

Muswellbrook Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018



Muswellbrook Shire Council

General Purpose Financial Statements for the year ended 30 June 2018

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Overview

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

157 Maitland Street
Muswellbrook NSW 2333

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

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

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

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

Muswellbrook Shire Council

General Purpose Financial Statements

for the year ended 30 June 2018

Statement by Councillors and Management

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

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

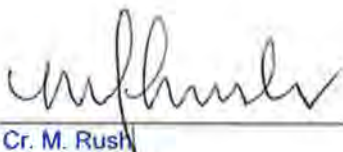
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the Local Government Code of Accounting Practice and Financial Reporting.

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

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

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

Signed in accordance with a resolution of Council made on 11 September 2018.



Cr. M. Rush

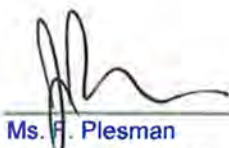
Mayor

15 October 2018



Cr. S. Bailey
Councillor

15 October 2018



Ms. F. Plesman

General Manager

15 October 2018



Mrs. N. Cowley

Responsible Accounting Officer

15 October 2018

Muswellbrook Shire Council

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Income from continuing operations				
Revenue:				
20,512	Rates and annual charges	3a	22,400	19,243
13,185	User charges and fees	3b	12,761	11,592
1,597	Interest and investment revenue	3c	1,747	2,392
4,014	Other revenues	3d	7,048	2,579
5,815	Grants and contributions provided for operating purposes	3e,f	7,611	9,413
16,467	Grants and contributions provided for capital purposes	3e,f	15,209	5,732
Other income:				
—	Net gains from the disposal of assets	5	—	86
—	Fair value increment on investment property	10	116	545
—	Net share of interests in joint ventures and associates using the equity method	15	128	14
61,590	Total income from continuing operations		67,020	51,596
Expenses from continuing operations				
14,026	Employee benefits and on-costs	4a	14,946	13,817
3,182	Borrowing costs	4b	2,374	1,379
15,172	Materials and contracts	4c	10,944	10,883
10,653	Depreciation and amortisation	4d	10,838	10,409
3,248	Other expenses	4e	5,748	5,060
—	Net losses from the disposal of assets	5	127	—
46,281	Total expenses from continuing operations		44,977	41,548
15,309	Operating result from continuing operations		22,043	10,048
15,309	Net operating result for the year		22,043	10,048
15,309	Net operating result attributable to Council		22,043	10,048
Net operating result for the year before grants and contributions provided for capital purposes				
(1,158)			6,834	4,316

Muswellbrook Shire Council

Statement of Comprehensive Income
for the year ended 30 June 2018

\$ '000	Notes	2018	2017
Net operating result for the year (as per Income Statement)		22,043	10,048
Other comprehensive income:			
Amounts that will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9a	(11,961)	(8,708)
Total items which will not be reclassified subsequently to the operating result		(11,961)	(8,708)
Total other comprehensive income for the year		(11,961)	(8,708)
Total comprehensive income for the year		10,082	1,340
Total comprehensive income attributable to Council		10,082	1,340

Muswellbrook Shire Council

Statement of Financial Position
as at 30 June 2018

\$ '000	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	6a	5,225	6,154
Investments	6b	14,324	15,253
Receivables	7	5,915	7,798
Inventories	8	1,718	1,741
Other	8	123	156
Total current assets		27,305	31,102
Non-current assets			
Investments	6b	34,000	26,750
Infrastructure, property, plant and equipment	9	588,088	570,307
Investment property	10	55,352	21,915
Investments accounted for using the equity method	15	233	105
Total non-current assets		677,673	619,077
TOTAL ASSETS		704,978	650,179
LIABILITIES			
Current liabilities			
Payables	11	6,232	5,249
Borrowings	11	4,159	806
Provisions	12	2,837	3,076
Total current liabilities		13,228	9,131
Non-current liabilities			
Borrowings	11	62,067	24,855
Provisions	12	9,033	5,625
Total non-current liabilities		71,100	30,480
TOTAL LIABILITIES		84,328	39,611
Net assets		620,650	610,568
EQUITY			
Accumulated surplus	13	338,329	316,286
Revaluation reserves	13	282,321	294,282
Total equity		620,650	610,568

Muswellbrook Shire Council

Statement of Changes in Equity
for the year ended 30 June 2018

	Notes	2018			2017		
\$ '000		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		316,286	294,282	610,568	306,238	302,990	609,228
Net operating result for the year		22,043	–	22,043	10,048	–	10,048
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9a	–	(11,961)	(11,961)	–	(8,708)	(8,708)
Other comprehensive income		–	(11,961)	(11,961)	–	(8,708)	(8,708)
Total comprehensive income (c&d)		22,043	(11,961)	10,082	10,048	(8,708)	1,340
Equity – balance at end of the reporting period		338,329	282,321	620,650	316,286	294,282	610,568

Muswellbrook Shire Council

Statement of Cash Flows
for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Cash flows from operating activities				
Receipts:				
20,513	Rates and annual charges		23,506	17,409
13,185	User charges and fees		13,234	11,614
1,597	Investment and interest revenue received		2,137	2,366
22,281	Grants and contributions		22,288	16,674
—	Bonds, deposits and retention amounts received		2,087	189
4,014	Other		7,033	2,653
Payments:				
(14,026)	Employee benefits and on-costs		(15,225)	(13,676)
(15,172)	Materials and contracts		(11,021)	(11,074)
(3,182)	Borrowing costs		(2,016)	(1,029)
—	Bonds, deposits and retention amounts refunded		(96)	(193)
(3,248)	Other		(2,839)	(5,114)
25,962	Net cash provided (or used in) operating activities	14b	39,088	19,819
Cash flows from investing activities				
Receipts:				
—	Sale of investment securities		28,500	14,099
70	Sale of real estate assets		—	690
—	Sale of infrastructure, property, plant and equipment		246	154
Payments:				
—	Purchase of investment securities		(34,821)	(7,767)
(37,350)	Purchase of investment property		(33,321)	(2,420)
(49,236)	Purchase of infrastructure, property, plant and equipment		(41,144)	(18,972)
—	Purchase of real estate assets		(2)	—
(86,516)	Net cash provided (or used in) investing activities		(80,542)	(14,216)
Cash flows from financing activities				
Receipts:				
55,500	Proceeds from borrowings and advances		46,800	—
Payments:				
(3,182)	Repayment of borrowings and advances		(6,275)	(1,768)
52,318	Net cash flow provided (used in) financing activities		40,525	(1,768)
(8,236)	Net increase/(decrease) in cash and cash equivalents		(929)	3,835
—	Plus: cash and cash equivalents – beginning of year	14a	6,154	2,319
(8,236)	Cash and cash equivalents – end of the year	14a	5,225	6,154
Additional Information:				
plus:	Investments on hand – end of year	6b	48,324	42,003
	Total cash, cash equivalents and investments		53,549	48,157

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 11/09/2018.

Council has the power to amend and reissue these financial statements.

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

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.

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

Full dollars have been used in Note 21 Related party disclosures in relation to the disclosure of specific related party transactions.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts.

Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 19 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

There have been no new (or amended) accounting standards adopted by Council in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

Critical accounting estimates and assumptions

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

- (i) estimated fair values of investment properties –refer Note 10,
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 9,
- (iii) estimated tip remediation provisions – refer Note 12,
- (iv) employee benefit provisions – refer Note 12.

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.

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993 (NSW)*, all money and other assets 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

(b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and other assets 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 other assets subject to Council's control have been included in these reports.

Trust monies and other assets are held by Council but are not considered to be under the control of Council and therefore are excluded from these financial statements:

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

Goods and Services Tax (GST)

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

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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.

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 these financial statements, Council considers that the standards and interpretations listed below will have an impact upon future published financial statements ranging from additional and / or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

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

- *AASB 9 Financial Instruments*

This replaces AASB 139 Financial Instruments: Recognition and Measurement, and addresses the classification, measurement and disclosure of financial assets and liabilities.

The standard introduces a new impairment model that requires impairment provisions to be based on expected credit losses, rather than incurred credit losses.

Based on assessments to date, Council expects a small increase to impairment losses however the standard is not expected to have a material impact overall.

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

- *AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 Contributions.

Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.

While Council is still reviewing the way that income is measured and recognised to identify whether there will be any material impact arising from these standards, these standards may affect the timing of the recognition of some grants and donations.

- *AASB 16 Leases*

Council is currently a party to leases that are not recognised in the Statement of Financial Position.

It is likely that some of these leases will need to be included in the Statement of Financial Position when this standard comes into effect.

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

A lease liability will initially be measured at the present value of the lease payments to be made over the lease term.

A corresponding right-of-use asset will also be recognised over the lease term.

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

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

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)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Economic Prosperity	4,985	1,920	3,467	1,186	1,518	734	114	303	58,041	24,690
Social Equity and Inclusion	1,686	767	1,153	1,247	533	(480)	52	110	21,723	25,199
Environmental Sustainability	857	806	1,832	1,926	(975)	(1,120)	241	98	192	192
Cultural Vitality	999	701	5,200	4,098	(4,201)	(3,397)	465	72	41,914	47,429
Community Infrastructure	37,754	28,646	24,557	27,646	13,197	1,000	12,394	6,187	538,405	505,307
Community Leadership	20,739	18,756	8,768	5,445	11,971	13,311	3,207	3,862	44,703	47,362
Total functions and activities	67,020	51,596	44,977	41,548	22,043	10,048	16,473	10,632	704,978	650,179

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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:

Economic Prosperity

Plan for Local Economic Prosperity 1. Support Job growth. 2. Diversify the economy, facilitate the development of intensive agriculture and other growth industries, make the Shire a more attractive place to invest and do business. 3. Facilitate greater access to higher education and participation in the knowledge and creativity economy. 4. Develop Muswellbrook as a Regional Centre.

Social Equity and Inclusion

Access to a wide range of community and government agencies appropriate for their age and needs. 5. Continue to improve the affordability, liveability and amenity of the Shire's. 6. Stabilise the tenancy turnover in the Shire's social housing. 7. Build social inclusion and improve the delivery of social services. 8. Retention and expansion of quality and affordable child care services. 9. Facilitate opportunities to expand senior's living. 10. Further the process of reconciliation in the Shire.

Environmental Sustainability

Environmental Sustainability to focus on the regeneration of mined land and urban riparian areas, increase our use of renewable energy and to monitor and manage our use of natural resources. 11. Higher quality final landforms with shallower voids and more emphasis on progressive rehabilitation with local workforce participation. 12. Enhance native vegetation connectivity across the Upper Hunter. 13. Our local rivers and creeks are enhanced, utilised and valued. 14. Support initiatives which reduce the community's impact on the environment. 15. Support Federal and State initiatives to reduce the human impact on climate change.

Cultural Vitality

Increase the local variety, availability and access to the arts and cultural experiences. 16. Conserve the heritage and history of the Shire. 17. Facilitate options to improve cultural activities in the Shire. 18. Facilitate cultural activities and events which engage the community and visitors and which create a 'sense of place' and identity.

Community Infrastructure

Expand on the infrastructure required for Muswellbrook to realise Regional Centre status, improve community facilities and improve accessibility to community facilities. 19. Our community's infrastructure is planned well, is safe and reliable and provides required levels of service. Utility services are operated as distinct business units within Council. 20. A safe, secure and reliable water supply and sewerage services are provided to all residents that will ensure public health. 21. The road, footpath and cycleway networks are integrated and allow for the safe movement of residents around the Shire.

Community Leadership

To improve the community's participation in decision making and implement business improvement initiatives to improve service delivery. 22. Collaborative and responsive community leadership that meets the expectations and anticipates the needs of the community. 23. Genuine and well informed community participation in decision making. 24. A Council that is well managed, efficient and properly resourced and that is responsive to its communities and stakeholders. 25. A sustainable Council that is best practice employer providing safe, happy and productive workplace.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations

\$ '000	2018	2017
(a) Rates and annual charges		
Ordinary rates		
Residential	4,670	4,802
Farmland	1,300	1,282
Mining	7,801	4,780
Business	1,110	1,146
Total ordinary rates	14,881	12,010
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	2,170	2,106
Stormwater management services	156	156
Water supply services	1,465	1,459
Sewerage services	3,585	3,373
Waste management services (non-domestic)	143	139
Total annual charges	7,519	7,233
<u>TOTAL RATES AND ANNUAL CHARGES</u>	<u>22,400</u>	<u>19,243</u>

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

Accounting policy for rates and annual charges

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 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.

(b) User charges and fees	2018	2017
Specific user charges (per s.502 – specific ‘actual use’ charges)		
Water supply services	4,001	3,059
Sewerage services	698	516
Total specific user charges	4,699	3,575

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(b) User charges : (continued)		
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Building regulation	105	104
DECCW levy recovered	1,807	1,610
Development/building control	230	163
Inspection services	40	52
Private works – section 67	8	48
Regulatory/ statutory fees	64	94
Section 149 certificates (EPA Act)	85	52
Section 603 certificates	35	23
Town planning	21	22
Water and sewer related sales	473	412
Legal fees recovery - rates and charges (extra charges)	15	–
Total fees and charges – statutory/regulatory	2,883	2,580
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Cemeteries	40	75
Community centres	56	41
Fire and emergency services levy (FESL) implementation	2	76
Gym centre	91	79
Leaseback fees – Council vehicles	36	53
Leisure centre	31	30
Library and art gallery	43	50
Park rents	36	16
Restoration charges	157	–
RMS (formerly RTA) charges (state roads not controlled by Council)	1,141	1,442
Road vehicle permits	86	27
Swimming centres	565	563
Waste disposal tipping fees	2,859	2,939
Other	36	46
Total fees and charges – other	5,179	5,437
TOTAL USER CHARGES AND FEES	12,761	11,592

Accounting policy for user charges and fees

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

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017	
(c) Interest and investment revenue (including losses)			
Interest			
– Overdue rates and annual charges (incl. special purpose rates)	175	157	
– Cash and investments	1,504	2,235	
– Other	68	–	
TOTAL INTEREST AND INVESTMENT REVENUE	1,747	2,392	
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)	175	157	
General Council cash and investments	590	966	
Restricted investments/funds – external:			
Development contributions			
– Section 7.11	85	82	
– Section 64	537	603	
Water fund operations	320	428	
Sewerage fund operations	40	156	
Total interest and investment revenue recognised	1,747	2,392	
Accounting policy for interest and investment revenue			
Interest income is recognised using the effective interest rate at the date that interest is earned.			
(d) Other revenues			
Rental income – investment property	10	5,435	2,219
Rental income – other council properties		197	192
Fines		30	42
Legal fees recovery – other		88	–
Insurance claim recoveries		934	9
Insurance rebates		89	117
Investment Recoveries		275	–
TOTAL OTHER REVENUE	7,048	2,579	

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

Accounting policy for other revenue

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

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

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

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

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

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	2,938	3,504	–	–
Financial assistance – local roads component	453	1,315	–	–
Other				
Pensioners' rates subsidies – general component	76	79	–	–
Total general purpose	3,467	4,898	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	35	35	–	–
– Sewerage	35	35	–	–
– Domestic waste management	35	34	–	–
Bushfire and emergency services	192	216	–	60
Community care	52	118	–	–
Economic development	–	–	114	303
Employment and training programs	34	34	–	–
Environmental protection	29	95	–	–
Heritage and cultural	72	52	101	–
LIRS subsidy	61	69	–	–
Recreation and culture	–	–	456	17
Street lighting	53	57	–	–
Transport (roads to recovery)	1,107	960	–	–
Transport (other roads and bridges funding)	216	1,459	1,383	1,949
Planning	48	68	–	–
Waste management	343	79	–	–
Sewerage services	–	–	8,640	–
Water supplies	–	–	–	94
Total specific purpose	2,312	3,311	10,694	2,423
Total grants	5,779	8,209	10,694	2,423
Grant revenue is attributable to:				
– Commonwealth funding	4,499	5,778	20	–
– State funding	1,280	2,431	10,674	2,423
	5,779	8,209	10,694	2,423

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 – EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.4 – contributions using planning agreements		915	572	3,712	1,363
S 7.11 – contributions towards amenities/services		657	387	59	49
S 7.12 – fixed development consent levies		–	–	116	93
S 64 – water supply contributions		–	–	14	328
S 64 – sewerage service contributions		–	–	41	497
S 64 – stormwater contributions		–	–	–	2
Total developer contributions – cash		1,572	959	3,942	2,332
Total developer contributions	23	1,572	959	3,942	2,332
Other contributions:					
Cash contributions					
Bushfire services		3	–	461	325
Community services		10	79	–	–
Environmental officer/monitoring		31	24	–	–
Heritage/cultural		6	3	–	–
Library operations		83	67	65	53
Recreation and culture		87	72	47	90
Roads and bridges		–	–	–	509
Waste		40	–	–	–
Total other contributions – cash		260	245	573	977
Total other contributions		260	245	573	977
Total contributions		1,832	1,204	4,515	3,309
TOTAL GRANTS AND CONTRIBUTIONS		7,611	9,413	15,209	5,732

Accounting policy for contributions

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

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

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	879	825
Add: operating grants recognised in the current period but not yet spent	210	442
Less: operating grants recognised in a previous reporting period now spent	(412)	(388)
Unexpended and held as restricted assets (operating grants)	677	879
Capital grants		
Unexpended at the close of the previous reporting period	62	997
Add: capital grants recognised in the current period but not yet spent	1,397	62
Less: capital grants recognised in a previous reporting period now spent	(765)	(997)
Unexpended and held as restricted assets (capital grants)	694	62
Contributions		
Unexpended at the close of the previous reporting period	21,451	21,449
Add: contributions recognised in the current period but not yet spent	6,137	3,976
Less: contributions recognised in a previous reporting period now spent	(5,198)	(3,974)
Unexpended and held as restricted assets (contributions)	22,390	21,451

Muswellbrook Shire Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	2018	2017
(a) Employee benefits and on-costs		
Salaries and wages	12,401	11,876
Employee termination costs (where material – other than vested leave paid)	273	170
Travel expenses	460	290
Employee leave entitlements (ELE)	1,441	1,205
Superannuation	1,305	1,281
Workers' compensation insurance	365	297
Fringe benefit tax (FBT)	100	97
Payroll tax	96	93
Training costs (other than salaries and wages)	311	253
Sick leave insurance	1	2
Protective clothing	55	48
Staff appreciation	24	13
Total employee costs	16,832	15,625
Less: capitalised costs	(1,886)	(1,808)
<u>TOTAL EMPLOYEE COSTS EXPENSED</u>	<u>14,946</u>	<u>13,817</u>
Number of 'full-time equivalent' employees (FTE) at year end	166	164
Number of 'full-time equivalent' employees (FTE) at year end (incl. vacancies)	186	186

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a Defined Benefit Plan under the Local Government Superannuation Scheme, however, when sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 17 for more information.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		2,016	1,029
Total interest bearing liability costs expensed		2,016	1,029
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	12	318	301
Interest applicable on interest free (and favourable) loans to Council		40	49
Total other borrowing costs		358	350
TOTAL BORROWING COSTS EXPENSED		2,374	1,379

Accounting policy for borrowing costs

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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(c) Materials and contracts		
Raw materials and consumables	9,319	9,725
Auditors remuneration ⁽²⁾	105	129
Legal expenses:		
– Legal expenses: planning and development	43	28
– Legal expenses: other	516	44
Operating leases:		
– Operating lease rentals: minimum lease payments ⁽¹⁾	52	50
Venue manager	10	10
Waste collection	899	897
TOTAL MATERIALS AND CONTRACTS	10,944	10,883

Operating leases

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.

1. Operating lease payments are attributable to:

Computers	52	50
	52	50

2. Auditor remuneration

During the year the following fees were paid or payable for services provided by the auditor of Council, related practices and non-related audit firms

Auditors of the Council – NSW Auditor-General:**(i) Audit and other assurance services**

Audit and review of financial statements	67	63
Remuneration for audit and other assurance services	67	63
Total Auditor-General remuneration	67	63

Non NSW Auditor-General audit firms:**(i) Audit and other assurance services**

Audit and review of financial statements	11	16
– Other audit and assurance services: Internal Auditor	27	50
Remuneration for audit and other assurance services	38	66
Total remuneration of non NSW Auditor-General audit firms	38	66
Total Auditor remuneration	105	129

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(d) Depreciation, amortisation and impairment		
Depreciation and amortisation		
Plant and equipment	1,136	1,201
Office equipment	208	165
Furniture and fittings	95	92
Land improvements (depreciable)	117	110
Infrastructure:		
– Buildings – non-specialised	1	1
– Buildings – specialised	548	537
– Other structures	398	366
– Roads	3,696	3,658
– Bridges	607	605
– Footpaths	333	305
– Stormwater drainage	597	595
– Water supply network	1,637	1,439
– Sewerage network	1,328	1,198
Other assets:		
– Other	137	137
Total gross depreciation and amortisation costs	10,838	10,409
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT /		
REVALUATION DECREMENT COSTS EXPENSED	10,838	10,409

Accounting policy for depreciation, amortisation and impairment expenses**Depreciation and amortisation**

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets.

Impairment of non-financial assets

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

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

Impairment of financial assets

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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(e) Other expenses		
Advertising	61	60
Bank charges	57	53
Cleaning	158	199
Community facility contribution	130	130
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	27	24
– NSW fire brigade levy	41	41
– NSW rural fire service levy	321	335
– Upper Hunter Weeds Authority	96	79
– Waste levy	2,068	1,851
Councillor expenses – mayoral fee	25	24
Councillor expenses – councillors' fees	139	131
Councillors' expenses (incl. mayor) – other (excluding fees above)	29	21
Donations, contributions and assistance to other organisations (Section 356)	79	85
Electricity and heating	1,103	720
Insurance	765	686
Postage	24	26
Printing and stationery	31	38
Street lighting	430	398
Telephone and communications	109	105
Valuation fees	55	54
<u>TOTAL OTHER EXPENSES</u>	<u>5,748</u>	<u>5,060</u>

Accounting policy for other expenses

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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	2018	2017
Plant and equipment	9		
Proceeds from disposal – plant and equipment		246	154
Less: carrying amount of plant and equipment assets sold/written off		(63)	(116)
Net gain/(loss) on disposal		183	38
Infrastructure	9		
Less: carrying amount of infrastructure assets sold/written off		(310)	(165)
Net gain/(loss) on disposal		(310)	(165)
Real estate assets held for sale	8		
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 ⁽¹⁾	6		
Proceeds from disposal/redemptions/maturities – financial assets		28,500	14,099
Less: carrying amount of financial assets sold/redeemed/matured		(28,500)	(14,099)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(127)	86

Accounting policy for disposal of assets

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

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	2,214	4,098
Cash-equivalent assets		
– Deposits at call	3,011	2,056
Total cash and cash equivalents	5,225	6,154

Accounting policy for 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.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 6(b). Investments

\$ '000	2018 Current	2018 Non-current	2017 Current	2017 Non-current
Investments				
a. 'Held to maturity'	14,324	34,000	15,253	26,750
Total investments	14,324	34,000	15,253	26,750
<u>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</u>	<u>19,549</u>	<u>34,000</u>	<u>21,407</u>	<u>26,750</u>
Held to maturity investments				
Long term deposits	13,324	5,500	11,753	10,250
NCD's, FRN's (with maturities > 3 months)	1,000	28,500	3,500	15,500
Other long term financial assets	—	—	—	1,000
Total	14,324	34,000	15,253	26,750

Accounting policy for investments**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.

(a) 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. Assets in this category are measured at amortised cost.

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

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

Impairment of available for sale investments

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.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

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

\$ '000	2018	2018	2017	2017
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	19,549	34,000	21,407	26,750
attributable to:				
External restrictions (refer below)	8,759	24,433	8,675	27,716
Internal restrictions (refer below)	9,986	9,567	4,691	7,072
Unrestricted	804	—	3	—
	19,549	34,000	13,369	34,788

\$ '000	2018	2017
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Details of restrictions

External restrictions – other

Developer contributions – general	9,264	6,661
Developer contributions – water fund	6,981	6,724
Developer contributions – sewer fund	6,145	8,066
Specific purpose unexpended grants	1,371	941
Water supplies	8,912	12,022
Sewerage services	282	1,523
Domestic waste management	237	454
External restrictions – other	33,192	36,391
Total external restrictions	33,192	36,391

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000	2018	2017
Internal restrictions		
Plant and vehicle replacement	820	843
Infrastructure replacement	592	768
Employees leave entitlement	979	1,001
Mangoola Contingency	319	–
Deposits, retentions and bonds	2,662	671
Carpark replacement	113	10
Road works contingency	525	486
Land bank development	3	3
Building replacement	180	233
Aquatic centre	–	74
Art gallery	28	28
Administrative	60	167
Builders Rubble	61	61
Building Capacity	25	92
Carry over works 15/16 operational	–	216
Carry over works 15/16 capital	–	1,137
Carry over works 16/17 operational	–	165
Carry over works 16/17 capital	184	1,657
Carry over works 17/18 operational	72	–
Carry over works 17/18 capital	1,279	–
Environmental	365	177
Heritage Matters	18	18
Infrastructure works	125	125
Legal matters	–	42
Recreation	655	608
Road closure	72	28
Stormwater management	594	438
Corporate Reserve	16	–
Waste Levy Aggregate (R&D)	128	–
Denman Hall - Insurance Claim	934	–
Financial Assistance Grant	1,719	–
Road Pavment Consumption Charge	29	–
Culture	46	–
Waste management centre	6,030	2,715
Drainage	143	–
Future Fund	42	–
Finance	68	–
Information Technology Strategy	241	–
Mine Affected Roads	426	–
Total internal restrictions	19,553	11,763
TOTAL RESTRICTIONS	52,745	48,154

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 7. Receivables

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	1,975	—	3,081	—
User charges and fees	1,414	—	1,887	—
Accrued revenues				
– Interest on investments	345	—	735	—
Amounts due from other councils	167	—	130	—
Community enhancement	340	—	635	—
Government grants and subsidies	331	—	260	—
Net GST receivable	266	—	342	—
On site management system	18	—	21	—
RMS IPWO's	217	—	277	—
Waste depot charges	404	—	477	—
RMS - Routine Services	144	—	—	—
Commercial Properties - Rental.	345	—	—	—
Other debtors	12	—	16	—
Total	5,978	—	7,861	—
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>5,915</u>	<u>—</u>	<u>7,798</u>	<u>—</u>
Externally restricted receivables				
Water supply				
– Rates and availability charges	189	—	153	—
– Other	1,910	—	726	—
Sewerage services				
– Rates and availability charges	673	—	544	—
– Other	885	—	79	—
Domestic waste management	165	—	149	—
Total external restrictions	3,822	—	1,651	—
Unrestricted receivables	2,093	—	6,147	—
<u>TOTAL NET RECEIVABLES</u>	<u>5,915</u>	<u>—</u>	<u>7,798</u>	<u>—</u>
Movement in provision for impairment of receivables			2018	2017
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 2018

Note 7. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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 are classified as non-current assets. Loans and receivables are included in other receivables 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.

Impairment

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

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

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 8. Inventories and other assets

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(a) Inventories				
Inventories at cost				
Real estate for resale (refer below)	1,499	—	1,497	—
Stores and materials	181	—	201	—
Other	38	—	43	—
Total inventories at cost	1,718	—	1,741	—
<u>TOTAL INVENTORIES</u>	<u>1,718</u>	<u>—</u>	<u>1,741</u>	<u>—</u>
(b) Other assets				
Prepayments	123	—	156	—
<u>TOTAL OTHER ASSETS</u>	<u>123</u>	<u>—</u>	<u>156</u>	<u>—</u>
Externally restricted assets				
Water				
Prepayments	5	—	—	—
Total water	5	—	—	—
Total externally restricted assets	5	—	—	—
Total unrestricted assets	1,836	—	1,897	—
TOTAL INVENTORIES AND OTHER ASSETS	<u>1,841</u>	<u>—</u>	<u>1,897</u>	<u>—</u>

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 8. Inventories and other assets (continued)

\$ '000	Notes	2018		2017	
		Current	Non-current	Current	Non-current
(i) Other disclosures					
(a) Details for real estate development					
Residential		282	—	282	—
Industrial/commercial		1,217	—	1,215	—
Total real estate for resale		1,499	—	1,497	—
(Valued at the lower of cost and net realisable value)					
Represented by:					
Acquisition costs		1,499	—	1,497	—
Total costs		1,499	—	1,497	—
Total real estate for resale		1,499	—	1,497	—
Movements:					
Real estate assets at beginning of the year		1,497	—	1,974	—
– Purchases and other costs		2	—	—	—
– WDV of sales (expense)	5	—	—	(477)	—
Total real estate for resale		1,499	—	1,497	—

(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;

	2018	2017
Real estate for resale	760	760
	760	760

Accounting policy**Raw materials and stores, work in progress and finished goods**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on 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.

Inventory held for distribution

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

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.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment

Asset class	as at 30/6/2017			Asset movements during the reporting period						as at 30/6/2018			
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Revaluation increments to equity (ARR)	At cost	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000													
Capital work in progress	15,685	—	15,685	547	21,397	—	—	(10,779)	—	26,850	—	—	26,850
Plant and equipment	14,650	10,932	3,718	1,241	964	(63)	(1,136)	—	—	—	15,892	11,167	4,725
Office equipment	2,805	2,172	633	20	296	—	(208)	—	—	—	3,121	2,380	741
Furniture and fittings	1,446	785	661	—	192	—	(95)	—	—	—	1,637	879	758
Land:													
— Operational land	8,384	—	8,384	—	318	—	—	—	77	—	8,779	—	8,779
— Community land	9,998	—	9,998	—	—	—	—	—	(4)	—	9,994	—	9,994
Land improvements — depreciable	4,638	888	3,750	631	180	—	(117)	151	—	—	5,601	1,005	4,596
Infrastructure:													
— Buildings — non-specialised	3,373	573	2,800	—	—	—	(1)	—	(671)	—	4,330	2,202	2,128
— Buildings — specialised	59,027	5,036	53,991	263	291	—	(548)	186	(14,152)	—	66,204	26,173	40,031
— Other structures	8,815	2,255	6,560	290	808	—	(375)	137	—	—	10,050	2,629	7,421
— Roads	361,233	90,398	270,835	3,857	179	(264)	(3,696)	8,733	—	—	373,626	93,981	279,645
— Bridges	59,966	17,143	42,823	87	25	—	(608)	—	—	—	60,078	17,751	42,327
— Footpaths	15,038	3,704	11,334	578	908	(46)	(333)	13	—	—	16,475	4,021	12,454
— Stormwater drainage	58,322	20,518	37,804	30	175	—	(597)	—	—	—	58,527	21,116	37,411
— Water supply network	93,286	43,470	49,816	2,246	657	—	(1,637)	1,397	1,114	—	99,648	46,054	53,594
— Sewerage network	85,904	39,246	46,658	1,530	111	—	(1,328)	162	1,524	—	90,083	41,426	48,657
Other assets:													
— Heritage collections	4,401	—	4,401	—	71	—	—	—	151	—	4,623	—	4,623
— Other	1,484	1,260	224	—	139	—	(137)	—	—	—	1,623	1,397	226
Reinstatement, rehabilitation and restoration assets (refer Note 12):													
— Tip assets	2,191	1,959	232	2,919	—	—	(23)	—	—	—	5,110	1,982	3,128
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	810,646	240,339	570,307	14,239	26,711	(373)	(10,839)	—	(11,961)	26,850	835,401	274,163	588,088

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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

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

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW).

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.

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

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Benches, seats etc.	10 to 20
Computer equipment	4		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Water and sewer assets		Stormwater assets	
Dams and reservoirs	80 to 100	Drains	80 to 100
Bores	20 to 40	Culverts	50 to 80
Reticulation pipes: PVC	70 to 80	Flood control structures	80 to 100
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	20	Bulk earthworks	Infinite
Sealed roads: structure	50		
Unsealed roads	20		
Bridge: concrete	100		
Bridge: other	50		
Road pavements	60		
Kerb, gutter and footpaths	40		

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income statement.

Land 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.

Crown reserves

Crown Reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated. Improvements on Crown Reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Under section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all 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.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

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

\$ '000 Class of asset	2018			2017		
	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	753	330	423	571	337	234
Office equipment	87	87	—	87	87	—
Furniture and fittings	21	15	6	21	14	7
Land						
– Operational land	575	—	575	582	—	582
Infrastructure	100,226	46,054	54,172	94,683	43,470	51,213
Total water supply	101,662	46,486	55,176	95,944	43,908	52,036
Sewerage services						
Plant and equipment	429	271	158	383	262	121
Office equipment	29	29	—	29	29	—
Furniture and fittings	2	2	—	2	2	—
Land						
– Operational land	1,142	—	1,142	1,172	—	1,172
– Community land	45	—	45	45	—	45
Infrastructure	115,524	41,426	74,098	90,883	39,246	51,637
Total sewerage services	117,171	41,728	75,443	92,514	39,539	52,975
TOTAL RESTRICTED IPP&E	218,833	88,214	130,619	188,458	83,447	105,011

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 10. Investment property

\$ '000	2018	2017
(a) Investment property at fair value		
<u>Investment property on hand</u>	<u>55,352</u>	<u>21,915</u>
Reconciliation of annual movement:		
Opening balance	21,915	20,675
– Acquisitions	33,187	2,054
– Capitalised expenditure – this year	134	366
– Net gain/(loss) from fair value adjustments	116	545
– Transfers from/(to) owner occupied (Note 9)	–	(1,725)
CLOSING BALANCE – INVESTMENT PROPERTY	<u>55,352</u>	<u>21,915</u>

(b) Valuation basis

The basis of valuation of investment property 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 2018 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 16 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements – Council as lessor

The investment property are leased to tenants under long-term operating leases with rentals payable monthly.

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

Within 1 year	5,481	4,144
Later than 1 year but less than 5 years	14,032	12,656
Later than 5 years	1,242	2,978
Total minimum lease payments receivable	<u>20,755</u>	<u>19,778</u>

Generally for leases of a commercial nature the lease terms sought are greater than 5 years, with a restricted capital contribution, annual rental increases, net leases (outgoings recoverable), no option, and payable a month in advance.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 10. Investment property (continued)

\$ '000	2018	2017
(e) Investment property income and expenditure – summary		
Rental income from investment property:		
– Minimum lease payments	5,435	2,219
Direct operating expenses on investment property:		
– that generated rental income	(2,726)	(941)
Net revenue contribution from investment property	2,709	1,278
plus:		
Fair value movement for year	116	545
Total income attributable to investment property	2,825	1,823

Accounting policy for investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the income statement as part of other income.

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

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 11. Payables and borrowings

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Payables				
Goods and services – operating expenditure	1,422	–	1,524	–
Goods and services – capital expenditure	2,130	–	2,782	–
Accrued expenses:				
– Salaries and wages	–	–	210	–
Security bonds, deposits and retentions	2,662	–	671	–
Other	18	–	62	–
Total payables	6,232	–	5,249	–
Borrowings				
Loans – secured ¹	4,159	62,067	806	24,855
Total borrowings	4,159	62,067	806	24,855
TOTAL PAYABLES AND BORROWINGS	10,391	62,067	6,055	24,855

(a) Payables and borrowings relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Water	1,201	1,522	1,056	1,956
Sewer	2,098	9,174	1,014	727
Domestic waste management	105	–	89	–
Payables and borrowings relating to externally restricted assets	3,404	10,696	2,159	2,683
Total payables and borrowings relating to restricted assets	3,404	10,696	2,159	2,683
Total payables and borrowings relating to unrestricted assets	6,987	51,371	3,896	22,172
TOTAL PAYABLES AND BORROWINGS	10,391	62,067	6,055	24,855

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 18.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Payables and borrowings (continued)

\$ '000	2018	2017
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(b) Current payables and borrowings not anticipated to be settled within the next twelve months

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

Payables – security bonds, deposits and retentions	196	165
	196	165

(c) Changes in liabilities arising from financing activities

Class of borrowings	2017	Non-cash changes				2018
	Opening balance as at 1/7/17	Cash flows	Acquisition	Fair value changes	Other non-cash movements	Closing balance as at 30/6/18
Loans – secured	25,661	(6,275)	46,800	40	–	66,226
TOTAL	25,661	(6,275)	46,800	40	–	66,226

\$ '000	2018	2017
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(d) Financing arrangements**(i) Unrestricted access was available at balance date to the following lines of credit:**

Bank overdraft facilities ⁽¹⁾	750	750
Credit cards/purchase cards	67	77
Total financing arrangements	817	827

Undrawn facilities as at balance date:

– Bank overdraft facilities	750	750
– Credit cards/purchase cards	67	77
Total undrawn financing arrangements	817	827

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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Payables and borrowings (continued)

Accounting policy for payables and borrowings

Payables

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

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the 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 difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

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

Finance leases

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.

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 12. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	1,466	—	1,477	—
Long service leave	1,308	490	1,540	320
Other leave	63	—	59	—
Sub-total – aggregate employee benefits	2,837	490	3,076	320
Asset remediation/restoration:				
Asset remediation/restoration (future works)	—	8,543	—	5,305
Sub-total – asset remediation/restoration	—	8,543	—	5,305
<u>TOTAL PROVISIONS</u>	<u>2,837</u>	<u>9,033</u>	<u>3,076</u>	<u>5,625</u>

(a) Provisions relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Water	450	—	414	—
Sewer	282	—	270	—
Provisions relating to externally restricted assets	732	—	684	—
Total provisions relating to restricted assets	732	—	684	—
Total provisions relating to unrestricted assets	2,105	9,033	2,392	5,625
<u>TOTAL PROVISIONS</u>	<u>2,837</u>	<u>9,033</u>	<u>3,076</u>	<u>5,625</u>

\$ '000	2018	2017
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(b) Current provisions not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	1,972	2,346
	1,972	2,346

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Provisions (continued)

\$ '000

(c) Description of and movements in provisions

2018	Annual leave	ELE provisions		Total
		Long service leave	Other employee benefits	
At beginning of year	1,477	1,860	59	3,396
Additional provisions	997	371	3	1,371
Amounts used (payments)	(1,008)	(433)		(1,441)
Other	—	—	1	1
Total ELE provisions at end of year	1,466	1,798	63	3,327

2017	Annual leave	ELE provisions		Total
		Long service leave	Other employee benefits	
At beginning of year	1,413	1,980	72	3,465
Additional provisions	926	220	(13)	1,133
Amounts used (payments)	(862)	(340)	—	(1,202)
Total ELE provisions at end of year	1,477	1,860	59	3,396

2018	Other provisions	
	Asset remediation	Total
At beginning of year	5,305	5,305
Changes to provision:		
— Revised costs	2,920	2,920
Unwinding of discount	318	318
Total other provisions at end of year	8,543	8,543

2017	Other provisions	
	Asset remediation	Total
At beginning of year	5,004	5,004
Changes to provision:		
Unwinding of discount	301	301
Total other provisions at end of year	5,305	5,305

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarry.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Provisions (continued)

Accounting policy for provisions

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

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

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

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Provisions (continued)

Accounting policy for provisions (continued)

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

Restoration

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

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

Rehabilitation

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

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

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

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

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

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

Note 13. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Statement of cash flows – additional information

\$ '000	Notes	2018	2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	5,225	6,154
Balance as per the Statement of Cash Flows		5,225	6,154
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		22,043	10,048
Adjust for non-cash items:			
Depreciation and amortisation		10,838	10,409
Net losses/(gains) on disposal of assets		127	(86)
Non-cash capital grants and contributions		(461)	(325)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– investment property		(116)	(545)
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		40	49
Unwinding of discount rates on reinstatement provisions		318	301
Share of net (profits) or losses of associates/joint ventures		(128)	(14)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		1,883	90
Decrease/(increase) in inventories		25	(102)
Decrease/(increase) in other assets		33	(54)
Increase/(decrease) in payables		(102)	(89)
Increase/(decrease) in other accrued expenses payable		(210)	210
Increase/(decrease) in other liabilities		1,947	(4)
Increase/(decrease) in employee leave entitlements		(69)	(69)
Increase/(decrease) in other provisions		2,920	–
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		39,088	19,819
(c) Non-cash investing and financing activities			
Other non-cash items (Rural Fire Service)		461	325
Total non-cash investing and financing activities		461	325

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 15. Interests in other entities

\$ '000

	Council's share of net income		Council's share of net assets	
	2018	2017	2018	2017
Joint ventures	128	14	233	105
Total	128	14	233	105

Joint arrangements

Joint ventures

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

(a) Net carrying amounts – Council's share

Name of entity	Nature of relationship	Measurement method	2018	2017
Strategic Services Australia Ltd	Joint Venture	Equity Method	233	105
Total carrying amounts – material joint ventures			233	105

(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	
	2018	2017	2018	2017	2018	2017	2018	2017
Strategic Services Australia Ltd	n/a	n/a	4%	4%	4%	4%	8%	8%

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

\$ '000

Joint ventures (continued)

(d) Summarised financial information for joint ventures

	Strategic Services Australia Ltd	
	2018	2017
Statement of financial position		
Current assets		
Cash and cash equivalents	5,050	217
Other current assets	1,738	1,393
Non-current assets	472	4,129
Current liabilities		
Current financial liabilities (excluding trade and other payables and provisions)	1,299	2,575
Other current liabilities	452	477
Non-current liabilities		
Non-current financial liabilities (excluding trade and other payables and provisions)	40	219
Net assets	5,469	2,468
Reconciliation of the carrying amount		
Opening net assets (1 July)	2,885	2,557
Profit/(loss) for the period	3,001	328
Closing net assets	5,886	2,885
Council's share of net assets (%)	4.3%	4.3%
Council's share of net assets (\$)	233	105
Statement of comprehensive income		
Income	7,453	6,213
Depreciation and amortisation	(176)	(221)
Interest expense	(128)	(97)
Other expenses	(6,623)	(5,909)
Profit/(loss) from continuing operations	526	(14)
Profit/(loss) from discontinued operations	2,475	343
Profit/(loss) for period	3,001	329
Total comprehensive income	3,001	329
Share of income – Council (%)	4.3%	4.3%
Profit/(loss) – Council (\$)	128	14
Total comprehensive income – Council (\$)	128	14
Summarised Statement of cash flows		
Cash flows from operating activities	(1,237)	888
Cash flows from investing activities	7,449	(93)
Cash flows from financing activities	(1,378)	(790)
Net increase (decrease) in cash and cash equivalents	4,834	5

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

Joint ventures (continued)

(e) Summarised financial information for individually immaterial joint ventures

Council is a member of the Upper Hunter Weeds Authority Council, a body corporate established under the Local Government Act 1993 (NSW) to the control of Noxious Weeds. Council is one of three constituent members and does not control the County Council. Accordingly, the County Council has not been consolidated in the financial statements.

Council is of the opinion that it does not control the above county council/s and accordingly these entities have not been consolidated or otherwise included within these financial statements.

Joint ventures

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

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 16. Commitments for expenditure

\$ '000	2018	2017
(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	2,686	10
Plant and equipment	702	1,336
Road Infrastructure	35	1,081
Land	400	44
Sewerage Infrastructure	4,948	27,300
Land Improvements	42	—
Water Infrastructure	774	—
Other	4,372	1,330
Investment property		
— Buildings	—	35,209
Total commitments	13,959	66,310
These expenditures are payable as follows:		
Within the next year	13,959	66,310
Total payable	13,959	66,310
Sources for funding of capital commitments:		
Future grants and contributions	3,822	9,539
Unexpended grants	278	1,361
Externally restricted reserves	2,320	—
Internally restricted reserves	7,539	1,966
New loans (to be raised)	—	53,444
Total sources of funding	13,959	66,310
Details of capital commitments		
Projects that have not been completed in the 2017/18 financial year but have capital commitments.		
(b) Operating lease commitments (non-cancellable)		
Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:		
Within the next year	44	41
Later than one year and not later than 5 years	176	82
Total non-cancellable operating lease commitments	220	123

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

The schemes most recent full actuarial review indicated that the net assets of the scheme were not sufficient to meet the accrued benefits of the schemes defined 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.

Member councils are treated as Pooled Employers for the purposes of AASB119. Pooled Employers are required to pay standard employer contributions and additional lump sum contributions to the Fund.

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

Division B	1.9 times employee contributions
Division C	2.5% salaries
Division D	1.64 times employee contributions

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2017 for 4 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2017. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2017.

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

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised (continued)

LIABILITIES NOT RECOGNISED: (continued)

1. Guarantees (continued)

(i) Defined benefit superannuation contribution plans (continued)

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

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the entity.

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

There is no provision for the allocation of any surplus which may be present at the date of withdrawal of an employer.

The plan is a defined benefit plan. However, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses (to the extent that they are not borne by members). As such, there is not sufficient reliable information to allow each sponsoring employer to account for its proportionate share of the defined benefit obligation, sub-group assets and costs associated with the sub-group in the same way as it would for a single employer sponsored defined benefit plan.

The amount of employer contributions to the defined benefit section of the Fund and recognised as an expense for the year ended 30 June 2018 was \$186,279.51. The last valuation of the Fund was by the Actuary, Mr Richard Boyfield, FIAA on 12 December, relating to the period ended 30 June 2017.

The expected contributions to the Fund for the next annual reporting period are \$176,158.20.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2018 is:

Employer reserves only*	\$millions	Asset Coverage
Assets	1,817.80	
Past Service Liabilities	1,787.50	101.70%
Vested Benefits	1,778.00	102.20%

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

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

Investment return	6.0% per annum
Salary inflation*	3.5% per annum
Increase in CPI	2.5% per annum

*Plus promotional increases

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised (continued)

LIABILITIES NOT RECOGNISED: (continued)

1. Guarantees (continued)

(i) Defined benefit superannuation contribution plans (continued)

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group. Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Funds Actuary, the 2018 triennial review will be completed around December 2018.

Council's additional lump sum contribution is around 0.25% of the total additional lump sum contributions for all Pooled Employers (of \$40m each year from 1 July 2017 to 30 June 2021) provides an indication of the level of participation of Council compared with other employers in the Pooled Employer sub-group.

(ii) Statewide Limited

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

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

The future realisation and finalisation of claims incurred but not reported to 30/6 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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised (continued)

LIABILITIES NOT RECOGNISED: (continued)

1. Guarantees (continued)

(iii) StateCover Limited (continued)

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.

2. Other liabilities

(i) Third party claims

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

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

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

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

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

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

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets not recognised (continued)

ASSETS NOT RECOGNISED (continued):

(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.

(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 2019/20.

The cinema has met all the necessary requirements during 2017/18 and as such the value of the loan outstanding has been reduced to \$260K. The loan was issued in accordance with Council's Community Strategic Plan and after an appropriate period of public consultation.

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.

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. 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.

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	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	5,225	6,154	5,225	6,154
Investments				
– 'Held to maturity'	48,324	42,003	48,833	42,864
Receivables	5,915	7,798	5,915	7,798
Total financial assets	59,464	55,955	59,973	56,816
Financial liabilities				
Payables	6,232	5,249	6,232	5,249
Loans/advances	66,226	25,661	66,226	25,661
Total financial liabilities	72,458	30,910	72,458	30,910

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. 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 Ministerial Investment Order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

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
2018				
Possible impact of a 1% movement in interest rates	535	535	535	535
2017				
Possible impact of a 1% movement in interest rates	482	482	482	482

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. 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:

	2018 Rates and annual charges	2018 Other receivables	2017 Rates and annual charges	2017 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	100%	34%	100%	53%
Overdue	0%	66%	0%	47%
	100%	100%	100%	100%

(ii) Ageing of receivables – value**Rates and annual charges**

	2018	2017
< 1 year overdue	1,185	1,849
1 – 2 years overdue	493	770
2 – 5 years overdue	198	308
> 5 years overdue	99	154
	1,975	3,081

Other receivables

	2018	2017
Current	1,339	663
0 – 30 days overdue	650	1,448
31 – 60 days overdue	520	48
61 – 90 days overdue	390	923
> 91 days overdue	1,104	1,698
	4,003	4,780

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. 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.

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 by borrowing long term and fixing the interest rate on a 4-year renewal basis. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

\$ '000	Weighted average interest rate	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 – 5 Years	> 5 Years		
2018							
Trade/other payables	0.00%	2,662	3,570	–	–	6,232	6,232
Loans and advances - fixed	4.69%	50,189	2,768	14,062	2,313	69,332	66,226
Total financial liabilities		52,851	6,338	14,062	2,313	75,564	72,458
2017							
Trade/other payables	0.00%	671	4,578	–	–	5,249	5,249
Loans and advances - fixed	3.75%	18,539	1,809	6,924	1,653	28,925	25,661
Total financial liabilities		19,210	6,387	6,924	1,653	34,174	30,910

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 28 June 2017 and is not required to be audited.

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	2018 Budget	2018 Actual	2018 ----- Variance* -----	
REVENUES				
Rates and annual charges	20,512	22,400	1,888	9% F
User charges and fees	13,185	12,761	(424)	(3%) U
Interest and investment revenue	1,597	1,747	150	9% F
Other revenues	4,014	7,048	3,034	76% F
This result is mainly due to higher than expected building lease fees. This revenue has been included in the future fund in the subsequent quarterly reviews for 2017/18 financial year. Council purchased the Market Place in August 2017. Also Council recovered some legal costs that was not budgeted for in the original budget for 2017/18.				
Operating grants and contributions	5,815	7,611	1,796	31% F
This variation is mainly due to the early receipt of the 50% of the 2018/19 Financial Assistance Grant. These payments are recorded in the year of receipt rather than the year they pertain to as Council accepts control if the funds upon the receipt.				
Capital grants and contributions	16,467	15,209	(1,258)	(8%) U
Fair value increment on investment property	–	116	116	0% F
As part of the preparation of the 2017/18 Financial Statements, Council was required to revalue a range of assets including Council's investment properties. These revaluations have driven the increases to the assets. This information was not available when the 2017/18 budget was prepared.				
Joint ventures and associates - net profits	–	128	128	0% F
Differences between actual and budget related to the Council's joint venture. This revenue is not included in Council's original budget, as the information was not available when the 2017/18 budget was prepared.				

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Material budget variations (continued)

\$ '000	2018 Budget	2018 Actual	2018 ----- Variance* -----	
EXPENSES				
Employee benefits and on-costs	14,026	14,946	(920)	(7%) U
Borrowing costs	3,182	2,374	808	25% F
Planned borrowing for 2017/18 financial year was able to be reduces due to the utilisation of the Sewer Fund reserves for the Muswellbrook Recycle Water Treatment Works.				
Materials and contracts	15,172	10,944	4,228	28% F
This difference between budget and actual occurred across a range if activities conducted by Council during 2017/18. They occurred for a variety of reasons including the carryover of projects to 2018/19. Examples of such projects include the Muswellbrook Recycle Water Treatment Works, Rail Noise Abatement project, the Olympic Park Carpark & Masterplan and the Town Education Centre.				
Depreciation and amortisation	10,653	10,838	(185)	(2%) U
Other expenses	3,248	5,748	(2,500)	(77%) U
This different consists mainly of an increase in electricity costs over ask if Council's activities as well as expenses due to rating matters. During the year these costs have been adjusted accordingly at the time of each quarterly budget review.				
Net losses from disposal of assets	—	127	(127)	0% U
Differences between actual and budget relates to the Council's disposal of assets. This loss is unknown at the time of preparing the budget.				

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

Cash flows from operating activities	25,962	39,088	13,126	50.6%	F
This results is due to the higher than expected receipt of grant funding. The major contributors are then Muswellbrook Recycle Water Treatment Works grant of \$8.6M and the Roads to Recovery grant of \$1.1M.					
Cash flows from investing activities	(86,516)	(80,542)	5,974	(6.9%)	F
Cash flows from financing activities	52,318	40,525	(11,793)	(22.5%)	U
This has resulted from Council not undertaking proposed borrowings in 2017/18 financial year.					

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. 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

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 measurement hierarchy					
		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					
Investment property					
Commercial Properties	30/06/18	—	—	55,352	55,352
Total investment property		—	—	55,352	55,352
Infrastructure, property, plant and equipment					
Plant and Equipment	30/06/18	—	—	4,725	4,725
Office Equipment	30/06/18	—	—	741	741
Furniture and Fittings	30/06/18	—	—	758	758
Operational Land	30/06/18	—	—	8,779	8,779
Community Land	30/06/18	—	—	9,994	9,994
Depreciable Land Improvements	30/06/16	—	—	4,596	4,596
Buildings - Non-Specialised	30/06/18	—	—	2,128	2,128
Buildings - Specialised	30/06/18	—	—	40,031	40,031
Other Structures	30/06/16	—	—	7,421	7,421
Roads	30/06/15	—	—	279,645	279,645
Bridges	30/06/15	—	—	42,327	42,327
Footpaths	30/06/15	—	—	12,454	12,454
Stormwater Drainage	30/06/15	—	—	37,411	37,411
Water Supply Network	30/06/16	—	—	53,594	53,594
Sewerage Network	30/06/16	—	—	48,657	48,657
Heritage Collections	30/06/18	—	—	4,623	4,623
Other	30/06/13	—	—	226	226
Total infrastructure, property, plant and equipment		—	—	558,110	558,110

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Fair value measurement (continued)

\$ '000

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

		Fair value measurement hierarchy			
2017		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	valuation	active mkts	inputs	inputs	
Recurring fair value measurements					
Investment property					
Commercial Properties	30/06/17	—	—	21,915	21,915
Total investment property		—	—	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	30/06/16	—	—	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	30/06/16	—	—	49,816	49,816
Sewerage Network	30/06/16	—	—	46,658	46,658
Heritage Collections	30/06/10	—	—	4,401	4,401
Other	30/06/13	—	—	224	224
Total infrastructure, property, plant and equipment		—	—	554,390	554,390

(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 2018

Note 20. Fair value measurement (continued)

(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 property

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.

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

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:-

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.

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 2018 and was performed by Asset Val.

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Fair value measurement (continued)

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

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

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 Asset Val in June 2018 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.

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.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Fair value measurement (continued)

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

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

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 2018.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. 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 – 1/7/16	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
Purchases (GBV)	2,206	316	192	318	3,032
Disposals (WDV)	(63)	–	–	–	(63)
Depreciation and impairment	(1,136)	(208)	(95)	–	(1,439)
Revaluation Increments	–	–	–	77	77
Closing balance – 30/6/18	4,725	741	758	8,779	15,003

	Community Land	Deprec. Land Improve.	Buildings Non Specialised	Buildings Specialised	Total
Opening balance – 1/7/16	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
Purchases (GBV)	–	812	–	554	1,366
Depreciation and impairment	–	(117)	(1)	(548)	(666)
Revaluation Increments	(4)	–	(671)	(14,152)	(14,827)
Work in progress transfers	–	151	–	186	337
Closing balance – 30/6/18	9,994	4,596	2,128	40,031	56,749

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 20. 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 – 1/7/16	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
Purchases (GBV)	1,099	4,036	112	1,486	6,733
Disposals (WDV)	–	(264)	–	(46)	(310)
Depreciation and impairment	(375)	(3,695)	(608)	(333)	(5,011)
Work in Progress Transfer	137	8,733	–	13	8,883
Closing balance – 30/6/18	7,421	279,645	42,327	12,454	341,847

	Stormwater Drainage	Water Supply Network	Sewerage Network	Other Minor Classes	Total
Opening balance – 1/7/16	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
Purchases (GBV)	204	2,904	1,641	210	4,959
Depreciation and impairment	(597)	(1,637)	(1,328)	(137)	(3,699)
Work in Progress Transfer	–	1,397	162	151	1,710
Revaluation Increment	–	1,114	1,524	–	2,638
Closing balance – 30/6/18	37,411	53,594	48,657	4,849	144,511

(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 2018

Note 21. Related party transactions

\$ '000

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:

	2018	2017
Compensation:		
Short-term benefits	724	856
Post-employment benefits	75	110
Other long-term benefits	6	22
Termination benefits	71	15
Total	876	1,003

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Related party transactions (continued)

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 Actual \$	Doubtful debts expense recognised Actual \$
2018	Actual \$	Actual \$			
Upper Hunter Weeds Authority - Contribution	96,133	—	Annually	—	—
Contribution from Upper Hunter Weeds Authority	39,325	—	Annually	—	—
Local Government Training Institute - Training Services	30,945	—	7 days	—	—
Hunter Council Inc. - Training Services	52,047	—	7 days	—	—
Bush Regeneration Works	294,141	—	21 days	—	—
2017					
Bush Regeneration Works	124,529	—	21 days	—	—
Upper Hunter Weeds Authority -Contribution	79,220	—	Annually	—	—
Contribution from Upper Hunter Weeds Authority	38,366	—	Annually	—	—
Local Government Training Institute - Training Services	34,380	—	7 days	—	—
Hunter Council Inc. - Training Services	8,601	—	7 days	—	—

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Events occurring after the reporting date

Events that occur between the end of the reporting period (30 June 2018) 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 30/10/18.

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 2018.

(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 2018 and which are only indicative of conditions that arose after 30 June 2018.

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

On 10 September 2018 Council announced that a new independent primary school is to be established in partnership with the Muswellbrook Richard Gill National Music Academy. It is proposed the school will occupy the current site of the Muswellbrook Shire Council Administration Centre. Council has commenced discussions to progress the proposed relocation of its Administration Centre and the conversion of the site to the home of the specialised music education school.

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

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)
	219	—	—	8	(30)	—	197	—
Drainage Roads	773	60	—	30	—	—	863	—
Parking	2	—	—	—	—	—	2	—
Open space	562	—	—	20	(205)	—	377	—
Community facilities	72	—	—	3	—	—	75	—
Tourism	61	—	—	2	(9)	—	54	—
Bushfire	99	—	—	4	—	—	103	—
Social Infrastructure	331	—	—	12	(235)	—	108	—
S7.11 contributions – under a plan	2,119	60	—	79	(479)	—	1,779	—
S7.12 levies – under a plan	53	116	—	6	(156)	—	19	—
Total S7.11 and S7.12 revenue under plans	2,172	176	—	85	(635)	—	1,798	—
S7.11 not under plans	4,488	5,284	—	—	(2,306)	—	7,466	—
S64 contributions	14,791	54	—	538	(2,257)	—	13,126	—
Total contributions	21,451	5,514	—	623	(5,198)	—	22,390	—

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 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	219	–	–	8	(30)	–	197	–
Roads	773	60	–	30	–	–	863	–
Parking	2	–	–	–	–	–	2	–
Open space	562	–	–	20	(205)	–	377	–
Community facilities	72	–	–	3	–	–	75	–
Tourism	61	–	–	2	(9)	–	54	–
Bushfire	99	–	–	4	–	–	103	–
Social Infrastructure	331	–	–	12	(235)	–	108	–
Total	2,119	60	–	79	(479)	–	1,779	–

S7.12 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	53	116	–	6	(156)	–	19	–
Total	53	116	–	6	(156)	–	19	–

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 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	57	916	–	–	(857)	–	116	–
Community facilities	3,353	3,679	–	–	(1,310)	–	5,722	–
Recreation	424	569	–	–	–	–	993	–
Wybong Uplands Strategy	454	–	–	–	–	–	454	–
Education	200	–	–	–	(19)	–	181	–
Environment	–	120	–	–	(120)	–	–	–
Total	4,488	5,284	–	–	(2,306)	–	7,466	–

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	6,724	13	–	244	–	–	6,981	–
Sewer	8,067	41	–	294	(2,257)	–	6,145	–
Total	14,791	54	–	538	(2,257)	–	13,126	–

Muswellbrook Shire Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 24. Financial result and financial position by fund

Income Statement by fund				
\$ '000	2018	2018	2018	2018
Continuing operations	DWM	Water	Sewer	General¹
Income from continuing operations				
Rates and annual charges	2,312	1,465	3,585	15,038
User charges and fees	12	4,487	698	7,564
Interest and investment revenue	20	605	173	949
Other revenues	—	216	269	6,563
Grants and contributions provided for operating purposes	74	35	35	7,467
Grants and contributions provided for capital purposes	—	14	8,681	6,514
Other income				
Net gains from disposal of assets	—	18	—	—
Fair value increment on investment property	—	—	—	116
Share of interests in joint ventures and associates using the equity method	—	—	—	128
Total income from continuing operations	2,418	6,840	13,441	44,339
Expenses from continuing operations				
Employee benefits and on-costs	84	1,301	924	12,637
Borrowing costs	—	139	320	1,915
Materials and contracts	2,222	2,729	1,411	4,582
Depreciation and amortisation	—	1,684	1,336	7,818
Other expenses	3	342	246	5,157
Net losses from the disposal of assets	—	—	—	145
Total expenses from continuing operations	2,309	6,195	4,237	32,254
Operating result from continuing operations	109	645	9,204	12,085
 Net operating result attributable to each council fund	 109	 645	 9,204	 12,085
 Net operating result for the year before grants and contributions provided for capital purposes	 109	 631	 523	 5,571

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

* DWM represents collection of Domestic Waste and Recyclables

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 2018

Note 24. Financial result and financial position by fund (continued)

Statement of Financial Position by fund				
\$ '000	2018	2018	2018	2018
ASSETS	DWM	Water	Sewer	General¹
Current assets				
Cash and cash equivalents	—	—	—	5,225
Investments	132	4,027	1,705	8,460
Receivables	165	2,099	1,558	2,093
Inventories	—	—	—	1,718
Other	—	5	—	118
Total current assets	297	6,131	3,263	17,614
Non-current assets				
Investments	105	11,866	4,722	17,307
Receivables	—	1,438	—	(147)
Infrastructure, property, plant and equipment	—	55,176	75,443	457,469
Investments accounted for using the equity method	—	—	—	233
Investment property	—	—	—	55,352
Total non-current assets	105	68,480	80,165	530,214
TOTAL ASSETS	402	74,611	83,428	547,828
LIABILITIES				
Current liabilities				
Payables	105	784	734	4,609
Borrowings	—	417	1,364	2,378
Provisions	—	450	282	2,105
Total current liabilities	105	1,651	2,380	9,092
Non-current liabilities				
Payables	—	—	—	1,291
Borrowings	—	1,522	9,174	51,371
Provisions	—	—	—	9,033
Total non-current liabilities	—	1,522	9,174	61,695
TOTAL LIABILITIES	105	3,173	11,554	70,787
Net assets	297	71,438	71,874	477,041
EQUITY				
Accumulated surplus	297	38,673	54,974	244,385
Revaluation reserves	—	32,765	16,900	232,656
Total equity	297	71,438	71,874	477,041

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

* DWM represents collection of Domestic Waste and Recyclables

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

as at 30 June 2018

Note 24. Financial result and financial position by fund (continued)

Details of individual internal loans for the year ended 30 June 2018

(in accordance with s410(3) of the *Local Government Act 1993*)

Details of individual internal loans	Council ID / Ref
Borrower (by purpose)	General Fund
Lender (by purpose)	Water Fund
Date of minister's approval	17/06/2010
Date raised	30/06/2010
Term (years)	25 years
Dates of maturity	30/06/2035
Rate of interest	6%
Amount originally raised	1,750,000
Total repaid during year (principal and interest)	57,317
Principal outstanding at end of year	1,437,680

Muswellbrook Shire Council

Notes to the Financial Statements
for the year ended 30 June 2018

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

\$ '000	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	6,717	13.03%	8.12%	2.62%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	51,567				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	43,956	65.83%	70.28%	58.01%	> 60.00%
Total continuing operating revenue ⁽¹⁾	66,776				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	13,959	2.02x	5.30x	2.03x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	6,924				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	19,929	2.30x	4.91x	3.35x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	8,649				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,975	7.70%	14.92%	6.36%	< 10% regional & rural
Rates, annual and extra charges collectible	25,656				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	24,049	7.70 mths	10.3 mths	9.4 mths	> 3 mths
Monthly payments from cash flow of operating and financing activities	3,123				

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 Notes 11 and 12.

⁽⁴⁾ Refer to Note 11(b) and 12(b) – 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 2018

Note 25(b). Statement of performance measures – by fund

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
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	13.93%	8.16%	9.26%	2.11%	10.82%	15.36%	> 0.00%
2. Own source operating revenue ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
Total continuing operating revenue ⁽¹⁾	69.77%	64.46%	99.30%	92.44%	35.15%	89.39%	> 60.00%
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾							
Current liabilities less specific purpose liabilities ^(3, 4)	2.02x	5.30x	2.73x	2.71x	0.77x	0.92x	> 1.5x

Notes

(1) - (4) Refer to Notes at Note 25a 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 2018

Note 25(b). Statement of performance measures – by fund (continued)

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation							
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
	2.00x	4.49x	5.96x	4.26x	3.80x	16.68x	> 2x
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	5.42%	15.14%	12.56%	10.23%	18.58%	15.98%	< 10% regional & rural
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	4.97	6.71	15.92	24.21	20.88	23.87	> 3 months
Monthly payments from cash flow of operating and financing activities	months	months	months	months	months	months	

Notes

(1) Refer to Notes at Note 25a above.

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



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial report

Muswellbrook Shire Council

To the Councillors of Muswellbrook Shire Council

Opinion

I have audited the accompanying financial report of Muswellbrook Shire Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the 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 report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, 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 report 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 Report' 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.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule 2 - Permissible income for general rates.

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

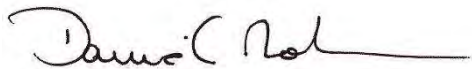
- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

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, and Note 19 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



David Nolan
Director, Financial Audit Services

23 October 2018
SYDNEY

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

Contact: David Nolan
Phone no: 02 9275 7377
Our ref: D1825879/1765

23 October 2018

Dear Mayor

Report on the Conduct of the Audit for the year ended 30 June 2018 Muswellbrook Shire Council

I have audited the general purpose financial statements of Muswellbrook Shire Council (the Council) for the year ended 30 June 2018 as required by section 415 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 2018 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

	2018 \$m	2017 \$m	Variance %
Rates and annual charges revenue	22.4	19.2	↑ 16.7
Grants and contributions revenue	22.8	15.1	↑ 51
Operating result for the year	22.0	10.0	↑ 120
Net operating result before capital amounts	6.8	4.3	↑ 58.1

Council's operating result (\$22 million including the effect of depreciation expense of \$10.8 million) was \$12 million higher than the 2016–17 result. The increase from the previous year is mainly due to increased mining rates income and receipts from capital grants and contributions.

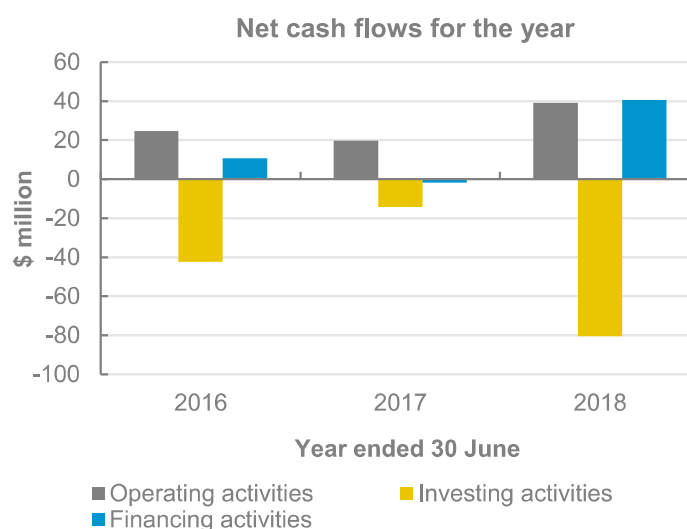
The net operating result before capital grants and contributions (\$6.8 million) was \$2.5 million higher than the 2016–17 result due to increased operating revenue including rates.

Rates and annual charges revenue (\$22.4 million) increased by \$3.2 million (16.7 per cent) in 2017–2018 due to an increase in mining rates arising from rating category changes.

Grants and contributions revenue (\$22.8 million) increased by \$7.7 million (51 per cent) in 2017–2018. The primary reason for the increase was the receipt of capital funding of \$8.6 million for the sewerage plant. This was offset by a reduction in operating grants due to the timing of financial assistance grants received over the past two years.

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 decreased by \$0.9 million to \$5.2 million at the close of the year.
- The movement in investing activities is due to the purchase of investment properties and increased capital expenditure.
- Financing activities includes the receipt of borrowings of \$46.8 million.



FINANCIAL POSITION

Cash and Investments

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	33.2	36.4	<ul style="list-style-type: none"> External restrictions include unspent specific purpose grants, contributions and domestic waste charges, and water and sewerage funds.
Internal restrictions	19.6	11.8	
Unrestricted	0.8	0	
Cash and investments	53.6	48.2	<ul style="list-style-type: none"> Balances are internally restricted due to Council policy or decisions for forward plans including works program. Unrestricted balances provide liquidity for day-to-day operations.

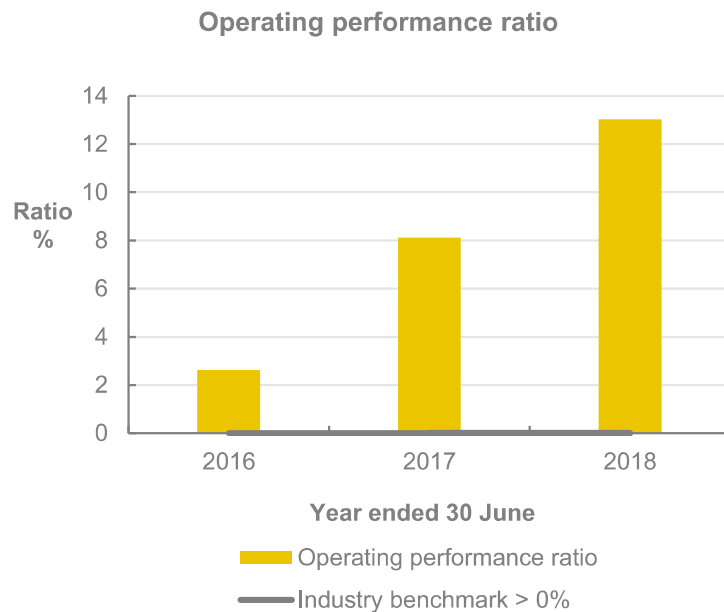
PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 25 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7 which has not been audited.

Operating performance ratio

- The indicator of 13 per cent was above the industry benchmark.
- The increase from the previous year is due to the improved operating result before capital revenue.

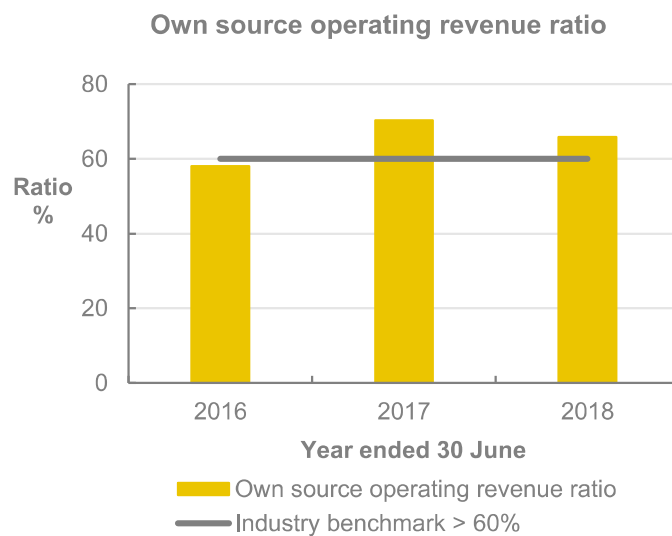
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



Own source operating revenue ratio

- Council's own source operating revenue ratio of 65.8 per cent was above the industry benchmark.
- This ratio fluctuates with movements in grants and contributions.

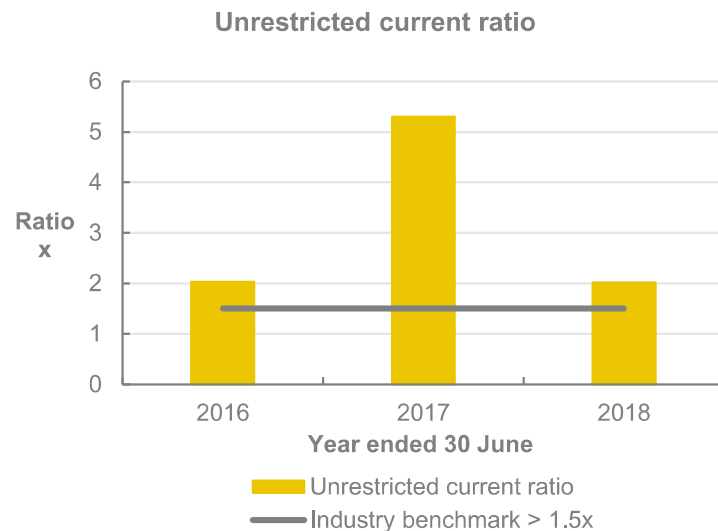
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

- This ratio indicated that Council currently had 2 times of unrestricted assets available to service every one dollar of its unrestricted current liabilities. This exceeded the industry benchmark.
- The peak in 2017 was due to holding greater funds in cash and short term deposits.

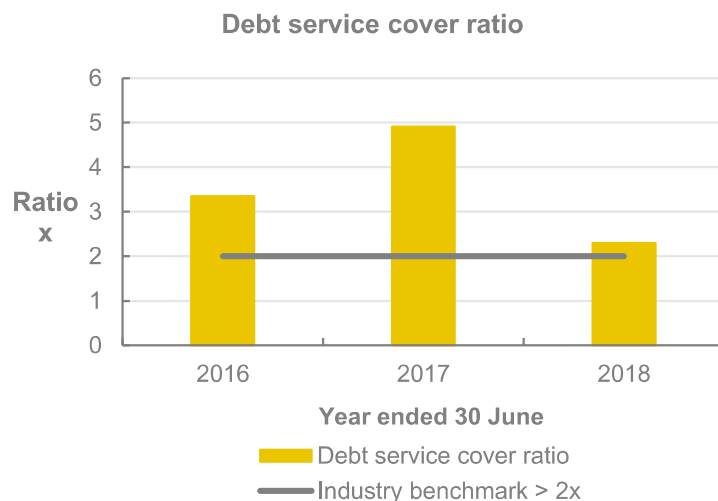
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

- The debt service cover ratio of 2.3 times exceeded the industry benchmark.
- The variance from the previous year is a reflection of Council's increased level of borrowings.

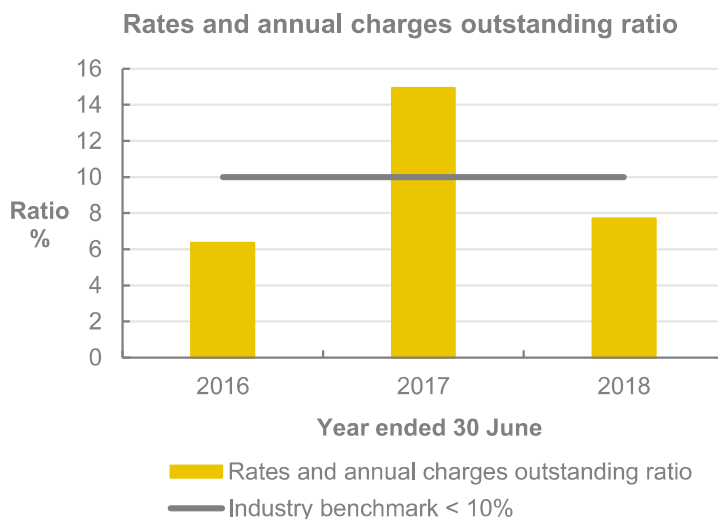
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding ratio

- Council's outstanding rates and charges ratio of 7.7 per cent was within the industry benchmark.
- The 2017 ratio was impacted by the late receipt of payment for a significant rating assessment.

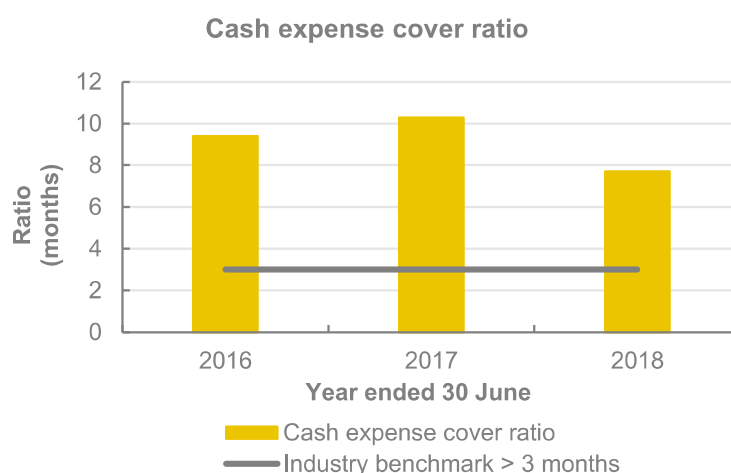
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.



Cash expense cover ratio

- Council's cash expense cover ratio of 7.7 months exceeded the industry benchmark.

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.

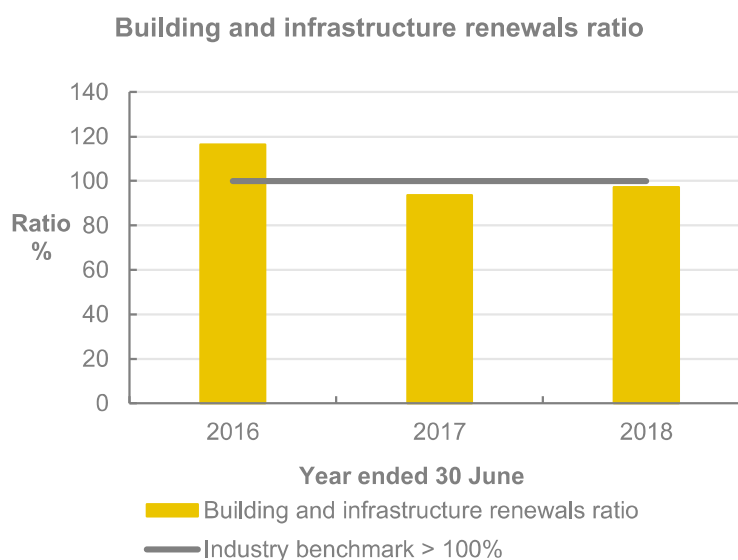


Building and infrastructure renewals ratio (unaudited)

- Council's building and infrastructure renewals ratio of 97.1 per cent was below the industry benchmark.

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 council's Special Schedule 7 which has not been audited.



OTHER MATTERS

New accounting standards implemented

AASB 2016-2 'Disclosure Initiative – Amendments to AASB 107'

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

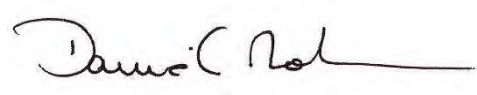
This Standard requires entities to provide disclosures that enable users of financial statements to evaluate changes (both cash flows and non-cash changes) in liabilities arising from financing activities.

Council's disclosure of the changes in their liabilities arising from financing activities is disclosed in Note 11(c).

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.



David Nolan
Director, Financial Audit Services

cc: Ms Fiona Plesman
Ms Bridgette Thomas, Chair of the Audit Committee
Mr Tim Hurst, Chief Executive of the Office of Local Government

Muswellbrook Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018



Muswellbrook Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents	Page
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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 2018

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:

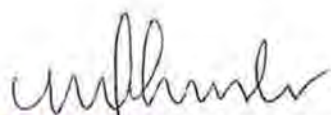
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,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

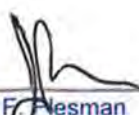
Signed in accordance with a resolution of Council made on 11 September 2018.




Cr. M. Rush
Mayor
15 October 2018



Cr. S. Bailey
Councillor
15 October 2018



Ms. F. Nesman
General Manager
15 October 2018



Mrs. N. Cowley
Responsible Accounting Officer
15 October 2018

Muswellbrook Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2018

\$ '000	2018	2017
Income from continuing operations		
Access charges	1,465	1,459
User charges	4,487	3,396
Interest	605	663
Grants and contributions provided for non-capital purposes	35	134
Profit from the sale of assets	18	—
Other income	216	133
Total income from continuing operations	6,826	5,785
Expenses from continuing operations		
Employee benefits and on-costs	1,301	1,169
Borrowing costs	139	155
Materials and contracts	2,729	2,521
Depreciation, amortisation and impairment	1,684	1,482
Other expenses	342	244
Total expenses from continuing operations	6,195	5,571
Surplus (deficit) from continuing operations before capital amounts	631	214
Grants and contributions provided for capital purposes	14	328
Surplus (deficit) from continuing operations after capital amounts	645	542
Surplus (deficit) from all operations before tax	645	542
Less: corporate taxation equivalent (30%) [based on result before capital]	(189)	(64)
SURPLUS (DEFICIT) AFTER TAX	456	478
Plus opening retained profits	38,028	37,486
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	189	64
Closing retained profits	38,673	38,028
Return on capital %	1.4%	0.7%
Subsidy from Council	681	869
Calculation of dividend payable:		
Surplus (deficit) after tax	456	478
Less: capital grants and contributions (excluding developer contributions)	(14)	(328)
Surplus for dividend calculation purposes	442	150
Potential dividend calculated from surplus	221	75

Muswellbrook Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2018

\$ '000	2018	2017
Income from continuing operations		
Access charges	3,585	3,373
User charges	636	463
Liquid trade waste charges	62	53
Interest	173	289
Grants and contributions provided for non-capital purposes	35	35
Other income	269	306
Total income from continuing operations	4,760	4,519
Expenses from continuing operations		
Employee benefits and on-costs	924	976
Borrowing costs	320	54
Materials and contracts	1,411	1,368
Depreciation, amortisation and impairment	1,336	1,204
Calculated taxation equivalents	8	9
Other expenses	246	214
Total expenses from continuing operations	4,245	3,825
Surplus (deficit) from continuing operations before capital amounts	515	694
Grants and contributions provided for capital purposes	8,681	497
Surplus (deficit) from continuing operations after capital amounts	9,196	1,191
Surplus (deficit) from all operations before tax	9,196	1,191
Less: corporate taxation equivalent (30%) [based on result before capital]	(155)	(208)
SURPLUS (DEFICIT) AFTER TAX	9,042	983
Plus opening retained profits	45,770	44,743
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	8	9
– Corporate taxation equivalent	155	208
Less:		
– Surplus dividend paid	–	(173)
Closing retained profits	54,974	45,770
Return on capital %	1.1%	1.4%
Subsidy from Council	1,149	513
Calculation of dividend payable:		
Surplus (deficit) after tax	9,042	983
Less: capital grants and contributions (excluding developer contributions)	(8,681)	(497)
Surplus for dividend calculation purposes	361	486
Potential dividend calculated from surplus	180	243

Muswellbrook Shire Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

Commercial
Buildings
Category 2

\$ '000	2018	2017
Income from continuing operations		
User charges	5,591	2,363
Other income	—	7
Total income from continuing operations	5,591	2,370
Expenses from continuing operations		
Employee benefits and on-costs	160	87
Borrowing costs	1,376	665
Materials and contracts	1,121	514
Depreciation, amortisation and impairment	298	291
Other expenses	662	341
Total expenses from continuing operations	3,617	1,898
Surplus (deficit) from continuing operations before capital amounts	1,974	472
Surplus (deficit) from continuing operations after capital amounts	1,974	472
Surplus (deficit) from all operations before tax	1,974	472
Less: corporate taxation equivalent (30%) [based on result before capital]	(592)	(142)
SURPLUS (DEFICIT) AFTER TAX	1,382	330
Plus opening retained profits	17,581	15,858
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	592	142
Add:		
– Subsidy paid/contribution to operations	10,953	1,251
Closing retained profits	30,508	17,581
Return on capital %	17.2%	11.1%

Muswellbrook Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2018

\$ '000	2018	2017
ASSETS		
Current assets		
Investments	4,027	4,659
Receivables	2,099	879
Other	5	—
Total current assets	6,131	5,538
Non-current assets		
Investments	11,866	14,087
Receivables	1,438	1,451
Infrastructure, property, plant and equipment	55,176	52,036
Total non-current assets	68,480	67,574
TOTAL ASSETS	74,611	73,112
LIABILITIES		
Current liabilities		
Payables	784	799
Borrowings	417	257
Provisions	450	414
Total current liabilities	1,651	1,470
Non-current liabilities		
Borrowings	1,522	1,956
Total non-current liabilities	1,522	1,956
TOTAL LIABILITIES	3,173	3,426
NET ASSETS	71,438	69,686
EQUITY		
Accumulated surplus	38,673	38,028
Revaluation reserves	32,765	31,658
TOTAL EQUITY	71,438	69,686

Muswellbrook Shire Council

Statement of Financial Position – Council's Sewerage Business Activity
as at 30 June 2018

\$ '000	2018	2017
ASSETS		
Current assets		
Investments	1,705	2,428
Receivables	1,558	623
Total current Assets	3,263	3,051
Non-current assets		
Investments	4,722	7,161
Infrastructure, property, plant and equipment	75,443	52,975
Total non-current assets	80,165	60,136
TOTAL ASSETS	83,428	63,187
LIABILITIES		
Current liabilities		
Payables	734	952
Borrowings	1,364	62
Provisions	282	270
Total current liabilities	2,380	1,284
Non-current liabilities		
Borrowings	9,174	727
Total non-current liabilities	9,174	727
TOTAL LIABILITIES	11,554	2,011
NET ASSETS	71,874	61,176
EQUITY		
Accumulated surplus	54,974	45,770
Revaluation reserves	16,900	15,406
TOTAL EQUITY	71,874	61,176

Muswellbrook Shire Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

Commercial Buildings

Category 2

\$ '000	2018	2017
ASSETS		
Non-current assets		
Investments	1,808	3
Inventories	1,499	1,497
Infrastructure, property, plant and equipment	19,521	10,266
Investment property	55,352	21,915
Total non-current assets	78,180	33,681
TOTAL ASSETS	78,180	33,681
LIABILITIES		
Non-current liabilities		
Borrowings	47,672	16,100
Total non-current liabilities	47,672	16,100
TOTAL LIABILITIES	47,672	16,100
NET ASSETS	30,508	17,581
EQUITY		
Accumulated surplus	30,508	17,581
TOTAL EQUITY	30,508	17,581

Muswellbrook Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2018

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	14
3	Sewerage Business Best-Practice Management disclosure requirements	16

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

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.

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Category 2

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

c. 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 Crown Lands and Water (CLAW), the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

(i) Taxation-equivalent charges

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

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in 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 \$629,000 of combined land values attracts **0%**. For the combined land values in excess of \$629,001 up to \$3,846,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$3,846,000 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 **Crown Lands and Water (CLAW)**, 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.

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

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

(iii) Return on investments (rate of return)

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

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

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

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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 **2.63% at 30/6/18**.

(iv) Dividends

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

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

Each dividend must be calculated and approved in accordance with the 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 2018** 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.

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 2. Water supply business
best-practice management disclosure requirements

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

2018

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	18,591
(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]	220,850
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	185,910
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016	1,131,200

2018 Surplus	441,700	2017 Surplus	149,800	2016 Surplus	539,700
		2017 Dividend	—	2016 Dividend	—

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	185,910
(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 2018

Note 2. Water supply business best-practice management disclosure requirements (continued)

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

2018

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	6,256
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)]	%	76.01%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	54,747
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	4,343
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	3,733
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)]	%	0.42%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	–

- 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 2018Note 3. Sewerage business
best-practice management disclosure requirements

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

2018

1. Calculation and payment of tax-equivalents

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

(i)	Calculated tax equivalents	8,000
(ii)	Number of assessments multiplied by \$3/assessment	18,237
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	8,000
(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]	180,250
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	174,370
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016	1,405,500

2018 Surplus	360,500	2017 Surplus	485,800	2016 Surplus	732,200
		2017 Dividend	173,000	2016 Dividend	—

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	174,370
(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 2018Note 3. Sewerage business
best-practice management disclosure requirements (continued)

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

2018

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	4,665
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	75,285
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	2,560
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	22,310
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)]	%	1.02%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	8,640

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	10,939
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	0.64%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	26,043
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)]	%	0.76%
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 2018Note 3. Sewerage business
best-practice management disclosure requirements (continued)

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

2018

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

NWI F22	Net debt to equity (water and sewerage)	%	-6.87%
	Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]		
NWI F23	Interest cover (water and sewerage)		> 100
	Earnings before interest and tax (EBIT) divided by net interest		
	Earnings before interest and tax (EBIT):		998
	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:		(241)
	Interest expense (w4a + s4a) – interest income (w9 + s10)		
NWI F24	Net profit after tax (water and sewerage)	\$'000	1,209
	Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))		
NWI F25	Community service obligations (water and sewerage)	\$'000	70
	Grants for pensioner rebates (w11b + s12b)		

- 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 report

Muswellbrook Shire Council

To the Councillors of Muswellbrook Shire Council

Opinion

I have audited the accompanying special purpose financial report (the financial report) of Muswellbrook Shire Council's (the Council) Declared Business Activities, which comprise the Income Statement of each Declared Business Activity for the year ended 30 June 2018, the Statement of Financial Position of each Declared Business Activity as at 30 June 2018, 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 Activity
- Sewerage Business Activity
- Commercial Buildings Business

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2018, and its 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.

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 Report' 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 report which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial report may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 2 - Permissible income for general rates.

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report and for determining that the accounting policies, described in Note 1 to the financial report, 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

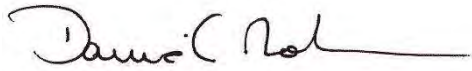
- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

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 report
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

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

David Nolan
Director, Financial Audit Services

23 October 2018
SYDNEY

Muswellbrook Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2018



Muswellbrook Shire Council

Special Schedules

for the year ended 30 June 2018

Contents

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¹ Special Schedules are not audited (with the exception of Special Schedule 2).

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 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	354	–	–	(354)
Administration	4,110	181	–	(3,929)
Public order and safety				
Fire service levy, fire protection, emergency services	789	195	461	(133)
Beach control	–	–	–	–
Enforcement of local government regulations	–	83	–	83
Animal control	317	–	–	(317)
Other	–	–	–	–
Total public order and safety	1,106	278	461	(367)
Health	50	–	–	(50)
Environment				
Noxious plants and insect/vermin control	96	–	–	(96)
Other environmental protection	302	295	257	250
Solid waste management	6,175	7,165	250	1,240
Street cleaning	195	–	–	(195)
Drainage	186	–	–	(186)
Stormwater management	528	48	–	(480)
Total environment	7,482	7,508	507	533
Community services and education				
Administration and education	495	63	–	(432)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	–	–	2	2
Children's services	–	–	–	–
Total community services and education	495	63	2	(430)
Housing and community amenities				
Public cemeteries	76	40	–	(36)
Public conveniences	50	–	–	(50)
Street lighting	430	53	–	(377)
Town planning	913	401	116	(396)
Other community amenities	–	2,859	1,390	4,249
Total housing and community amenities	1,469	3,353	1,506	3,390
Water supplies	6,286	6,236	14	(36)
Sewerage services	4,225	4,759	8,681	9,215

Muswellbrook Shire Council

Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	1,111	180	82	(849)
Museums	—	—	—	—
Art galleries	481	26	30	(425)
Community centres and halls	190	25	934	769
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	49	47	113	111
Sporting grounds and venues	578	135	17	(426)
Swimming pools	1,335	660	329	(346)
Parks and gardens (lakes)	500	—	49	(451)
Other sport and recreation	1,604	—	20	(1,584)
Total recreation and culture	5,848	1,073	1,574	(3,201)
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	2,734	—	—	(2,734)
Urban roads – regional	—	—	—	—
Sealed rural roads (SRR) – local	4,040	1,627	2,353	(60)
Sealed rural roads (SRR) – regional	366	1,571	63	1,268
Unsealed rural roads (URR) – local	—	—	—	—
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	—	—	—	—
Bridges on SRR – local	644	—	—	(644)
Bridges on URR – local	7	—	—	(7)
Bridges on regional roads	27	—	—	(27)
Parking areas	116	—	—	(116)
Footpaths	76	—	48	(28)
Aerodromes	—	—	—	—
Other transport and communication	1,434	179	—	(1,255)
Total transport and communication	9,444	3,377	2,464	(3,603)
Economic affairs				
Camping areas and caravan parks	—	—	—	—
Other economic affairs	4,108	5,742	—	1,634
Total economic affairs	4,108	5,742	—	1,634
Totals – functions	44,977	32,570	15,209	2,802
General purpose revenues ⁽¹⁾		19,113		19,113
Share of interests – joint ventures and associates using the equity method	—	128		128
NET OPERATING RESULT ⁽²⁾	44,977	51,811	15,209	22,043

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose

(2) As reported in the Income Statement

grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges

Muswellbrook Shire Council

Special Schedule 2 – Permissible income for general rates

for the year ended 30 June 2019

\$'000		Calculation 2018/19	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	12,755	12,154
Plus or minus adjustments ⁽²⁾	b	1,302	415
Notional general income	c = (a + b)	14,057	12,569
Permissible income calculation			
Special variation percentage ⁽³⁾	d	14.73%	0.00%
Or rate peg percentage	e	2.30%	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)	2,071	—
Or plus rate peg amount	i = c x e	—	189
Or plus Crown land adjustment and rate peg amount	j = c x f	—	—
Sub-total	k = (c + g + h + i + j)	16,128	12,758
Plus (or minus) last year's carry forward total	l	3	1
Less valuation objections claimed in the previous year	m	—	—
Sub-total	n = (l + m)	3	1
Total permissible income	o = k + n	16,131	12,758
Less notional general income yield	p	16,126	12,755
Catch-up or (excess) result	q = o – p	5	3
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	—	—
Less unused catch-up ⁽⁵⁾	s	—	—
Carry forward to next year	t = q + r – s	5	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 2 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Muswellbrook Shire Council

To the Councillors of Muswellbrook Shire Council

Opinion

I have audited the accompanying Special Schedule 2 – Permissible Income for general rates (the Schedule) of Muswellbrook Shire Council (the Council) for the year ending 30 June 2019.

In my opinion, the Schedule of the Council for the year ending 30 June 2019 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.

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter – Basis of Accounting

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

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and the Special Schedules excluding Special Schedule 2 (the other Schedules).

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

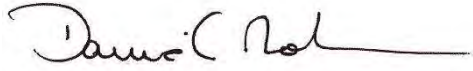
Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

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

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

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 Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.

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

David Nolan
Director, Financial Audit Services

23 October 2018
SYDNEY

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 2018

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	1,095	1,068
b. Engineering and supervision	454	439
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	–	–
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	21	18
d. Maintenance expenses	400	311
– Reservoirs		
e. Operation expenses	7	7
f. Maintenance expenses	31	22
– Pumping stations		
g. Operation expenses (excluding energy costs)	2	3
h. Energy costs	275	184
i. Maintenance expenses	282	183
– Treatment		
j. Operation expenses (excluding chemical costs)	53	45
k. Chemical costs	305	248
l. Maintenance expenses	1,066	855
– Other		
m. Operation expenses	93	136
n. Maintenance expenses	173	203
o. Purchase of water	86	188
3. Depreciation expenses		
a. System assets	1,637	1,438
b. Plant and equipment	47	44
4. Miscellaneous expenses		
a. Interest expenses	138	155
b. Revaluation decrements	–	–
c. Other expenses	28	24
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	6,193	5,571

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 2018

\$'000	2018	2017
Income		
6. Residential charges		
a. Access (including rates)	1,006	1,005
b. Usage charges	3,188	2,409
7. Non-residential charges		
a. Access (including rates)	388	383
b. Usage charges	1,370	1,059
8. Extra charges	40	36
9. Interest income	564	626
10. Other income	216	133
10a. Aboriginal Communities Water and Sewerage Program	—	—
11. Grants		
a. Grants for acquisition of assets	—	94
b. Grants for pensioner rebates	35	35
c. Other grants	—	5
12. Contributions		
a. Developer charges	13	328
b. Developer provided assets	—	—
c. Other contributions	—	—
13. Total income	6,820	6,113
14. Gain (or loss) on disposal of assets	18	—
15. Operating result	645	542
15a. Operating result (less grants for acquisition of assets)	645	448

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 2018

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	—	—
b. New assets for growth	1,206	900
c. Renewals	2,275	1,308
d. Plant and equipment	252	139
17. Repayment of debt	274	257
18. Totals	4,007	2,604
Non-operating funds employed		
19. Proceeds from disposal of assets	35	—
20. Borrowing utilised	—	—
21. Totals	35	—
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	5,328	5,329
b. Residential (unoccupied, ie. vacant lot)	287	281
c. Non-residential (occupied)	474	469
d. Non-residential (unoccupied, ie. vacant lot)	108	106
23. Number of ETs for which developer charges were received	— ET	— ET
24. Total amount of pensioner rebates (actual dollars)	\$ 62,496	\$ 62,781

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 2018

\$'000	Current	Non-current	Total
ASSETS			
25. Cash and investments			
a. Developer charges	1,617	5,364	6,981
b. Special purpose grants	—	—	—
c. Accrued leave	450	—	450
d. Unexpended loans	—	—	—
e. Sinking fund	—	—	—
f. Other	1,960	6,502	8,462
26. Receivables			
a. Specific purpose grants	—	—	—
b. Rates and availability charges	189	—	189
c. User charges	798	—	798
d. Other	1,112	1,438	2,550
27. Inventories	—	—	—
28. Property, plant and equipment			
a. System assets	—	54,747	54,747
b. Plant and equipment	—	429	429
29. Other assets	5	—	5
30. Total assets	6,131	68,480	74,611
LIABILITIES			
31. Bank overdraft	—	—	—
32. Creditors	784	—	784
33. Borrowings	417	1,522	1,939
34. Provisions			
a. Tax equivalents	—	—	—
b. Dividend	—	—	—
c. Other	450	—	450
35. Total liabilities	1,651	1,522	3,173
36. NET ASSETS COMMITTED	4,480	66,958	71,438
EQUITY			
37. Accumulated surplus			38,673
38. Asset revaluation reserve			32,765
39. Other reserves			—
40. TOTAL EQUITY			71,438
Note to system assets:			
41. Current replacement cost of system assets			100,800
42. Accumulated current cost depreciation of system assets			(46,053)
43. Written down current cost of system assets			54,747

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 2018

\$'000	2018	2017
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	634	619
b. Engineering and supervision	518	504
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	–	–
b. Maintenance expenses	197	286
– Pumping stations		
c. Operation expenses (excluding energy costs)	15	41
d. Energy costs	142	110
e. Maintenance expenses	264	159
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	118	106
g. Chemical costs	48	45
h. Energy costs	19	–
i. Effluent management	–	–
j. Biosolids management	–	–
k. Maintenance expenses	491	474
– Other		
l. Operation expenses	67	62
m. Maintenance expenses	47	105
3. Depreciation expenses		
a. System assets	1,328	1,198
b. Plant and equipment	8	6
4. Miscellaneous expenses		
a. Interest expenses	320	54
b. Revaluation decrements	–	–
c. Other expenses	20	48
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	4,236	3,817

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 2018

\$'000	2018	2017
Income		
6. Residential charges (including rates)	3,481	3,292
7. Non-residential charges		
a. Access (including rates)	198	137
b. Usage charges	542	407
8. Trade waste charges		
a. Annual fees	—	—
b. Usage charges	54	46
c. Excess mass charges	—	—
d. Re-inspection fees	—	—
9. Extra charges	37	31
10. Interest income	135	259
11. Other income	277	313
11a. Aboriginal Communities Water and Sewerage Program	—	—
12. Grants		
a. Grants for acquisition of assets	8,640	—
b. Grants for pensioner rebates	35	35
c. Other grants	—	—
13. Contributions		
a. Developer charges	41	497
b. Developer provided assets	—	—
c. Other contributions	—	—
14. Total income	13,440	5,017
15. Gain (or loss) on disposal of assets	—	—
16. Operating result	9,204	1,200
16a. Operating result (less grants for acquisition of assets)	564	1,200

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 2018

\$'000	2018	2017
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	—	—
b. New assets for growth	20,409	4,448
c. Renewals	1,856	466
d. Plant and equipment	45	88
18. Repayment of debt	251	63
19. Totals	22,561	5,065
Non-operating funds employed		
20. Proceeds from disposal of assets	—	—
21. Borrowing utilised	10,000	—
22. Totals	10,000	—
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	5,405	5,406
b. Residential (unoccupied, ie. vacant lot)	240	236
c. Non-residential (occupied)	384	348
d. Non-residential (unoccupied, ie. vacant lot)	50	49
24. Number of ETs for which developer charges were received	— ET	— ET
25. Total amount of pensioner rebates (actual dollars)	\$ 62,233	\$ 62,563

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 2018

\$'000	Current	Non-current	Total
ASSETS			
26. Cash and investments			
a. Developer charges	1,423	4,722	6,145
b. Special purpose grants	—	—	—
c. Accrued leave	282	—	282
d. Unexpended loans	—	—	—
e. Sinking fund	—	—	—
f. Other	—	—	—
27. Receivables			
a. Specific purpose grants	—	—	—
b. Rates and availability charges	673	—	673
c. User charges	—	—	—
d. Other	885	—	885
28. Inventories	—	—	—
29. Property, plant and equipment			
a. System assets	—	75,285	75,285
b. Plant and equipment	—	158	158
30. Other assets	—	—	—
31. Total assets	3,263	80,165	83,428
LIABILITIES			
32. Bank overdraft	—	—	—
33. Creditors	734	—	734
34. Borrowings	1,364	9,174	10,538
35. Provisions			
a. Tax equivalents	—	—	—
b. Dividend	—	—	—
c. Other	282	—	282
36. Total liabilities	2,380	9,174	11,554
37. NET ASSETS COMMITTED	883	70,991	71,874
EQUITY			
38. Accumulated surplus			54,974
39. Asset revaluation reserve			16,900
40. Other reserves			—
41. TOTAL EQUITY			71,874
Note to system assets:			
42. Current replacement cost of system assets			116,711
43. Accumulated current cost depreciation of system assets			(41,426)
44. Written down current cost of system assets			75,285

Muswellbrook Shire Council

Notes to Special Schedules 3 and 5 for the year ended 30 June 2018

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 2018

\$'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	2017/18 Required maintenance ^a	2017/18 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	178	178	3,042	6,609	0%	0%	85%	0%	15%
	Public Order and Safety	75	75	27	27	1,984	3,412	2%	11%	73%	3%	11%
	Community Services/Education	–	–	100	100	19,412	26,361	0%	0%	0%	53%	47%
	Housing & Community	50	50	13	13	2,114	4,190	57%	15%	23%	0%	5%
	Recreation & Culture	–	–	488	488	15,078	28,977	35%	0%	40%	17%	8%
	Economic Affairs	–	–	5	5	458	916	9%	46%	9%	28%	8%
	Transport and Communication	–	–	–	–	71	133	0%	0%	100%	0%	0%
	Sub-total	525	525	811	811	42,159	70,598	18.0%	2.0%	29.6%	27.3%	23.2%
Other structures	Swimming Pools	2,324	2,324	123	123	3,291	–	62%	11%	0%	7%	20%
	Playgrounds/Sporting Fields	323	323	755	755	4,130	10,135	37%	35%	23%	1%	4%
	Sub-total	2,647	2,647	878	878	7,421	10,135	37.0%	35.0%	23.0%	1.0%	4.0%
Roads	Rural	1,386	1,124	810	1,034	142,943	200,731	89%	7%	2%	1%	1%
	Urban	3,541	3,019	417	387	100,106	145,444	82%	11%	4%	1%	2%
	Regional	217	–	112	221	21,968	27,349	99%	1%	0%	0%	0%
	Unsealed	1,092	809	444	300	8,784	11,870	25%	30%	35%	10%	0%
	Bridges	1,433	1,242	717	44	43,326	60,077	56%	39%	3%	2%	0%
	Footpaths	865	492	92	76	12,453	16,474	40%	24%	30%	4%	2%
	Carparks	111	74	79	127	4,846	6,731	59%	34%	6%	0%	1%
	Sub-total	8,645	6,760	2,671	2,189	334,426	468,676	79.4%	13.6%	4.5%	1.4%	1.1%

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (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	2017/18 Required maintenance ^a	2017/18 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	4,037	4,037	520	508	27,378	46,214	1%	60%	30%	2%	7%
	Reservoirs	912	912	–	–	5,694	15,028	0%	26%	24%	11%	39%
	Pumping Stations	922	922	393	276	2,264	4,871	0%	17%	35%	42%	6%
	Treatment Infrastructure	2,866	2,866	1,266	917	18,129	33,633	1%	4%	84%	11%	0%
	Other	24	24	–	–	129	479	0%	0%	100%	0%	0%
	Sub-total	8,761	8,761	2,179	1,701	53,594	100,225	0.8%	33.7%	47.8%	8.3%	9.4%
Sewerage network	Mains	3,297	3,297	322	170	36,536	57,184	28%	36%	25%	6%	5%
	Pumping Station	1,188	1,188	267	193	5,051	11,253	0%	16%	30%	48%	6%
	Treatment Infrastructure	330	330	675	435	4,403	40,759	1%	13%	20%	4%	62%
	Effluent Re-Use	297	297	168	40	2,379	5,780	0%	15%	66%	19%	0%
	Other	24	24	–	–	288	548	0%	0%	100%	0%	0%
	Sub-total	5,136	5,136	1,432	838	48,657	115,524	14.2%	24.7%	26.1%	10.0%	24.9%

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (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	2017/18 Required maintenance ^a	2017/18 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	3,311	161	571	1	37,411	58,527	25%	20%	54%	1%	0%
	Sub-total	3,311	161	571	1	37,411	58,527	25.0%	20.0%	54.0%	1.0%	0.0%
	TOTAL – ALL ASSETS	29,025	23,990	8,542	6,418	523,668	823,685	51.0%	17.3%	18.7%	5.6%	7.3%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2018

	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Infrastructure asset performance indicators * consolidated					
1. Buildings and infrastructure renewals ratio ⁽¹⁾					
Asset renewals ⁽²⁾	8,881	97.11%	93.50%	116.49%	>= 100%
Depreciation, amortisation and impairment	9,145				
2. Infrastructure backlog ratio ⁽¹⁾					
Estimated cost to bring assets to a satisfactory standard	29,025	5.49%	6.09%	9.81%	< 2.00%
Net carrying amount of infrastructure assets	528,264				
3. Asset maintenance ratio					
Actual asset maintenance	6,418	75.13%	83.09%	79.55%	> 100%
Required asset maintenance	8,542				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	23,990	2.91%	3.52%		
Gross replacement cost	823,685				

Notes

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

⁽¹⁾ Excludes Work In Progress (WIP)

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

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018

	General indicators ⁽¹⁾		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Infrastructure asset performance indicators by fund							
1. Buildings and infrastructure renewals ratio ⁽²⁾							
Asset renewals ⁽³⁾							
Depreciation, amortisation and impairment	82.61%	107.66%	137.20%	85.75%	115.21%	31.05%	>= 100%
2. Infrastructure backlog ratio ⁽²⁾							
Estimated cost to bring assets to a satisfactory standard	3.55%	3.31%	16.35%	24.08%	10.56%	12.54%	< 2.00%
Net carrying amount of infrastructure assets							
3. Asset maintenance ratio							
Actual asset maintenance	78.67%	101.65%	78.06%	62.13%	58.52%	63.13%	> 100%
Required asset maintenance							
4. Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council	1.66%	1.56%	8.74%	12.67%	4.45%	6.44%	
Gross replacement cost							

Notes

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

⁽²⁾ Excludes Work In Progress (WIP)

⁽³⁾ 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.