

WOLLONGONG CITY COUNCIL

ANNUAL REPORT

2018 - 2019

ATTACHMENT C:
SPECIAL PURPOSE
FINANCIAL STATEMENTS



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Special Purpose Financial Statements

for the year ended 30 June 2019

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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).

Special Purpose Financial Statements

for the year ended 30 June 2019

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

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

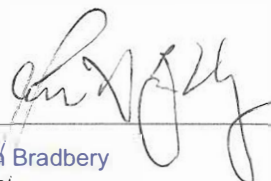

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,

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

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

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 23 September 2019.


Gordon Bradbery
Lord Mayor
23 September 2019
David Brown
Deputy Lord Mayor
23 September 2019
Greg Doyle
General Manager
23 September 2019
Brian Jenkins
Responsible Accounting Officer
23 September 2019

Income Statement – Waste Disposal

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
User charges	27,821	28,716
Other income	516	516
Total income from continuing operations	28,337	29,232
Expenses from continuing operations		
Employee benefits and on-costs	1,905	1,755
Borrowing costs	1,849	1,989
Materials and contracts	2,466	1,533
Depreciation, amortisation and impairment	1,221	1,265
Calculated taxation equivalents	529	393
EPA levy	11,764	15,369
Other expenses	1,903	1,890
Total expenses from continuing operations	21,637	24,194
Surplus (deficit) from continuing operations before capital amounts	6,700	5,038
Surplus (deficit) from continuing operations after capital amounts	6,700	5,038
Surplus (deficit) from all operations before tax	6,700	5,038
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(1,843)	(1,385)
SURPLUS (DEFICIT) AFTER TAX	4,857	3,653
Plus accumulated surplus	45,500	40,069
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	529	393
– Corporate taxation equivalent	1,843	1,385
Closing accumulated surplus	52,729	45,500
Return on capital %	21.6%	19.2%

Income Statement – Tourist parks

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
User charges	7,153	6,975
Other income	144	128
Total income from continuing operations	7,297	7,103
Expenses from continuing operations		
Employee benefits and on-costs	2,813	2,639
Materials and contracts	1,157	958
Depreciation, amortisation and impairment	1,095	967
Loss on sale of assets	53	28
Calculated taxation equivalents	535	522
Other expenses	1,192	1,169
Total expenses from continuing operations	6,845	6,283
Surplus (deficit) from continuing operations before capital amounts	452	820
Surplus (deficit) from continuing operations after capital amounts	452	820
Surplus (deficit) from all operations before tax	452	820
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(124)	(226)
SURPLUS (DEFICIT) AFTER TAX	328	594
Plus accumulated surplus	12,018	10,676
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	535	522
– Corporate taxation equivalent	124	226
Closing accumulated surplus	13,005	12,018
Return on capital %	1.7%	3.4%

Income Statement – Health & Fitness

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
User charges	2,896	2,628
Grants and contributions provided for non-capital purposes	–	16
Other income	95	96
Total income from continuing operations	2,991	2,740
Expenses from continuing operations		
Employee benefits and on-costs	2,521	2,353
Materials and contracts	332	396
Depreciation, amortisation and impairment	54	54
Loss on sale of assets	–	1
Calculated taxation equivalents	176	174
Other expenses	977	995
Total expenses from continuing operations	4,060	3,973
Surplus (deficit) from continuing operations before capital amounts	(1,069)	(1,233)
Surplus (deficit) from continuing operations after capital amounts	(1,069)	(1,233)
Surplus (deficit) from all operations before tax	(1,069)	(1,233)
SURPLUS (DEFICIT) AFTER TAX	(1,069)	(1,233)
Plus accumulated surplus	(12,055)	(10,996)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	176	174
Closing accumulated surplus	(12,948)	(12,055)
Return on capital %	(24.3)%	(29.2)%
Subsidy from Council	1,127	1,344

Income Statement – Crematorium & Cemeteries

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
User charges	1,550	2,296
Other income	9	11
Total income from continuing operations	1,559	2,307
Expenses from continuing operations		
Employee benefits and on-costs	1,431	1,468
Materials and contracts	269	320
Depreciation, amortisation and impairment	9	10
Loss on sale of assets	7	–
Calculated taxation equivalents	173	133
Other expenses	560	561
Total expenses from continuing operations	2,449	2,492
Surplus (deficit) from continuing operations before capital amounts	(890)	(185)
Surplus (deficit) from continuing operations after capital amounts	(890)	(185)
Surplus (deficit) from all operations before tax	(890)	(185)
SURPLUS (DEFICIT) AFTER TAX	(890)	(185)
Plus accumulated surplus	(827)	(775)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	173	133
Closing accumulated surplus	(1,544)	(827)
Return on capital %	(13.6)%	(3.7)%
Subsidy from Council	976	317

Statement of Financial Position – Waste Disposal

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Current assets		
Investments	–	2,165
Total current assets	–	2,165
Non-current assets		
Receivables	70,160	53,277
Infrastructure, property, plant and equipment	39,543	36,680
Total non-current assets	109,703	89,957
TOTAL ASSETS	109,703	92,122
LIABILITIES		
Current liabilities		
Payables	638	–
Total current liabilities	638	–
Non-current liabilities		
Provisions	42,939	36,994
Total non-current liabilities	42,939	36,994
TOTAL LIABILITIES	43,577	36,994
NET ASSETS	66,126	55,128
EQUITY		
Accumulated surplus	52,729	45,500
Revaluation reserves	13,397	9,628
TOTAL EQUITY	66,126	55,128

Statement of Financial Position – Tourist parks

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Non-current assets		
Receivables	4,127	3,663
Infrastructure, property, plant and equipment	26,480	24,210
Total non-current assets	30,607	27,873
TOTAL ASSETS	30,607	27,873
NET ASSETS	30,607	27,873
EQUITY		
Accumulated surplus	13,005	12,018
Revaluation reserves	17,602	15,855
TOTAL EQUITY	30,607	27,873

Statement of Financial Position – Health & Fitness

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Non-current assets		
Infrastructure, property, plant and equipment	4,398	4,224
Total non-current assets	<u>4,398</u>	<u>4,224</u>
TOTAL ASSETS	<u>4,398</u>	<u>4,224</u>
LIABILITIES		
Non-current liabilities		
Payables	13,901	13,063
Total non-current liabilities	<u>13,901</u>	<u>13,063</u>
TOTAL LIABILITIES	<u>13,901</u>	<u>13,063</u>
NET ASSETS	<u>(9,503)</u>	<u>(8,839)</u>
EQUITY		
Accumulated surplus	(12,946)	(12,055)
Revaluation reserves	3,443	3,216
<u>TOTAL EQUITY</u>	<u>(9,503)</u>	<u>(8,839)</u>

Statement of Financial Position – Crematorium & Cemeteries

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Non-current assets		
Infrastructure, property, plant and equipment	6,534	5,021
Total non-current assets	6,534	5,021
TOTAL ASSETS	6,534	5,021
LIABILITIES		
Non-current liabilities		
Payables	4,585	3,494
Total non-current liabilities	4,585	3,494
TOTAL LIABILITIES	4,585	3,494
NET ASSETS	1,949	1,527
EQUITY		
Accumulated surplus	(1,535)	(827)
Revaluation reserves	3,484	2,354
<u>TOTAL EQUITY</u>	<u>1,949</u>	<u>1,527</u>

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

Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the 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 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

- a. Waste Disposal:** Manages the disposal of solid waste generated within the city.
- b. Tourist Parks:** Operation, management & development of tourist parks at Bulli, Corrimal & Windang.
- c. Health & Fitness:** Responsible for the management and upkeep of Council's Leisure Centres.
- d. Crematorium & Cemeteries:** Provision of quality crematorium, cemetery & memorial facilities & services

Category 2

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

Nil

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

Note 1. Significant Accounting Policies (continued)

Monetary amounts

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

(i) Taxation equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – **27.5%**

Land tax – the first \$692,000 of combined land values attracts **0%**. For the combined land values in excess of \$692,001 up to \$4,321,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$4,321,000 a premium marginal rate of **2.0%** applies.

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

Income tax

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

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

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

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

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

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

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

Note 1. Significant Accounting Policies (continued)

(ii) Subsidies

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

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

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.32% at 30/6/19.

(iv) Dividends

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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Wollongong City Council

To the Councillors of the Wollongong City Council

Opinion

I have audited the accompanying Special Purpose Financial Statements (the financial statements) of Wollongong City Council's (the Council) declared business activities, which comprise the Income Statement of each declared business activity for the year ended 30 June 2019, the Statement of Financial Position of each declared business activity as at 30 June 2019 and Significant Accounting Policies for the business activities declared by Council, and the Statement by Councillors and Management.

The declared business activities of the Council are:

- Waste Disposal
- Tourist parks
- Health & Fitness
- Crematorium & Cemeteries.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared business activities as at 30 June 2019, 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 – update number 27 (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 Statements' section of my report.

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the General Purpose Financial Statements and Special Schedules (the Schedules).

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

A handwritten signature in cursive script, appearing to read 'D Ryan'.

Dominika Ryan
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

11 October 2019
SYDNEY

Wollongong City Council

SPECIAL SCHEDULES
for the year ended 30 June 2019



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Special Schedules

for the year ended 30 June 2019

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Permissible income for general rates

for the year ended 30 June 2019

\$ '000		Calculation 2019/20	Calculation 2018/19
Notional general income calculation ¹			
Last year notional general income yield	a	165,477	160,469
Plus or minus adjustments ²	b	730	854
Notional general income	$c = a + b$	166,207	161,323
Permissible income calculation			
Or rate peg percentage	e	2.70%	2.30%
Or plus rate peg amount	$i = e \times (c + g)$	4,488	3,710
Sub-total	$k = (c + g + h + i + j)$	170,695	165,033
Plus (or minus) last year's carry forward total	l	4	190
Less valuation objections claimed in the previous year	m	(396)	(138)
Sub-total	$n = (l + m)$	(392)	52
Total permissible income	$o = k + n$	170,303	165,085
Less notional general income yield	p	170,562	165,477
Catch-up or (excess) result	$q = o - p$	(259)	(392)
Plus income lost due to valuation objections claimed ⁴	r	265	396
Less unused catch-up ⁵	s	(4)	—
Carry forward to next year ⁶	$t = q + r + s$	2	4

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.
- (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 Permissible income for general rates Statement in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Wollongong City Council

To the Councillors of Wollongong City Council

Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Wollongong City Council (the Council) for the year ending 30 June 2020.

In my opinion, the Schedule is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code), and is in accordance with the books and records of the Council.

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements [, special purpose financial statements] and Special Schedule 'Report on infrastructure assets as at 30 June 2019'.

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 cursive script, appearing to read 'D Ryan'.

Dominika Ryan
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

11 October 2019
SYDNEY

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Buildings	Buildings	5,152	6,926	21,298	20,833	303,164	540,019	3.0%	17.1%	78.7%	0.7%	0.6%
	Sub-total	5,152	6,926	21,298	20,833	303,164	540,019	3.0%	17.1%	78.7%	0.7%	0.5%
Other structures	Other structures	963	1,284	551	539	7,482	13,971	4.6%	18.2%	68.0%	2.4%	6.8%
	Sub-total	963	1,284	551	539	7,482	13,971	4.6%	18.2%	68.0%	2.4%	6.8%
Roads	Sealed roads	67,173	89,737	16,943	16,317	569,999	1,426,090	6.7%	10.5%	74.5%	1.4%	7.0%
	Bridges	902	1,203	1,810	1,743	98,739	152,318	12.7%	36.5%	50.0%	0.2%	0.5%
	Footpaths	3,078	6,155	3,465	3,337	147,190	291,660	15.2%	19.7%	63.0%	1.3%	0.8%
	Sub-total	71,153	97,095	22,218	21,397	815,928	1,870,068	8.5%	14.0%	70.7%	1.3%	5.5%
Stormwater drainage	Stormwater drainage	76	101	2,568	2,596	520,636	937,830	4.2%	13.1%	82.6%	0.0%	0.1%
	Sub-total	76	101	2,568	2,596	520,636	937,830	4.2%	13.1%	82.6%	0.0%	0.1%
Open space / recreational assets	Swimming pools & Open Space/Recreation	6,936	10,377	25,305	26,816	116,754	187,847	2.9%	12.4%	71.8%	6.6%	6.4%
	Sub-total	6,936	10,377	25,305	26,816	116,754	187,847	2.9%	12.4%	71.8%	6.6%	6.3%
TOTAL - ALL ASSETS		84,280	115,783	71,940	72,181	1,763,964	3,549,735	6.2%	14.2%	75.1%	1.1%	3.4%

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

Infrastructure asset condition assessment 'key'

(1) Cost to bring up to 'satisfactory standard' refers to the estimated cost to replace the calculated percentage of each asset type that are below satisfactory. Satisfactory standard is generally defined as condition 2 (see Asset Condition Definitions). As identified through Council's Securing our Future community engagement, for footpaths and shared paths, this is condition 3. Cost estimates are based on adopted valuation methodologies and do not generally include the cost of enhancements/upgrades to existing assets. The nominated percentage of each asset type below satisfactory standard is detailed under Condition of Public Works in the Annual Report.

(2) Required Annual Maintenance' is the amount that should be spent to maintain assets in a satisfactory standard and to ensure that the estimated remaining life of the asset is achieved PLUS the new requirement to include the "operating expenses required to keep the asset in a functional state for community use". During the 2016/17 financial year this process was completely reviewed to ensure inclusion of all labour and materials on all 'asset operation' tasks.

Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

(3) Current Annual Maintenance' is the total expenditure incurred during the year to maintain assets. It also includes the actual expenditure on operational costs to keep the asset in a functional state for community use', which includes costs such as mowing, painting, lighting, cleaning, energy supply etc. It does not include operational overheads (e.g. administration staff) or capital expenditure.

(4) Cost to bring to agreed service level is defined as "The proportion of the GRC that have reached the intervention level based on condition." The outstanding renewal works compared to the total replacement cost of Councils assets. That is calculated as the cost of bringing condition 4 and 5 assets to condition 1.

(5) Below is a summary of asset types included in Asset Class:

Buildings: Community Facilities, Cultural Facilities, Childcare Centres, Public Toilets, Exeloos, Grandstands, Surf Life Saving Clubs, Amenities, Office/Shops, Industrial, Residences, Cabins and Leisure Centres

Roads and Road Related Assets: Road seal, base, sub-base, kerb and gutter, guardrails and traffic facilities (roundabouts, speedhumps, medians etc)

Bridge, Boardwalks and Jetties: Road Bridges, Pedestrian Bridges, Boardwalks and Jetties

Footpaths and Cycleways: Footpaths and cycleways (excluding off road footpaths in parks)

Car parks: Surface car parks (not multi-storey) and Boat ramps

Stormwater: Pits, Pipes, Headwalls, Culverts and Riparian Assets

Recreation: Pools, Playgrounds, Sport Courts, Park Furniture, Picnic Shelters and Landscaping. Does not include non-depreciable land and earthworks

Condition of Public Assets

In assessing the condition of Public Assets, Council has considered the existing condition and function of each asset. The results shown for the condition of assets within each category are an average. Therefore, a proportion of assets in each category are above and below the average result. Council recognise that the ratings scale used (as outlined below) may be different from those used by other Councils but has been based on the rating scale in the International Infrastructure Management Manual.

Asset Condition Definitions #

Rating	Status
1	As new
2	Good
3	Fair
4	Poor
5	To be replaced

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	49,733	93.63%	104.26%	104.90%	>=100.00%
Depreciation, amortisation and impairment	53,114				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	84,280	4.78%	5.50%	5.72%	<2.00%
Net carrying amount of infrastructure assets	1,763,964				
Asset maintenance ratio					
Actual asset maintenance	72,181	100.34%	98.54%	98.07%	>100.00%
Required asset maintenance	71,940				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	115,783	3.26%	3.47%	3.68%	
Gross replacement cost	3,549,735				

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

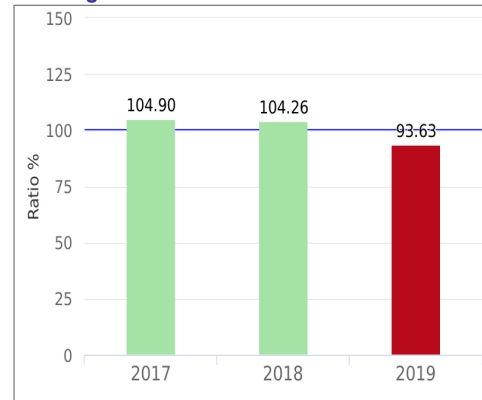
(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2019

Buildings and infrastructure renewals ratio ¹



Infrastructure renewals ratio

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

Commentary on result

18/19 ratio 93.63%

Council expended a record \$115M on Capital works during 2018/19. A significant proportion of works being new infrastructure initiatives associated with supporting major sub-division development works. As a result, Council spent slightly less on renewal projects than the previous year (\$49.7M down from \$53.9M last year), while the revaluing of building assets resulted in increased depreciation (from \$51.7M last year up to \$53.1M).

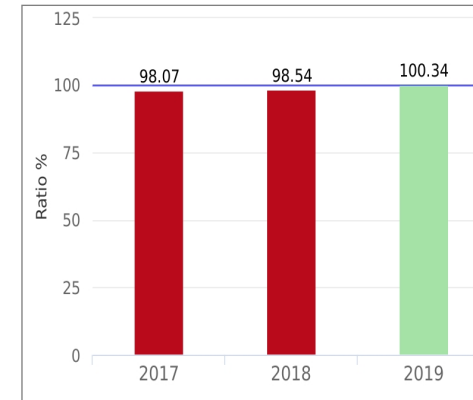
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

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

Commentary on result

18/19 ratio 100.34%

As at 2015/16 the ratio now requires the inclusion of '...operating expenses required to keep the asset in a functional state for community use...'. Council has reviewed 500 cost centres and all supporting natural accounts to improve the detail of this result. Operational required costs have been set to equal the operational actual costs. The increase to above 100% is primarily due to increased maintenance of Buildings and Facilities.

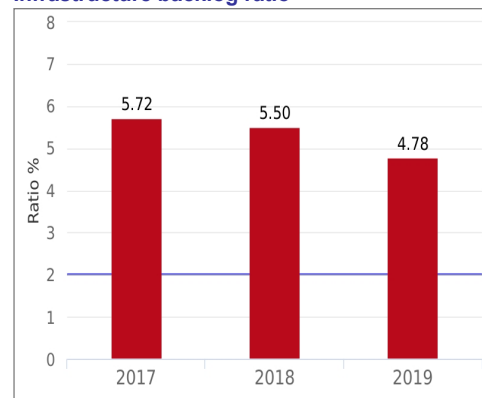
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Infrastructure backlog ratio ¹



Infrastructure backlog ratio

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

Commentary on result

18/19 ratio 4.78%

The cost to bring to satisfactory is defined as the cost difference of the written down value of the assets in condition 4 and 5, to their written down value at condition 2, with the exception of path assets to condition 3. Councils 'Securing our Future' financial review confirmed condition 3 for paths through public consultation.

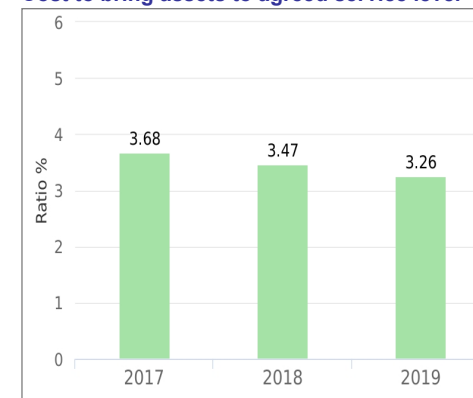
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

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

Commentary on result

18/19 ratio 3.26%

This ratio is the sum of the outstanding renewal works compared to the total replacement cost of infrastructure assets. That is, the cost to renew assets in condition 4 and 5 as a proportion of the Gross Replacement Cost.

(1) Excludes Work In Progress (WIP)