	2016
Rehabilitation of the Muswellbrook Waste Management Facility	2027	5,305	5,004
Balance at end of the reporting period	10(a)	5,305	5,004

Under AASB 116 – Property, Plant and Equipment, where the use of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset.

An equivalent liability must be recognised under AASB 137 – Provisions, Contingent Liabilities and Contingent Assets.

The provision has been calculated by determining the present value of the future expenditures expected to be incurred. The discount rate used is the risk free borrowing rate applicable to Council.

Specific uncertainties relating to the final costs and the assumptions made in determining the amounts of provisions include:

– the actual rehabilitation date may change if significant changes occur in relation to the amount of waste accepted in any given year or technological or statutory changes that impact on useful life of the current waste void. In such a case, Council will be required to recalculate the annual remediation costs and the value of the liability.

Reconciliation of movement in provision for year:

Balance at beginning of year	5,004	4,721
Amounts capitalised to new or existing assets:		
Amortisation of discount (expensed to borrowing costs)	301	283
Total – reinstatement, rehabilitation and restoration provision	5,305	5,004

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 27. Fair value measurement

\$ '000

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

- Infrastructure, property, plant and equipment
- Investment property
- 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) The following table presents all assets and liabilities that have been measured and recognised at fair values:

Fair value measurements		Fair value measurement hierarchy			Total
2017	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investment Properties					
Commercial Properties	30/06/17	—	—	21,915	21,915
Total financial assets		—	—	21,915	21,915
Infrastructure, property, plant and equipment					
Plant and Equipment	30/06/13	—	—	3,718	3,718
Office Equipment	30/06/13	—	—	633	633
Furniture and Fittings	30/06/13	—	—	661	661
Operational Land	30/06/13	—	—	8,384	8,384
Community Land	30/06/17	—	—	9,998	9,998
Depreciable Land Improvements	30/06/16	—	—	3,750	3,750
Buildings - Non-Specialised	30/06/12	—	—	2,800	2,800
Buildings - Specialised	30/06/12	—	—	53,991	53,991
Other Structures	30/06/16	—	—	6,560	6,560
Roads	30/06/15	—	—	270,835	270,835
Bridges	30/06/15	—	—	42,823	42,823
Footpaths	30/06/15	—	—	11,334	11,334
Stormwater Drainage	30/06/15	—	—	37,804	37,804
Water Supply Network	30/06/17	—	—	49,816	49,816
Sewerage Network	30/06/17	—	—	46,658	46,658
Heritage Collections	30/06/14	—	—	4,401	4,401
Other	30/06/14	—	—	224	224
Total infrastructure, property, plant and equipment		—	—	554,390	554,390

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

		Fair value measurement hierarchy			
2016		Level 1	Level 2	Level 3	Total
	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments					
Commercial Properties	30/06/17	—	—	20,675	20,675
Total financial assets		—	—	20,675	20,675
Infrastructure, property, plant and equipment					
Plant and Equipment	30/06/13	—	—	3,958	3,958
Office Equipment	30/06/13	—	—	497	497
Furniture and Fittings	30/06/13	—	—	701	701
Operational Land	30/06/13	—	—	8,341	8,341
Community Land	30/06/16	—	—	11,795	11,795
Depreciable Land Improvements	30/06/16	—	—	3,619	3,619
Buildings - Non-Specialised	30/06/12	—	—	2,470	2,470
Buildings - Specialised	30/06/12	—	—	52,426	52,426
Other Structures	30/06/16	—	—	6,298	6,298
Roads	30/06/15	—	—	271,076	271,076
Bridges	30/06/15	—	—	43,207	43,207
Footpaths	30/06/15	—	—	10,441	10,441
Stormwater Drainage	30/06/15	—	—	38,284	38,284
Water Supply Network	30/06/16	—	—	48,823	48,823
Sewerage Network	30/06/16	—	—	53,388	53,388
Heritage Collections	30/06/10	—	—	4,331	4,331
Other	30/06/13	—	—	242	242
Total infrastructure, property, plant and equipment		—	—	559,897	559,897

(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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

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

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

Financial assets

Council's investments in the form of deposits and other notes held with financial institutions are valued at their face of par value. This value is adjusted where the security has been acquired at either a discount or a premium with that discount or premium being amortised over period between the acquisition and the maturity of the security. This valuation occurs based on the principle that Council has designated the securities as being "Held to Maturity". Accounts receivables are valued at their face value.

The key unobservable input is that Council has no motive to test the marketability of either its financial securities or its accounts receivable.

Investment properties

Council obtains independent valuations of its Investment Properties on an annual basis as at the reporting date in order to ensure that the Financial Statements include the most current valuation. The best evidence of fair value is the current price in an active market for similar assets. Investment Property is included in Level 3 of the hierarchy. The key unobservable input is the estimated lease returns in which the valuations are based.

The fair value is determined by an independent local real estate agent with the appropriate level of experience and a solid understanding of the market for local properties of this type. There has been no change to the valuation process during the reporting period.

Plant and Equipment, Office Equipment and Furniture and Fittings.

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

- Plant and Equipment including Council's works and vehicle fleet.
- Office Equipment including computer and associated Equipment including printers, servers, etc.
- Furniture and Fittings includes items such as Office Furniture, blinds and carpets, etc.

The key unobservable inputs into the valuation are the remaining useful life and any residual value. Council reviews the value of these assets by taking into account the pattern of consumption, estimated remaining useful life and any residual value. There has been no change to the valuation process during the reporting period.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

Operational Land

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The key unobservable input to the valuation is the price per square metre. The last valuation was undertaken at 30 June 2013 and was performed by Liquid Pacific Valuers.

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset, the remaining useful life and condition of the asset; and cash flows from the future use and disposal. There has been no change to the valuation process during the reporting period.

Community Land

Valuations of all Council's Community Land and Council managed land were based on the Unimproved Capital Value as provided by the Valuer-General. As these rates were not considered to be observable market evidence they have been classified as Level 3. There has been no change to the valuation process during the reporting period.

Depreciable Land Improvements.

This asset class comprises land improvements such as spectator mounds, swales, berms, gardens, mulched areas, streetscaping and landscaping. These assets may be located on parks, reserves and also within road reserves. 'Land Improvements' were valued in-house using the replacement cost approach by experienced Council Engineers and Asset Management Staff.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such, these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Buildings - Non specialised and Specialised.

Buildings were valued by APV Valuers and Asset Management in June 2012 using the cost approach. The approach estimated the replacement cost for each building by componentising the buildings into significant parts with different useful lives and taking into account a range of factors. While all buildings were physically inspected, inputs such as estimates of residual value and pattern of consumption required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using Level 3 valuation inputs.

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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

Other Structures.

This asset class comprises infrastructure such as dog leash free areas, ancillary waste facilities, fences, carparks and skateparks.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such, these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Roads, Bridges and Footpaths

This asset class comprises infrastructure including the Road Carriageway, Footpaths, Guardrails, Kerb and Gutter, Retaining walls, Bridges and Traffic facilities. The road carriageway is defined as the trafficable portion of a road, between but not including the kerb and gutter. The 'Cost Approach' using Level 3 inputs was used to value the road carriageway and other infrastructure within this class. These valuations for the asset class have been based on calculations carried out internally by qualified and experienced Council staff.

The cost approach was utilised with inputs such as the estimated pattern of consumption, residual value, asset condition and useful life requiring extensive professional judgement which impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there was some uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

Drainage Infrastructure

Assets within this class comprise pits, pipes, open channels, headwalls and various types of water quality devices. The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. The Level of componentisation adopted by Council is in accordance with Office of Local Government Circular 09-09 and the Institute of Public Works Engineers Australia's International Infrastructure Management Manual (IIMM). Inputs such as estimates of the pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impact significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

Water Supply and Sewerage Network

Assets within these classes include the mains, pump stations, access pits, reservoirs and treatment plants which enable the treatment and reticulation of potable water and the collection and treatment of waste water. Mains are valued in accordance with the NSW Reference Rates Manual issued by the NSW Office of Water, which is based on extensive data collected in relation to expected replacement cost of water and sewer mains. All other items are valued in accordance with their replacement cost. Valuations are undertaken internally by experienced and qualified Council staff. Inputs such as estimates of the pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impact significantly on the final determination of fair value.

Heritage Assets

Assets within this class comprise of Council's Art Collection. The collection is independently valued with the most recent valuation being completed in 2014.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Plant and Equipment	Office Equipment	Furniture and Fittings	Operational Land	Total
Opening balance – 1/7/15	3,982	522	787	8,341	13,632
Purchases (GBV)	1,333	141	6	—	1,480
Disposals (WDV)	(197)	—	—	—	(197)
Depreciation and impairment	(1,160)	(166)	(92)	—	(1,418)
Closing balance – 30/6/16	3,958	497	701	8,341	13,497
Purchases (GBV)	1,077	301	52	43	1,473
Disposals (WDV)	(116)	—	—	—	(116)
Depreciation and impairment	(1,201)	(165)	(92)	—	(1,458)
Closing balance – 30/6/17	3,718	633	661	8,384	13,396

	Community Land	Deprec. Land Improve.	Buildings Non Specialised	Buildings Specialised	Total
Opening balance – 1/7/15	9,389	3,899	2,471	41,500	57,259
Transfers from/(to) another asset class	—	—	—	1,399	1,399
Purchases (GBV)	—	13	—	8,066	8,079
Depreciation and impairment	—	(112)	(1)	(877)	(990)
Revaluation Increments	2,406	(440)	—	—	1,966
Work in Progress Transfers	—	259	—	2,338	2,597
Closing balance – 30/6/16	11,795	3,619	2,470	52,426	70,310
Purchases (GBV)	—	192	—	708	900
Depreciation and impairment	—	(110)	(1)	(537)	(648)
Revaluation Increments	(1,797)	—	—	—	(1,797)
Work in Progress Transfers	—	49	—	—	49
Other movement (details here)	—	—	—	1,725	1,725
Adjust specialised/non-specialised balances.	—	—	331	(331)	—
Closing balance – 30/6/17	9,998	3,750	2,800	53,991	70,539

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2017

Note 27. Fair value measurement (continued)

\$ '000

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

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

	Other Structures	Roads	Bridges	Footpaths	Total
Opening balance – 1/7/15	7,449	258,320	43,812	9,792	319,373
Purchases (GBV)	312	4,125	–	930	5,367
Disposals (WDV)	–	(138)	–	–	(138)
Depreciation and impairment	(283)	(3,522)	(605)	(281)	(4,691)
Work in Progress Transfer	12	12,291	–	–	12,303
Revaluation Increment	(1,192)	–	–	–	(1,192)
Closing balance – 30/6/16	6,298	271,076	43,207	10,441	331,022
Purchases (GBV)	540	4,002	221	760	5,523
Disposals (WDV)	–	(135)	–	(30)	(165)
Depreciation and impairment	(343)	(3,658)	(605)	(305)	(4,911)
Work in Progress Transfer	65	18	–	–	83
Balance between Roads and Footpaths.	–	(468)	–	468	–
Closing balance – 30/6/17	6,560	270,835	42,823	11,334	331,552

	Stormwater Drainage	Water Supply Network	Sewerage Network	Other Minor Classes	Total
Opening balance – 1/7/15	38,576	48,081	50,001	4,576	141,234
Purchases (GBV)	123	1,367	1,590	122	3,202
Depreciation and impairment	(593)	(1,438)	(1,196)	(125)	(3,352)
Work in Progress Transfer	178	73	2,177	–	2,428
Revaluation Increment	–	740	816	–	1,556
Closing balance – 30/6/16	38,284	48,823	53,388	4,573	145,068
Purchases (GBV)	115	1,949	1,461	189	3,714
Depreciation and impairment	(595)	(1,438)	(1,198)	(137)	(3,368)
Work in Progress Transfer	–	81	319	–	400
Revaluation Increment	–	401	(7,312)	–	(6,911)
Closing balance – 30/6/17	37,804	49,816	46,658	4,625	138,903

(5). Highest and best use

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

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2017

Note 28. Related party disclosures

\$

a. Key management personnel

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

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

	Actual 2017
Compensation:	
Short-term benefits	856,342
Post-employment benefits	109,682
Other long-term benefits	22,080
Termination benefits	14,508
Total	1,002,612

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2017

Note 28. Related party disclosures (continued)

\$ '000

b. Other transactions with KMP and their related parties

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

Nature of the transaction	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for doubtful debts outstanding	Doubtful debts expense recognised
	\$'000	\$'000		\$'000	\$'000
Bush Regeneration Works	124	—	21 days	—	—
Upper Hunter Weeds Authority -Contribution	79	—	Annually	—	—
Contribution from Upper Hunter Weeds Authority	38	—	Annually	—	—
Local Government Training Institute - Training Services	34	—	7 days	—	—
Hunter Council Inc. - Training Services	9	—	7 days	—	—



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Muswellbrook Shire Council

To the Councillors of Muswellbrook Shire Council

Opinion

I have audited the accompanying financial statements of Muswellbrook Shire Council (the Council), which comprise the statement of financial position as at 30 June 2017, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
 - have been presented, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

Basis for Opinion

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

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

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

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

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

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

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

The Councillors' Responsibility for the Financial Statements

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

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

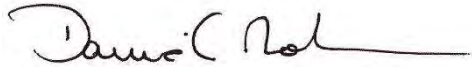
Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar3.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, Note 2(a) and Note 16 budget variation explanations
- on the attached Special Schedules
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

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

David Nolan
Director, Financial Audit Services

30 October 2017
SYDNEY

Cr Martin Rush
Mayor
Muswellbrook Shire Council
PO Box 122
Muswellbrook NSW 2333

Contact: David Nolan
Phone no: 9275 7377
Our ref: D1728552/1765

30 October 2017

Dear Mayor

Report on the Conduct of the Audit for the year ended 30 June 2017 Muswellbrook Shire Council

I have audited the general purpose financial statements of Muswellbrook Shire Council (the Council) for the year ended 30 June 2017 as required by s415 of the *Local Government Act 1993* (the Act).

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

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

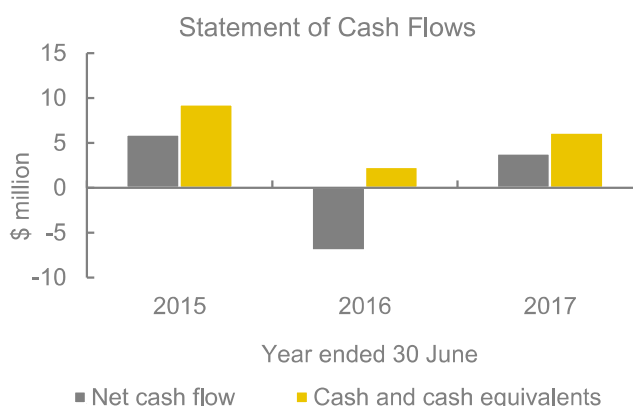
	2017 \$m	2016 \$m	Variance %
Rates and annual charges revenue	19.2	18.4	4.3 ↑
Grants and contributions revenue	15.1	24.7	38.9 ↓
Operating result for the year	10.0	14.8	32.4 ↓
Net operating result before capital amounts	4.3	(0.8)	↑

The operating result for the year was a surplus of \$10 million (2016: \$14.8 million) and included a depreciation expense of \$10.4 million (2016: \$9.9 million). The lower operating result for this year is mainly due to a reduction in the receipt of capital grants and contributions.

Rates and annual charges represent 37 per cent of Council's total revenues.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows illustrates the flow of cash and cash equivalents moving in and out of Council during the year and reveals that cash increased by \$3.8 million to \$6.2 million at the close of the year. The increase can be attributed to the receipt of the prepayment of the Financial Assistance Grant. (\$1.6 million)



In addition to operating activities which contributed net cash of \$19.8 million were the proceeds from the sale of investment securities (\$14.1 million) and sale of assets (\$844,000). Cash outflows other than operating activities were used to purchase investment securities (\$7.8 million), repay loans (\$1.8 million) and to purchase and construct assets (\$21.4 million).

FINANCIAL POSITION

Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	36.4	38.1	Cash and investments amounted to \$48.2 million at 30 June 2017 (2016: \$50.7 million).
Internal restrictions	11.8	12.4	
Unrestricted	0	0.2	
Cash and investments	48.2	50.7	

Externally restricted cash and investments are restricted in their use by externally imposed requirements. These include unspent grants and contributions and domestic waste, water and sewerage funds.

Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect forward plans and identified programs of works. These totalled \$11.8 million and their purpose is fully disclosed in Note 6 of the financial statements.

The Council's unrestricted cash and investments amounted to \$3,000.

Debt

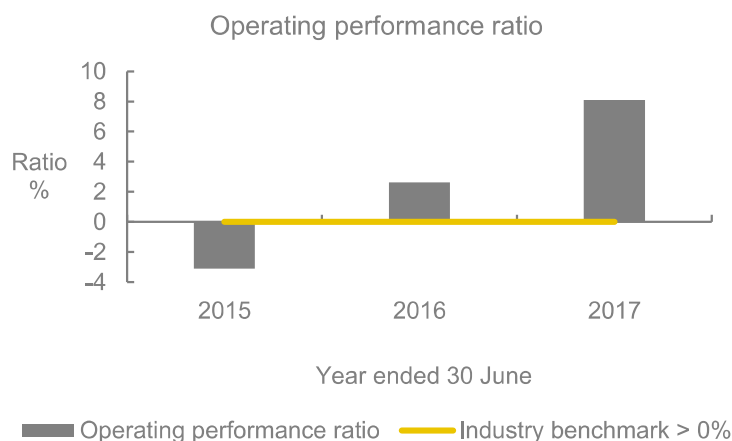
After repaying principal and interest of \$3.1 million during the financial year, total debt as at 30 June 2017 was \$25.7 million (2016: \$27.4).

PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 13 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7.

Operating performance ratio

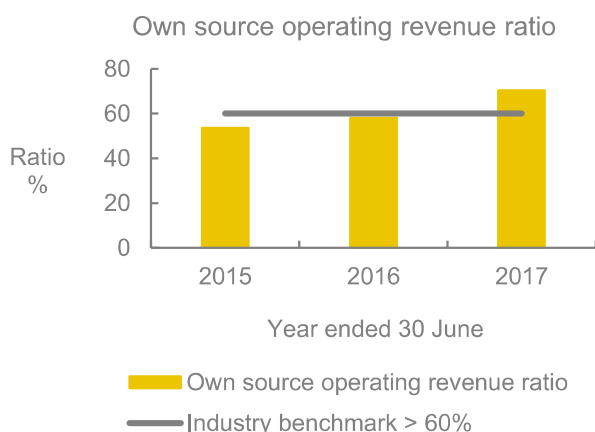
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



Council's operating performance indicator of 8.1 per cent (2.6 per cent in 2016) exceeded the benchmark due to the improved operating result before capital grants and contributions.

Own source operating revenue ratio

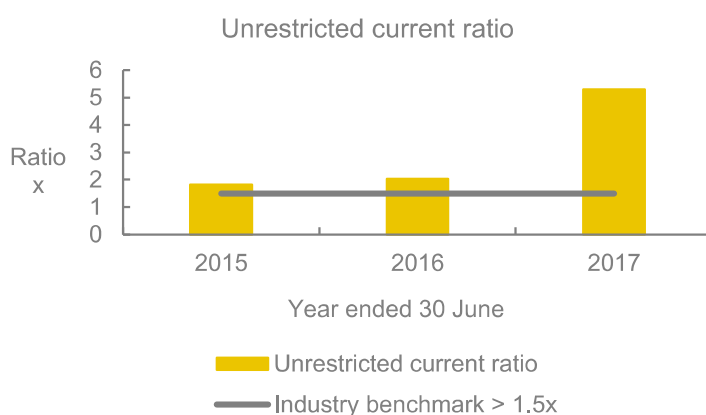
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Council's own source operating revenue ratio was 70 per cent for 2016/17 (58 per cent in 2016) and now exceeds the benchmark of 60 per cent.

Unrestricted current ratio

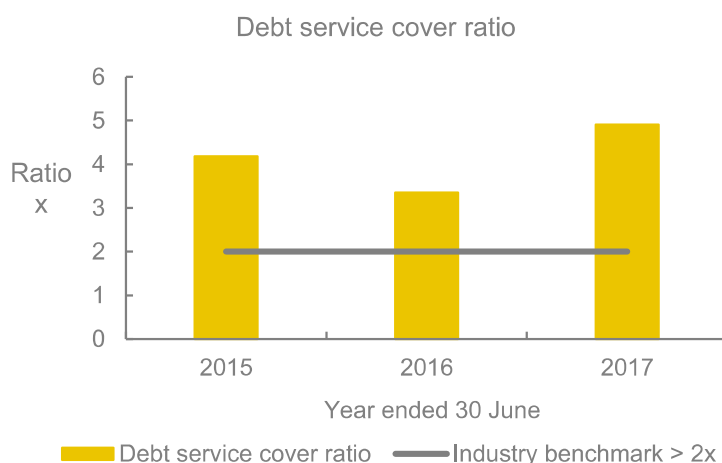
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Council's unrestricted current ratio increased to 5.3 as at 30 June 2017 (2 in 2016) and exceeded the benchmark of 1.5 times. The improvement in the ratio is primarily due to a greater level of cash and investments being held in shorter term deposits.

Debt service cover ratio

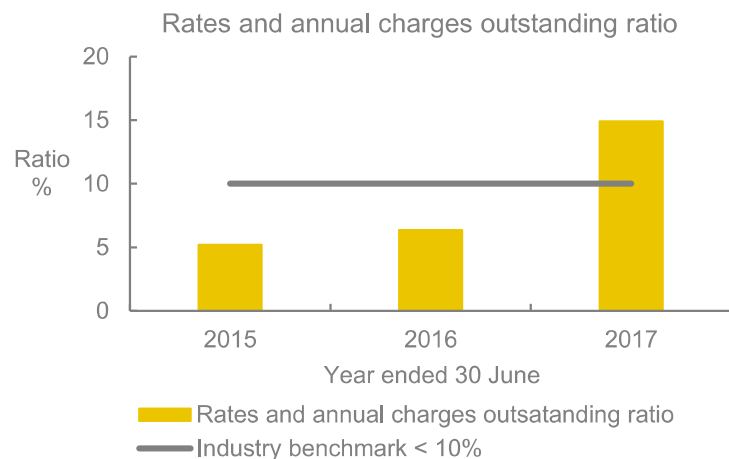
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



The debt service cover ratio for the Council as at 30 June 2017 was 4.9 (3.4 in 2016), exceeding the benchmark of 2.

Rates and annual charges outstanding ratio

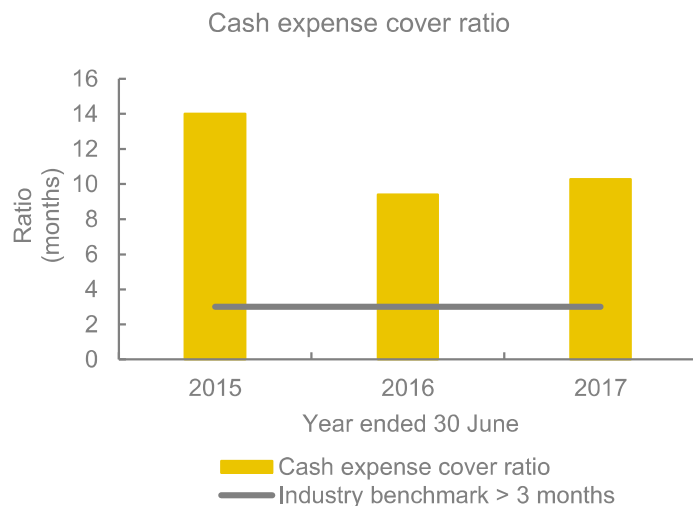
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is below 10 per cent for rural councils.



The rates and annual charges outstanding ratio stood at 14.9 per cent as at 30 June 2017 (6.4 per cent in 2016) and is now worse than industry benchmark of being below 10 per cent. This ratio was impacted as at 30 June 2017 by the late receipt of payment for a significant rating assessment due to the timing of a property valuation.

Cash expense cover ratio

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

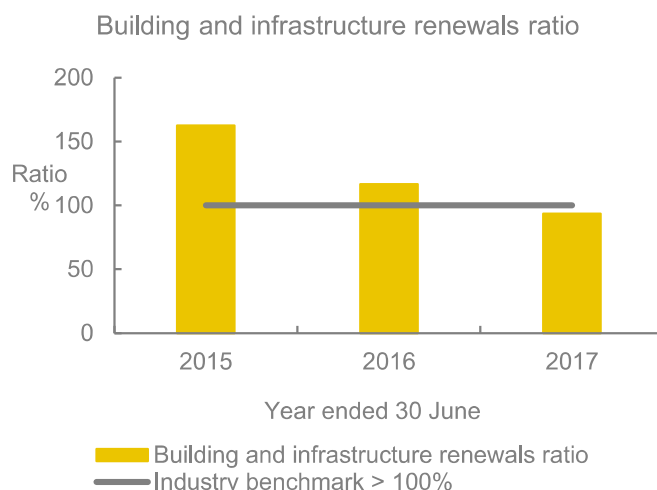


Council's cash expense cover ratio was over ten months and continues to easily exceed the benchmark of three months.

Building and infrastructure renewals ratio

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

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



Special Schedule No. 7 disclosed infrastructure renewals for 2017 represented 94 per cent (116 per cent in 2016) of the depreciation charges for those assets; below the benchmark of 100 per cent.

OTHER MATTERS

New accounting standards implemented

AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

AASB 2015-6 extended the scope of AASB 124 to include not-for-profit public sector entities. As a result, Council's financial statements disclosed the:

- compensation paid to their key management personnel
- nature of their related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

Asset Revaluations

Council's infrastructure, property, plant and equipment are required to be carried at fair value with revaluations of each asset class to be performed at least every five years.

During the year, water and sewerage infrastructure and community land was revalued. This resulted in a net decrease of \$8.7 million recognised directly in Asset Revaluation Reserves.

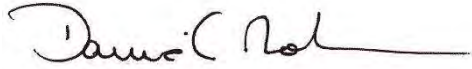
Legislative compliance

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

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

Management acknowledgement

The audit team appreciated the co-operation and help received from the Council's staff, in particular, the finance team for their invaluable assistance throughout the audit.



David Nolan
Director, Financial Audit Services

30 October 2017
SYDNEY

cc: Stephen McDonald, General Manager
Ms Brigitte Thomas, Chair of the Audit Committee
Mr Tim Hurst, Acting Chief Executive of the Office of Local Government

Muswellbrook Shire Council
**Special Purpose
Financial Statements**

for year ended 30 June 2017



**muswellbrook
shire council**

Muswellbrook Shire Council

Special Purpose Financial Statements for the year ended 30 June 2017

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Background

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

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Muswellbrook Shire Council

Special Purpose Financial Statements for the year ended 30 June 2017

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

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

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

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

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

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

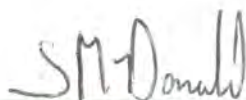
Signed in accordance with a resolution of Council made on 12 September 2017.



Cr. M. Rush
Mayor



Cr. S. Bailey
Councillor



Mr. S. McDonald
General manager



Mrs. N. Cowley
Responsible accounting officer

Muswellbrook Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	1,459	1,380
User charges	3,396	3,422
Fees	—	—
Interest	663	976
Grants and contributions provided for non-capital purposes	134	36
Profit from the sale of assets	—	9
Other income	133	241
Total income from continuing operations	5,785	6,064
Expenses from continuing operations		
Employee benefits and on-costs	1,169	1,007
Borrowing costs	155	171
Materials and contracts	2,521	2,370
Depreciation, amortisation and impairment	1,482	1,482
Water purchase charges	—	—
Calculated taxation equivalents	—	—
Debt guarantee fee (if applicable)	—	—
Other expenses	244	263
Total expenses from continuing operations	5,571	5,293
Surplus (deficit) from continuing operations before capital amounts	214	771
Grants and contributions provided for capital purposes	328	88
Surplus (deficit) from continuing operations after capital amounts	542	859
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	542	859
Less: corporate taxation equivalent (30%) [based on result before capital]	(64)	(231)
SURPLUS (DEFICIT) AFTER TAX	478	628
Plus opening retained profits	37,486	36,627
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	—
– Debt guarantee fees	—	—
– Corporate taxation equivalent	64	231
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
Closing retained profits	38,028	37,486
Return on capital %	0.7%	1.9%
Subsidy from Council	869	161
Calculation of dividend payable:		
Surplus (deficit) after tax	478	628
Less: capital grants and contributions (excluding developer contributions)	(328)	(88)
Surplus for dividend calculation purposes	150	540
Potential dividend calculated from surplus	75	270

Muswellbrook Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	3,373	3,350
User charges	463	388
Liquid trade waste charges	53	42
Fees	—	—
Interest	289	557
Grants and contributions provided for non-capital purposes	35	34
Profit from the sale of assets	—	—
Other income	306	304
Total income from continuing operations	4,519	4,675
Expenses from continuing operations		
Employee benefits and on-costs	976	889
Borrowing costs	54	59
Materials and contracts	1,368	1,271
Depreciation, amortisation and impairment	1,204	1,210
Calculated taxation equivalents	9	11
Debt guarantee fee (if applicable)	—	—
Other expenses	214	189
Total expenses from continuing operations	3,825	3,629
Surplus (deficit) from continuing operations before capital amounts	694	1,046
Grants and contributions provided for capital purposes	497	1,091
Surplus (deficit) from continuing operations after capital amounts	1,191	2,137
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	1,191	2,137
Less: corporate taxation equivalent (30%) [based on result before capital]	(208)	(314)
SURPLUS (DEFICIT) AFTER TAX	983	1,823
Plus opening retained profits	44,743	42,595
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	9	11
– Debt guarantee fees	—	—
– Corporate taxation equivalent	208	314
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	(173)	—
Closing retained profits	45,770	44,743
Return on capital %	1.4%	2.0%
Subsidy from Council	513	121
Calculation of dividend payable:		
Surplus (deficit) after tax	983	1,823
Less: capital grants and contributions (excluding developer contributions)	(497)	(1,091)
Surplus for dividend calculation purposes	486	732
Potential dividend calculated from surplus	243	366

Muswellbrook Shire Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2017

	Commercial Buildings Category 2	
\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	—	—
User charges	2,363	1,239
Fees	—	—
Interest	—	20
Grants and contributions provided for non-capital purposes	—	—
Profit from the sale of assets	—	—
Share of profit from equity accounted investment	—	—
Other income	7	—
Total income from continuing operations	2,370	1,259
Expenses from continuing operations		
Employee benefits and on-costs	87	—
Borrowing costs	665	174
Materials and contracts	514	332
Depreciation, amortisation and impairment	291	14
Loss on sale of assets	—	—
Calculated taxation equivalents	—	—
Debt guarantee fee (if applicable)	—	—
Other expenses	341	2,689
Total expenses from continuing operations	1,898	3,209
Surplus (deficit) from continuing operations before capital amounts	472	(1,950)
Grants and contributions provided for capital purposes	—	—
Surplus (deficit) from continuing operations after capital amounts	472	(1,950)
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	472	(1,950)
Less: corporate taxation equivalent (30%) [based on result before capital]	(142)	—
SURPLUS (DEFICIT) AFTER TAX	330	(1,950)
Plus opening retained profits	15,858	18,210
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	—
– Debt guarantee fees	—	—
– Corporate taxation equivalent	142	—
Add:		
– Subsidy paid/contribution to operations	1,251	(402)
Less:		
– TER dividend paid	—	—
– Dividend paid	—	—
Closing retained profits	17,581	15,858
Return on capital %	11.1%	-17.2%
Subsidy from Council	—	2,001

Muswellbrook Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	–	–
Investments	4,659	4,685
Receivables	879	668
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total current assets	5,538	5,353
Non-current assets		
Investments	14,087	14,312
Receivables	1,451	1,497
Inventories	–	–
Infrastructure, property, plant and equipment	52,036	50,834
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Total non-current assets	67,574	66,643
TOTAL ASSETS	73,112	71,996
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	799	411
Income received in advance	–	–
Borrowings	257	257
Provisions	414	372
Total current liabilities	1,470	1,040
Non-current liabilities		
Payables	–	–
Borrowings	1,956	2,213
Provisions	–	–
Total non-current liabilities	1,956	2,213
TOTAL LIABILITIES	3,426	3,253
NET ASSETS	69,686	68,743
EQUITY		
Retained earnings	38,028	37,486
Revaluation reserves	31,658	31,257
Other reserves	–	–
Council equity interest	69,686	68,743
Non-controlling equity interest	–	–
TOTAL EQUITY	69,686	68,743

Muswellbrook Shire Council

Statement of Financial Position – Council's Sewerage Business Activity
as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	—	—
Investments	2,428	3,019
Receivables	623	454
Inventories	—	—
Other	—	—
Non-current assets classified as held for sale	—	—
Total current assets	3,051	3,473
Non-current assets		
Investments	7,161	9,236
Receivables	—	—
Inventories	—	—
Infrastructure, property, plant and equipment	52,975	56,492
Investments accounted for using equity method	—	—
Investment property	—	—
Intangible assets	—	—
Total non-current assets	60,136	65,728
TOTAL ASSETS	63,187	69,201
LIABILITIES		
Current liabilities		
Bank overdraft	—	—
Payables	952	648
Income received in advance	—	—
Borrowings	62	63
Provisions	270	236
Total current liabilities	1,284	947
Non-current liabilities		
Payables	—	—
Borrowings	727	788
Provisions	—	—
Total non-current liabilities	727	788
TOTAL LIABILITIES	2,011	1,735
NET ASSETS	61,176	67,466
EQUITY		
Retained earnings	45,770	44,743
Revaluation reserves	15,406	22,723
Other reserves	—	—
Council equity interest	61,176	67,466
Non-controlling equity interest	—	—
TOTAL EQUITY	61,176	67,466

Muswellbrook Shire Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2017

Commercial Buildings

Category 2

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	–	–
Investments	–	–
Receivables	–	–
Inventories	–	–
Other	–	–
Total current assets	–	–
Non-current assets		
Investments	3	3
Receivables	–	–
Inventories	1,497	1,947
Infrastructure, property, plant and equipment	10,266	10,350
Investments accounted for using equity method	–	–
Investment property	21,915	20,675
Intangible assets	–	–
Total non-current assets	33,681	32,975
TOTAL ASSETS	33,681	32,975
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	–	–
Income received in advance	–	–
Borrowings	–	–
Provisions	–	–
Total current liabilities	–	–
Non-current liabilities		
Payables	–	–
Borrowings	16,100	17,117
Provisions	–	–
Total non-current liabilities	16,100	17,117
TOTAL LIABILITIES	16,100	17,117
NET ASSETS	17,581	15,858
EQUITY		
Retained earnings	17,581	15,858
Revaluation reserves	–	–
Other reserves	–	–
Council equity interest	17,581	15,858
Non-controlling equity interest	–	–
TOTAL EQUITY	17,581	15,858

Muswellbrook Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	10
2	Water Supply Business Best-Practice Management disclosure requirements	13
3	Sewerage Business Best-Practice Management disclosure requirements	15

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

Note 1. Significant accounting policies

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

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

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

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

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

National Competition Policy

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

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

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

The pricing and costing guidelines outline the process for identifying and allocating costs to

activities and provide a standard for disclosure requirements.

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

Declared business activities

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

Category 1

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

a. Water Supplies

Provision of portable water for the communities of Muswellbrook, Denman and Sandy Hollow

b. Sewerage Services

Provision of sewerage treatment of the communities of Muswellbrook and Denman

Category 2

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

a. Commercial Buildings

The provision of residential and commercial properties for the lease and the sale of both development ready and surplus vacant land.

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by the NSW Office of Water (Department of Primary Industries) the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

Note 1. Significant accounting policies (continued)

(i) Taxation-equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first **\$549,000** of the combined land values attracts **0%**. For the combined land values in excess of \$594,001 up to \$3,357,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$3,357,000 a premium marginal rate of **2.0%** applies.

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

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

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

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

Income tax

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

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

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

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

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

The rate applied of 30% 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.

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

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 National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

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

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

Each dividend must be calculated and approved in accordance with the DPIW guidelines and must not exceed:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2017 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.38% at 30/6/17.

(iv) Dividends

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

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	–
(ii)	Number of assessments multiplied by \$3/assessment	18,555
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	–
(iv)	Amounts actually paid for tax equivalents	–

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	74,900
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	185,550
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	628,500

2017 Surplus	149,800	2016 Surplus	539,700	2015 Surplus	(61,000)
		2016 Dividend	–	2015 Dividend	–

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	74,900
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	–
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? ^a	YES

3. Required outcomes for 6 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	– Complying charges [item 2 (b) in table 1]	YES
	– DSP with commercial developer charges [item 2 (e) in table 1]	YES
	– If dual water supplies, complying charges [item 2 (g) in table 1]	NO
(iii)	Sound water conservation and demand management implemented	YES
(iv)	Sound drought management implemented	YES
(v)	Complete performance reporting form (by 15 September each year)	YES
(vi)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	YES

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	5,393
NWI F4	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	70.56%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	51,795
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	3,910
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	2,347
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	0.00%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	94

- Notes:
- References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	9,000
(ii)	Number of assessments multiplied by \$3/assessment	18,117
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	9,000
(iv)	Amounts actually paid for tax equivalents	—

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	242,900
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	172,170
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	1,878,800

2017 Surplus	485,800	2016 Surplus	732,200	2015 Surplus	660,800
		2016 Dividend	—	2015 Dividend	—

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	172,170
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	—
(vi)	Are the overhead reallocation charges to the sewer business fair and reasonable? ^a	YES

3. Required outcomes for 4 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	Complying charges (a) Residential [item 2 (c) in table 1]	YES
	(b) Non-residential [item 2 (c) in table 1]	YES
	(c) Trade waste [item 2 (d) in table 1]	YES
	DSP with commercial developer charges [item 2 (e) in table 1]	YES
	Liquid trade waste approvals and policy [item 2 (f) in table 1]	YES
(iii)	Complete performance reporting form (by 15 September each year)	YES
(iv)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	YES

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	4,758
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	52,854
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	2,511
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	5,002
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	1.97%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	–

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	10,151
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	0.69%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	7,349
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	0.99%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

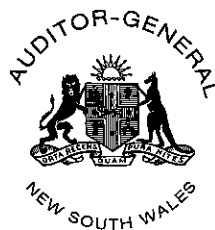
Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	-19.36%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): 1,044 Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: - 676 Interest expense (w4a + s4a) – interest income (w9 + s10)		> 100
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	1,648
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	70

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statement

Muswellbrook Shire Council

To the Councillors of Muswellbrook Shire Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Muswellbrook Shire Council's (the Council) Declared Business Activities, which comprise the statement of financial position of each Declared Business Activity as at 30 June 2017, the income statement of each Declared Business Activity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- Water Supply Business
- Sewerage Business
- Commercial Buildings Business

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2017, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (LG Code).

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

The Councillors' Responsibility for the Financial Statements

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

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting, as it affects the Council's Declared Business Activities.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

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

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

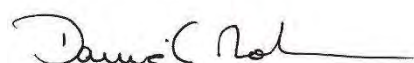
A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the best practice management disclosures in Notes 2 and 3 of the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



David Nolan
Director, Financial Audit Services

30 October 2017
SYDNEY

Muswellbrook Shire Council
Special Schedules

for year ended 30 June 2017



muswellbrook
shire council

Muswellbrook Shire Council

Special Schedules for the year ended 30 June 2017

Contents	Page
Special Schedules¹	
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¹ Special Schedules are not audited (with the exception of Special Schedule 8).

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
 - the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water (NOW), and
 - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
 - the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

Muswellbrook Shire Council

Special Schedule 1 – Net Cost of Services

for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	535	–	–	(535)
Administration	4,800	949	–	(3,851)
Public order and safety				
Fire service levy, fire protection, emergency services	801	216	60	(525)
Beach control	–	–	–	–
Enforcement of local government regulations	–	–	–	–
Animal control	265	91	–	(174)
Other	–	–	–	–
Total public order and safety	1,066	307	60	(699)
Health	271	–	–	(271)
Environment				
Noxious plants and insect/vermin control	–	–	–	–
Other environmental protection	682	729	–	47
Solid waste management	6,374	10,004	–	3,630
Street cleaning	210	–	–	(210)
Drainage	–	–	–	–
Stormwater management	709	71	–	(638)
Total environment	7,975	10,804	–	2,829
Community services and education				
Administration and education	469	189	–	(280)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	–	–	–	–
Children's services	–	–	–	–
Total community services and education	469	189	–	(280)
Housing and community amenities				
Public cemeteries	100	75	–	(25)
Public conveniences	52	–	–	(52)
Street lighting	398	57	–	(341)
Town planning	878	9	–	(869)
Other community amenities	–	–	–	–
Total housing and community amenities	1,428	141	–	(1,287)
Water supplies	4,606	6,291	94	1,779
Sewerage services	3,229	4,779	–	1,550

Muswellbrook Shire Council

Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	893	169	—	(724)
Museums	—	—	—	—
Art galleries	349	35	—	(314)
Community centres and halls	95	26	—	(69)
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	—	—	—	—
Sporting grounds and venues	61	89	—	28
Swimming pools	1,295	656	—	(639)
Parks and gardens (lakes)	—	—	—	—
Other sport and recreation	2,621	—	—	(2,621)
Total recreation and culture	5,314	975	—	(4,339)
Fuel and energy	—	—	—	—
Agriculture	—	—	—	—
Mining, manufacturing and construction				
Building control	—	—	—	—
Other mining, manufacturing and construction	—	—	—	—
Total mining, manufacturing and const.	—	—	—	—
Transport and communication				
Urban roads (UR) – local	189	186	—	(3)
Urban roads – regional	3,382	487	—	(2,895)
Sealed rural roads (SRR) – local	3,244	2,085	1,899	740
Sealed rural roads (SRR) – regional	804	1,079	—	275
Unsealed rural roads (URR) – local	—	—	—	—
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	—	—	—	—
Bridges on SRR – local	681	—	—	(681)
Bridges on URR – local	—	—	—	—
Bridges on regional roads	—	—	—	—
Parking areas	109	—	—	(109)
Footpaths	89	—	50	(39)
Aerodromes	—	—	—	—
Other transport and communication	1,201	125	—	(1,076)
Total transport and communication	9,699	3,962	1,949	(3,788)
Economic affairs				
Camping areas and caravan parks	—	—	—	—
Other economic affairs	2,156	2,961	90	895
Total economic affairs	2,156	2,961	90	895
Totals – functions	41,548	31,358	2,193	(7,997)
General purpose revenues ⁽¹⁾		18,031		18,031
Share of interests – joint ventures and associates using the equity method	—	14		14
NET OPERATING RESULT ⁽²⁾	41,548	49,403	2,193	10,048

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

(2) As reported in the Income Statement

Muswellbrook Shire Council

Special Schedule 2(a) – Statement of Long Term Debt (all purpose)
for the year ended 30 June 2017

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
Loans (by source)											
Commonwealth Government	—	—	—	—	156	—	—	—	156	312	468
Treasury corporation	92	532	624	—	—	—	—	—	—	—	—
Other State Government	—	—	—	—	—	—	—	—	—	—	—
Public subscription	695	25,917	26,612	—	1,563	—	—	1,029	650	24,399	25,049
Financial institutions	200	49	249	—	—	—	—	—	—	249	249
Other											
Total loans	987	26,498	27,485	—	1,719	—	—	1,029	806	24,960	25,766
Other long term debt											
Ratepayers advances	—	—	—	—	—	—	—	—	—	—	—
Government advances	—	—	—	—	—	—	—	—	—	—	—
Finance leases	—	—	—	—	—	—	—	—	—	—	—
Deferred payments	—	—	—	—	—	—	—	—	—	—	—
Total long term debt	—	—	—	—	—	—	—	—	—	—	—
Total debt	987	26,498	27,485	—	1,719	—	—	1,029	806	24,960	25,766

Notes: excludes (i) internal loans and (ii) principal inflows/outflows relating to loan re-financing.
This schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

Muswellbrook Shire Council

Special Schedule 2(b) – Statement of Internal Loans [Section 410(3) of the *Local Government Act 1993*] for the year ended 30 June 2017

\$'000

Summary of internal loans

Borrower (by purpose)	Amount originally raised	Total repaid during the year (principal and interest)	Principal outstanding at end of year
General Water Sewer Domestic waste management Gas Other	1,750	136	1,495
Totals	1,750	136	1,495

Note: the summary of internal loans (above) represents the total of Council's internal loans categorised according to the borrower.

Details of individual internal loans

Borrower (by purpose)	Lender (by purpose)	Date of minister's approval	Date raised	Term (years)	Dates of maturity	Rate of interest	Amount originally raised	Total repaid during year (princ. and int.)	Principal outstanding at end of year
General fund	Water fund	10/08/10	11/08/10	25	10/08/35	6.00%	1,750	136	1,495
Totals							1,750	136	1,495

Muswellbrook Shire Council

Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	1,068	775
b. Engineering and supervision	439	498
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	–	–
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	18	11
d. Maintenance expenses	311	233
– Reservoirs		
e. Operation expenses	7	6
f. Maintenance expenses	22	20
– Pumping stations		
g. Operation expenses (excluding energy costs)	3	6
h. Energy costs	184	199
i. Maintenance expenses	183	143
– Treatment		
j. Operation expenses (excluding chemical costs)	45	48
k. Chemical costs	248	313
l. Maintenance expenses	855	789
– Other		
m. Operation expenses	136	121
n. Maintenance expenses	203	264
o. Purchase of water	188	150
3. Depreciation expenses		
a. System assets	1,438	1,437
b. Plant and equipment	44	44
4. Miscellaneous expenses		
a. Interest expenses	155	171
b. Revaluation decrements	–	–
c. Other expenses	24	64
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	5,571	5,292

Muswellbrook Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges		
a. Access (including rates)	1,005	1,008
b. Usage charges	2,409	2,299
7. Non-residential charges		
a. Access (including rates)	383	372
b. Usage charges	1,059	1,122
8. Extra charges	36	30
9. Interest income	626	946
10. Other income	133	240
10a. Aboriginal Communities Water and Sewerage Program	—	—
11. Grants		
a. Grants for acquisition of assets	94	—
b. Grants for pensioner rebates	35	34
c. Other grants	5	—
12. Contributions		
a. Developer charges	328	—
b. Developer provided assets	—	89
c. Other contributions	—	2
13. Total income	6,113	6,142
14. Gain (or loss) on disposal of assets	—	9
15. Operating result	542	859
15a. Operating result (less grants for acquisition of assets)	448	859

Muswellbrook Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	—	—
b. New assets for growth	900	424
c. Renewals	1,308	1,260
d. Plant and equipment	139	—
17. Repayment of debt	257	241
18. Totals	2,604	1,925
Non-operating funds employed		
19. Proceeds from disposal of assets	—	—
20. Borrowing utilised	—	—
21. Totals	—	—
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	5,329	5,330
b. Residential (unoccupied, ie. vacant lot)	281	282
c. Non-residential (occupied)	469	471
d. Non-residential (unoccupied, ie. vacant lot)	106	102
23. Number of ETs for which developer charges were received	— ET	— ET
24. Total amount of pensioner rebates (actual dollars)	\$ 62,781	\$ 62,627

Muswellbrook Shire Council

Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2017

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
25. Cash and investments			
a. Developer charges	1,557	5,167	6,724
b. Special purpose grants	—	—	—
c. Accrued leave	414	—	414
d. Unexpended loans	—	—	—
e. Sinking fund	—	—	—
f. Other	2,688	8,920	11,608
26. Receivables			
a. Specific purpose grants	—	—	—
b. Rates and availability charges	153	—	153
c. User charges	678	—	678
d. Other	48	1,451	1,499
27. Inventories	—	—	—
28. Property, plant and equipment			
a. System assets	—	51,795	51,795
b. Plant and equipment	—	241	241
29. Other assets	—	—	—
30. Total assets	5,538	67,574	73,112
LIABILITIES			
31. Bank overdraft	—	—	—
32. Creditors	799	—	799
33. Borrowings	257	1,956	2,213
34. Provisions			
a. Tax equivalents	—	—	—
b. Dividend	—	—	—
c. Other	414	—	414
35. Total liabilities	1,470	1,956	3,426
36. NET ASSETS COMMITTED	4,068	65,618	69,686
EQUITY			
37. Accumulated surplus			38,028
38. Asset revaluation reserve			31,658
39. Other reserves			—
40. TOTAL EQUITY			69,686
Note to system assets:			
41. Current replacement cost of system assets			95,264
42. Accumulated current cost depreciation of system assets			(43,469)
43. Written down current cost of system assets			51,795

Muswellbrook Shire Council

Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	619	513
b. Engineering and supervision	504	502
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	–	–
b. Maintenance expenses	286	296
– Pumping stations		
c. Operation expenses (excluding energy costs)	41	59
d. Energy costs	110	101
e. Maintenance expenses	159	239
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	106	117
g. Chemical costs	45	21
h. Energy costs	–	–
i. Effluent management	–	–
j. Biosolids management	–	–
k. Maintenance expenses	474	384
– Other		
l. Operation expenses	62	60
m. Maintenance expenses	105	44
3. Depreciation expenses		
a. System assets	1,198	1,196
b. Plant and equipment	6	14
4. Miscellaneous expenses		
a. Interest expenses	54	59
b. Revaluation decrements	–	–
c. Other expenses	48	22
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	3,817	3,627

Muswellbrook Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
Income		
6. Residential charges (including rates)	3,292	3,194
7. Non-residential charges		
a. Access (including rates)	137	155
b. Usage charges	407	389
8. Trade waste charges		
a. Annual fees	—	—
b. Usage charges	46	34
c. Excess mass charges	—	—
d. Re-inspection fees	—	—
9. Extra charges	31	23
10. Interest income	259	534
11. Other income	313	311
11a. Aboriginal Communities Water and Sewerage Program	—	—
12. Grants		
a. Grants for acquisition of assets	—	960
b. Grants for pensioner rebates	35	34
c. Other grants	—	—
13. Contributions		
a. Developer charges	497	128
b. Developer provided assets	—	—
c. Other contributions	—	2
14. Total income	5,017	5,764
15. Gain (or loss) on disposal of assets	—	—
16. Operating result	1,200	2,137
16a. Operating result (less grants for acquisition of assets)	1,200	1,177

Muswellbrook Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2017

\$'000	Actuals 2017	Actuals 2016
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	—	—
b. New assets for growth	4,448	1,982
c. Renewals	466	1,420
d. Plant and equipment	88	13
18. Repayment of debt	63	59
19. Totals	5,065	3,474
Non-operating funds employed		
20. Proceeds from disposal of assets	—	—
21. Borrowing utilised	—	—
22. Totals	—	—
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	5,406	5,400
b. Residential (unoccupied, ie. vacant lot)	236	238
c. Non-residential (occupied)	348	344
d. Non-residential (unoccupied, ie. vacant lot)	49	50
24. Number of ETs for which developer charges were received	— ET	— ET
25. Total amount of pensioner rebates (actual dollars)	\$ 62,563	\$ 62,431

Muswellbrook Shire Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2017

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	1,868	6,198	8,066
b. Special purpose grants	—	—	—
c. Accrued leave	270	—	270
d. Unexpended loans	—	—	—
e. Sinking fund	—	—	—
f. Other	290	963	1,253
27. Receivables			
a. Specific purpose grants	—	—	—
b. Rates and availability charges	544	—	544
c. User charges	—	—	—
d. Other	79	—	79
28. Inventories	—	—	—
29. Property, plant and equipment			
a. System assets	—	52,854	52,854
b. Plant and equipment	—	121	121
30. Other assets	—	—	—
31. Total assets	3,051	60,136	63,187
LIABILITIES			
32. Bank overdraft	—	—	—
33. Creditors	952	—	952
34. Borrowings	62	727	789
35. Provisions			
a. Tax equivalents	—	—	—
b. Dividend	—	—	—
c. Other	270	—	270
36. Total liabilities	1,284	727	2,011
37. NET ASSETS COMMITTED	1,767	59,409	61,176
EQUITY			
38. Accumulated surplus			45,770
39. Asset revaluation reserve			15,406
40. Other reserves			—
41. TOTAL EQUITY			61,176
Note to system assets:			
42. Current replacement cost of system assets			92,131
43. Accumulated current cost depreciation of system assets			(39,277)
44. Written down current cost of system assets			52,854

Muswellbrook Shire Council

Notes to Special Schedules 3 and 5 for the year ended 30 June 2017

Administration ⁽¹⁾

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

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

Engineering and supervision ⁽¹⁾

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

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

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

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

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

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

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

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

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

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

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a annual fees, 8b usage charges and 8c excess mass charges and 8d re-inspection fees.

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

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

Notes:

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

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

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Administration	400	400	135	135	4,997	5,689	21%	75%	1%	0%	3%
	Public Order and Safety	75	75	33	33	3,321	3,652	43%	49%	8%	0%	0%
	Community Services/Education	—	—	117	117	22,202	23,384	73%	27%	0%	0%	0%
	Housing & Community	50	50	12	12	2,712	3,261	0%	93%	7%	0%	0%
	Recreation & Culture	—	—	100	100	22,874	26,440	67%	32%	1%	0%	0%
	Economic Affairs	—	—	4	4	571	701	19%	81%	0%	0%	0%
	Transport and Communication	—	—	—	—	114	122	68%	32%	0%	0%	0%
	Sub-total	525	525	401	401	56,791	63,249	59.7%	38.7%	1.3%	0.0%	0.3%
Roads	Rural	1,930	1,417	1,196	1,041	137,050	193,941	94%	3%	2%	1%	0%
	Urban	4,745	2,114	281	545	100,309	135,530	77%	7%	10%	6%	0%
	Regional	62	—	219	201	21,988	27,208	71%	24%	5%	0%	0%
	Unsealed	737	737	354	277	6,551	6,551	25%	30%	35%	10%	0%
	Bridges	882	782	79	79	42,823	59,966	29%	56%	15%	0%	0%
	Footpaths	618	197	84	99	11,334	15,051	32%	28%	37%	3%	1%
	Carparks	11	—	114	119	4,937	6,731	85%	13%	2%	0%	0%
	Sub-total	8,985	5,247	2,327	2,361	324,992	444,978	75.4%	14.0%	8.0%	2.5%	0.0%

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Water supply network	Mains	3,955	3,955	334	305	25,794	44,608	1%	61%	30%	3%	6%
	Reservoirs	1,910	1,910	19	11	5,403	14,345	0%	26%	24%	11%	39%
	Pumping Stations	2,115	2,115	393	198	1,955	4,396	0%	17%	36%	43%	5%
	Treatment Infrastructure	3,993	3,993	1,266	736	16,441	30,887	0%	4%	85%	11%	0%
	Other	24	24	–	–	223	447	0%	0%	100%	0%	0%
	Sub-total	11,997	11,997	2,012	1,250	49,816	94,683	0.4%	34.6%	47.5%	8.3%	9.2%
Sewerage network	Mains	3,326	3,326	322	228	35,318	55,288	29%	36%	26%	6%	4%
	Pumping Stations	1,709	1,709	267	153	4,714	10,465	0%	16%	30%	49%	6%
	Treatment Infrastructure	495	495	675	436	4,102	19,145	1%	14%	20%	4%	62%
	Effluent Re-Use	297	297	168	87	2,301	5,537	0%	16%	66%	19%	0%
	Other	24	24	–	–	223	447	0%	0%	100%	0%	0%
	Sub-total	5,851	5,851	1,432	904	46,658	90,882	17.7%	27.5%	27.6%	11.2%	16.1%

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance ^a	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Urban Drainage	2,057	526	137	151	37,804	58,322	27%	20%	52%	1%	0%
	Sub-total	2,057	526	137	151	37,804	58,322	27.0%	20.0%	52.0%	1.0%	0.0%
Open space/recreational assets	Swimming pools	2,324	2,324	92	107	3,291	—	62%	11%	0%	7%	20%
	Playgrounds/Sporting Field	323	323	854	854	3,269	8,104	37%	35%	23%	1%	4%
	Sub-total	2,647	2,647	946	961	6,560	8,104	37.0%	35.0%	23.0%	1.0%	4.0%
TOTAL – ALL ASSETS		32,062	26,793	7,255	6,028	522,621	760,218	53.7%	20.9%	18.3%	3.9%	3.2%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2017

\$ '000	Amounts 2017	Indicator 2017	Benchmark	Prior periods	
				2016	2015
Infrastructure asset performance indicators * consolidated					
1. Infrastructure renewals ratio					
Asset renewals ⁽¹⁾	8,138	93.50%	>= 100%	116.49%	162.76%
Depreciation, amortisation and impairment	8,704				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	32,062	6.09%	< 2%	9.81%	2.58%
Net carrying amount of infrastructure assets	526,371				
3. Asset maintenance ratio					
Actual asset maintenance	6,028	0.83	> 1.00	0.80	0.77
Required asset maintenance	7,255				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	26,793	3.52%		0.00%	0.00%
Gross replacement cost	760,218				

Notes

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

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

Muswellbrook Shire Council

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

\$ '000	Benchmark	Water 2017	Sewer 2017	General ⁽¹⁾ 2017
Infrastructure asset performance indicators by fund				
1. Infrastructure renewals ratio				
Asset renewals ⁽²⁾				
Depreciation, amortisation and impairment	>= 100%	85.75%	31.05%	107.66%
	prior period:	87.55%	114.63%	123.57%
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard				
Net carrying amount of infrastructure assets	< 2%	24.08%	12.54%	3.31%
	prior period:	10.31%	70.68%	2.07%
3. Asset maintenance ratio				
Actual asset maintenance				
Required asset maintenance	> 1.00	0.62	0.63	1.02
	prior period:	0.86	0.63	0.83
4. Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed service level set by Council				
Gross replacement cost		12.67%	6.44%	1.56%

Notes

- (1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.
- (2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Muswellbrook Shire Council

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2018

\$'000		Calculation 2016/17	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	11,814	12,154
Plus or minus adjustments ⁽²⁾	b	124	415
Notional general income	c = (a + b)	11,938	12,569
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	1.80%	1.50%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	—	—
Plus special variation amount	h = d x (c – g)	—	—
Or plus rate peg amount	i = c x e	215	189
Or plus Crown land adjustment and rate peg amount	j = c x f	—	—
Sub-total	k = (c + g + h + i + j)	12,153	12,758
Plus (or minus) last year's carry forward total	l	7	1
Less valuation objections claimed in the previous year	m	—	—
Sub-total	n = (l + m)	7	1
Total permissible income	o = k + n	12,160	12,758
Less notional general income yield	p	12,154	12,755
Catch-up or (excess) result	q = o – p	6	3
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	—	—
Less unused catch-up ⁽⁵⁾	s	(5)	—
Carry forward to next year	t = q + r – s	1	3

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule No. 8

Muswellbrook Shire Council

To the Councillors of Muswellbrook Shire Council

Opinion

I have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Muswellbrook Shire Council (the Council) for the year ending 30 June 2018.

In my opinion, Special Schedule No. 8 of Muswellbrook Shire Council for 2017-18 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report, and in particular the Emphasis of Matter paragraph, which describes the basis of accounting.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of Special Schedule No.8' section of my report.

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the notes and explanations in Special Schedule No. 8 that instruct councils in its preparation so it complies with OLG's requirements as described in the LG Code. As a result, Special Schedule No. 8 may not be suitable for another purpose.

Councillors' Responsibility for Special Schedule No. 8

The Councillors of the Council are responsible for the preparation of Special Schedule No. 8 in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error.

In preparing Special Schedule No.8, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of Special Schedule No. 8

My objectives are to:

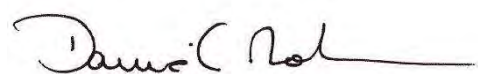
- obtain reasonable assurance whether Special Schedule No. 8 as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on Special Schedule No.8.

A description of my responsibilities for the audit of Special Schedule No.8 is located at the Auditing and Assurance Standards Board website at http://www.auasb.gov.au/auditors_responsibilities/ar8.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Special Schedule No.8 on any website where they may be presented
- about any other information which may have been hyperlinked to/from Special Schedule No 8.



David Nolan
Director, Financial Audit Services

30 October 2017
SYDNEY