Financial Reports

For the year ended 30 June 2022

newcastle.nsw.gov.au

City of Newcastle

Newcastle City Council

GENERAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2022

City of Newcastle

Newcastle City Council

General Purpose Financial Statements
for the year ended 30 June 2022

Contents | Page

Statement by Councillors and Management 3

Primary Financial Statements:

Income Statement 4
Statement of Comprehensive Income 5
Statement of Financial Position 6
Statement of Changes in Equity 7
Statement of Cash Flows 8

Notes to the Financial Statements 9

Independent Auditor's Reports:

On the Financial Statements (Sect 417 [2]) 89
On the Financial Statements (Sect 417 [3]) 92

Overview

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

Newcastle City Council
12 Stewart Avenue
Newcastle West NSW 2302

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 B1-2.

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.newcastle.nsw.gov.au.

Newcastle City Council

General Purpose Financial Statements
for the year ended 30 June 2022

Statement by Councillors and Management

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:

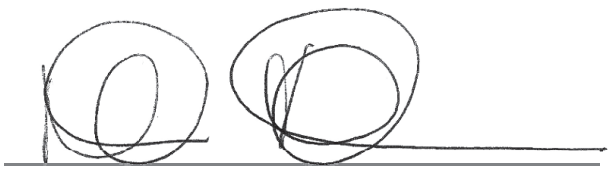
- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

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

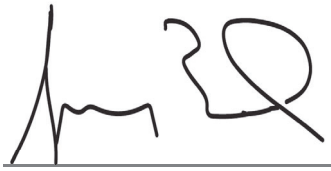
We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 23 August 2022.



Lord Mayor

Councillor



Chief Executive Officer

Responsible Accounting Officer

Newcastle City Council

Income Statement

for the year ended 30 June 2022

Original unaudited budget 2022 $ '000		Notes	Actual 2022 $ '000	Actual 2021 $ '000
	Income from continuing operations			
198,945	Rates and annual charges	B2-1	**199,056**	192,713
94,322	User charges and fees *	B2-2	**87,506**	76,152
11,432	Other revenues	B2-3	**7,834**	10,042
16,317	Grants and contributions provided for operating purposes	B2-4	**31,444**	20,205
13,745	Grants and contributions provided for capital purposes	B2-4	**17,098**	25,806
3,419	Interest and investment income *	B2-5	**4,981**	8,198
6,496	Other income *	B2-6	**5,679**	7,401
344,676	**Total income from continuing operations**		**353,598**	340,517
	Expenses from continuing operations			
117,162	Employee benefits and on-costs	B3-1	**122,540**	115,331
102,646	Materials and services	B3-2	**104,013**	116,164
3,556	Borrowing costs	B3-3	**3,490**	4,879
58,428	Depreciation, amortisation and impairment of non-financial assets	B3-4	**60,134**	57,824
43,601	Other expenses	B3-5	**53,372**	40,333
4,328	Net loss from the disposal of assets	B4-1	**5,418**	10,336
329,721	**Total expenses from continuing operations**		**348,967**	344,867
14,955	**Operating result from continuing operations**		**4,631**	(4,350)
14,955	Net operating result for the year attributable to Council		**4,631**	(4,350)
1,210	**Net operating result for the year before grants and contributions provided for capital purposes** *		**(12,467)**	(30,156)

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

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

Newcastle City Council

Statement of Comprehensive Income

for the year ended 30 June 2022

	Notes	2022 $ '000	2021 $ '000
Net operating result for the year – from Income Statement		**4,631**	**(4,350)**
Other comprehensive income:			
Amounts which will not be reclassified subsequent to operating result			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-8	**148,362**	44,819
Impairment reversal (loss) on infrastructure, property, plant and equipment	B3-4,C1-8	**(27)**	(4,621)
Total items which will not be reclassified subsequent to operating result		**148,335**	40,198
Total other comprehensive income for the year		**148,335**	40,198
Total comprehensive income for the year attributable to Council		**152,966**	35,848

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

Newcastle City Council

Statement of Financial Position

as at 30 June 2022

	Notes	2022 $ '000	2021 $ '000
ASSETS			
Current assets			
Cash and cash equivalents	C1-1	**75,353**	28,954
Investments	C1-2	**84,907**	122,300
Receivables	C1-4	**34,653**	25,635
Inventories	C1-5	**1,267**	1,131
Contract assets and contract cost assets	C1-6	**36**	–
Non-current assets classified as held for sale	C1-7	**366**	9,500
Other	C1-11	**15,126**	8,503
Total current assets		**211,708**	196,023
Non-current assets			
Investments	C1-2	**203,193**	215,048
Receivables	C1-4	**1,235**	1,490
Infrastructure, property, plant and equipment (IPPE)	C1-8	**1,719,662**	1,575,829
Investment property	C1-9	**14,990**	13,990
Intangible assets	C1-10	**3,831**	4,935
Right of use assets	C2-1	**31,032**	32,333
Investments accounted for using the equity method	D1-2	**548**	718
Other	C1-11	**453**	88
Total non-current assets		**1,974,944**	1,844,431
Total assets		**2,186,652**	2,040,454
LIABILITIES			
Current liabilities			
Payables	C3-1	**52,208**	47,697
Contract liabilities	C3-2	**9,886**	10,183
Lease liabilities	C2-1	**2,405**	4,181
Borrowings	C3-3	**4,925**	4,742
Employee benefit provisions	C3-4	**34,986**	36,069
Provisions	C3-5	**21,223**	1,473
Total current liabilities		**125,633**	104,345
Non-current liabilities			
Payables	C3-1	**165**	2,921
Contract liabilities	C3-2	**816**	753
Lease liabilities	C2-1	**31,719**	31,525
Borrowings	C3-3	**61,255**	56,631
Employee benefit provisions	C3-4	**969**	977
Provisions	C3-5	**54,753**	84,926
Total non-current liabilities		**149,677**	177,733
Total liabilities		**275,310**	282,078
Net assets		**1,911,342**	1,758,376
EQUITY			
Accumulated surplus		**1,497,469**	1,487,583
IPPE revaluation reserve	C4-1	**413,873**	270,793
Council equity interest		**1,911,342**	1,758,376
Total equity		**1,911,342**	1,758,376

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

Newcastle City Council

Statement of Changes in Equity

for the year ended 30 June 2022

	Notes	2022 Accumulated surplus $ '000	2022 IPPE revaluation reserve $ '000	2022 Total equity $ '000	2021 Accumulated surplus $ '000	2021 IPPE revaluation reserve $ '000	2021 Total equity $ '000
Opening balance at 1 July		**1,487,583**	**270,793**	**1,758,376**	1,491,804	230,724	1,722,528
Restated opening balance		**1,487,583**	**270,793**	**1,758,376**	1,491,804	230,724	1,722,528
Net operating result for the year		**4,631**	**–**	**4,631**	(4,350)	–	(4,350)
Other comprehensive income							
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-8	**–**	**148,362**	**148,362**	–	44,819	44,819
Impairment reversal (loss) on infrastructure, property, plant and equipment	B3-4,C1-8	**–**	**(27)**	**(27)**	–	(4,621)	(4,621)
Other comprehensive income		**–**	**148,335**	**148,335**	–	40,198	40,198
Total comprehensive income		**4,631**	**148,335**	**152,966**	(4,350)	40,198	35,848
Transfers between equity items on disposals of assets		**5,255**	**(5,255)**	**–**	129	(129)	–
Closing balance at 30 June		**1,497,469**	**413,873**	**1,911,342**	1,487,583	270,793	1,758,376

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

Newcastle City Council

Statement of Cash Flows

for the year ended 30 June 2022

Original unaudited budget 2022 $ '000		Notes	Actual 2022 $ '000	Actual 2021 $ '000
	Cash flows from operating activities			
	Receipts:			
198,834	Rates and annual charges		**200,365**	193,587
88,955	User charges and fees		**84,189**	86,892
5,821	Interest received		**4,786**	8,302
30,065	Grants and contributions		**47,699**	36,017
–	Bonds, deposits and retentions received		**239**	534
19,913	Other		**21,086**	21,350
	Payments:			
(114,401)	Payments to employees		**(123,126)**	(116,880)
(80,333)	Payments for materials and services		**(116,850)**	(111,084)
(3,555)	Borrowing costs		**(3,490)**	(4,879)
–	Bonds, deposits and retentions refunded		**(73)**	(923)
(64,890)	Other		**(67,311)**	(30,613)
80,409	**Net cash flows from operating activities**	G1-1	**47,514**	82,303
	Cash flows from investing activities			
	Receipts:			
149,028	Sale of investments		**52,938**	38,481
9,500	Redemption of term deposits		**91,558**	48,918
–	Sale of investment property		**5,088**	–
2,002	Proceeds from sale of IPPE		**10,381**	2,028
	Payments:			
(162,800)	Purchase of investments		**(21,673)**	(43,327)
–	Acquisition of term deposits		**(78,819)**	(75,815)
(811)	Purchase of investment property		**–**	–
(64,633)	Payments for IPPE		**(61,070)**	(67,044)
–	Purchase of intangible assets		**(255)**	(554)
(67,714)	**Net cash flows from investing activities**		**(1,852)**	(97,313)
	Cash flows from financing activities			
	Receipts:			
5,000	Proceeds from borrowings		**9,550**	3,000
	Payments:			
(4,677)	Repayment of borrowings		**(4,743)**	(4,349)
(4,116)	Principal component of lease payments		**(4,070)**	(2,683)
(3,793)	**Net cash flows from financing activities**		**737**	(4,032)
8,902	**Net change in cash and cash equivalents**		**46,399**	(19,042)
26,421	Cash and cash equivalents at beginning of year		**28,954**	47,996
35,323	Cash and cash equivalents at end of year	C1-1	**75,353**	28,954
318,911	plus: Investments on hand at end of year	C1-2	**288,100**	337,348
354,234	Total cash, cash equivalents and investments		**363,453**	366,302

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

Newcastle City Council

Contents for the notes to the Financial Statements for the year ended 30 June 2022

A About Council and these financial statements 11
A1-1 Basis of preparation 11

B Financial Performance 14

B1 Functions or activities 14
B1-1 Functions or activities – income, expenses and assets 14
B1-2 Components of functions or activities 15

B2 Sources of income 16
B2-1 Rates and annual charges 16
B2-2 User charges and fees 17
B2-3 Other revenues 19
B2-4 Grants and contributions 20
B2-5 Interest and investment income 23
B2-6 Other income 23

B3 Costs of providing services 24
B3-1 Employee benefits and on-costs 24
B3-2 Materials and services 25
B3-3 Borrowing costs 26
B3-4 Depreciation, amortisation and impairment of non-financial assets 27
B3-5 Other expenses 28

B4 Gains or losses 29
B4-1 Gain or loss from the disposal, replacement and de-recognition of assets 29

B5 Performance against budget 30
B5-1 Material budget variations 30

C Financial position 32

C1 Assets we manage 32
C1-1 Cash and cash equivalents 32
C1-2 Financial investments 32
C1-3 Restricted and allocated cash, cash equivalents and investments 34
C1-4 Receivables 36
C1-5 Inventories 37
C1-6 Contract assets and Contract cost assets 37
C1-7 Non-current assets classified as held for sale 38
C1-8 Infrastructure, property, plant and equipment 39
C1-9 Investment properties 43
C1-10 Intangible assets 44
C1-11 Other 45

C2 Leasing activities 46
C2-1 Council as a lessee 46
C2-2 Council as a lessor 49

C3 Liabilities of Council 51
C3-1 Payables 51
C3-2 Contract Liabilities 52

Newcastle City Council

Contents for the notes to the Financial Statements for the year ended 30 June 2022

C3-3 Borrowings 53
C3-4 Employee benefit provisions 55
C3-5 Provisions 56

C4 Reserves 58
C4-1 Nature and purpose of reserves 58

D Council structure 59

D1 Interests in other entities 59
D1-1 Interests in joint arrangements 59
D1-2 Interests in associates 60

E Risks and accounting uncertainties 62
E1-1 Risks relating to financial instruments held 62
E2-1 Fair value measurement 65
E3-1 Contingencies 78

F People and relationships 81

F1 Related party disclosures 81
F1-1 Key management personnel (KMP) 81
F1-2 Councillor and Mayoral fees and associated expenses 82

F2 Other relationships 82
F2-1 Audit fees 82

G Other matters 83
G1-1 Statement of Cash Flows information 83
G2-1 Commitments 84
G3-1 Events occurring after reporting date 85

G4 Statement of developer contributions as at 30 June 2022 86
G4-1 Summary of developer contributions 86
G4-2 Developer contributions by plan 87

G5 Statement of performance measures 88
G5-1 Statement of performance measures – consolidated results 88

A About Council and these financial statements

A1-1 Basis of preparation

These financial statements were authorised for issue by Council on 23 August 2022. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

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

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity. The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

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

- Income Statement
- Statement of Cash Flows
- Note B5-1 – Material budget variations

Historical cost convention

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

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 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 Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

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

- Fair values of investment properties – refer Note C1-9
- Fair values of infrastructure, property, plant and equipment – refer Note C1-8
- Employee benefit provisions – refer Note C3-4
- Asset remediation provisions – refer Note C3-5

Significant judgements in applying the Council's accounting policies

- Impairment of receivables - refer Note C1-4
- Determination of whether performance obligations are sufficiently specific and whether the contract is within the scope of AASB 15 *Revenue from Contracts with Customers* and / or AASB 1058 *Income of Note-for-Profit Entities* - refer to Notes B2-2 - B2-4.
- Determination of the lease term, discount rate (when not implicit in the lease) and whether an arrangement contains a lease - refer to Note C2-1.

Monies and other assets received by Council

The Consolidated Fund

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

The Consolidated Fund and other activities through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

continued on next page ...

A1-1 Basis of preparation (continued)

The Trust Fund

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

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.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

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

Volunteer services

Volunteer hours are actual hours contributed to Council by registered Council volunteers. It does not include hours contributed by secondary groups that are Incorporated Associations. Volunteer activity takes place through not-for-profit organisations to benefit the Newcastle community, for no payment to the volunteer and in designated volunteer positions only. Council maintains a register of volunteer hours and can reliably measure the value of the volunteer services to Council.

Volunteer services received include:

- Library outreach services
- Museum support
- Landcare activities
- Committee members
- Bushcare activities

Comparative figures

Where the presentation or the classification of items in the financial report have been amended across the reporting period, comparative amounts have been reclassified.

Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Council has additionally reclassified comparative amounts to align consolidation entries for its joint operations (Newcastle Airport Partnership and Greater Newcastle Aerotropolis Partnership). Refer Note D1-1. Items impacted have been highlighted throughout with an asterisk *.

New accounting standards and interpretations issued but not yet effective

New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2022 reporting period.

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

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

- *AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*
- *AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date*

This Standard amends AASB 101 Presentation of Financial Statements to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current.

continued on next page ...

A1-1 Basis of preparation (continued)

For example the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

Council does not expect any material impact from the above amendments and to its classification of liabilities as current or non-current.

This standard has an effective date for the 30 June 2024 reporting period.

AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*

This Standard amends a number of standards as follows:

- AASB 1 to simplify the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences,
- AASB 3 to update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations,
- AASB 9 to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability,
- AASB 116 to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset,
- AASB 137 to specify the costs that an entity includes when assessing whether a contract will be loss-making and
- AASB 141 to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

Council does not expect any material impact from the above amendments.

This standard has an effective date for the 30 June 2023 reporting period.

New accounting standards adopted during the year

During the year Council adopted all accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective for the first time at 30 June 2022. None of these standards had a significant impact on reported position or performance.

B Financial Performance

B1 Functions or activities

B1-1 Functions or activities – income, expenses and assets

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note B1-2.

	Income		Expenses		Operating result		Grants and contributions		Carrying amount of assets	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	$ '000	$ '000	**$ '000**	$ '000	**$ '000**	$ '000	**$ '000**	$ '000	**$ '000**	$ '000
Functions or activities										
Integrated and Accessible Transport	**25,723**	31,067	**51,350**	51,946	**(25,627)**	(20,879)	**12,330**	13,324	**777,361**	705,460
Protected Environment	**87,763**	75,824	**89,947**	91,465	**(2,184)**	(15,641)	**634**	1,609	**209,868**	208,199
Vibrant, Safe and Active Public Places	**29,901**	23,038	**100,153**	76,683	**(70,252)**	(53,645)	**6,187**	11,187	**406,993**	385,966
Inclusive Community	**4,524**	1,984	**5,775**	7,577	**(1,251)**	(5,593)	**4,438**	633	**97,115**	82,975
Liveable Built Environment	**12,348**	8,344	**9,493**	9,991	**2,855**	(1,647)	**7,771**	4,167	**285**	365
Smart and Innovative	**1,922**	13,823	**11,561**	28,075	**(9,639)**	(14,252)	**537**	3,625	**18,535**	14,676
Open and Collaborative Leadership	**191,417**	186,437	**80,688**	79,130	**110,729**	107,307	**16,645**	11,466	**676,495**	642,813
Total functions and activities	**353,598**	340,517	**348,967**	344,867	**4,631**	(4,350)	**48,542**	46,011	**2,186,652**	2,040,454

B1-2 Components of functions or activities

Details relating to the Council's functions or activities as reported in B1-1 are as follows:

Integrated and Accessible Transport

Transport networks and services will be well connected and convenient. Walking, cycling and public transport will be viable options for the majority of our trips. Council's services that contribute to meeting these community objectives are: Civil Construction and Maintenance; Assets and Projects; Regulatory, Planning and Assessment; Transport and Compliance.

Protected Environment

Our unique environment will be understood, maintained and protected. Council's services that contribute to meeting these community objectives are: Waste Services; Assets and Projects; Legal; Civil Construction and Maintenance; Regulatory, Planning and Assessment; Community, Strategy and Innovation; Parks and Recreation.

Vibrant, Safe and Active Public Places

A city of great public places and neighbourhoods promoting people's happiness and wellbeing. Council's services that contribute to meeting these community objectives are: Art Gallery; Assets and Projects; Libraries and Learning; Community, Strategy and Innovation; Parks and Recreation; Civil Construction and Maintenance; Regulatory, Planning and Assessment; Museum; Civic Services; Property and Facilities.

Inclusive Community

A thriving community where diversity is embraced, everyone is valued and has the opportunity to contribute and belong. Council's services that contribute to meeting these community objectives are: Assets and Projects; Parks and Recreation; Property and Facilities; People and Culture; Civic Services; Art Gallery; Museum; Transport and Compliance; Community, Strategy and Innovation; Libraries and Learning.

Liveable Built Environment

An attractive city that is built around people and reflects our sense of identity. Council's services that contribute to meeting these community objectives are: Assets and Projects; Regulatory, Planning and Assessment; Community, Strategy and Innovation; Civic Services; Transport and Compliance.

Smart and Innovative

A leader in smart innovations with a prosperous, diverse and resilient economy. Council's services that contribute to meeting these community objectives are: Community, Strategy and Innovation; Art Gallery; Museum; Civic Services; Assets and Projects; Libraries and Learning; Major Events and Corporate Affairs; Information Technology.

Open and Collaborative Leadership

A strong local democracy with an actively engaged community and effective partnerships. Council's services that contribute to meeting these community objectives are: Finance; Information Technology; Depot Operations; People and Culture; Legal; Customer Experience; Museum; Major Events and Corporate Affairs; Community, Strategy and Innovation.

B2 Sources of income

B2-1 Rates and annual charges

	2022 $ '000	2021 $ '000
Ordinary rates		
Residential	**107,625**	104,885
Farmland	**22**	22
Business	**60,850**	59,366
Less: pensioner rebates (mandatory)	**(1,938)**	(2,021)
Rates levied to ratepayers	**166,559**	162,252
Pensioner rate subsidies received	**1,059**	1,116
Total ordinary rates	**167,618**	163,368
Special rates		
Town improvement	**79**	82
Main street	**1,267**	1,235
Rates levied to ratepayers	**1,346**	1,317
Total special rates	**1,346**	1,317
Annual charges		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	**26,787**	24,827
Stormwater management services	**2,055**	2,036
Waste management services (non-domestic)	**1,285**	1,139
Section 611 charges	**195**	251
Less: pensioner rebates (mandatory)	**(508)**	(504)
Annual charges levied	**29,814**	27,749
Pensioner subsidies received:		
– Domestic waste management	**278**	279
Total annual charges	**30,092**	28,028
Total rates and annual charges	**199,056**	192,713

Council has used 2019 valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy

Rates and annual charges are recognised as revenue at the beginning of the rating period to which they relate. Prepaid rates are recognised as a financial liability until the beginning of the rating period.

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

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates and are recognised within the underlying revenue item based on their substance.

B2-2 User charges and fees *

	2022 $ '000	2021 $ '000
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Waste management services (non-domestic)	**4,798**	3,779
Total specific user charges	**4,798**	3,779
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Building inspection fee	**154**	192
Dog control / registration fees	**135**	141
Inspection fees – food shops	**497**	469
Compliance fees	**248**	187
Private works – section 67	**119**	85
Regulatory / statutory fees	**4,029**	3,982
Section 10.7 certificates (EP&A Act)	**469**	505
Section 603 certificates	**365**	391
Subdivision fees	**431**	338
Total fees and charges – statutory/regulatory	**6,447**	6,290
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Art Gallery	**33**	30
Cemeteries	**132**	168
Child care	**1,128**	1,208
City Hall	**408**	181
Civic Theatre	**1,962**	1,809
Fort Scratchley	**54**	69
Library fees	**43**	65
Local committees	**215**	225
Merchant service fee	**145**	153
Museum	**263**	118
Newcastle Airport *	**8,488**	6,094
Ocean baths / inland pools	**64**	66
Parking stations / meter fees	**5,503**	7,058
Parks and garden usage	**1,055**	1,588
RMS charges (state roads not controlled by Council)	**3,939**	4,053
Road restorations	**452**	381
Stockton Beach Holiday Park	**2,276**	2,581
Tipping fees / resource recovery	**49,649**	39,694
Tourism	**45**	35
Other	**407**	507
Total fees and charges – other	**76,261**	66,083
Total other user charges and fees	**82,708**	72,373
Total user charges and fees	**87,506**	76,152
Timing of revenue recognition for user charges and fees		
User charges and fees recognised over time	**6,127**	4,840
User charges and fees recognised at a point in time	**81,379**	71,312
Total user charges and fees	**87,506**	76,152

continued on next page ...

B2-2 User charges and fees * (continued)

Accounting policy

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

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 14 days of the provision of the service or in some cases such as caravan parks, the customer is required to pay on arrival or a deposit in advance. There is no material obligation for Council in relation to refunds or returns.

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

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

B2-3 Other revenues

	2022 $ '000	2021 $ '000
Fines – parking	**2,334**	3,957
Fines – other	**213**	244
Insurance claims recoveries	**228**	543
Commissions and agency fees	**200**	203
Sales of inventories	**1,645**	1,482
Diesel rebate	**196**	654
Legal fees recovery – rates and charges (extra charges)	**290**	114
Insurance recovery / bonus	**–**	5
Insurance proceeds available for capital purposes	**–**	154
Joint library scheme recoveries	**372**	355
Sponsorships	**15**	14
Summerhill waste management – electricity generation	**535**	606
Volunteer services	**238**	222
JobKeeper (Newcastle Airport)	**–**	971
Newcastle Airport *	**384**	86
Energy Savings Certificates *	**690**	143
Other *	**494**	289
Total other revenue	**7,834**	10,042
Timing of revenue recognition for other revenue		
Other revenue recognised over time	**372**	355
Other revenue recognised at a point in time	**7,462**	9,687
Total other revenue	**7,834**	10,042

Accounting policy

Where the revenue is earned for the provision of specified goods / services under an enforceable contract, revenue is recognised when or as the obligations are satisfied.

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

Other non-contractual revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

B2-4 Grants and contributions *

	Operating 2022 $ '000	Operating 2021 $ '000	Capital 2022 $ '000	Capital 2021 $ '000
General purpose grants and non-developer contributions (untied)				
General purpose (untied)				
Current year allocation				
Financial assistance	**6,778**	5,798	**–**	–
Payment in advance - future year allocation				
Financial assistance	**10,414**	6,205	**–**	–
Amount recognised as income during current year	**17,192**	12,003	**–**	–
Special purpose grants and non-developer contributions (tied)				
Cash contributions				
Child care	**50**	171	**–**	–
Community facilities	**269**	259	**27**	273
Community services	**–**	–	**13**	296
Employees corporate fitness / entitlements	**135**	208	**–**	–
Health, safety and emergency response *	**1,819**	1,484	**–**	–
LIRS subsidy	**92**	137	**–**	–
Newcastle airport	**–**	–	**586**	2,682
Parks and gardens	**14**	30	**–**	134
Recovery of amounts for non-performance of bonded works	**–**	–	**–**	739
Recreation and culture	**1,854**	843	**4,418**	1,928
Roads and drainage *	**1,491**	1,658	**171**	–
Street lighting	**604**	604	**–**	–
Transport for NSW contributions (regional roads, block grant) *	**6,519**	2,199	**3,132**	4,316
Transport (other roads and bridges funding)	**107**	107	**–**	–
Waste	**439**	151	**–**	–
Other *	**824**	351	**173**	258
Total special purpose grants and non-developer contributions – cash	**14,217**	8,202	**8,520**	10,626
Non-cash contributions				
Art Gallery	**–**	–	**294**	294
Community land	**–**	–	**–**	3,151
Library	**–**	–	**38**	14
Museum	**–**	–	**265**	60
Roads and drainage	**–**	–	**595**	6,727
Other	**–**	–	**–**	235
Total other contributions – non-cash	**–**	–	**1,192**	10,481
Total special purpose grants and non-developer contributions (tied)	**14,217**	8,202	**9,712**	21,107
Total grants and non-developer contributions	**31,409**	20,205	**9,712**	21,107
Comprising:				
– Commonwealth funding	**22,358**	13,056	**–**	547
– State funding	**7,046**	3,004	**8,262**	10,080
– Other funding	**2,005**	4,145	**1,450**	10,480
	31,409	20,205	**9,712**	21,107

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

continued on next page ...

B2-4 Grants and contributions * (continued)

Developer contributions

	Notes	Operating 2022 $ '000	Operating 2021 $ '000	Capital 2022 $ '000	Capital 2021 $ '000
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):	G4				
Cash contributions					
S7.11 – contributions towards amenities/services		**10**	–	**1,129**	671
S7.12 – fixed development consent levies		**–**	–	**6,257**	3,346
S7.4 - Planning Agreements		**25**	–	**–**	–
Total developer contributions – cash		**35**	–	**7,386**	4,017
Non-cash contributions					
S7.4 - Planning Agreements		**–**	–	**–**	682
Total developer contributions non-cash		**–**	–	**–**	682
Total developer contributions		**35**	–	**7,386**	4,699
Total contributions		**35**	–	**7,386**	4,699
Total grants and contributions		**31,444**	20,205	**17,098**	25,806
Timing of revenue recognition for grants and contributions					
Grants and contributions recognised over time		**439**	159	**7,680**	4,845
Grants and contributions recognised at a point in time		**31,005**	20,046	**9,418**	20,961
Total grants and contributions		**31,444**	20,205	**17,098**	25,806

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

Unspent grants and contributions

Certain grants and contributions are obtained by Council on the condition they be spent in a specified manner or in a future period but which are not yet spent in accordance with those conditions are as follows:

	Operating 2022 $ '000	Operating 2021 $ '000	Capital 2022 $ '000	Capital 2021 $ '000
Unspent grants and contributions				
Unspent funds at 1 July	**838**	1,081	**22,251**	30,506
Add: Funds recognised as revenue in the reporting year but not yet spent in accordance with the conditions	**1,534**	–	**7,615**	4,971
Add: Funds received and not recognised as revenue in the current year	**107**	374	**710**	783
Less: Funds recognised as revenue in previous years that have been spent during the reporting year	**(75)**	(458)	**(6,440)**	(14,009)
Less: Funds received in prior year but revenue recognised and funds spent in current year	**(572)**	(159)	**(141)**	–
Unspent funds at 30 June	**1,832**	838	**23,995**	22,251

continued on next page ...

B2-4 Grants and contributions * (continued)

Accounting policy

Grants and contributions – enforceable agreement with sufficiently specific performance obligations
Grant and contribution revenue from an agreement which is enforceable and contains sufficiently specific performance obligations is recognised as or when control of each performance obligation is transferred.

The performance obligations vary according to the agreement but include specific recycling / waste targets and other performance targets. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Performance obligations may be satisfied either at a point in time or over time and this is reflected in the revenue recognition pattern. Point in time recognition occurs when the beneficiary obtains control of the goods / services at a single time (e.g. completion of the project when a report / outcome is provided), whereas over time recognition is where the control of the services is ongoing throughout the project (e.g. provision of community health services through the year).

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

Capital grants
Capital grants received by Council under an enforceable contract for the acquisition or construction of infrastructure, property, plant and equipment to identified specifications which will be under Council's control on completion are recognised as revenue as and when the obligation to construct or purchase is completed.

For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project.

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

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

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

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

Other grants and contributions
Assets, including cash, received from other grants and contributions are recognised at fair value when the asset is received. Council considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

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

B2-5 Interest and investment income *

	2022 $ '000	2021 $ '000
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	**284**	204
– Cash and investments	**3,534**	3,922
Dividend income from investments at fair value through profit or loss	**1,172**	4,105
Amortisation of discounts and premiums on financial instrument transactions		
– Debt securities at amortised cost / held to maturity investments	**(9)**	(33)
Total interest and investment income (losses)	**4,981**	8,198

Accounting policy

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

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

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

B2-6 Other income *

	Notes	2022 $ '000	2021 $ '000
Reversal of impairment losses on receivables		**–**	1
Fair value increment on investment properties	C1-9	**1,000**	2,865
Fair value increment on investments *	C1-2	**–**	499
Rental income *	C2-2	**4,679**	4,036
Total other income		**5,679**	7,401

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

B3 Costs of providing services

B3-1 Employee benefits and on-costs

	2022 $ '000	2021 $ '000
Salaries and wages	**92,936**	89,354
Employee termination costs	**640**	798
Employee leave entitlements (ELE)	**16,029**	15,229
Superannuation	**11,489**	10,885
Workers' compensation insurance	**6,766**	3,939
Fringe benefit tax (FBT)	**284**	369
Other	**64**	7
Total employee costs	**128,208**	120,581
Less: capitalised costs	**(5,668)**	(5,250)
Total employee costs expensed	**122,540**	115,331

Accounting policy

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

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.

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 (Active Super), however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note E3-1 for more information.

B3-2 Materials and services

	Notes	2022 $ '000	2021 $ '000
Raw materials and consumables		**26,372**	25,810
Contractor and consultancy costs		**57,266**	56,217
Audit Fees	F2-1	**316**	328
Bank charges		**597**	637
Councillor and Mayoral fees and associated expenses	F1-2	**597**	568
Election expenses		**984**	–
Insurance		**3,845**	3,455
Street lighting		**2,370**	2,803
Telephone and communications		**924**	1,115
Cost of sales		**857**	745
Training and travel		**824**	866
Electricity		**1,389**	1,634
Newcastle Airport		**3,400**	2,641
S355 local committee working expenses		**161**	212
Water		**1,018**	872
Volunteer services		**238**	222
Rehabilitation and restoration expenses		**(3,407)**	10,889
Legal expenses		**776**	1,220
Expenses from short-term leases		**24**	21
Expenses from leases of low value assets		**25**	27
Variable lease expense relating to usage		**3,839**	4,006
Other		**1,598**	1,876
Total materials and services		**104,013**	116,164

Accounting policy

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

B3-3 Borrowing costs

	Notes	2022 $ '000	2021 $ '000
(i) Interest bearing liability costs			
Interest on leases		**1,022**	1,944
Interest on loans		**2,467**	2,934
Total interest bearing liability costs		**3,489**	4,878
Total interest bearing liability costs expensed		**3,489**	4,878
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	C3-5	**1**	1
Total other borrowing costs		**1**	1
Total borrowing costs expensed		**3,490**	4,879

Accounting policy

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

B3-4 Depreciation, amortisation and impairment of non-financial assets

	Notes	2022 $ '000	2021 $ '000
Depreciation and amortisation			
Property, plant and equipment	C1-8	**8,209**	8,025
Infrastructure	C1-8	**41,910**	39,774
Newcastle Airport		**2,663**	2,445
Right of use assets	C2-1	**3,789**	4,310
Other assets		**2,290**	2,536
Intangibles - software	C1-10	**1,359**	1,089
Intangibles - Newcastle Airport	C1-10	**125**	119
Less: capitalised depreciation		**(215)**	(474)
Total depreciation and amortisation costs		**60,130**	57,824
Impairment (reversals) / revaluation decrement of IPPE			
Operational land		**(1,916)**	–
Community land		**(1,856)**	–
Infrastructure		**3,799**	4,621
Crown land		**–**	–
Plant and equipment		**4**	–
Amounts taken through revaluation reserve		**(27)**	(4,621)
Total IPP&E impairment / revaluation decrement costs		4	-
Total depreciation, amortisation and impairment for intangibles and IPPE		**60,134**	57,824

Accounting policy

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.

Impairment of non-financial assets

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are not tested for impairment since these assets are assessed on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

Intangible assets not yet available for use, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

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

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

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.

B3-5 Other expenses

	Notes	2022 $ '000	2021 $ '000
Impairment of receivables	C1-4	**470**	245
Net share of interests in joint ventures and associates using the equity method	D1-2	**170**	180
Fair value decrement on investments	C1-2	**5,260**	–
Donations, contributions and assistance to other organisations (Section 356)		**4,321**	3,309
Contributions/levies to other levels of government			
– Emergency services levy (includes FRNSW, SES, and RFS levies)		**3,449**	3,777
– NSW government waste levy		**38,607**	32,064
– Other levies		**1,095**	758
Total other expenses		**53,372**	40,333

Accounting policy

Other expenses are recorded on an accruals basis when Council has an obligation for the expenses.

Impairment expenses are recognised when identified.

B4 Gains or losses

B4-1 Gain or loss from the disposal, replacement and de-recognition of assets

	Notes	2022 $ '000	2021 $ '000
Gain (or loss) on disposal of infrastructure, property, plant and equipment	C1-8		
Proceeds from disposal – infrastructure, property, plant and equipment		**995**	2,028
Less: carrying amount of infrastructure, property, plant and equipment sold/written off		**(6,324)**	(12,364)
Gain (or loss) on disposal		**(5,329)**	(10,336)
Gain (or loss) on disposal of investments	C1-2		
Proceeds from disposal – investments		**5,025**	–
Less: carrying amount of investments sold		**(5,000)**	–
Gain (or loss) on disposal		**25**	–
Gain (or loss) on disposal of non-current assets held for sale	C1-7		
Proceeds from disposal – non-current assets held for sale		**9,386**	–
Less: carrying amount of non-current assets held for sale sold/written off		**(9,500)**	–
Gain (or loss) on disposal		**(114)**	–
Net gain (or loss) from disposal of assets		**(5,418)**	(10,336)

Accounting policy

Gains and losses on disposals are determined by comparing proceeds with carrying amount. 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 de-recognised.

B5 Performance against budget

B5-1 Material budget variations

Council's original budget was adopted by the Council on 25 May 2021 and is not required to be audited. The original projections on which the budget was based have been affected by a number of factors. These include state and federal government decisions, including new grant programs, changing economic activity, environmental factors, and by decisions made by Council.

While these General Purpose Financial Statements include the original budget adopted by Council, the Act requires Council to review its financial budget on a quarterly basis, so it is able to manage the variation between actuals and budget that invariably occur during the year.

Material variations of more than 10% between original budget and actual results or where the variance is considered material by nature are explained below.

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

$ '000	2022 Budget	2022 Actual	2022 Variance		
Revenues					
Rates and annual charges	198,945	199,056	111	0%	F
User charges and fees	94,322	87,506	(6,816)	(7)%	U
Other revenues	11,432	7,834	(3,598)	(31)%	U
Unfavourable variance is largely driven by a reduction in car parking fine revenue as a result of COVID-19 restrictions and the downturn in traffic within the CBD areas.					
Operating grants and contributions	16,317	31,444	15,127	93%	F
Favourable variance includes additional revenues received for the Financial Assistance Grant, disaster recovery funding and an increase in federal and state transport grants.					
Capital grants and contributions	13,745	17,098	3,353	24%	F
Development contributions exceeded expectations as a result of strong growth in 7.12 Developer Contributions.					
Interest and investment revenue	3,419	4,981	1,562	46%	F
Favourable variance includes a dividend of $1.2m from the TCorp Long Term Growth Fund that was not separately budgeted for.					
Other income	6,496	5,679	(817)	(13)%	U
The unfavourable result to budget is driven by a decrement in the fair value of council's investments compared to budget.					

continued on next page ...

B5-1 Material budget variations (continued)

$ '000	2022 Budget	2022 Actual	2022 Variance		
Expenses					
Employee benefits and on-costs	117,162	122,540	(5,378)	(5)%	U
Materials and services	102,646	104,013	(1,367)	(1)%	U
Borrowing costs	3,556	3,490	66	2%	F
Depreciation, amortisation and impairment of non-financial assets	58,428	60,134	(1,706)	(3)%	U
Other expenses	43,601	53,372	(9,771)	(22)%	U
The unfavourable variance is as a result of a $5.3m fair value decrement of investments as well as an increase in the NSW State Waste Levy payment attributable to additional tonnes received to the Summerhill Waste Management Centre.					
Net losses from disposal of assets	4,328	5,418	(1,090)	(25)%	U
The unfavourable result to budget was driven by the write-off of existing assets due to renewal work completed on large, long-life infrastructure within the City.					
Statement of cash flows					
Cash flows from operating activities	80,409	47,514	(32,895)	(41)%	U
Unfavourable variance to budget was driven by additional payment for materials and services compared to Council's long term financial plan.					
Cash flows from investing activities	(67,714)	(1,852)	65,862	(97)%	F
Favourable variance to budget was driven by a reduction in the spend on purchase of investments compared to Council's long term financial plan.					
Cash flows from financing activities	(3,793)	737	4,530	(119)%	F
Favourable variance to budget was driven by an increase in the proceeds from borrowings.					

C Financial position

C1 Assets we manage

C1-1 Cash and cash equivalents

	2022 $ '000	2021 $ '000
Cash assets		
Cash at bank and on hand	**55,265**	28,867
Deposits at call	**20,088**	87
Total cash and cash equivalents	**75,353**	28,954

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

C1-2 Financial investments

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Financial assets at fair value through the profit and loss				
Managed funds	**–**	**43,717**	–	33,805
Total	**–**	**43,717**	–	33,805
Debt securities at amortised cost				
Term deposits – fixed rate	**31,809**	**33,000**	51,308	28,500
Term deposits – floating rate	**11,000**	**10,000**	20,000	21,000
Floating rate notes	**36,400**	**45,975**	46,001	73,003
Bonds	**5,698**	**70,501**	4,991	58,740
Total	**84,907**	**159,476**	122,300	181,243
Total financial investments	**84,907**	**203,193**	122,300	215,048
Total cash assets, cash equivalents and investments	**160,260**	**203,193**	151,254	215,048

continued on next page ...

C1-2 Financial investments (continued)

Accounting policy

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

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

Classification

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

- amortised cost
- fair value through profit and loss (FVTPL)

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost are measured at fair value through profit or loss.

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

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

C1-3 Restricted and allocated cash, cash equivalents and investments

	2022 $ '000	2021 $ '000
(a) Externally restricted cash, cash equivalents and investments		
Total cash, cash equivalents and investments	**363,453**	366,302
Less: Externally restricted cash, cash equivalents and investments	**(44,128)**	(42,187)
Cash, cash equivalents and investments not subject to external restrictions	**319,325**	324,115
External restrictions		
External restrictions – included in liabilities		
External restrictions included in cash, cash equivalents and investments above comprise:		
Security bonds, deposits and retentions	**1,638**	1,472
Specific purpose unexpended grants – general fund	**2,342**	2,237
External restrictions – included in liabilities	**3,980**	3,709
External restrictions – other		
External restrictions included in cash, cash equivalents and investments above comprise:		
Developer contributions – general	**21,664**	19,549
Specific purpose unexpended grants (recognised as revenue) – general fund	**1,329**	562
Domestic waste management	**9,369**	10,202
Bequests and donations	**1,559**	1,576
Special Benefit Rates	**1,005**	994
Rawson Crown Land Reserve	**3,433**	3,713
Childcare sinking Fund *	**608**	454
Building Better Cities	**454**	452
Contributions to specific works	**491**	741
Community Facilities Fund *	**236**	235
External restrictions – other	**40,148**	38,478
Total external restrictions	**44,128**	42,187

Cash, cash equivalents and investments subject to external restrictions are those which are only available for specific use by Council due to a restriction placed by legislation or third-party contractual agreement.

(*) Comparatives have been reclassified from internal allocations to external restrictions

continued on next page ...

C1-3 Restricted and allocated cash, cash equivalents and investments (continued)

	2022 $ '000	2021 $ '000
(b) Internal allocations		
Cash, cash equivalents and investments not subject to external restrictions	**319,325**	324,115
Less: Internally restricted cash, cash equivalents and investments	**(292,686)**	(301,497)
Unrestricted and unallocated cash, cash equivalents and investments	**26,639**	22,618
Internal allocations		
At 30 June, Council has internally allocated funds to the following:		
Employees leave entitlements	**11,976**	11,900
Works program - New and upgrade	**35,589**	40,411
Works program - Infrastructure Agreed level of service	**135,085**	144,782
Works program - Specific projects	**26,743**	19,442
Newcastle Airport	**13,144**	10,542
Workers compensation: Self insurance	**2,859**	–
Local committees and childcare *	**438**	465
Superannuation - Defined benefits	**643**	1,243
Waste Management - Remediation provision	**60,139**	63,313
Works carried forward	**6,070**	9,399
Total internal allocations	**292,686**	301,497

Cash, cash equivalents and investments not subject to external restrictions may be internally allocated by resolution or policy of the elected Council.

(*) Comparatives have been reclassified from internal allocations to external restrictions

C1-4 Receivables

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Rates and annual charges	**6,043**	**457**	6,883	544
Interest and extra charges [1]	**372**	**109**	329	125
User charges and fees	**23,178**	**–**	13,961	–
Accrued revenues				
– Interest on investments	**1,061**	**–**	884	–
Government grants and subsidies	**22**	**–**	62	–
Net GST receivable	**3,368**	**–**	2,765	–
Infringement Processing Bureau – NSW state govt.	**1,045**	**823**	1,457	897
Total	**35,089**	**1,389**	26,341	1,566
Less: provision for impairment				
User charges and fees	**(300)**	**–**	(619)	–
Infringement Processing Bureau – NSW state govt.	**(136)**	**(154)**	(87)	(76)
Total provision for impairment – receivables	**(436)**	**(154)**	(706)	(76)
Total net receivables	**34,653**	**1,235**	25,635	1,490

(1) Interest was charged on overdue rates and charges at 6.00% (2021: 1/7/20 to 31/12/20 0.00% and 1/1/21 to 30/6/21 7.00%). Generally all other receivables are non-interest bearing.

Accounting policy

Recognition and measurement

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.

Impairment

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

When estimating ECL, Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience and informed credit assessment, and including forward-looking information.

When considering the ECL for rates and annual charges debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold.

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

Council writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

None of the receivables that have been written off are subject to enforcement activity.

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

C1-5 Inventories

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Inventories at cost				
Stores and materials	**1,267**	**–**	1,131	–
Total inventories	**1,267**	**–**	1,131	–

Accounting policy

Stores and materials
Stores and materials are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

C1-6 Contract assets and Contract cost assets

Contract assets

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Work relating to infrastructure grants	**36**	**–**	–	–
Total contract assets	**36**	**–**	–	–

Accounting policy

Contract assets
Contract assets represent Councils right to payment in exchange for goods or services the Council has transferred to a customer when that right is conditional on something other than the passage of time.

Contract assets arise when the amounts billed to customers are based on the achievement of various milestones established in the contract and therefore the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer. Once an invoice or payment claim is raised or the relevant milestone is reached, Council recognises a receivable.

Impairment of contract assets is assessed using the simplified expected credit loss model where lifetime credit losses are recognised on initial recognition.

Contract cost asset – costs to fulfil a contract
Where costs are incurred to fulfil a contract and these costs are outside the scope of another accounting standard, they are capitalised as contract cost assets if the following criteria are met:

- the costs relate directly to a contract
- the costs generate or enhance resources of Council that will be used to satisfy performance obligations in the future and
- the costs are expected to be recovered.

The capitalised costs are recognised in the Income statement on a systematic basis consistent with the timing of revenue recognition.

Refer to B3-4 for the accounting policy for impairment of contract cost assets.

C1-7 Non-current assets classified as held for sale

	2022 $ '000	2021 $ '000
Non-current assets held for sale		
Land	**366**	4,792
Buildings	**–**	4,708
Total non-current assets held for sale	**366**	9,500
Total non-current assets classified as held for sale	**366**	9,500

Details of assets and disposal groups

During the financial year land was identified for compulsory acquisition by Transport for NSW to enable extension of the Newcastle Inner City Bypass. An agreement on consideration and passing of control of the land is expected to occur by the end of the 2022 calendar year.

Settlement occurred during the financial year for the land and building properties previously classified as held for sale.

Accounting policy

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use and are measured at the lower of their carrying amount and fair value less costs to sell.

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

C1-8 Infrastructure, property, plant and equipment

By aggregated asset class	At 1 July 2021 Gross carrying amount $ '000	Accumulated depreciation and impairment $ '000	Net carrying amount $ '000	Asset movements during the reporting period Renewals $ '000	New assets $ '000	Carrying value of disposals $ '000	Depreciation and Impairment $ '000	Transfers $ '000	Revaluation increments/ (decrements) $ '000	At 30 June 2022 Gross carrying amount $ '000	Accumulated depreciation and impairment $ '000	Net carrying amount $ '000
Capital WIP	36,199	(1,558)	34,641	**15,258**	**16,420**	**(198)**	**–**	**(21,000)**	**–**	**46,679**	**(1,558)**	**45,121**
Plant and equipment	52,855	(32,023)	20,832	**2,374**	**777**	**(714)**	**(6,031)**	**1,737**	**–**	**54,362**	**(35,387)**	**18,975**
Office equipment	5,274	(2,006)	3,268	**55**	**172**	**(45)**	**(898)**	**278**	**–**	**5,731**	**(2,901)**	**2,830**
Furniture and fittings	20,498	(2,517)	17,981	**–**	**–**	**–**	**(1,016)**	**–**	**–**	**20,498**	**(3,533)**	**16,965**
Land:												
– Operational	116,759	(2,069)	114,690	**–**	**621**	**–**	**–**	**(125)**	**30,495**	**145,834**	**(153)**	**145,681**
– Community	76,799	(1,856)	74,943	**–**	**–**	**(2)**	**–**	**(366)**	**4,917**	**79,492**	**–**	**79,492**
– Crown	34,521	(618)	33,903	**–**	**–**	**–**	**–**	**–**	**–**	**34,521**	**(618)**	**33,903**
– Under roads (post 30/6/08)	10,132	–	10,132	**–**	**–**	**–**	**–**	**–**	**–**	**10,132**	**–**	**10,132**
– Depreciable land improvements	5,952	(1,965)	3,987	**95**	**54**	**(112)**	**(268)**	**142**	**–**	**6,074**	**(2,176)**	**3,898**
Infrastructure:												
– Buildings	352,849	(178,121)	174,728	**1,070**	**475**	**(757)**	**(8,628)**	**2,512**	**27,914**	**414,609**	**(217,295)**	**197,314**
– Other structures	171,122	(95,812)	75,310	**2,075**	**1,290**	**(1,816)**	**(7,228)**	**4,474**	**(4)**	**175,246**	**(101,145)**	**74,101**
– Roads	696,442	(364,882)	331,560	**6,859**	**1,989**	**(2,092)**	**(14,656)**	**2,770**	**34,097**	**777,222**	**(416,695)**	**360,527**
– Bridges	55,629	(28,835)	26,794	**296**	**13**	**(122)**	**(637)**	**–**	**(1,137)**	**55,568**	**(30,361)**	**25,207**
– Footpaths	184,891	(90,697)	94,194	**611**	**1,622**	**(189)**	**(4,120)**	**2,357**	**9,516**	**208,457**	**(104,466)**	**103,991**
– Bulk earthworks (non-depreciable)	194,391	–	194,391	**13**	**12**	**(12)**	**–**	**–**	**21,422**	**215,826**	**–**	**215,826**
– Stormwater drainage	273,653	(155,637)	118,016	**1,995**	**332**	**(263)**	**(3,040)**	**2,904**	**13,251**	**309,744**	**(176,549)**	**133,195**
– Swimming pools	35,206	(19,968)	15,238	**–**	**–**	**–**	**(421)**	**–**	**–**	**35,206**	**(20,389)**	**14,817**
– Other open space/recreational assets	33,977	(13,959)	20,018	**771**	**364**	**(122)**	**(1,364)**	**116**	**–**	**34,948**	**(15,165)**	**19,783**
– Other infrastructure	108,929	(52,995)	55,934	**14**	**1,745**	**(17)**	**(1,816)**	**3,453**	**(2,149)**	**114,093**	**(56,929)**	**57,164**
Other assets:												
– Heritage collections	71,172	–	71,172	**–**	**652**	**–**	**–**	**–**	**10,013**	**81,837**	**–**	**81,837**
– Library books	15,304	(7,570)	7,734	**–**	**460**	**(35)**	**(495)**	**–**	**–**	**14,668**	**(7,004)**	**7,664**
– Other	20	(20)	–	**–**	**–**	**–**	**–**	**–**	**–**	**20**	**(20)**	**–**
Waste management asset	37,839	(13,819)	24,020	**–**	**(9,661)**	**–**	**(1,795)**	**–**	**–**	**28,179**	**(15,615)**	**12,564**
Newcastle Airport	74,029	(21,686)	52,343	**–**	**9,021**	**(26)**	**(2,663)**	**–**	**–**	**82,753**	**(24,078)**	**58,675**
Total infrastructure, property, plant and equipment	2,664,442	(1,088,613)	1,575,829	**31,486**	**26,358**	**(6,522)**	**(55,076)**	**(748)**	**148,335**	**2,951,699**	**(1,232,037)**	**1,719,662**

continued on next page ...

C1-8 Infrastructure, property, plant and equipment (continued)

By aggregated asset class	At 1 July 2020			Asset movements during the reporting period						At 30 June 2021		
	Gross carrying amount $ '000	Accumulated depreciation and impairment $ '000	Net carrying amount $ '000	Renewals $ '000	New assets $ '000	Carrying value of disposals $ '000	Depreciation $ '000	Transfers $ '000	Revaluation increments/ (decrements) $ '000	Gross carrying amount $ '000	Accumulated depreciation and impairment $ '000	Net carrying amount $ '000
Capital WIP	52,235	(1,558)	50,677	13,058	16,276	(43)	–	(45,327)	–	36,199	(1,558)	34,641
Plant and equipment	51,545	(29,495)	22,050	2,877	1,261	(1,079)	(6,161)	1,884	–	52,855	(32,023)	20,832
Office equipment	3,760	(1,237)	2,523	45	608	–	(770)	862	–	5,274	(2,006)	3,268
Furniture and fittings	10,166	(1,510)	8,656	–	823	–	(1,007)	9,509	–	20,498	(2,517)	17,981
Land:												
– Operational	116,116	(2,296)	113,820	–	3,149	(409)	–	(1,870)	–	116,759	(2,069)	114,690
– Community	76,006	(1,856)	74,150	–	773	–	–	20	–	76,799	(1,856)	74,943
– Crown	34,521	(618)	33,903	–	–	–	–	–	–	34,521	(618)	33,903
– Under roads (post 30/6/08)	9,897	–	9,897	–	235	–	–	–	–	10,132	–	10,132
– Depreciable land improvements	3,656	(2,547)	1,109	334	93	(105)	(87)	18	2,625	5,952	(1,965)	3,987
Infrastructure:												
– Buildings	354,656	(172,701)	181,955	2,748	941	(5,694)	(8,598)	3,402	(26)	352,849	(178,121)	174,728
– Other structures	97,847	(47,337)	50,510	438	2,670	(687)	(5,606)	18,923	9,062	171,122	(95,812)	75,310
– Roads	690,961	(353,991)	336,970	6,741	1,921	(2,607)	(14,595)	3,130	–	696,442	(364,882)	331,560
– Bridges	53,586	(28,290)	25,296	1,100	1,028	(38)	(607)	15	–	55,629	(28,835)	26,794
– Footpaths	175,631	(85,152)	90,479	737	5,886	(352)	(4,005)	1,449	–	184,891	(90,697)	94,194
– Bulk earthworks (non-depreciable)	194,269	–	194,269	–	126	–	–	(4)	–	194,391	–	194,391
– Stormwater drainage	268,582	(152,886)	115,696	934	1,888	(136)	(2,960)	2,594	–	273,653	(155,637)	118,016
– Swimming pools	25,259	(16,255)	9,004	–	–	–	(367)	–	6,601	35,206	(19,968)	15,238
– Other open space/recreational assets	35,353	(19,096)	16,257	905	606	(669)	(1,464)	462	3,921	33,977	(13,959)	20,018
– Other infrastructure	81,700	(40,488)	41,212	554	162	(156)	(1,572)	323	15,411	108,929	(52,995)	55,934
Other assets:												
– Heritage collections	70,739	–	70,739	–	434	(1)	–	–	–	71,172	–	71,172
– Library books	14,976	(9,338)	5,638	–	407	(417)	(535)	37	2,604	15,304	(7,570)	7,734
– Other	20	(20)	–	–	–	–	–	–	–	20	(20)	–
Waste management asset	34,602	(11,818)	22,784	–	3,237	–	(2,001)	–	–	37,839	(13,819)	24,020
Newcastle Airport	68,353	(19,322)	49,031	2,260	6,398	(14)	(2,445)	(2,887)	–	74,029	(21,686)	52,343
Total infrastructure, property, plant and equipment	2,524,436	(997,811)	1,526,625	32,731	48,922	(12,407)	(52,780)	(7,460)	40,198	2,664,442	(1,088,613)	1,575,829

continued on next page ...

C1-8 Infrastructure, property, plant and equipment (continued)

Accounting policy

Initial recognition of infrastructure, property, plant and equipment (IPPE)
IPPE is measured initially at cost. Cost includes the fair value of the consideration given to acquire the asset (net of discounts and rebates) and any directly attributable cost of bringing the asset to working condition for its intended use (inclusive of import duties and taxes).

When infrastructure, property, plant and equipment is acquired by Council at significantly below fair value, the assets are initially recognised at their fair value at acquisition date.

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.

Useful lives of IPPE
Land, bulk earthworks and heritage assets are 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:

	Years		Years
Office equipment	3 to 5	Roadside furniture	20
Furniture and fittings	2 to 25	Sealed roads: surface	17 to 74
Plant and equipment	3 to 50	Sealed roads: pavement	114 to 119
Library books	3 to 100	Sealed roads: kerb and gutter	79
Depreciable land improvements	20 to 50	Unsealed roads: surface	28
Buildings[1]	20 to 100	Bridge: substructure, superstructure	67 to 89
Other structures[2]	3 to 200	Bridge: handrail, guardrail	45 to 89
Swimming pools	60 to 100	Footways	28 to 49
Other open space/recreational assets	15 to 60	Other infrastructure	15 to 100
Stormwater drainage	18 to 94	Newcastle Airport	2 to 100

¹ 100 year life is only applicable to building shell on 4 culturally significant buildings.
² 200 year life is only applicable to one leading light tower.

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

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

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

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. Land under roads acquired after 1 July 2008 is recognised in accordance with the IPPE accounting policy.

Crown reserves
Crown reserves under Council's care and control are recognised as assets of 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. Where the Crown reserves are under a lease arrangement they are accounted for under AASB 16 Leases, refer to Note C2-1.

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.

continued on next page ...

C1-8 Infrastructure, property, plant and equipment (continued)

Rural Fire Service assets

Under Section 119 of the Rural Fire Services Act 1997 (NSW), “all firefighting 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 firefighting equipment has been purchased or constructed”.

Council has confirmed there are no Rural Fire Service (RFS) assets in the Newcastle Local Government Area. Therefore, no RFS assets are recognised as assets of the Council in these financial statements.

C1-9 Investment properties

Owned investment property

	2022 $ '000	2021 $ '000
At fair value		
Opening balance at 1 July	**13,990**	16,213
Net gain/(loss) from fair value adjustments	**1,000**	2,865
Classified as held for sale or disposals	**–**	(5,088)
Closing balance at 30 June	**14,990**	13,990

Accounting policy

Investment property, principally comprising freehold buildings and land, 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.

C1-10 Intangible assets

	2022 $ '000	2021 $ '000
Software		
Opening values at 1 July		
Gross book value	**9,776**	9,113
Accumulated amortisation	**(6,435)**	(5,322)
Net book value – opening balance	**3,341**	3,791
Movements for the year		
Purchases	**382**	151
Development costs	**–**	367
Transfers	**–**	121
Gross book value written off	**(191)**	–
Accumulated amortisation charges written off	**191**	–
Amortisation charges	**(1,359)**	(1,089)
Closing values at 30 June		
Gross book value	**9,967**	9,776
Accumulated amortisation	**(7,603)**	(6,435)
Total software – net book value	**2,364**	3,341
Newcastle Airport		
Opening values at 1 July		
Gross book value	**1,900**	1,864
Accumulated amortisation	**(306)**	(186)
Net book value – opening balance	**1,594**	1,678
Movements for the year		
Purchases	**–**	36
Amortisation charges	**(125)**	(119)
Gross book value written off	**(11)**	–
Accumulated amortisation charges written off	**9**	–
Closing values at 30 june		
Gross book value	**1,889**	1,900
Accumulated amortisation	**(422)**	(306)
Total Newcastle Airport – net book value	**1,467**	**1,594**
Total intangible assets – net book value	**3,831**	4,935

Accounting policy

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Software development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset. Amortisation is calculated on a straight line basis over periods generally ranging from three to sixty years.

C1-11 Other

Other assets

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Prepayments	**8,674**	**453**	3,751	88
Security Deposits	**6,452**	**–**	4,752	–
Total other assets	**15,126**	**453**	8,503	88

C2 Leasing activities

C2-1 Council as a lessee

Council has leases over a range of assets including land and buildings, plant and machinery and waste equipment. Information relating to the leases in place and associated balances and transactions is provided below.

Terms and conditions of leases

Land & Buildings
Council leases land and buildings for their corporate offices and other buildings; the leases are generally between 5 and 15 years and some of them include a renewal option to allow Council to renew for up to twice the non-cancellable lease term at their discretion.

The building leases contains an annual pricing mechanism based on either fixed increases or CPI movements at each anniversary of the lease inception.

Plant & Equipment
Council leases items of plant and equipment with a lease term of 3 years, with some having options of renewal. The lease payments are fixed during the lease term.

Waste
Council has a lease for recycling services; the lease was for a period of 10 years with a one year option of renewal. The renewal option is at the discretion of Council. The leases contain annual pricing mechanism based on fixed increases at each anniversary of the lease inception. The lease includes variable payments based on usage.

Newcastle Airport
Newcastle Airport is lessee under a Head Lease with the Commonwealth for the land on which it operates. The lease period ends on 31 December 2075, with 3 x 10 year option periods thereafter. The lease payments include a fixed lease component and an amount equal to 4% of adjusted revenue. The leased asset and liability recognised in the year ended 30 June 2022 reflect the minimum value of future lease payments for the fixed component of the future lease payments in accordance with AASB 16.

Extension options
Council includes options in the building leases to provide flexibility and certainty to Council operations and reduce costs of moving premises; and the extension options are at Council's discretion.

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

There are $14,402,000 in potential future lease payments which are not included in lease liability as Council has assessed that the exercise of the option is not reasonably certain at this point in time.

continued on next page ...

C2-1 Council as a lessee (continued)

(a) Right of use assets

	Plant and Machinery $ '000	Land and Buildings $ '000	Waste $ '000	Newcastle Airport $ '000	Total $ '000
2022					
Opening balance at 1 July	**663**	**29,538**	**1,798**	**334**	**32,333**
Additions to right-of-use assets	**15**	**–**	**–**	**–**	**15**
Adjustments to right-of-use assets due to re-measurement of lease liability	**43**	**2,428**	**–**	**6**	**2,477**
Depreciation charge	**(633)**	**(1,803)**	**(1,349)**	**(4)**	**(3,789)**
Impairment of right-of-use assets	**–**	**–**	**–**	**(4)**	**(4)**
Balance at 30 June	**88**	**30,163**	**449**	**332**	**31,032**
2021					
Opening balance at 1 July	**1,294**	**31,278**	**5,488**	**338**	**38,398**
Additions to right-of-use assets	–	190	–	–	190
Adjustments to right-of-use assets due to re-measurement of lease liability	–	(276)	(2,341)	–	(2,617)
Depreciation charge	(631)	(1,654)	(1,349)	(4)	(3,638)
Impairment of right-of-use assets	–	–	–	–	–
Balance at 30 June	**663**	**29,538**	**1,798**	**334**	**32,333**

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Total lease liabilities	**2,405**	**31,719**	4,181	31,525

(b) Lease Liabilities

The maturity analysis of lease liabilities is based on contractual undiscounted cash flows and therefore the amounts will not be the same as the recognised lease liability in the statement of financial position:

	< 1 year $ '000	1 – 5 years $ '000	> 5 years $ '000	Total $ '000	Total per Statement of Financial Position $ '000
2022					
Cash flows	**3,310**	**12,131**	**27,209**	**42,650**	**34,124**
2021					
Cash flows	4,913	11,123	24,251	40,287	**35,706**

continued on next page ...

C2-1 Council as a lessee (continued)

(c) Income Statement

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

	2022 $ '000	2021 $ '000
Interest on lease liabilities	**1,022**	1,944
Variable lease payments based on usage not included in the measurement of lease liabilities	**3,839**	4,006
Income from sub-leasing right of use assets	**164**	11
Depreciation of right of use assets	**3,789**	4,310
Expenses relating to short-term leases	**24**	21
Expenses relating to low-value leases	**25**	27
	8,863	10,319

(d) Statement of Cash Flows

Total cash outflow for leases	**5,294**	4,613
	5,294	4,613

(e) Leases at significantly below market value – concessionary / peppercorn leases

Council has multiple leases at significantly below market for land and buildings which are used for:

- Community service centres
- Sports Clubs
- Emergency Services
- Community Halls

The leases are around 2 years and require payments of a maximum amount of $1,000 per year. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

None of the leases in place are individual material from a Statement of Financial Positoon or performance perspective.

Accounting policy

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

Council has elected not to separate non-lease components from lease components for any class of asset and has accounted for payments as a single component.

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

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

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

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

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

continued on next page ...

C2-1 Council as a lessee (continued)

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

Leases at significantly below market value / Concessionary leases
Council has elected to measure the right of use asset arising from the concessionary leases at cost which is based on the associated lease liability at initial recognition.

C2-2 Council as a lessor

Operating leases

Council leases out a number of properties and/or plant and equipment; these leases have been classified as operating leases for financial reporting purposes and the assets are included in the Statement of Financial Position as:

- investment property – where the asset is held predominantly for rental or capital growth purposes (refer note C1-9)
- property, plant and equipment – where the rental is incidental, or the asset is held to meet Councils service delivery objective (refer note C1-8).

	2022 $ '000	2021 $ '000
(i) Assets held as investment property		
Investment property operating leases relate to properties which are leased to tenants under long-term operating leases with rental payable monthly.		
The amounts recognised in the Income Statement relating to operating leases where Council is a lessor are shown below		
Lease income (excluding variable lease payments not dependent on an index or rate)	**813**	845
Total income relating to operating leases for investment property assets	**813**	845
Operating lease expenses		
Direct operating expenses that generated rental income	**(120)**	(150)
Direct operating expenses that did not generate rental income	**(225)**	(270)
Total expenses relating to operating leases	**(345)**	(420)
(ii) Assets held as property, plant and equipment *		
Council provides operating leases on Council assets for the purpose of commerical and community use, the table below relates to operating leases on assets disclosed in C1-8.		
Lease income (excluding variable lease payments not dependent on an index or rate)	**3,866**	3,191
Total income relating to operating leases for Council assets	**3,866**	3,191

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

Amount of IPPE leased out by Council under operating leases

Building	**36,516**	18,913
Plant and Equipment	**423**	720
Newcastle Airport	**4,018**	4,958
Total amount of IPPE leased out by Council under operating leases	**40,957**	24,591

continued on next page ...

C2-2 Council as a lessor (continued)

	2022 $ '000	2021 $ '000
(iii) Maturity analysis of undiscounted lease payments to be received after reporting date for all operating leases:		
Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:		
< 1 year	**2,531**	4,815
1–2 years	**2,659**	3,307
2–3 years	**1,472**	2,503
3–4 years	**1,411**	1,332
4–5 years	**1,362**	1,236
> 5 years	**19,909**	5,667
Total undiscounted lease payments to be received	**29,344**	18,860

Accounting policy

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

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

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

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

C3 Liabilities of Council

C3-1 Payables

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Goods and services	**40,269**	**–**	38,592	–
Accrued expenses:				
– Salaries and wages	**2,683**	**–**	2,097	–
– Other expenditure accruals	**411**	**–**	400	–
Security bonds, deposits and retentions	**1,638**	**–**	1,472	–
Government departments and agencies	**147**	**–**	155	–
Prepaid rates	**2,767**	**–**	2,389	–
Newcastle Airport accruals	**4,293**	**165**	2,592	2,921
Total payables	**52,208**	**165**	47,697	2,921

Current payables not anticipated to be settled within the next twelve months

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

Total payables	**–**	–

Accounting policy

Council measures all financial liabilities initially at fair value less transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest rate method.

Payables represent liabilities for goods and services provided to Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 14 days of recognition.

C3-2 Contract Liabilities

	Notes	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Grants and contributions received in advance:					
Unexpended capital grants (to construct Council controlled assets)	(i)	**1,603**	**500**	750	–
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	**239**	**–**	1,082	405
Total grants received in advance		**1,842**	**500**	1,832	405
Other income received in advance:					
Funds received prior to performance obligations (AASB 15)	(ii)	**3,142**	**–**	2,675	–
Deposits received in advance of services provided	(iii)	**4,902**	**316**	5,676	348
Total other income received in advance		**8,044**	**316**	8,351	348
Total contract liabilities		**9,886**	**816**	10,183	753

Notes

(i) Council has received funding to construct assets including playgrounds, organics recycling facility and other infrastructure. The funds received are under an enforceable contract which require Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. The revenue is expected to be recognised in the next 12 months.

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

(iii) Deposits received in advance are recorded as a contract liability upon receipt and recognised as revenue when the service has been provided.

Revenue recognised (during the financial year) from opening contract liability balances

	2022 $ '000	2021 $ '000
Grants and contributions received in advance:		
Operating grants (received prior to performance obligation being satisfied)	**873**	159
Other income received in advance:		
Deposits received in advance of services provided	**50**	1,414
Funds received prior to performance obligations (AASB 15)	**1,929**	1,791
Total revenue recognised that was included in the contract liability balance at the beginning of the period	**2,852**	3,364

Accounting policy

Contract liabilities are recorded when consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

C3-3 Borrowings

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Loans – secured	**4,925**	**36,855**	4,742	41,781
Loans – Newcastle Airport	**–**	**24,400**	–	14,850
Total borrowings	**4,925**	**61,255**	4,742	56,631

(a) Changes in liabilities arising from financing activities

	2021		Non-cash movements			2022
	Opening Balance $ '000	Cash flows $ '000	Acquisition $ '000	Acquisition due to change in accounting policy $ '000	Other non-cash movement $ '000	Closing balance $ '000
Loans – secured	46,523	**(4,743)**	**–**	**–**	**–**	**41,780**
Loans - Newcastle Airport	14,850	**9,550**	**–**	**–**	**–**	**24,400**
Lease liability (Note C2-1b)	35,706	**(4,069)**	**15**	**–**	**2,472**	**34,124**
Total liabilities from financing activities	97,079	**738**	**15**	**–**	**2,472**	**100,304**

	2020		Non-cash movements			2021
	Opening Balance $ '000	Cash flows $ '000	Acquisition $ '000	Acquisition due to change in accounting policy $ '000	Other non-cash movement $ '000	Closing balance $ '000
Loans – secured	50,872	(4,349)	–	–	–	46,523
Loans - Newcastle Airport	11,850	3,000	–	–	–	14,850
Lease liability (Note C2-1b)	40,144	(2,011)	190	–	(2,617)	35,706
Total liabilities from financing activities	102,866	(3,360)	190	–	(2,617)	97,079

(b) Financing arrangements

	2022 $ '000	2021 $ '000
Total financing facilities available at reporting date:		
– Intraday facility	**3,000**	3,000
– Credit cards/purchase cards	**350**	350
– Loans - secured	**41,780**	46,523
– Loans - Newcastle Airport	**50,000**	25,000
Total financing arrangements	**95,130**	74,873
Drawn facilities at reporting date:		
– Credit cards/purchase cards	**37**	39
– Loans - secured	**41,780**	46,523
– Loans - Newcastle Airport	**24,400**	14,850
Total drawn financing arrangements	**66,217**	61,412

continued on next page ...

C3-3 Borrowings (continued)

	2022 $ '000	2021 $ '000
Undrawn facilities at reporting date:		
– Intraday facility	**3,000**	3,000
– Credit cards/purchase cards	**313**	311
– Loans - secured	**–**	–
– Loans - Newcastle Airport	**25,600**	10,150
Total undrawn financing arrangements	**28,913**	13,461

Breaches and defaults
During the current year, up to and including 30 June 2022, there were no defaults or breaches on any of the loans.

Security over loans
Security provided by Council is by way of a deemed charge over Council's rates income.

Bank overdrafts
Council has an intraday overdraft facility on its main operating account which is utilised on occasion.

Accounting policy

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

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

Loan covenants
Under the terms of a major borrowing facility, Council is required to comply with the following financial covenant:

- The debt ratio does not exceed 40%

Council has complied with this covenant throughout the reporting period. As at 30 June 2022 the debt ratio was 13%.

C3-4 Employee benefit provisions

	2022 Current $ '000	2022 Non-current $ '000	2021 Current $ '000	2021 Non-current $ '000
Annual leave	**11,226**	**–**	10,575	–
Sick leave	**4,790**	**–**	5,502	–
Long service leave	**18,933**	**969**	19,711	977
Termination benefits	**–**	**–**	258	–
Other	**37**	**–**	23	–
Total employee benefit provisions	**34,986**	**969**	36,069	977

	2022 $ '000	2021 $ '000
Current employee benefit provisions not expected to be settled within the next 12 months	**23,047**	24,196

Accounting policy

Employee benefit provisions are presented as current liabilities in the Statement of Financial Position if 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. As such, all annual leave and accumulating sick leave is presented as current.

Short-term obligations

Liabilities for wages and salaries (including annual leave and termination benefits 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 termination benefits are 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, accumulating sick 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. 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 Commonwealth government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

On-costs

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

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

C3-5 Provisions

	2022 Current $ '000	2022 Non-Current $ '000	2021 Current $ '000	2021 Non-Current $ '000
Asset remediation	**18,595**	**48,092**	193	79,886
Self insurance – workers compensation	**2,628**	**6,651**	1,280	5,030
Other	**–**	**10**	–	10
Total provisions	**21,223**	**54,753**	1,473	84,926

Movements in provisions

	Self insurance $ '000	Asset remediation $ '000	Other $ '000	Net carrying amount $ '000
2022				
At beginning of year	**6,310**	**80,079**	**10**	**86,399**
Changes to provision:				
– Revised discount rate	**–**	**(13,521)**	**–**	**(13,521)**
– Revised costs	**5,976**	**454**	**–**	**6,430**
Unwinding of discount	**–**	**1**	**–**	**1**
Amounts used (payments)	**(3,007)**	**(326)**	**–**	**(3,333)**
Total provisions at end of year	**9,279**	**66,687**	**10**	**75,976**
2021				
At beginning of year	4,700	66,394	–	71,094
Changes to provision:				
– New provision	–	–	10	10
– Revised discount rate	80	4,735	–	4,815
– Revised costs	2,860	9,390	–	12,250
Unwinding of discount	–	1	–	1
Amounts used (payments)	(1,330)	(441)	–	(1,771)
Total provisions at end of year	6,310	80,079	10	86,399

Nature and purpose of provisions

Asset remediation
The provision for asset remediation represents the present value of the future estimated costs Council will incur to remove, restore and remediate sites as a result of past and/or current operations.

Self insurance
Self insurance provisions represent both (i) claims incurred but not reported and (ii) claims reported and estimated as a result of Council being a self insurer up to certain levels of excess.

Other
Other provisions represent the present value of a make good condition clause for the end of term of a lease where Council is the lessee.

Accounting policy

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 an interest expense.

continued on next page ...

C3-5 Provisions (continued)

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

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, e.g. 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.

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. 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 infrastructure, property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Self insurance

Council has decided to self insure for workers compensation. A provision for self insurance has been made to recognise outstanding claims. Council also maintains cash security with the State Insurance Regulatory Authority (SIRA) to meet expected future claims; refer to Note C1-3.

C4 Reserves

C4-1 Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment (IPPE) revaluation reserve is used to record increments and decrements in the revaluation of infratsructure, property, plant and equipment.

D Council structure

D1 Interests in other entities

	Council's share of net assets	
	2022	2021
	$ '000	$ '000
Council's share of net assets		
Net share of interests in joint ventures and associates using the equity method – assets		
Associates	**548**	718
Total Council's share of net assets	**548**	718

D1-1 Interests in joint arrangements

Joint operations

	Principal activity	Principal place of business	Percentage owned (%)	
			2022	2021
(a) Council is involved in the following joint operations (JO's)				
Name of joint operation:				
Newcastle Airport Partnership	Civil aviation facilities	Williamtown	**50%**	50%
Greater Newcastle Aerotropolis Partnership	Civil aviation facilities	Williamtown	**50%**	50%

The percentage ownership interest held is equivalent to the percentage voting rights for all joint arrangements. All joint arrangements have the same year end as Council.

Council has entered into two joint arrangements; Newcastle Airport Partnership, and Greater Newcastle Aerotropolis Partnership. Both entities have a principal place of business of Williamtown, NSW. Under these arrangements, the partners hold rights to their share of assets and liabilities of the entities, and their unanimous consent is required for decisions regarding the relevant activities of the entities. Council has therefore classified these arrangements as joint operations and has included its interests in the assets, liabilities, revenue and expenses of the partnerships in the appropriate line items of the Statement of Financial Position and Income Statement respectively.

Accounting policy

Council has determined that it has joint operations.

Joint operations

In relation to its joint operations, where Council has the rights to the individual assets and obligations arising from the arrangement, Council has recognised:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly

These figures are incorporated into the relevant line item in the primary statements.

D1-2 Interests in associates

Associates

	Principal place of business	Nature of relationship	Percentage owned (%) 2022	2021
Arrow Collaborative Services Limited	Thornton, NSW	Associate	**19%**	19%

The percentage ownership interest held is not equivalent to the percentage voting rights for all associates. Voting rights held in Arrow Collaborative Services Limited are at 9%. Council has determined it has significant influence through its board representation and the ability to participate in policy-making decisions.

Details

	Principal activity	Measurement method
Arrow Collaborative Services Limited	Provider of services to local government throughout the Hunter Region	Equity

Council has an interest in Arrow Collaborative Services Limited, along with other participating councils of Hunter Joint Organisation (Hunter JO). The activities of this organisation are not controlled by any one Council.

Arrow Collaborative Services Limited (and its wholly owned subsidiaries Hunter Councils Legal Services Limited and Arrow Collaborative Communications) are companies limited by guarantee under the *Corporations Act 2001 (Cth)* and established to improve the quality and efficiency of local government service throughout the Hunter Region. These organisations offer tailored local government services through its five divisions; Local Government Training Institute, Local Government Legal, GoodChat TV, Regional Procurement, Screen Hunter (which, under delegation from member councils, licences film production on council owned and controlled land), and the Hunter JO Policy & Programs Division (which delivers on the strategic priorities of the Hunter JO, including the Hunter and Central Coast Regional Environment Program, on behalf of both Hunter JO member councils and Central Coast Council).

City of Newcastle has representation on the Arrow Collaborative Services Limited Board, and shares ownership and governance of the entity with the other member councils of the Hunter Region.

The following information is provided for associates that are individually material to the group. Included are the amounts as per the individual associates' financial statements, adjusted for fair value adjustments at acquisition date and differences in accounting policies, rather than the group's share.

continued on next page ...

D1-2 Interests in associates (continued)

Summarised financial information for associates

	Arrow Collaborative Services Limited	
	2022	2021
	$ '000	$ '000
Statement of financial position		
Current assets		
Cash and cash equivalents	**1,753**	4,340
Other current assets	**1,891**	1,757
Non-current assets	**2,182**	733
Current liabilities		
Payables	**549**	726
Other current liabilities	**2,428**	2,395
Non-current liabilities		
Other non-current liabilities	**39**	26
Net assets	**2,810**	3,683
Statement of income and other comprehensive income		
Income	**8,269**	6,380
Expenses	**(9,142)**	(7,305)
Profit/(loss) from continuing operations	**(873)**	(925)
Profit/(loss) for period	**(873)**	**(925)**
Total comprehensive income	**(873)**	(925)
Share of income – Council (%)	**19%**	19%
Profit/(loss) – Council ($)	**(170)**	(180)
Total comprehensive income – Council ($)	**(170)**	(180)
Reconciliation of carrying amount of interest in associate to summarised financial information for associates accounted for using the equity method		
Opening net assets (1 July)	**3,683**	4,608
Profit/(loss) for the period	**(873)**	(925)
Closing net assets	**2,810**	3,683
Council's share of net assets (%)	**19%**	19%
Council's share of net assets ($) ^	**548**	718

(^) Council's share of net assets ($) represent the quoted fair value of investment

Accounting policy

Interests in associates 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 at cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If Council's share of losses of an associate equals or exceeds its interest in the associate, Council discontinues recognising its share of further losses.

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

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

E Risks and accounting uncertainties

E1-1 Risks relating to financial instruments held

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk.

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 Council.

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

The fair value of cash and cash equivalents, receivables, payables, borrowings and investments at fair value through profit and loss approximates the carrying amount.

For those financial assets where the total values don't approximate the carrying value, a comparison of the carrying amounts and fair values is presented below.

	Carrying value 2022 $ '000	Carrying value 2021 $ '000	**Fair value 2022 $ '000**	Fair value 2021 $ '000
Financial assets				
Measured at amortised cost				
Investments				
– Debt securities at amortised cost	**244,383**	303,543	**241,774**	305,829

Council's objective is to maximise its return on cash and investments while 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 staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance as required by local government regulations.

The risks associated with the instruments held are:

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

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments in accordance with the established risk management framework within the Council's Investment and Borrowing Policy.

Council also seeks advice from independent advisors, where deemed appropriate, before placing any funds in cash equivalents and investments.

continued on next page ...

E1-1 Risks relating to financial instruments held (continued)

(a) Market risk – interest rate and price risk

	2022 $ '000	2021 $ '000
The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.		
Impact of a 1% movement in interest rates		
– Equity / Income Statement	**2,162**	2,453
Impact of a 10% movement in price of investments		
– Equity / Income Statement	**4,372**	3,381

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

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

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable in the financial statements.

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.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

Credit risk profile

Receivables – rates and annual charges

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

	Not yet overdue $ '000	overdue rates and annual charges < 5 years $ '000	≥ 5 years $ '000	Total $ '000
2022				
Gross carrying amount	**106**	**5,794**	**600**	**6,500**
2021				
Gross carrying amount	117	6,710	600	7,427

continued on next page ...

E1-1 Risks relating to financial instruments held (continued)

Receivables - non-rates and annual charges and contract assets

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

The loss allowance provision as at 30 June 2022 is determined as follows:

	Not yet overdue $ '000	0 - 30 days $ '000	Overdue debts 31 - 60 days $ '000	61 - 90 days $ '000	> 90 days overdue $ '000	Total $ '000
2022						
Gross carrying amount	**9,718**	**11,066**	**3,197**	**425**	**2,240**	**26,646**
Expected loss rate (%)	**0.00%**	**0.05%**	**1.25%**	**8.83%**	**22.61%**	**2.21%**
ECL provision	**–**	**6**	**40**	**38**	**506**	**590**
2021						
Gross carrying amount	5,157	5,894	3,074	1,054	2,536	17,715
Expected loss rate (%)	0.00%	2.53%	5.71%	5.80%	15.59%	4.41%
ECL provision	–	149	176	61	395	781

(c) Liquidity risk

Payables, lease liabilities and borrowings are 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, be extended and overdraft facilities utilised as required.

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

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

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

	Weighted average interest rate %	Subject to no maturity $ '000	payable in: ≤ 1 Year $ '000	1 - 5 Years $ '000	> 5 Years $ '000	Total cash outflows $ '000	Actual carrying values $ '000
2022							
Payables	**0.00%**	**1,638**	**50,570**	**165**	**–**	**52,373**	**52,373**
Borrowings	**4.29%**	**–**	**7,858**	**47,489**	**27,109**	**82,456**	**66,180**
Total financial liabilities		**1,638**	**58,428**	**47,654**	**27,109**	**134,829**	**118,553**
2021							
Payables	0.00%	1,472	46,226	1,700	1,220	50,618	50,618
Borrowings	3.86%	–	7,058	48,502	32,031	87,591	61,373
Total financial liabilities		1,472	53,284	50,202	33,251	138,209	111,991

E2-1 Fair value measurement

Council measures the following asset and liability classes at fair value on a recurring basis:
- infrastructure, property plant and equipment
- investment property
- financial assets

During the reporting period Council has also measured the following asset class on a non-recurring basis:
- non-current assets classified as held for sale

Council measures non-current assets classified as held for sale at the lower of carrying amount and fair value less costs to sell. Therefore measurement is on a non-recurring basis when the carrying amount exceeds the fair value.

(a) Fair value hierarchy

All assets and liabilities measured at fair value are 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; i.e unobservable inputs

The table below shows the assigned level for each asset and liability held at fair value by Council:

		Fair value measurement hierarchy					
		Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		Total	
$ '000	Notes	2022	2021	2022	2021	2022	2021
Recurring fair value measurements							
Financial assets							
Financial investments	C1-2						
At fair value through profit or loss		**43,717**	33,805	**–**	–	**43,717**	33,805
Total financial assets		**43,717**	33,805	**–**	–	**43,717**	33,805
Investment property	C1-9						
Commercial office and retail		**–**	–	**14,990**	13,990	**14,990**	13,990
Total investment property		**–**	–	**14,990**	13,990	**14,990**	13,990
Infrastructure, property, plant and equipment	C1-8						
Plant and equipment		**–**	–	**18,975**	20,832	**18,975**	20,832
Office equipment		**–**	–	**2,830**	3,268	**2,830**	3,268
Furniture and fittings		**–**	–	**16,965**	17,981	**16,965**	17,981
Operational land		**–**	–	**145,681**	114,690	**145,681**	114,690
Community land		**–**	–	**79,492**	74,943	**79,492**	74,943
Crown land		**–**	–	**33,903**	33,903	**33,903**	33,903
Land under roads		**–**	–	**10,132**	10,132	**10,132**	10,132
Depreciable land improvements		**–**	–	**3,898**	3,987	**3,898**	3,987
Buildings – non-specialised		**–**	–	**352**	358	**352**	358
Buildings – specialised		**–**	–	**196,962**	174,370	**196,962**	174,370
Other structures		**–**	–	**74,101**	75,310	**74,101**	75,310
Roads		**–**	–	**360,527**	331,560	**360,527**	331,560
Bridges		**–**	–	**25,207**	26,794	**25,207**	26,794
Footpaths		**–**	–	**103,991**	94,194	**103,991**	94,194
Bulk earthworks (non depreciable)		**–**	–	**215,826**	194,391	**215,826**	194,391
Stormwater drainage		**–**	–	**133,195**	118,016	**133,195**	118,016
Swimming pools		**–**	–	**14,817**	15,238	**14,817**	15,238
Other open space/rec assets		**–**	–	**19,783**	20,018	**19,783**	20,018

continued on next page ...

E2-1 Fair value measurement (continued)

		Fair value measurement hierarchy					
		Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		Total	
$ '000	Notes	2022	2021	2022	2021	2022	2021
Other infrastructure		–	–	57,164	55,934	57,164	55,934
Heritage collections		–	–	81,837	71,172	81,837	71,172
Library books		–	–	7,664	7,734	7,664	7,734
Waste management asset		–	–	12,564	24,020	12,564	24,020
Newcastle Airport		–	–	58,675	52,343	58,675	52,343
Total infrastructure, property, plant and equipment		–	–	1,674,541	1,541,188	1,674,541	1,541,188
Non-current assets classified as held for sale	C1-7						
Land and buildings		–	9,500	366	–	366	9,500
Total Non-current assets classified as held for sale		–	9,500	366	–	366	9,500

(b) Transfers between levels in the fair value hierarchy

Council's policy for determining transfers between fair value heirarchies is to make an assessment at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy during the year.

(c) Valuation techniques

Where Council is unable to derive valuations using quoted market prices of identical assets; i.e Level 1 inputs, Council instead utilises a spread of both observable inputs (Level 2) and unobservable inputs (Level 3).

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

Financial assets

This asset class comprises funds invested into TCorp's Individually Managed Long Term Growth Fund.

The valuation applied to this fund is based on readily available and observable summary statements prepared and provided by the fund arranger, however, no active market exists for the fund as it is only accessible to government agencies.

Council's financial asset holding consists of an identifiable number of units held in the fund unit trust.

Investment property

The best evidence of fair value is the current price in an active market for similar assets. The following information is used where necessary:

- Current prices in an active market for different types of properties or similar properties in a less active market;
- Discounted cash flow projections based on management's best estimates of future rental income and expenditure.

Typically, Council obtains independent valuations for its investment property portfolio on an annual basis and, at the end of each reporting period, the financial statements reflect the most up-to-date valuation. A full revaluation is performed every three years and a desktop valuation every other year.

At 30 June 2022, valuations for two of Council's Investment properties were included in Level 3 of the hierarchy. The key unobservable input in these valuations is the price per metre.

The fair value of Council's Investment properties is determined by independent, qualified valuers who have experience in the location of the properties. Council reviews the valuation reports and discusses significant movements with the valuers. As at 30 June 2022, the desktop valuations of Investment properties was performed by Baker & Magin Valuers, Director A D Magin, AAPI, Certified Practicing Valuer (Business), Registered No. 2568.

continued on next page ...

E2-1 Fair value measurement (continued)

Infrastructure, property, plant and equipment (IPPE)

Plant & equipment, Office equipment, Furniture & fittings and Other assets
Plant & equipment, Office equipment, Furniture & fittings and Other assets are valued at cost but are disclosed at 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 are as follows:

- Plant and equipment - motor vehicles, trucks, tractors, ride-on mowers, street sweepers, compactors and earthmoving equipment
- Office Equipment - computer equipment, projectors, refrigerators, cameras and photocopiers
- Other assets - musical instruments

The key unobservable inputs to the valuation are internal factors surrounding the remaining useful life, pattern of consumption, asset condition and residual value. Where items are of a material value, Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking into account the unobservable inputs mentioned.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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 market value.

Council's operational land is valued using market valuations with a comprehensive valuation completed and revalued every five years. The most recent full valuation was performed by Scott Fullarton Valuations Pty Ltd, Scott Fullarton FAPI CPP, Certified Practising Valuer, API Membership No. 67557, at 30 June 2018. At each reporting period carrying amount of assets is assessed against fair value for any material differences. As at 30 June 2022, Council performed a desktop valuation of operation land.

Council's operational land is reviewed for impairment and any material changes in value after identifying all elements that would be taken into account by buyers and sellers in setting the price, including but not limited to zoning, topography, location, size, shape, access, exposure to traffic and businesses. The condition of the asset and its future cash flows are also considered when determining the fair value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Community and Crown land
Council's 'Community and Crown' land (including owned by Council, the Crown and various other Government Agencies that are managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access (such as a trust deed, dedication under section 7.11 of the *Environment Planning and Assessment Act 1979*). This gives rise to the restrictions in the Act, intended to preserve the qualities of the land.

Community and Crown land:

- Cannot be sold;
- Cannot be leased, licensed, or any other estate granted over the land for more than 21 years and;
- Must have a plan of management for it.

Valuations of all Council's Community land and Council managed land were based on the Unimproved Capital Values (UCV) provided by the Valuer-General which are not considered to be observable market evidence, therefore have been classified as Level 3.

Full revaluations of community and crown land are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed as at 30 June 2019 by applying Valuer-General land values. As at 30 June 2022, Council performed a desktop valuation of community land.

continued on next page ...

E2-1 Fair value measurement (continued)

Land under roads
Land under roads (LUR) is land under roadways and road reserves including land under footpaths, nature strips and median strips. Council has elected not to recognise LUR acquired before 1 July 2008, in accordance with AASB 1051 Land Under Roads.

LUR acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment. Council recognised this asset for the first time in financial year 2008/09. LUR was valued in accordance with the Australian Accounting Standard AASB 116 Property, Plant and Equipment, and the Code of Accounting Practice and Financial Reporting.

A full revaluation of LUR values was performed at 30 June 2019 using a valuation of Council's total LUR at the average unit rate of land and applying discounting factors which reflect the restrictions placed on such assets. This asset class is classified as Level 3 in the fair value hierarchy as significant inputs used in this methodology are unobservable.

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

Depreciable land improvements
The land improvements asset class consists of sports field drainage, irrigation and spear points. These assets may be located in parks, reserves and sporting fields.

Land improvements were valued in-house using the 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.

Full revaluations of Land Improvements - Depreciable occur at least every 5 years, the most recent performed internally at 30 June 2021. This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Buildings – Non-specialised and Specialised
Non-specialised buildings include commercial and general purpose buildings for which there is a secondary market. Specialised buildings are buildings designed for a specific limited purpose. Such buildings would include specialised buildings to house specialised infrastructure or plant and some heritage properties.

Council’s buildings are revalued every five years with the most recent full valuation undertaken as at 30 June 2018. Valuations were performed by external valuers Scott Fullarton Valuations Pty Ltd, GHD and Knight Frank Newcastle. At each reporting period carrying amount of assets is assessed against fair value for any material differences. As at 30 June 2022, Council performed a desktop valuation of specialised buildings.

Non-Specialised Buildings
The market sale approach to the valuation of assets comprises reference to market evidence of the sale of the identical and or similar assets. The valuation aspects are generally, but not limited to, the location, size, condition, style and utility of the asset. Since most of these inputs require judgement and are unobservable, the asset class has been classified as Level 3.

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

Specialised Buildings
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

This approach estimates the replacement cost for each building by componentising the building (for complex structures) into significant parts with different useful lives and taking into account a range of factors such as the remaining useful life of the asset, condition, pattern of consumption and residual value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Other Structures
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted. This asset class comprises of Council’s outdoor shelters, monuments, floodlighting systems, Summerhill waste disposal cells, fencing and other smaller structures.

continued on next page ...

E2-1 Fair value measurement (continued)

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and by componentising its significant parts where applicable. 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.

Full revaluations of other structures are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed at 30 June 2021 by engaging both internal experts and external valuers (AssetVal and Aurecon). This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Roads
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

This asset class comprises the following road components – surface, pavement, kerb & gutter and roadside furniture.

The cost approach was utilised to value roads by componentising the assets into significant parts and then rolling up these component values to provide an overall road valuation (for each road segment) within Council's asset system. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life required significant professional judgement which impacted significantly on the final determination of fair value.

Full revaluations of road assets are performed at least every 5 years, however, at each reporting period the carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed at 30 June 2020 using the methodology outlined above. As at 30 June 2022, Council performed a desktop valuation of Road assets.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Bridges
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

Bridges were valued in house by experienced Council engineering staff, with condition data collected in house and unit rates provided by independent external consultant Vasey Consulting. This asset class is componentised into significant parts, comprising of the Bridge Substructure, Superstructure and Handrail/Guardrail, each with differing useful lives.

The replacement cost for each bridge component has been supplied by Vasey Consulting based on unit rate calculations. In order to calculate condition based depreciation and fair value, other input estimates like the useful life, condition ratings, residual value and pattern of consumption have been used. These inputs require significant professional judgement, therefore this asset class has been categorised as Level 3.

Full revaluations of bridges are performed at least every 5 years, however, at each reporting period the carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed at 30 June 2020 using the methodology outlined above.

Footpaths
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted. This asset class comprises the following road components – footpaths.

Replacement costs (unit rates) and useful lives of Council's footpaths were determined using technical knowledge. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted significantly on the final determination of fair value.

Full revaluations of footpath assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed internally as at 30 June 2020. As at 30 June 2022, Council performed a desktop valuation of Footpath assets.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

continued on next page ...

E2-1 Fair value measurement (continued)

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

Bulk earthworks (non-depreciable)
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

The cost approach estimated the replacement cost for each asset taking into account a range of factors. Input estimates such as the replacement costs (based on unit rates) required significant professional judgement which impacted significantly on the final determination of fair value.

Full revaluations of bulk earthworks assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed internally as at 30 June 2020. As at 30 June 2022, Council performed a desktop valuation of Bulk earthwork assets.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Stormwater drainage
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

Council's drainage assets comprise pits, pipes, culverts, stormwater quality improvement devices, headwalls, open channels - civil, constructed water courses and tidal gates used to collect, store and remove stormwater.

The cost approach estimated the replacement cost for each asset with differing useful lives and taking into account a range of factors. Inputs such as estimates of the pattern of consumption, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived underground assets there is uncertainty regarding the actual design, specifications and dimensions of some assets.

Full revaluations of stormwater drainage assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed internally as at 30 June 2020. As at 30 June 2022, Council performed a desktop valuation of Stormwater drainage assets.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Swimming pools
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

This asset class comprises Council's outdoor swimming pools and ocean bath shells.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and by componentising its significant parts where applicable. 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.

Full revaluations of swimming pool assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed as at 30 June 2021 by engaging internal expertise and external valuers (AssetVal).

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Other open space/recreational assets
In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

This asset class comprises Council's outdoor skate facilities, sporting facilities, playgrounds and other smaller recreational assets.

continued on next page ...

E2-1 Fair value measurement (continued)

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and by componentising its significant parts where applicable. 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.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

Full revaluations of Other Open space/recreational assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences.The most recent full revaluation was performed at 30 June 2021 by engaging both internal experts and external valuers (Kico and AssetVal).

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

Other infrastructure
The Other infrastructure asset class consists of ground level car parks, retaining walls, river and sea walls, boat ramps and other infrastructure assets. These assets may be located on parks, reserves and sporting fields.

Other infrastructure assets were valued in-house using the 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.

Full revaluations of other infrastructure assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed internally at 30 June 2021.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Heritage collections
Assets within this class comprise of Art Gallery and Museum collections. Market value is used to determine the fair value of the Art Gallery and Museum collections at least every 5 years.

Due to the specialised nature of the heritage collections, Council engaged two independent valuers for the Art Gallery collection and an independent valuer for the Museum collection. These independent qualified valuers provided market valuations for the collections representing fair value at the end of the reporting period.

The most recent full revaluation of the Heritage collections was at 30 June 2020; with the valuation of the Art Gallery collection performed by Annette Larkin Fine Art and Daniel McOwan, while the valuation of the Museum collection was performed by Ravenswick. As at 30 June 2022, Council performed a desktop valuation of Heritage assets.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Library books
This asset category comprises of assets such as media, fiction, non fiction, rare (heritage) books, research books and local studies. Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

The most recent full revaluation was performed at 30 June 2021. The rare (heritage) books collection was valued by external valuer Simon Taaffe using the market approach. The remainder of library books were valued internally. Where items were of a material value, Council reviewed the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption, estimated remaining useful life and the residual value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

continued on next page ...

E2-1 Fair value measurement (continued)

Waste management asset
The Summerhill Waste Management Centre encompasses a landfill operation as well as a wide range of waste disposal services, resource recovery services, recycled and reclaimed products, and waste management educational activities. It has been recognised that there will be significant costs associated with the closure and post closure management of the landfill site.

Closure of the landfill will involve a wide range of activities including preparation of a Landfill Closure and Management Plan, final capping of the landfill waste and site re-vegetation, revision of the surface water management system and leachate management infrastructure to suit post-closure operation, decommissioning and removing infrastructure and equipment that will not be required post-closure, and fencing sensitive infrastructure.

An evaluation of costs for the landfill closure and post closure management was prepared by Summerhill's senior management during 2015. Council reviews and updates the cost model annually, which ensures the waste management asset reflects fair value at the end of each reporting period. The key unobservable inputs are the discount rate, cost escalation rate, actual timing of costs and future environmental management requirements.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Newcastle Airport
Council participates in two joint operations with Port Stephens Council for the operation of civil aviation facilities at Newcastle Airport. Under this structure, the partners hold the rights to their share of the assets and obligations of the partnership.

This asset category comprises of property, plant, equipment and infrastructure assets. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

The key unobservable inputs to the valuation are internal factors surrounding the remaining useful life, pattern of consumption, asset condition and residual value. This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

continued on next page ...

E2-1 Fair value measurement (continued)

(d) Reconciliation of movements

A reconciliation of the movements in recurring fair value measurements allocated to Level 3 of the hierarchy is provided below:

	Notes	Total 2022 $ '000	Total 2021 $ '000
Opening balance		**1,555,178**	1,487,073
Total gains or losses for the period			
Recognised in profit or loss – realised	B2-6,B3-5	**1,000**	2,865
Other movements			
Transfers from/(to) level 2 FV hierarchy		**–**	(4,412)
Transfers from/(to) another asset class		**20,618**	42,279
Purchases (GBV)		**26,166**	52,319
Disposals (WDV)		**(6,324)**	(12,364)
Depreciation and impairment		**(55,076)**	(52,780)
Revaluation increment (decrement)		**148,335**	40,198
Closing balance		**1,689,897**	1,555,178

Note E2-1 Fair value measurement (continued)

(e) Fair value measurements using significant observable inputs (Level 3)

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various Level 3 asset class fair values.

Investment properties

Class	Fair value 2022 $'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	14,990	Market Value	• Estimated rental value (rate per square metre) • Rental yield • Capitalisation rates of similar properties	• $ per sqm • 5% - 8% • 5% - 8%	Significant changes in the market value, estimated rental yield and recent sales prices of similar properties would result in significant changes to fair value measurement.

Infrastructure, property, plant and equipment

Class	Fair value 2022 $'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Plant & equipment	18,975	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life	• Varies significantly from asset to asset • 0 to 50 years	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Office equipment	2,830	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life	• Varies significantly from asset to asset • 0 to 5 years	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Furniture & fittings	16,965	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life	• Varies significantly from asset to asset • 0 to 25 years	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Operational land	145,681	Market value	• Total value of land	• Unit rates ($ per sq metre) variable dependent on site	Significant changes in the rate per square metre would result in significant changes to fair value measurement.
Community land	79,492	Valuer General (VG) valuation	• Average unit rate based on VG valuations	• VG assessment	Significant changes in the unimproved capital value would result in significant changes to fair value measurement.

Note E2-1 Fair value measurement (continued)

Class	Fair value 2022 $'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Crown land	33,903	Valuer General (VG) valuation	• Average unit rate based on VG valuations	• VG assessment	Significant changes in the unimproved capital value would result in significant changes to fair value measurement.
Land under roads	10,132	Discounted average land value approach	• Average unit rate based on total land valuation • Discounting factors	• Unit rate ($ per square metre) based on total land within area of control • 65% adjustment factor for Englobo value and 25% for access rights (cumulative discount of 90%)	Significant changes in the unimproved capital value would result in significant changes to fair value measurement.
Depreciable land improvements	3,898	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 50 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Buildings – Non specialised	352	Market value	• Market value • Asset condition	• Varies significantly from asset to asset • Very poor to excellent	Significant changes in the market value, asset condition and recent sales prices of similar properties would result in significant changes in fair value measurement.
Buildings – specialised	196,962	Cost approach	• Current replacement cost of modern Equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Other structures	74,101	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 200 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Roads	360,527	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 120 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition or pattern of consumption affecting the remaining useful life would result in significant changes to fair value measurement.

Note E2-1 Fair value measurement (continued)

Class	Fair value 2022 $'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Bridges	25,207	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition or pattern of consumption affecting the remaining useful life would result in significant changes to fair value measurement.
Footpaths	103,991	Cost approach	• Current replacement cost of modern Equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 50 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition or pattern of consumption affecting the remaining useful life would result in significant changes to fair value measurement.
Bulk earthworks (non depreciable)	215,826	Cost approach	• Average unit rate	• Unit rates ($ per cubic metre)	Significant changes to the average unit rate would result in significant changes to fair value measurement.
Stormwater drainage	133,195	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition or pattern of consumption affecting the remaining useful life would result in significant changes to fair value measurement.
Swimming pools	14,817	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Other open space/ recreational assets	19,783	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition	• Varies significantly from asset to asset • 0 to 60 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Other infrastructure	57,164	Cost approach	• Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition	• Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Heritage collections	81,837	Market value	• Market Value • Asset Condition	• Varies significantly from asset to asset • Very poor to excellent	Significant changes in the market value, and asset condition would result in significant changes to fair value measurement.

Note E2-1 Fair value measurement (continued)

Class	Fair value 2022 $'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Library books	7,664	Cost approach Market value	• Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition • Market value	• Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.
Waste management asset	12,564	Cost approach	• Discount rate • Cost escalation rate	• 3.36% • 2.3%	Significant changes in the discount rate and cost escalation rate would result in significant changes to fair value measurement.
Newcastle Airport	58,675	Cost approach	• Current replacement cost of modern equivalent asset • Remaining useful life	• Varies significantly from asset to asset • 0 to 100 years	Significant changes in the gross replacement value, asset condition, and pattern of consumption affecting the remaining useful life or residual value would result in significant changes to fair value measurement.

(f) Highest and best use

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

E3-1 Contingencies

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

LIABILITIES NOT RECOGNISED

1. Defined benefit plan

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme (Active Super), named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for the purposes of AASB 119 *Employee Benefits* for the following reasons:

- Assets are not segregated within the sub-group according to the employees of each sponsoring employer.
- The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each sponsoring employer according to the experience relating to the employees of that sponsoring employer.
- Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.
- The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors 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 (to the extent that they are not borne by members).

Description of the funding arrangements

Pooled Employers are required to pay future service employer contributions and past service employer contributions to the Fund.

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

Division B	1.9 times member contributions for non-180 point members; Nil for 180 point members*
Division C	2.5% salaries
Division D	1.64 times member contributions

* For 180 point members, employers are required to contribute 7.5% of salaries for the year ending 30 June 2022 (increasing to 8.0% in line with the increase in the Superannuation Guarantee) to these members' accumulation accounts, which are paid in addition to members' defined benefits.

The past service contribution for each Pooled Employer is a share of the total past service contributions of $40 million per annum for 1 July 2019 to 31 December 2021 and $20 million per annum for 1 January 2022 to 31 December 2024, apportioned according to each employer's share of the accrued liabilities as at 30 June 2021. These past service contributions are used to maintain the adequacy of the funding position for the accrued liabilities.

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

Description of the extent to which Council can be liable to the plan for other Council's obligations under the terms and conditions of the multi-employer plan

As stated above, each sponsoring employer (Council) 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 past service contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of Council.

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

The amount of Council employer contributions to the defined benefit section of the Scheme and recognised as an expense for the year ending 30 June 2022 was $1,486,563. The last formal valuation of the Fund was undertaken by the Fund Actuary, Richard Boyfield FIAA as at 30 June 2021.

continued on next page ...

E3-1 Contingencies (continued)

The amount of past service contributions included in the total employer contribution advised above is $995,769. Council's expected contribution to the plan (including past service contributions) for the next annual reporting period is $1,054,489.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2022 is:

Defined Benefit reserves only*	$millions	Asset Coverage
Assets	2,376.6	
Past Service Liabilities	2,380.7	99.8%
Vested Benefits	2,391.7	99.4%

* excluding other accumulation accounts and reserves in both assets and liabilities.

The share of this deficit that is broadly attributed to Council is 3.22% as at 30 June 2022.

Council's share of any funding surplus or deficit cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

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

Investment return	5.5% per annum
Salary inflation	3.5% per annum
Increase in CPI	2.5% per annum

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 final end of year review will be completed by December 2022.

2. Self insurance - workers compensation

Council is a self insurer for workers compensation. A provision for outstanding claims, based on actuarial assessment, has been recognised in Note C3-5.

Under the Workers Compensation Act 1987 self insurers and specialised insurers are required to provide financial security to meet their outstanding workers compensation claim liabilities. Security may take the form of cash, securities, bank guarantees and bonds. As at 30 June 2022, $6.42 million was invested by State Insurance Regulatory Authority (SIRA) in relation to Council's security requirement as a self insurer. An asset has been recognised in Note C1-11 of Council's accounts for the value of this security deposit. Subsequent to 30 June this year, the security requirement has increased to $9.279 million.

3. Statewide Limited

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

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

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

continued on next page ...

E3-1 Contingencies (continued)

4. Developer contributions

Council receives Section 7.11 contributions and 7.12 levies on various developments across the Council area through the required contribution plans. As part of these plans, Council has received funds for which it will be required to expend the monies in accordance with those plans.

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

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

5. Other contingent liabilities

(i) Legal proceedings

Council has been named as the defendant in a number of proceedings by parties seeking compensation. Due to the considerable uncertainty in legal proceedings and the need to maintain legal professional privilege, the liability cannot be accurately determined at this time and as such has not been brought to account in the financial statements. While no determination can be made as to the outcome of any particular matter, Council considers that there are meritorious defences available in those matters currently the subject of litigation. Any liability, including any legal costs, which may arise, should not have a material adverse effect on the Council's consolidated financial position.

(ii) EPA prosecution

Council was served in March 2022 by the EPA with four Court Attendance Notices (CANs) filed in the Local Court. In August 2022 the EPA subsequently withdrew two of the CANs. The CANs related to events that occurred at the Summerhill Waste Management Facility between 23 March 2021 to 7 April 2021, with the EPA prosecuting one offence of water pollution under section 120 of the *Protection of the Environment Operations Act 1997* (POEO Act) and one offence of failure to comply with EPA license conditions under section 64 of the POEO Act. Council has entered a plea of guilty to the two offences, and the parties are currently negotiating to settle upon an agreed set of facts in preparation for sentencing. Each offence in the Local Court carries a maximum penalty of $110,000 under section 215(2) of the POEO Act.

(iii) COVID-19

Across the past two years, the COVID-19 global health crisis has caused significant challenges for the city's economy, the health and wellbeing of the community and the daily operations of Council. Like other local governments across Australia, Council faced temporary closures of its publicly facing facilities and suspension of services and events, resulting in reduced revenue streams and budget pressure.

Uncertainty still surrounds the continued impact of COVID-19 on the future operations and revenue streams of Council which cannot be reliably quantified at 30 June 2022. As such, any possible future liabilities which may arise from COVID-19 have not been reflected in the financial statements.

ASSETS NOT RECOGNISED

1. Lehman Brothers Australia

Council is a contingent creditor in the liquidation of the bankrupt Lehman Brothers Australia estate. The process has suffered further delays while the liquidator seeks tax clearance from the ATO before initiating the final dividend payment process. These delays are outside the control of Council. Due to the ongoing uncertainty in legal and tax proceedings, the value and timing of any final distribution cannot be reliably determined. As such, Council has not recognised an asset in the financial statements.

2. Infringement notices/fines

Fines and penalty income as a result of Council issuing infringement notices, are followed up and collected by Revenue NSW. Council’s revenue recognition policy for such income is to account for it as revenue when the penalty is applied, to the extent of the impairment provision (determined on an expected credit loss basis).

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices that are in excess of the accrued revenue recognised in the accounts. Due to the limited information available on the status and duration of outstanding notices, Council is unable to reliably determine the full value of collectible fine and penalty income.

F People and relationships

F1 Related party disclosures

F1-1 Key management personnel (KMP)

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:

	2022 **$ '000**	2021 $ '000
Compensation:		
Short-term benefits	**6,047**	6,231
Post-employment benefits	**505**	491
Other long-term benefits	**42**	14
Termination benefits	**108**	58
Total	**6,702**	6,794

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 a library or Council swimming pool) will not be disclosed.

Nature of the transaction	**Transactions during the year** **$ '000**	**Outstanding balances (incl. loans and commitments)** **$ '000**	**Terms and conditions**	**Impairment provision on outstanding balances** **$ '000**	**Impairment expense** **$ '000**
2022					
Employee expenses relating to close family members [1]	**139**	**–**	Enterprise Agreement 2019	**–**	**–**
2021					
Employee expenses relating to close family members [1]	281	–	Enterprise Agreement 2019	–	–

(1) Close family members of Council's KMP are employed by Newcastle City Council under the current Enterprise Agreement on an arm's length basis. There were 3 close family members of KMP employed by Council during 2022 (2021: 4).

F1-2 Councillor and Mayoral fees and associated expenses

	2022 $ '000	2021 $ '000
The aggregate amount of Councillor and Mayoral fees and associated expenses included in materials and services expenses in the Income Statement are:		
Mayoral fee	**102**	100
Councillors' fees	**395**	416
Councillor expenses (incl. mayor) – other (excluding fees above)	**100**	52
Total	**597**	568

F2 Other relationships

F2-1 Audit fees

	2022 $ '000	2021 $ '000
During the year, the following fees were incurred for services provided by Council's auditor:		
Auditors of the Council: NSW Auditor-General:		
(i) Audit and other assurance services		
Audit and review of financial statements	**142**	131
Total fees paid or payable to the NSW Auditor-General	**142**	131
Other services: Other firms		
(i) Audit and other assurance services		
Other audit and assurance services	**174**	197
Total fees paid or payable to other firms	**174**	197
Total audit fees	**316**	328

G Other matters

G1-1 Statement of Cash Flows information

(a) Reconciliation of net operating result to cash provided from operating activities

	2022 $ '000	2021 $ '000
Net operating result from Income Statement	**4,631**	(4,350)
Add / (less) non-cash items:		
Depreciation and amortisation	**60,130**	57,824
(Gain) / loss on disposal of assets	**5,418**	10,336
Non-cash capital grants and contributions	**(1,192)**	(11,164)
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investments classified as 'at fair value' or 'held for trading'	**5,260**	(499)
– Investment property	**(1,000)**	(2,865)
– Revaluation decrements / impairments of IPP&E direct to P&L	**4**	–
Amortisation of premiums, discounts and prior period fair valuations		
– Financial assets at amortised cost / held to maturity (2021)	**9**	33
Share of net (profits)/losses of associates/joint ventures using the equity method	**170**	180
Movements in operating assets and liabilities and other cash items:		
(Increase) / decrease of receivables	**(8,571)**	1,124
Increase / (decrease) in provision for impairment of receivables	**(192)**	(357)
(Increase) / decrease of inventories	**(136)**	(30)
Decrease/(increase) in other assets	**(6,988)**	(371)
(Increase) / decrease of contract asset	**(36)**	–
Increase / (decrease) in payables	**1,677**	16,726
Increase / (decrease) in other accrued expenses payable	**597**	(1,890)
Increase / (decrease) in other liabilities	**(519)**	(1,808)
Increase / (decrease) in contract liabilities	**(234)**	3,754
Increase / (decrease) in employee benefit provision	**(1,091)**	355
Increase / (decrease) in other provisions	**(10,423)**	15,305
Net cash flows from operating activities	**47,514**	82,303

(b) Non-cash investing and financing activities

Other dedications	**1,192**	11,164
Total non-cash investing and financing activities	**1,192**	11,164

G2-1 Commitments

Capital commitments (exclusive of GST)

	2022 $ '000	2021 $ '000
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	**54,843**	22,307
Plant and equipment	**59,486**	1,603
Open Spaces	**374**	138
Land improvements	**62,507**	10,719
Road infrastructure	**930**	–
Other	**3,200**	970
Total commitments	**181,340**	35,737

Details of capital commitments

Building commitments relate to terminal expansion development at Newcastle Airport, as well as construction of an organics processing facility at Summerhill Waste Management Centre.

Plant and equipment commitments include expenses related to landside and ground transport at Newcastle Airport.

Open spaces commitments relate to the construction of a waterslide at Lambton Pool, along with other works to park amenities.

Land improvements commitments include expenses related to capping the former Astra Street landfill site, construction along Bathers Way, and airfield development at Newcastle Airport.

Road infrastructure commitments include expenses related to bridge repairs at Yangan Drive Beresfield.

Other commitments include land acquisition by Newcastle Airport.

G3-1 Events occurring after reporting date

Elections for NSW Local Governments were held on 4 December 2021. Under Section 333 of *Local Government Act 1993* Council is required to review its organisational structure within 12 months of an election. On 9 August 2022, the CEO presented the new structure to the elected Councillors and obtained their approval. The new organisational structure will take effect on 1 October 2022. The cost to implement the new structure is not presently known and cannot be reliably estimated.

The financial effect of the above event has not been brought to account at 30 June 2022.

G4 Statement of developer contributions as at 30 June 2022

G4-1 Summary of developer contributions

	Opening balance at 1 July 2021	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2022	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Traffic and transport	542	71	–	2	–	–	615	–
Social infrastructure	13,581	641	–	42	(109)	–	14,155	–
Open space and recreation	805	298	–	3	(113)	–	993	–
Transport	–	66	–	–	(66)	–	–	–
Community facilities	–	53	–	–	–	–	53	–
Plan preparation and administration	–	10	–	–	(10)	–	–	–
S7.11 contributions – under a plan	14,928	1,139	–	47	(298)	–	15,816	–
S7.12 levies – under a plan	4,621	6,257	–	17	(5,072)	–	5,823	–
Total S7.11 and S7.12 revenue under plans	19,549	7,396	–	64	(5,370)	–	21,639	–
S7.4 planning agreements	–	25	–	–	–	–	25	–
Total contributions	19,549	7,421	–	64	(5,370)	–	21,664	–

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.

G4-2 Developer contributions by plan

	Opening balance at 1 July 2021	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2022	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Contribution plan – Western Corridor								
Traffic and transport	542	71	–	2	–	–	615	–
Social infrastructure	13,581	641	–	42	(109)	–	14,155	–
Total	14,123	712	–	44	(109)	–	14,770	–
Contribution plan – Fern Bay cross boundary								
Open space and recreation	805	13	–	2	–	–	820	–
Total	805	13	–	2	–	–	820	–
Contribution plan - S7.11 Development contributions plan								
Transport	–	66	–	–	(66)	–	–	–
Open space and recreation	–	285	–	1	(113)	–	173	–
Community facilities	–	53	–	–	–	–	53	–
Plan preparation and administration	–	10	–	–	(10)	–	–	–
Total	–	414	–	1	(189)	–	226	–

S7.12 Levies – under a plan

Development Contributions Plan - Jan 2022								
Other	4,621	6,257	–	17	(5,072)	–	5,823	–
Total	4,621	6,257	–	17	(5,072)	–	5,823	–

G5 Statement of performance measures

G5-1 Statement of performance measures – consolidated results

$ '000	Amounts 2022	Indicator 2022	Indicator 2021	Benchmark
1. Operating performance ratio *				
Total continuing operating revenue excluding capital grants and contributions less operating expenses [1, 2]	(2,145)	(0.64)%	(7.36)%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions [1]	335,500			
2. Own source operating revenue ratio				
Total continuing operating revenue excluding all grants and contributions [1]	304,056	86.23%	86.31%	> 60.00%
Total continuing operating revenue [1]	352,598			
3. Unrestricted current ratio				
Current assets less all external restrictions	193,221	1.95x	2.23x	> 1.50x
Current liabilities less specific purpose liabilities	99,106			
4. Debt service cover ratio *				
Operating result before capital excluding interest and depreciation/impairment/amortisation [1, 2]	61,475	5.00x	3.34x	> 2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	12,303			
5. Rates and annual charges outstanding percentage				
Rates and annual charges outstanding	6,981	3.36%	3.91%	< 10.00%
Rates and annual charges collectible	207,511			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	161,162	6.05 mths	6.62 mths	> 3.00 mths
Monthly payments from cash flow of operating and financing activities	26,639			

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2021/22. Refer Note A1-1

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

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

End of the audited financial statements

INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Newcastle City Council

To the Councillors of Newcastle City Council

Opinion

I have audited the accompanying financial statements of Newcastle City Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2022, the Statement of Financial Position as at 30 June 2022, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information. The financial statements include the consolidated financial statements of the Council and the entities it controlled at the year's end or from time to time during the year.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
  - have been prepared, in all material respects, in accordance with the requirements of this Division
  - are consistent with the Council's accounting records
  - present fairly, in all material respects, the financial position of the Council as at 30 June 2022, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

Basis for Opinion

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

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

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

The Council's annual report for the year ended 30 June 2022 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 special 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 special 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 in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors 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.

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/ar3.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor 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 B5-1 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- 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.

Furqan Yousuf
Delegate of the Auditor-General for New South Wales

10 October 2022
SYDNEY

Cr Nuatali Nelmes
Lord Mayor
Newcastle City Council
PO Box 489
NEWCASTLE NSW 2300

Contact: Furqan Yousuf
Phone no: 02 9275 7470
Our ref: D2219491/1770

10 October 2022

Dear Cr Nelmes

Report on the Conduct of the Audit
for the year ended 30 June 2022
Newcastle City Council

I have audited the general purpose financial statements (GPFS) of the Newcastle City Council (the Council) for the year ended 30 June 2022 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2022 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2022 $m	2021* $m	Variance %
Rates and annual charges revenue	199.1	192.7	3.3
Grants and contributions revenue	48.5	46.0	5.4
Operating result from continuing operations	4.6	(4.4)	205
Net operating result before capital grants and contributions	(12.5)	(30.2)	58.6

Rates and annual charges revenue ($199.1 million) increased by $6.4 million (3.3 per cent) in 2021–22 due to:

- annual rate peg increase applied to ordinary rates (2.0 per cent)
- increase of $2.0 million in domestic waste management services revenue.

Grants and contributions revenue ($48.5 million) increased by $2.5 million (5.4 per cent) in 2021–22 mainly due to increase of $3.4 million of cash developer contributions recognised during the year.

The Council's operating result from continuing operations ($4.6 million including depreciation and amortisation expense of $60.1 million) was $9.0 million higher than the 2020–21 result. The movement is mainly attributable to the increase in rates and annual charges and user charges and fees revenue.

The net operating result before capital grants and contributions (a deficit of $12.5 million) was $17.7 million lower than the deficit reported in 2020–21. Movement is mainly attributable to the increase in revenue as noted above and increase of $11.2 in operating grants and contributions recognised during the year.

STATEMENT OF CASH FLOWS

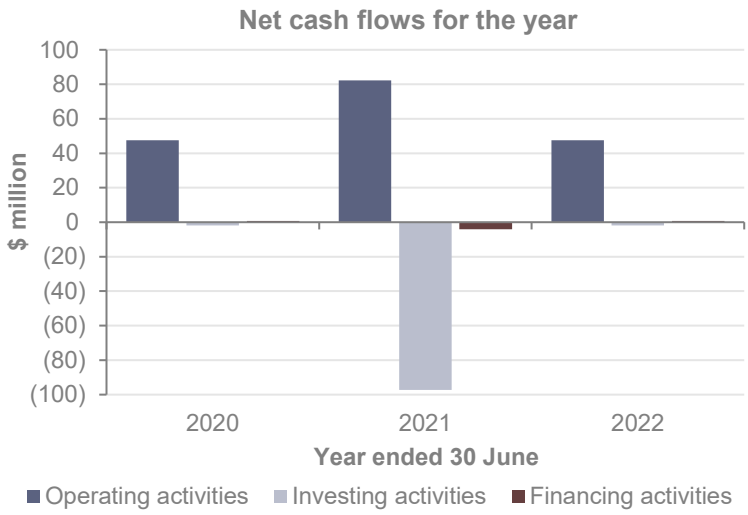
The Statement of Cash Flows illustrates the flow of cash and cash equivalents moving in and out of Council during the year.

The decrease in cash provided from operating activities is mainly due to increase in additional payments during the year.

The decrease in cash used in investing activities is mainly due to redemption of term deposits.

The increase in cash provided from financing activities is due to increase proceeds from borrowings during the year.

The Council's cash and cash equivalent balances at 30 June 2022 was $75.4 million (2021: $29.0 million). The net cash flow for the year was an increase of $46.4 million.



FINANCIAL POSITION

Cash and investments

Cash and investments	2022	2021	Commentary
	$m	$m	
Total cash, cash equivalents and investments	**363.5**	**366.3**	• Cash and investments decreased by $2.8 million. • Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have increased by $1.9 million primarily due to increase in available cash balance relating to the developer contributions. • Internally restricted cash and investments are due to Council policy or decisions to restrict funds for forward plans including strategic capital projects. The decrease in internally restricted cash and investments of $8.8 million is mainly due to decrease in balances relating to Waste Management - Remediation provision and Works Program - Infrastructure Agreed Level of Service.
Restricted and allocated cash, cash equivalents and investments:			
• External restrictions	44.1	42.2	
• Internal allocations	292.7	301.5	

Debt

The Council has $66.2 million of borrowings as at 30 June 2022 (2021: $61.4 million).

The Council has an accumulated drawdown facility limit of $95.1 million as at 30 June 2022 (2021: $74.9 million), of which $50.0 million pertains to the Newcastle Airport Partnership joint venture. As at 30 June 2022, $28.9 million of the total facility remains unutilised.

PERFORMANCE

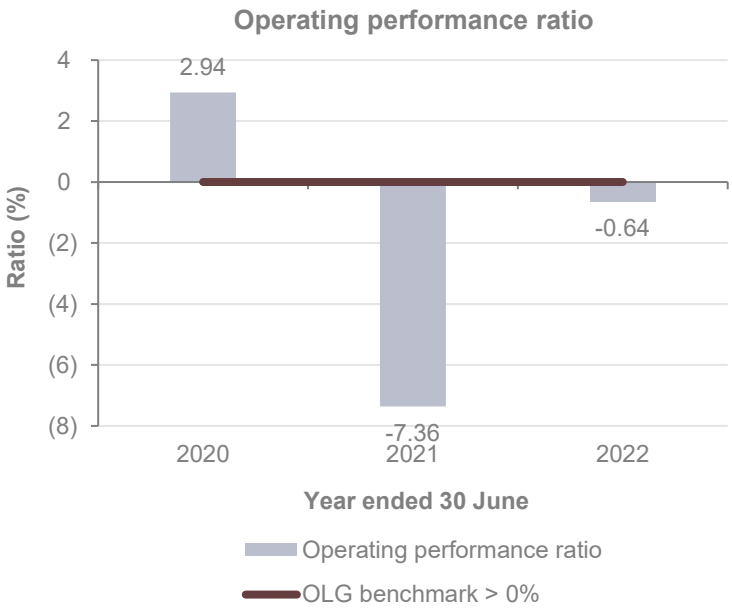
Performance measures

The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning and Environment.

Operating performance ratio

The Council did not meet the OLG benchmark for the current reporting period.

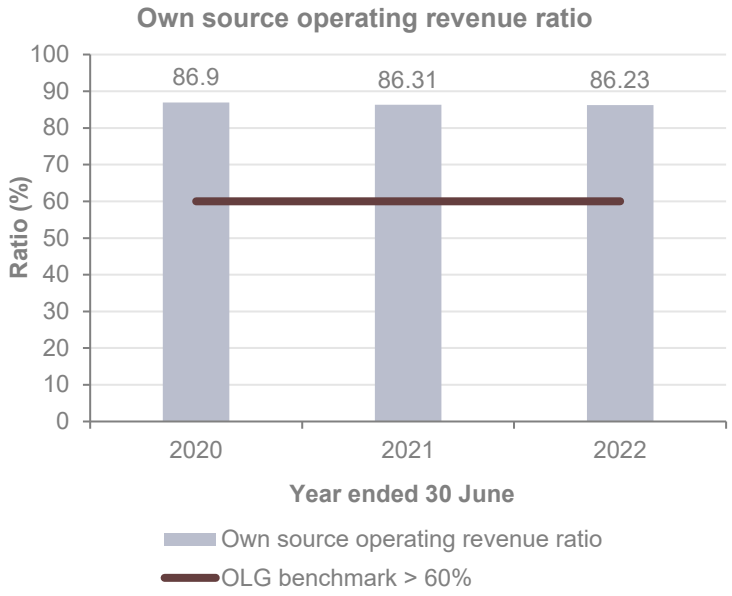
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by OLG is greater than zero per cent.



Own source operating revenue ratio

The Council met the OLG benchmark for the current reporting period.

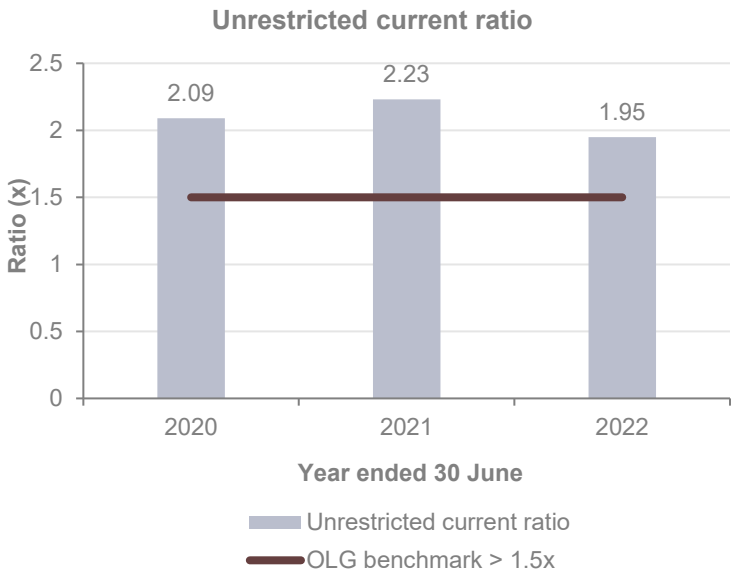
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

The Council met the OLG benchmark for the current reporting period.

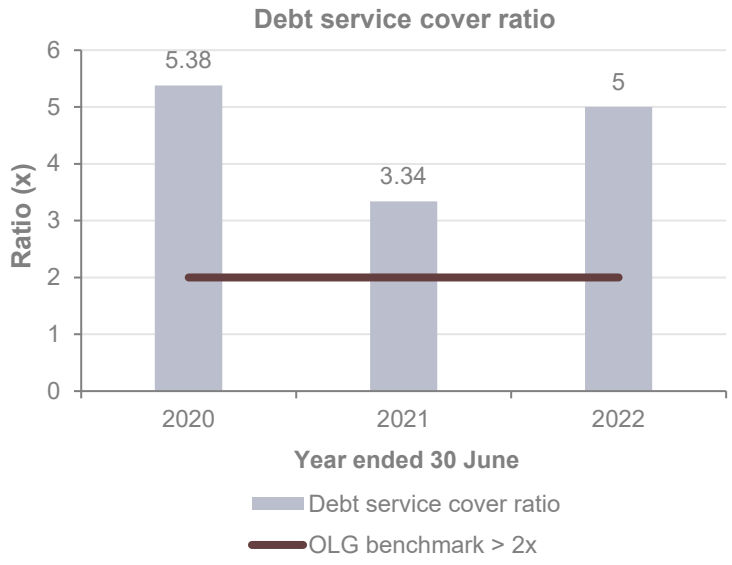
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

The Council met the OLG benchmark for the current reporting period.

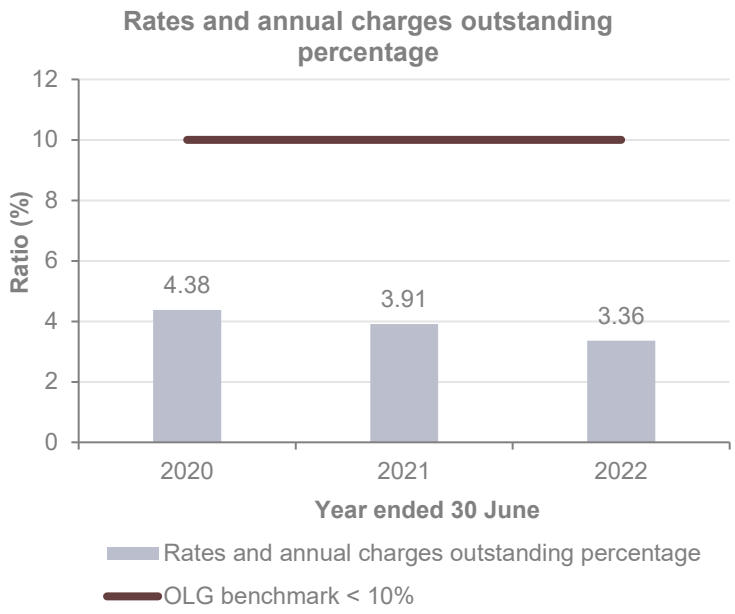
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding percentage

The Council met the OLG benchmark for the current reporting period.

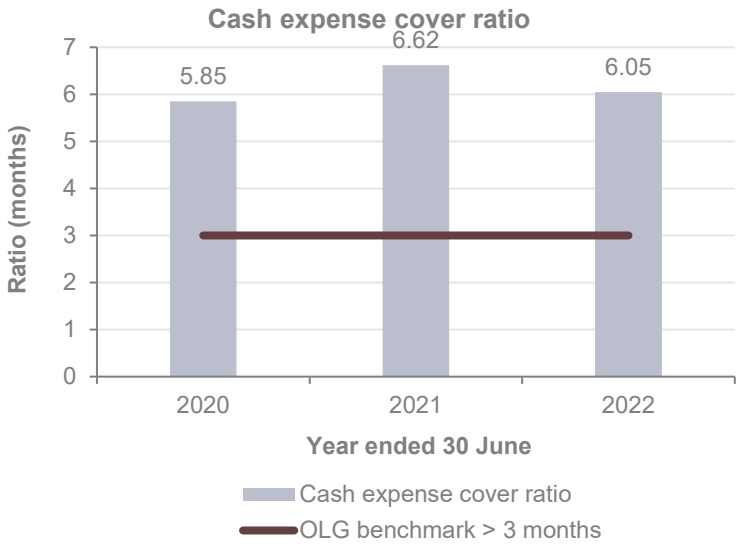
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.



Cash expense cover ratio

The Council met the OLG benchmark for the current reporting period.

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.



Infrastructure, property, plant and equipment renewals

Council reported asset renewals of $16.2 million in 2021-22 ($19.7 million in 2020-21). Significant renewals included:

- road renewals of $6.9 million (2021: $6.7 million)
- plant and equipment renewals of $2.4 million (2021: $2.9 million)
- building renewals of $1.1 million (2021: $2.7 million).

OTHER MATTERS

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 statements.

The Council's:

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

Furqan Yousuf
Delegate of the Auditor-General for New South Wales

cc: Mr Jeremy Bath, Chief Executive Officer
Mr Stephen Coates, Chair of Audit and Risk Committee

Newcastle City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2022

City of Newcastle

Newcastle City Council

Special Purpose Financial Statements

for the year ended 30 June 2022

Contents Page

Statement by Councillors and Management 3

Special Purpose Financial Statements:

Income Statement of Waste Management Collection Service 4
Income Statement of Waste Management Disposal Service 5
Income Statement of Civic Theatre and Playhouse 6
Income Statement of City Hall 7
Income Statement of Commercial Properties 8
Income Statement of Stockton Beach Holiday Park 9
Income Statement of Beresfield Childcare Centre 10

Statement of Financial Position of Waste Management Collection Service 11
Statement of Financial Position of Waste Management Disposal Service 12
Statement of Financial Position of Civic Theatre and Playhouse 13
Statement of Financial Position of City Hall 14
Statement of Financial Position of Commercial Properties 15
Statement of Financial Position of Stockton Beach Holiday Park 16
Statement of Financial Position of Beresfield Childcare Centre 17

Note – Significant Accounting Policies 18

Auditor's Report on Special Purpose Financial Statements 21

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).

Newcastle City Council

Special Purpose Financial Statements
for the year ended 30 June 2022

Statement by Councillors and Management

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:

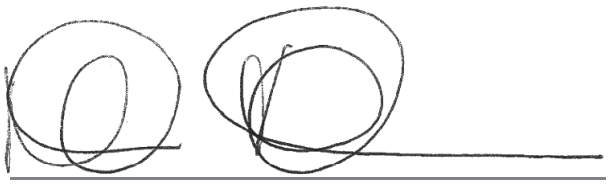
- the NSW Government Policy Statement, *'Application of National Competition Policy to Local Government'*,
- the Division of Local Government Guidelines, *'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality'*, and
- the Local Government *Code of Accounting Practice and Financial 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,
- accord with Council's accounting and other records; and
- present overhead reallocation charges to the businesses as fair and resonable.

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 August 2022.



Lord Mayor

Councillor

Chief Executive Officer

Responsible Accounting Officer

Newcastle City Council

Income Statement of Waste Management Collection Service

for the year ended 30 June 2022

	2022 Category 1 $ '000	2021 Category 1 $ '000
Income from continuing operations		
Annual charges	**17,121**	16,181
User charges	**4,810**	3,797
Other income	**34**	35
Total income from continuing operations	**21,965**	20,013
Expenses from continuing operations		
Employee benefits and on-costs	**4,406**	4,153
Borrowing costs	**71**	239
Materials and services	**10,527**	9,570
Depreciation, amortisation and impairment	**1,598**	2,173
Calculated taxation equivalents	**155**	143
Total expenses from continuing operations	**16,757**	16,278
Surplus (deficit) from all operations before tax	**5,208**	**3,735**
Less: corporate taxation equivalent (25%) [based on result before capital]	**(1,302)**	(971)
Surplus (deficit) after tax	**3,906**	2,764
Opening accumulated surplus	**3,844**	6,917
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	**155**	143
– Corporate taxation equivalent	**1,302**	971
Add:		
– Subsidy paid/(contribution) to operations	**(5,112)**	(6,951)
Closing accumulated surplus	**4,095**	3,844
Return on capital %	**109.7%**	67.0%

Newcastle City Council

Income Statement of Waste Management Disposal Service

for the year ended 30 June 2022

	2022 Category 1 $ '000	2021 Category 1 Restated $ '000
Income from continuing operations		
Annual charges	**10,438**	8,187
User charges	**54,012**	44,300
Grants and contributions provided for operating purposes	**242**	98
Other income	**279**	300
Total income from continuing operations	**64,971**	52,885
Expenses from continuing operations		
Employee benefits and on-costs	**3,964**	3,666
Borrowing costs	**13**	30
Materials and services	**7,764**	6,617
Depreciation, amortisation and impairment	**7,596**	6,374
Calculated taxation equivalents	**194**	158
Other expenses	**38,607**	32,073
Total expenses from continuing operations	**58,138**	48,918
Surplus (deficit) from all operations before tax	**6,833**	**3,967**
Less: corporate taxation equivalent (30%) [based on result before capital] *	**(2,049)**	(1,190)
Surplus (deficit) after tax *	**4,784**	2,777
Opening accumulated surplus	**63,710**	55,421
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	**194**	158
– Corporate taxation equivalent *	**2,049**	1,190
Add:		
– Subsidy paid/(contribution) to operations *	**(13,110)**	4,164
Closing accumulated surplus	**57,627**	63,710
Return on capital %	**10.5%**	5.1%

(*) Comparative figures have been restated. Refer Note - Significant Accounting Policies

Newcastle City Council

Income Statement of Civic Theatre and Playhouse

for the year ended 30 June 2022

	2022 Category 1 $ '000	2021 Category 1 $ '000
Income from continuing operations		
User charges	**1,937**	1,778
Grants and contributions provided for operating purposes	**545**	12
Other income	**840**	1,033
Total income from continuing operations	**3,322**	2,823
Expenses from continuing operations		
Employee benefits and on-costs	**2,570**	2,474
Materials and services	**2,063**	2,252
Depreciation, amortisation and impairment	**1,058**	1,046
Calculated taxation equivalents	**95**	84
Total expenses from continuing operations	**5,786**	5,856
Surplus (deficit) from all operations before tax	**(2,464)**	**(3,033)**
Less: corporate taxation equivalent (25%) [based on result before capital]	**–**	–
Surplus (deficit) after tax	**(2,464)**	(3,033)
Opening accumulated surplus	**4,178**	7,605
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	**95**	84
Add:		
– Subsidy paid/(contribution) to operations	**2,508**	(478)
Closing accumulated surplus	**4,317**	4,178
Return on capital %	**(11.0)%**	(14.3)%

Newcastle City Council

Income Statement of City Hall

for the year ended 30 June 2022

	2022 Category 2 $ '000	2021 Category 2 $ '000
Income from continuing operations		
User charges	**435**	192
Grants and contributions provided for operating purposes	**68**	5
Other income	**720**	298
Total income from continuing operations	**1,223**	495
Expenses from continuing operations		
Employee benefits and on-costs	**1,387**	771
Materials and services	**1,032**	1,083
Depreciation, amortisation and impairment	**1,274**	1,277
Calculated taxation equivalents	**59**	117
Total expenses from continuing operations	**3,752**	3,248
Surplus (deficit) from all operations before tax	**(2,529)**	**(2,753)**
Less: corporate taxation equivalent (25%) [based on result before capital]	**–**	–
Surplus (deficit) after tax	**(2,529)**	(2,753)
Opening accumulated surplus	**21,844**	21,651
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	**59**	117
Add:		
– Subsidy paid/(contribution) to operations	**1,504**	2,829
Closing accumulated surplus	**20,878**	21,844
Return on capital %	**(7.4)%**	(8.8)%

Newcastle City Council

Income Statement of Commercial Properties

for the year ended 30 June 2022

	2022 Category 2 $ '000	2021 Category 2 $ '000
Income from continuing operations		
Fair value increment on investment property	**1,000**	2,865
User charges	**10**	8
Other income	**812**	835
Total income from continuing operations	**1,822**	3,708
Expenses from continuing operations		
Fair value decrement on investment property	**–**	–
Employee benefits and on-costs	**7**	6
Materials and services	**288**	425
Net loss from the disposal of assets	**58**	–
Calculated taxation equivalents	**252**	239
Other expenses	**–**	1
Total expenses from continuing operations	**605**	671
Surplus (deficit) from all operations before tax	**1,217**	**3,037**
Less: corporate taxation equivalent (25%) [based on result before capital]	**(304)**	(790)
Surplus (deficit) after tax	**913**	2,247
Opening accumulated surplus	**18,802**	16,114
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	**252**	239
– Corporate taxation equivalent	**304**	790
Add:		
– Subsidy paid/(contribution) to operations	**(5,571)**	(588)
Closing accumulated surplus	**14,700**	18,802
Return on capital % [1]	**8.1%**	21.7%

(1) For the purpose of calculating return on capital, the fair value of investment properties as at 30 June has been utilised rather than the written down value of IPPE.

Newcastle City Council

Income Statement of Stockton Beach Holiday Park

for the year ended 30 June 2022

	2022 Category 1 $ '000	2021 Category 1 $ '000
Income from continuing operations		
User charges	**2,276**	2,583
Other income	**6**	6
Total income from continuing operations	**2,282**	2,589
Expenses from continuing operations		
Employee benefits and on-costs	**6**	19
Borrowing costs	**22**	31
Materials and services	**1,021**	1,334
Depreciation, amortisation and impairment	**187**	193
Calculated taxation equivalents	**61**	122
Debt guarantee fee	**13**	18
Other expenses	**114**	129
Total expenses from continuing operations	**1,424**	1,846
Surplus (deficit) from all operations before tax	**858**	**743**
Less: corporate taxation equivalent (25%) [based on result before capital]	**(215)**	(193)
Surplus (deficit) after tax	**643**	550
Opening accumulated surplus	**11,156**	10,801
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	**61**	122
– Debt guarantee fees	**13**	18
– Corporate taxation equivalent	**215**	193
Add:		
– Subsidy paid/(contribution) to operations	**(1,166)**	(528)
Closing accumulated surplus	**10,922**	11,156
Return on capital %	**9.9%**	9.1%

Newcastle City Council

Income Statement of Beresfield Childcare Centre

for the year ended 30 June 2022

	2022 Category 2 $ '000	2021 Category 2 $ '000
Income from continuing operations		
User charges	**1,128**	1,208
Grants and contributions provided for operating purposes	**104**	171
Total income from continuing operations	**1,232**	1,379
Expenses from continuing operations		
Employee benefits and on-costs	**1,068**	1,100
Materials and services	**552**	503
Depreciation, amortisation and impairment	**48**	48
Total expenses from continuing operations	**1,668**	1,651
Surplus (deficit) from all operations before tax	**(436)**	**(272)**
Less: corporate taxation equivalent (25%) [based on result before capital]	**–**	–
Surplus (deficit) after tax	**(436)**	(272)
Opening accumulated surplus	**971**	1,097
Plus adjustments for amounts unpaid:		
Add:		
– Subsidy paid/(contribution) to operations	**389**	146
Closing accumulated surplus	**924**	971
Return on capital %	**(32.5)%**	(23.0)%

Newcastle City Council

Statement of Financial Position of Waste Management Collection Service

as at 30 June 2022

	2022 Category 1 $ '000	2021 Category 1 $ '000
ASSETS		
Current assets		
Receivables	**587**	602
Total current assets	**587**	602
Non-current assets		
Right of use assets	**450**	1,798
Infrastructure, property, plant and equipment	**4,812**	5,934
Total non-current assets	**5,262**	7,732
Total assets	**5,849**	8,334
LIABILITIES		
Current liabilities		
Contract liabilities	**8**	4
Lease liabilities	**781**	2,246
Payables	**–**	482
Employee benefit provisions	**947**	935
Total current liabilities	**1,736**	3,667
Non-current liabilities		
Lease liabilities	**–**	781
Employee benefit provisions	**18**	42
Total non-current liabilities	**18**	823
Total liabilities	**1,754**	4,490
Net assets	**4,095**	3,844
EQUITY		
Accumulated surplus	**4,095**	3,844
Total equity	**4,095**	3,844

Newcastle City Council

Statement of Financial Position of Waste Management Disposal Service

as at 30 June 2022

	2022 Category 1 $ '000	2021 Category 1 Restated $ '000
ASSETS		
Current assets		
Investments *	**23,380**	22,822
Receivables	**8,877**	4,935
Total current assets	**32,257**	27,757
Non-current assets		
Right of use assets	**76**	672
Infrastructure, property, plant and equipment	**64,913**	78,604
Total non-current assets	**64,989**	79,276
Total assets	**97,246**	107,033
LIABILITIES		
Current liabilities		
Lease liabilities	**83**	631
Payables	**8,609**	2,029
Employee benefit provisions	**973**	970
Total current liabilities	**9,665**	3,630
Non-current liabilities		
Lease liabilities	**–**	83
Employee benefit provisions	**25**	22
Provisions	**29,929**	39,588
Total non-current liabilities	**29,954**	39,693
Total liabilities	**39,619**	43,323
Net assets *	**57,627**	63,710
EQUITY		
Accumulated surplus	**57,627**	63,710
Total equity	**57,627**	63,710

(*) Comparative figures have been restated. Refer Note - Significant Accounting Policies

Newcastle City Council

Statement of Financial Position of Civic Theatre and Playhouse

as at 30 June 2022

	2022 Category 1 $ '000	2021 Category 1 $ '000
ASSETS		
Current assets		
Receivables	**263**	142
Inventories	**71**	35
Total current assets	**334**	177
Non-current assets		
Infrastructure, property, plant and equipment	**22,385**	21,208
Total non-current assets	**22,385**	21,208
Total assets	**22,719**	21,385
LIABILITIES		
Current liabilities		
Contract liabilities	**4,265**	5,019
Payables	**–**	115
Employee benefit provisions	**327**	307
Total current liabilities	**4,592**	5,441
Non-current liabilities		
Employee benefit provisions	**36**	42
Total non-current liabilities	**36**	42
Total liabilities	**4,628**	5,483
Net assets	**18,091**	15,902
EQUITY		
Accumulated surplus	**4,317**	4,178
Revaluation reserves	**13,774**	11,724
Total equity	**18,091**	15,902

Newcastle City Council

Statement of Financial Position of City Hall

as at 30 June 2022

	2022 Category 2 $ '000	2021 Category 2 $ '000
ASSETS		
Current assets		
Inventories	**12**	–
Total current assets	**12**	–
Non-current assets		
Infrastructure, property, plant and equipment	**34,005**	31,202
Total non-current assets	**34,005**	31,202
Total assets	**34,017**	31,202
LIABILITIES		
Current liabilities		
Payables	**–**	23
Employee benefit provisions	**210**	183
Contract liabilities	**321**	363
Total current liabilities	**531**	569
Non-current liabilities		
Employee benefit provisions	**14**	9
Total non-current liabilities	**14**	9
Total liabilities	**545**	578
Net assets	**33,472**	30,624
EQUITY		
Accumulated surplus	**20,878**	21,844
Revaluation reserves	**12,594**	8,780
Total equity	**33,472**	30,624

Newcastle City Council

Statement of Financial Position of Commercial Properties

as at 30 June 2022

	2022 Category 2 $ '000	2021 Category 2 $ '000
ASSETS		
Current assets		
Receivables	**59**	109
Non-current assets classified as held for sale	**–**	5,088
Total current assets	**59**	5,197
Non-current assets		
Investment property	**14,990**	13,990
Total non-current assets	**14,990**	13,990
Total assets	**15,049**	19,187
LIABILITIES		
Current liabilities		
Contract liabilities	**31**	31
Payables	**–**	6
Employee benefit provisions	**1**	1
Total current liabilities	**32**	38
Non-current liabilities		
Contract liabilities	**317**	347
Total non-current liabilities	**317**	347
Total liabilities	**349**	385
Net assets	**14,700**	18,802
EQUITY		
Accumulated surplus	**14,700**	18,802
Total equity	**14,700**	18,802

Newcastle City Council

Statement of Financial Position of Stockton Beach Holiday Park

as at 30 June 2022

	2022 Category 1 $ '000	2021 Category 1 $ '000
ASSETS		
Current assets		
Cash and cash equivalents	**3,433**	3,713
Receivables	**97**	136
Total current assets	**3,530**	3,849
Non-current assets		
Infrastructure, property, plant and equipment	**8,927**	8,475
Total non-current assets	**8,927**	8,475
Total assets	**12,457**	12,324
LIABILITIES		
Current liabilities		
Contract liabilities	**50**	21
Payables	**–**	141
Interest bearing liabilities	**200**	200
Employee benefit provisions	**39**	3
Total current liabilities	**289**	365
Non-current liabilities		
Interest bearing liabilities	**205**	405
Employee benefit provisions	**4**	–
Total non-current liabilities	**209**	405
Total liabilities	**498**	770
Net assets	**11,959**	11,554
EQUITY		
Accumulated surplus	**10,922**	11,156
Revaluation reserves	**1,037**	398
Total equity	**11,959**	11,554

Newcastle City Council

Statement of Financial Position of Beresfield Childcare Centre

as at 30 June 2022

	2022 Category 2 $ '000	2021 Category 2 $ '000
ASSETS		
Current assets		
Receivables	**22**	59
Total current assets	**22**	59
Non-current assets		
Infrastructure, property, plant and equipment	**1,341**	1,183
Total non-current assets	**1,341**	1,183
Total assets	**1,363**	1,242
LIABILITIES		
Current liabilities		
Payables	**–**	2
Employee benefit provisions	**95**	95
Total current liabilities	**95**	97
Non-current liabilities		
Employee benefit provisions	**26**	36
Total non-current liabilities	**26**	36
Total liabilities	**121**	133
Net assets	**1,242**	1,109
EQUITY		
Accumulated surplus	**924**	971
Revaluation reserves	**318**	138
Total equity	**1,242**	1,109

Note – 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, fair 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 and returns 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

(Business activities with gross operating turnover more than $2 million)

Waste Management Collection Services
Collection of commercial, domestic and other waste

Waste Management Disposal Services
Waste disposal site activities

Stockton Beach Holiday Park
Operation of holiday park

Civic Theatre and Playhouse
Operation of entertainment theatre

Category 2

(Business activities with gross operating turnover less than $2 million)

City Hall
Provision of conference, reception and entertainment facilities

Commercial Properties
Commercial rental properties

Beresfield Child Care Centre
Operation of child care centre

continued on next page ...

Note – Significant Accounting Policies (continued)

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 – 25.0% (or 30.0% for businesses with aggregated turnover greater than $50 million).
- Land tax – the first $822,000 of combined land values attracts 0%. For the combined land values in excess of $822,001 up to $5,026,000 the rate is 1.6% + $100. For the remaining combined land value that exceeds $5,026,000 a premium marginal rate of 2.0% applies.
- Payroll tax – 4.85**%** on the value of taxable salaries and wages in excess of $1,200,000.

Income tax

An income tax equivalent has been applied on the profits of the business activities. While 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 relevant corporate income tax rate, currently 25.0% (or 30.0% for businesses with aggregated turnover greater than $50 million).

Income tax is only applied where a gain 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 25.0% (or 30.0% where aggregated turnover exceeds $50 million) is the equivalent company tax rate prevalent at reporting date.

Local government rates and charges

A calculation of the equivalent rates and charges payable on all Category 1 businesses has been applied to all 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.

(i) 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, 'subsidy paid/(contribution) to operations' (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.

(ii) 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.

continued on next page ...

Note – Significant Accounting Policies (continued)

The rate of return achieved by each business activity is disclosed for each of Council's business activities on their respective Income Statement.

The return on capital is calculated as follows:

$$\frac{\text{Surplus (deficit) from continuing operations before capital amounts + interest expense}}{\text{Written down value of I,PP\&E as at 30 June}}$$

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 3.66% at 30/6/2022.

(iii) Dividends

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

Comparative figures

Comparative figures have been restated in the Income Statement and Statement of Financial Position for the Waste Management Disposal Service business activity.

The Investments line item has been restated to align with the cash restriction for Council's remediation provision for its active landfill site. There is a corresponding restatement to the subsidy paid line item in the Income Statement.

The corporate taxation equivalent line has also been restated to correct the taxation rate applied in 2020/21. A corresponding restatement has been made to the Surplus (deficit) after tax line item in the Income Statement.

INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Newcastle City Council

To the Councillors of Newcastle City Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Newcastle City Council's (the Council) Declared Business Activities, which comprise the Statement by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2022, the Statement of Financial Position of each Declared Business Activity as at 30 June 2022 and the Significant accounting policies note.

The Declared Business Activities of the Council are:

- Waste Management Collection Service
- Waste Management Disposal Service
- Civic Theatre and Playhouse
- City Hall
- Commercial Properties
- Stockton Beach Holiday Park
- Beresfield Childcare Centre.

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 2022, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in the Significant accounting policies note and the Local Government Code of Accounting Practice and Financial Reporting 2021–22 (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 (including Independence Standards)' (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 the Significant accounting policies note 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 2022 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 the Significant accounting policies note 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.

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.

The scope of my audit does not include, nor 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.

Furqan Yousuf
Delegate of the Auditor-General for New South Wales

10 October 2022
SYDNEY

Newcastle City Council

SPECIAL SCHEDULES
for the year ended 30 June 2022

Newcastle City Council

Special Schedules
for the year ended 30 June 2022

Contents Page

Special Schedules:

Permissible income for general rates 3

Report on infrastructure assets as at 30 June 2022 7

Newcastle City Council

Permissible income for general rates

	Notes	Calculation 2021/22 $ '000	**Calculation 2022/23 $ '000**
Notional general income calculation [1]			
Last year notional general income yield	a	164,941	**169,498**
Plus or minus adjustments [2]	b	1,438	**930**
Notional general income	c = a + b	**166,379**	**170,428**
Permissible income calculation			
Special variation percentage [3]	d	0.00%	**2.50%**
Or rate peg percentage	e	2.00%	**0.00%**
Plus special variation amount	f = d x c	–	**4,261**
Or plus rate peg amount	g = e x c	3,328	**–**
Sub-total	h = (c + f + g)	**169,707**	**174,689**
Plus (or minus) last year's carry forward total	i	4	**86**
Less valuation objections claimed in the previous year	j	(122)	**–**
Sub-total	k = (i + j)	**(118)**	**86**
Total permissible income	l = h + k	169,589	**174,775**
Less notional general income yield	m	169,498	**174,762**
Catch-up or (excess) result	n = l - m	**90**	**13**
Less unused catch-up [4]	o	(4)	**–**
Carry forward to next year [5]	p = n + o	**86**	**13**

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 (NSW).*

(3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable, the Crown land adjustment.

(4) 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.

(5) 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 permissible income from general rates in the financial data return (FDR) to administer this process.

INDEPENDENT AUDITOR'S REPORT

Special Schedule – Permissible income for general rates

Newcastle City Council

To the Councillors of Newcastle City Council

Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Newcastle City Council (the Council) for the year ending 30 June 2023.

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 2021–22 (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 (including Independence Standards)' (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 2022 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 2022'.

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.

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.

The scope of my audit does not include, nor 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.

Furqan Yousuf
Delegate of the Auditor-General for New South Wales

10 October 2022
SYDNEY

Newcastle City Council

Report on infrastructure assets as at 30 June 2022

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard $ '000	Estimated cost to bring to the agreed level of service set by Council $ '000	2021/22 Required maintenance [a] $ '000	2021/22 Actual maintenance $ '000	Net carrying amount $ '000	Gross replacement cost (GRC) $ '000	Assets in condition as a percentage of gross replacement cost 1	2	3	4	5
Buildings	Buildings	5,743	23,320	9,023	7,897	197,314	414,609	12.2%	44.9%	36.8%	2.3%	3.8%
	Sub-total	**5,743**	**23,320**	**9,023**	**7,897**	**197,314**	**414,609**	**12.2%**	**44.9%**	**36.8%**	**2.3%**	**3.8%**
Other structures	Other structures	1,218	1,752	3,277	301	74,101	175,246	5.4%	22.8%	65.4%	4.3%	2.1%
	Sub-total	**1,218**	**1,752**	**3,277**	**301**	**74,101**	**175,246**	**5.4%**	**22.8%**	**65.4%**	**4.3%**	**2.1%**
Roads	Sealed roads	2,530	10,903	6,658	8,923	360,506	776,975	14.1%	57.4%	25.8%	2.4%	0.3%
	Unsealed roads	15	168	2	5	21	247	1.3%	14.4%	16.5%	67.8%	0.0%
	Bridges	391	4,894	39	9	25,207	55,568	16.2%	58.6%	16.3%	8.9%	0.0%
	Footpaths	92	765	1,225	2,138	103,991	208,457	8.4%	75.7%	15.6%	0.1%	0.2%
	Other road assets (including bulk earthworks)	–	–	89	–	215,826	215,826	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	**3,028**	**16,730**	**8,013**	**11,075**	**705,551**	**1,257,073**	**28.0%**	**50.6%**	**19.3%**	**1.9%**	**0.2%**
Stormwater drainage	Stormwater drainage	29,807	67,086	208	431	133,195	309,744	6.5%	44.2%	10.4%	6.9%	32.0%
	Sub-total	**29,807**	**67,086**	**208**	**431**	**133,195**	**309,744**	**6.5%**	**44.2%**	**10.4%**	**6.9%**	**32.0%**
Open space / recreational assets	Swimming pools	588	3,555	680	1,836	14,817	35,206	8.5%	0.0%	79.3%	12.2%	0.0%
	Other Open Space/ Rec Assets	82	412	1,910	7,782	19,783	34,948	13.9%	69.9%	14.7%	1.5%	0.0%
	Sub-total	**670**	**3,967**	**2,590**	**9,618**	**34,600**	**70,154**	**11.2%**	**34.8%**	**47.1%**	**6.9%**	**0.0%**
Other infrastructure assets	Other infrastructure assets	6,013	22,230	559	31	57,164	114,093	19.2%	37.7%	22.4%	2.5%	18.2%
	Sub-total	**6,013**	**22,230**	**559**	**31**	**57,164**	**114,093**	**19.2%**	**37.7%**	**22.4%**	**2.5%**	**18.2%**
	Total – all assets	**46,479**	**135,085**	**23,670**	**29,353**	**1,201,925**	**2,340,919**	**19.7%**	**45.6%**	**25.6%**	**3.0%**	**6.1%**

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

Key for asset condition

#	Condition	Integrated planning and reporting (IP&R) description
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

Newcastle City Council

Report on infrastructure assets as at 30 June 2022

Infrastructure asset performance indicators (consolidated) *

$ '000	Amounts 2022	Indicator 2022	Indicator 2021	Benchmark
Buildings and infrastructure renewals ratio				
Asset renewals [1] / Depreciation, amortisation and impairment	28,867 / 41,910	68.88%	67.49%	>= 100.00%
Infrastructure backlog ratio				
Estimated cost to bring to satisfactory standard / Net carrying amount of infrastructure assets	46,479 / 1,201,925	3.87%	3.61%	< 2.00%
Asset maintenance ratio				
Actual asset maintenance / Required asset maintenance	29,353 / 23,670	124.01%	121.00%	> 100.00%
Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed level of service set by Council / Gross replacement cost	135,085 / 2,340,919	5.77%	5.40%	

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

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