

Financial Reports

Newcastle City Council
For the year ended 30 June 2023



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City of
Newcastle

Newcastle City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2023



City of
Newcastle

Newcastle City Council

General Purpose Financial Statements

for the year ended 30 June 2023

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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 2023

Statement by Councillors and Management

Statement by Councillors and Management

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

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

- the *Local Government Act 1993* (NSW) 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 31 October 2023.



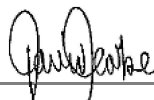
Lord Mayor



Councillor



Chief Executive Officer



Responsible Accounting Officer

Newcastle City Council

Income Statement

for the year ended 30 June 2023

Original unaudited budget 2023 \$ '000		Notes	Actual 2023 \$ '000	Actual 2022 \$ '000
	Income from continuing operations			
208,307	Rates and annual charges	B2-1	208,533	199,056
102,132	User charges and fees	B2-2	104,302	87,506
10,356	Other revenues	B2-3	13,564	7,834
16,687	Grants and contributions provided for operating purposes	B2-4	36,727	31,444
33,762	Grants and contributions provided for capital purposes	B2-4	20,240	17,098
3,359	Interest and investment income	B2-5	11,591	4,981
6,039	Other income	B2-6	9,604	5,679
380,642	Total income from continuing operations		404,561	353,598
	Expenses from continuing operations			
125,271	Employee benefits and on-costs	B3-1	126,450	122,540
104,359	Materials and services	B3-2	123,493	104,013
3,773	Borrowing costs	B3-3	5,148	3,490
63,407	Depreciation, amortisation and impairment of non-financial assets	B3-4	64,813	60,134
44,650	Other expenses	B3-5	47,505	53,372
4,149	Net loss from the disposal of assets	B4-1	9,078	5,418
345,609	Total expenses from continuing operations		376,487	348,967
35,033	Operating result from continuing operations		28,074	4,631
35,033	Net operating result for the year attributable to Council		28,074	4,631
1,271	Net operating result for the year before grants and contributions provided for capital purposes		7,834	(12,467)

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

Newcastle City Council

Statement of Comprehensive Income

for the year ended 30 June 2023

	Notes	2023 \$ '000	2022 \$ '000
Net operating result for the year – from Income Statement		28,074	4,631
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	152,517	148,362
Impairment reversal (loss) on infrastructure, property, plant and equipment	B3-4,C1-8	546	(27)
Total items which will not be reclassified subsequent to operating result		153,063	148,335
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Gain (loss) on hedging instruments	C1-2	996	–
Total items which will be reclassified subsequently to the operating result when specific conditions are met		996	–
Total other comprehensive income for the year		154,059	148,335
Total comprehensive income for the year attributable to Council		182,133	152,966

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 2023

	Notes	2023 \$ '000	2022 \$ '000
ASSETS			
Current assets			
Cash and cash equivalents	C1-1	74,325	75,353
Investments	C1-2	123,158	84,907
Receivables	C1-4	27,737	34,653
Inventories	C1-5	1,404	1,267
Contract assets and contract cost assets	C1-6	2,735	36
Non-current assets classified as held for sale	C1-7	1,233	366
Other	C1-11	3,246	15,126
Total current assets		233,838	211,708
Non-current assets			
Investments and derivatives	C1-2	205,731	203,193
Receivables	C1-4	1,311	1,235
Infrastructure, property, plant and equipment (IPPE)	C1-8	1,889,589	1,719,662
Investment property	C1-9	16,060	14,990
Intangible assets	C1-10	2,656	3,831
Right of use assets	C2-1	32,131	31,032
Investments accounted for using the equity method	D1-2	487	548
Other	C1-11	283	453
Total non-current assets		2,148,248	1,974,944
Total assets		2,382,086	2,186,652
LIABILITIES			
Current liabilities			
Payables	C3-1	57,930	52,208
Contract liabilities	C3-2	12,103	9,886
Lease liabilities	C2-1	2,805	2,405
Borrowings	C3-3	2,303	4,925
Employee benefit provisions	C3-4	35,957	34,986
Provisions	C3-5	24,021	21,223
Total current liabilities		135,119	125,633
Non-current liabilities			
Payables	C3-1	2,036	165
Contract liabilities	C3-2	6,309	816
Lease liabilities	C2-1	32,334	31,719
Borrowings	C3-3	58,657	61,255
Employee benefit provisions	C3-4	1,115	969
Provisions	C3-5	53,041	54,753
Total non-current liabilities		153,492	149,677
Total liabilities		288,611	275,310
Net assets		2,093,475	1,911,342
EQUITY			
Accumulated surplus		1,526,208	1,497,469
IPPE revaluation reserve	C4-1	566,271	413,873
Hedging reserve	C4-1	996	–
Council equity interest		2,093,475	1,911,342
Total equity		2,093,475	1,911,342

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 2023

	Notes	2023				2022			
		Accumulated surplus \$ '000	IPPE revaluation reserve \$ '000	Hedging reserve \$ '000	Total equity \$ '000	Accumulated surplus \$ '000	IPPE revaluation reserve \$ '000	Hedging reserve \$ '000	Total equity \$ '000
Opening balance at 1 July		1,497,469	413,873	–	1,911,342	1,487,583	270,793	–	1,758,376
Restated opening balance		1,497,469	413,873	–	1,911,342	1,487,583	270,793	–	1,758,376
Net operating result for the year		28,074	–	–	28,074	4,631	–	–	4,631
Other comprehensive income									
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-8	–	152,517	–	152,517	–	148,362	–	148,362
Gain (loss) on hedging instruments	C1-2	–	–	996	996	–	–	–	–
Impairment reversal (loss) on infrastructure, property, plant and equipment	B3-4,C1-8	–	546	–	546	–	(27)	–	(27)
Other comprehensive income		–	153,063	996	154,059	–	148,335	–	148,335
Total comprehensive income		28,074	153,063	996	182,133	4,631	148,335	–	152,966
Transfers between equity items on disposals of assets		665	(665)	–	–	5,255	(5,255)	–	–
Closing balance at 30 June		1,526,208	566,271	996	2,093,475	1,497,469	413,873	–	1,911,342

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 2023

Original unaudited budget 2023 \$ '000		Actual 2023 \$ '000	Actual 2022 \$ '000
	Notes		
Cash flows from operating activities			
<i>Receipts:</i>			
208,184	Rates and annual charges	208,323	200,365
101,738	User charges and fees	121,748	84,189
5,370	Interest received	10,487	4,786
50,451	Grants and contributions	57,252	47,699
35	Bonds, deposits and retentions received	282	239
14,188	Other	28,097	21,086
<i>Payments:</i>			
(124,271)	Payments to employees	(124,563)	(123,126)
(125,075)	Payments for materials and services	(135,865)	(116,850)
(3,773)	Borrowing costs	(5,148)	(3,490)
–	Bonds, deposits and retentions refunded	(508)	(73)
(44,875)	Other	(32,437)	(67,311)
81,972	Net cash flows from operating activities	127,668	47,514
	G1-1		
Cash flows from investing activities			
<i>Receipts:</i>			
127,835	Sale of investments	33,013	52,938
–	Redemption of term deposits	201,558	91,558
–	Sale of investment property	–	5,088
–	Proceeds from sale of IPPE	3,353	10,381
<i>Payments:</i>			
(123,793)	Purchase of investments	(42,073)	(21,673)
–	Acquisition of term deposits	(228,483)	(78,819)
(700)	Purchase of investment property	–	–
(94,741)	Payments for IPPE	(86,423)	(61,070)
–	Purchase of intangible assets	(117)	(255)
(91,399)	Net cash flows from investing activities	(119,172)	(1,852)
Cash flows from financing activities			
<i>Receipts:</i>			
22,600	Proceeds from borrowings	10,100	9,550
<i>Payments:</i>			
(6,905)	Repayment of borrowings	(15,320)	(4,743)
(4,944)	Principal component of lease payments	(4,304)	(4,070)
10,751	Net cash flows from financing activities	(9,524)	737
1,324	Net change in cash and cash equivalents	(1,028)	46,399
27,477	Cash and cash equivalents at beginning of year	75,353	28,954
28,801	Cash and cash equivalents at end of year	74,325	75,353
	C1-1		
341,332	plus: Investments on hand (excluding derivatives) at end of year	327,893	288,100
370,133	Total cash, cash equivalents and investments (excluding derivatives)	402,218	363,453
	C1-2		

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

Newcastle City Council

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A About Council and these financial statements

A1-1 Basis of preparation

These financial statements were authorised for issue by Council on 31 October 2023. 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
- 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 Not-for-Profit Entities* – refer to Notes B2-2 to 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.

A1-1 Basis of preparation (continued)

The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993* (NSW), 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:

- Art Gallery support
- Civic Theatre support
- Bushcare activities
- Landcare activities
- Library programs
- Museum support

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 2023 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 are set out below:

AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

This Standard modifies *AASB 13 Fair Value Measurement* for application by not-for-profit public sector entities such as the Council.

It includes authoritative implementation guidance when fair valuing non-financial assets, not held primarily for their ability to generate cash inflows and also provides guidance and clarification when valuing assets that are restricted (in their use) at the Council.

This includes guidance and clarification regarding the determination of an assets highest and best use, the development and use of internal assumptions for unobservable inputs and allows for greater use of internal judgements when applying the cost approach in the measurement and determination of fair values.

Although the Council is yet to fully determine the impact of this standard, the changes will be evaluated in the future assessment of all property and infrastructure assets measured at fair value.

The standard applies prospectively from the 30 June 2025 reporting period.

A1-1 Basis of preparation (continued)

AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates

This Standard amends a number of standards as follows:

- AASB 7 to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements;
- AASB 101 to require entities to disclose their material accounting policy information rather than their significant accounting policies;
- AASB 108 to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates;
- AASB 134 to identify material accounting policy information as a component of a complete set of financial statements; and
- AASB Practice Statement 2 to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The standard requires the Council to consider the materiality of the accounting policy information to be included in the financial statements.

AASB 101 Presentation of Financial Statements requires the disclosure of material accounting policy information rather than significant accounting policies.

"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."

Accounting policy information is likely to be considered material if that information relates to material transactions, other events or conditions and:

- the Council has changed accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements.
- the Council (or OLG) chose the accounting policy from one or more options permitted by Australian Accounting Standards.
- the accounting policy was developed in accordance with *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors* in the absence of an Australian Accounting Standard that specifically applies.
- the accounting policy relates to an area for which the Council is required to make significant judgements or assumptions in applying an accounting policy, and the Council discloses those judgements or assumptions in the financial statements
- the accounting required for them is complex and users of the Council's financial statements would otherwise not understand those material transactions, other events or conditions.

Further, *AASB 101 Presentation of Financial Statements* notes that *'Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed.'*

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

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

These standards amend *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.

As at the date of authorisation of these financial statements Council does not consider that these standards are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

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

AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants

This standard amends *AASB 101 Presentation of Financial Statements* to improve financial statement disclosures about long-term liabilities with covenants where the entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.

As at the date of authorisation of these financial statements Council does not consider that this standard is likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

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

A1-1 Basis of preparation (continued)

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 2023. 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 results		Grants and contributions		Carrying amount of assets	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Functions or activities *										
Liveable	54,932	41,447	104,655	112,909	(49,723)	(71,462)	29,794	22,254	950,477	896,741
Sustainable	95,758	89,429	128,977	104,375	(33,219)	(14,946)	2,202	2,452	337,357	298,453
Creative	41,765	30,837	61,850	51,440	(20,085)	(20,603)	6,154	7,191	395,840	356,153
Achieving Together	212,106	191,885	81,005	80,243	131,101	111,642	18,817	16,645	698,412	635,305
Total functions and activities	404,561	353,598	376,487	348,967	28,074	4,631	56,967	48,542	2,382,086	2,186,652

(*) Comparatives have been reclassified to reflect priorities within Council's current Community Strategic Plan - Newcastle 2040

B1-2 Components of functions or activities

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

Liveable

Our neighbourhoods are safe and thriving, with diverse and equitable housing and social and urban infrastructure that supports local living. Our public places bring people together for active living and social connection. We plan for areas of identified growth and change. Our city is walkable, connected by safe roads and accessible parking, and options for active transport are available, enabling access to services and facilities. Our community is connected and equitable, and everyone is valued. We use innovation and technology and promote health, wellbeing and equal opportunities to increase residents' quality of life.

Council's services that contribute to meeting these community priorities are: Library services; Strategic Planning; Regulatory Services; Facility Management and City Presentation; Development Assessment; Transport, Traffic and Local Roads; Digital Services and Innovation Projects; Open Spaces and City Greening; Aquatic Services; Parking Services; Community Facilities, Programs and Partnerships; Construction and Building Trades.

Sustainable

Our environment sustains our community, economy, health and wellbeing. It is at the heart of all that we do. Our city acts on climate change to achieve net zero emissions and build resilience in our community, infrastructure and natural areas. We protect, enhance and connect our green and blue networks, and we are transforming our city through circular economy solutions.

Council's services that contribute to meeting these community priorities are: Sustainability Programs; Waste Collections and Cleaning Services; Resource Recovery and Recycling; Commercial and Internal Waste; Asset Services; Natural Area/Bushland Services; Landfill Operations; Education Programs; Innovation and Futures; Fleet Management.

Creative

Our city is vibrant, inclusive and creative. Newcastle is a destination known for its culture, heritage, entertainment and innovative ideas. We are excited about the city's opportunities in the areas of jobs, education and the economy. Multiculturalism, Aboriginal culture, diverse communities and the arts are celebrated. Locals and visitors gather for events and cultural experiences, and to feel part of the community. Newcastle is driven by city-shaping partnerships that enhance our opportunities and attract people to live, play and invest in our city.

Council's services that contribute to meeting these community priorities are: Art Gallery; Civic Theatre and Playhouse; Newcastle Venues; Marketing; Tourism; Business Development; Museum; Visitor Information Centre; Libraries and Learning; City Events; Economic Development.

Achieving Together

Our people come together to collaborate, share ideas and opportunities, and co-create positive change for our organisation and city. Our culture is one of trust and understanding, where honest conversations empower our people, customers and community. We value diverse perspectives and deliver what we promise. Our strength is growing our capability to manage community and customer expectations and continuously improve our service delivery.

Council's services that contribute to meeting these community priorities are: Procurement and Contracts; Corporate Finance; Legal Services; Records and Information; Information Technology; Customer Experience; Corporate Planning and Performance; Rates and Debt Management; Governance; Audit and Risk; Media and Stakeholder Relations; People and Culture.

B2 Sources of income

B2-1 Rates and annual charges

	2023 \$ '000	2022 \$ '000
Ordinary rates		
Residential	110,952	107,625
Farmland	23	22
Business	62,235	60,850
Less: pensioner rebates (mandatory)	(1,841)	(1,938)
Rates levied to ratepayers	171,369	166,559
Pensioner rate subsidies received	1,014	1,059
Total ordinary rates	172,383	167,618
Special rates		
Town improvement	81	79
Main street	1,286	1,267
Rates levied to ratepayers	1,367	1,346
Total special rates	1,367	1,346
Annual charges (pursuant to s496, 496A, 496B, 501 & 611)		
Domestic waste management services	31,053	26,787
Stormwater management services	2,396	2,055
Waste management services (non-domestic)	1,355	1,285
Section 611 charges	223	195
Less: pensioner rebates (mandatory)	(543)	(508)
Annual charges levied	34,484	29,814
Pensioner annual charges subsidies received:		
– Domestic waste management	299	278
Total annual charges	34,783	30,092
Total rates and annual charges	208,533	199,056

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.

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

	2023 \$ '000	2022 \$ '000
Specific user charges (per s502 - specific 'actual use' charges)		
Waste management services (non-domestic)	4,724	4,798
Total specific user charges	4,724	4,798
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s608)		
Building inspection fee	150	154
Inspection fees - food shops	520	497
Compliance fees	268	248
Private works – section 67	147	119
Dog control / registration fees	144	135
Regulatory / statutory fees	3,977	4,029
Section 10.7 certificates (EP&A Act)	500	469
Section 603 certificates	315	365
Subdivision fees	578	431
Total fees and charges – statutory/regulatory	6,599	6,447
(ii) Fees and charges – other (incl. general user charges (per s608))		
Art Gallery	2	33
Cemeteries	170	132
Child care	1,265	1,128
City Hall	1,790	408
Civic Theatre	4,284	1,962
Local Committees	278	215
Fort Scratchley	619	54
Library fees	89	43
Merchant service fee	135	145
Museum	382	263
Newcastle Airport	15,932	8,488
Ocean baths / inland pools	115	64
Parking stations / meter fees	7,434	5,503
Parks and garden usage	1,380	1,055
RMS charges (state roads not controlled by Council)	5,075	3,939
Tipping fees / resource recovery	50,069	49,649
Road restorations	543	452
Stockton Beach Holiday Park	2,919	2,276
Tourism	116	45
Other	382	407
Total fees and charges – other	92,979	76,261
Total other user charges and fees	99,578	82,708
Total user charges and fees	104,302	87,506
Timing of revenue recognition for user charges and fees		
User charges and fees recognised over time	6,542	6,127
User charges and fees recognised at a point in time	97,760	81,379
Total user charges and fees	104,302	87,506

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.

B2-3 Other revenues

	2023 \$ '000	2022 \$ '000
Fines – parking	3,883	2,334
Fines – other	284	213
Insurance claims recoveries	3,323	228
Commissions and agency fees	205	200
Sales of inventories	1,917	1,645
Diesel rebate	190	196
Legal fees recovery – rates and charges (extra charges)	308	290
Joint library scheme recoveries	429	372
Investment recoupment	1,230	–
Sponsorships	123	15
Summerhill waste management – electricity generation	900	535
Volunteer services	249	238
Newcastle Airport	112	384
Energy Savings Certificates	182	690
Other	229	494
Total other revenue	13,564	7,834
Timing of revenue recognition for other revenue		
Other revenue recognised over time	429	372
Other revenue recognised at a point in time	13,135	7,462
Total other revenue	13,564	7,834

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.

B2-4 Grants and contributions

	Operating 2023 \$ '000	Operating 2022 \$ '000	Capital 2023 \$ '000	Capital 2022 \$ '000
General purpose grants and non-developer contributions (untied)				
Financial Assistance Grant ¹				
- Relating to current year	3,007	6,778	-	-
- Prepayment received in advance for subsequent year	14,337	10,414	-	-
Amount recognised as income during current year	17,344	17,192	-	-
Special purpose grants and non-developer contributions (tied)				
Cash contributions				
Child care	91	50	-	-
Community services	250	-	-	13
LIRS subsidy	44	92	-	-
Recreation and culture	1,403	1,854	5,785	4,418
Street lighting	616	604	-	-
Waste	239	439	-	-
Transport for NSW contributions (regional roads, block grant)	12,269	6,519	2,393	3,132
Health, safety and emergency response	1,444	1,819	-	-
Transport (other roads and bridges funding)	101	107	-	-
Other	1,142	824	729	173
Community facilities	9	269	-	27
Economic development	3	-	-	-
Employees corporate fitness / entitlements	192	135	-	-
Parks and gardens	-	14	-	-
Roads and drainage	1,522	1,491	-	171
Newcastle airport	-	-	1,133	586
Recovery of amounts for non-performance of bonded works	-	-	100	-
Total special purpose grants and non-developer contributions – cash	19,325	14,217	10,140	8,520
Non-cash contributions				
Art Gallery	-	-	196	294
Library	-	-	-	38
Museum	-	-	52	265
Roads and drainage	-	-	3,701	595
Other	-	-	80	-
Operational land	-	-	111	-
Total other contributions – non-cash	-	-	4,140	1,192
Total special purpose grants and non-developer contributions (tied)	19,325	14,217	14,280	9,712
Total grants and non-developer contributions	36,669	31,409	14,280	9,712
Comprising:				
- Commonwealth funding	19,765	22,358	1,133	-
- State funding	15,671	7,046	8,178	8,262
- Other funding	1,233	2,005	4,969	1,450
	36,669	31,409	14,280	9,712

B2-4 Grants and contributions (continued)

Developer contributions

	Operating 2023 \$ '000	Operating 2022 \$ '000	Capital 2023 \$ '000	Capital 2022 \$ '000
Notes				
Developer contributions: (s7.4, s7.11 and s7.12 - EP&A Act, s64 of the LGA):				
G3				
Cash contributions				
S7.11 – Contributions towards amenities/services	58	10	2,630	1,129
S7.12 – Fixed development consent levies	–	–	3,106	6,257
S7.4 – Planning Agreements	–	25	–	–
Total developer contributions – cash	58	35	5,736	7,386
Non-cash contributions				
S7.4 – Planning Agreements	–	–	224	–
Total developer contributions – non-cash	–	–	224	–
Total developer contributions	58	35	5,960	7,386
Total contributions	58	35	5,960	7,386
Total grants and contributions	36,727	31,444	20,240	17,098
Timing of revenue recognition for grants and contributions				
Grants and contributions recognised over time	239	439	8,261	7,680
Grants and contributions recognised at a point in time	36,488	31,005	11,979	9,418
Total grants and contributions ¹	36,727	31,444	20,240	17,098

(1) \$14.3m of the 2023-2024 Financial Assistance Grant from Commonwealth Government was received by City of Newcastle in June 2023 and hence is reported as 2022-2023 income although it relates to 2023-2024 financial year.

The prior year comparatives report \$10.4m of the Financial Assistance Grant received in advance and reported as 2021-2022 income although relating to the 2022-2023 financial year.

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 2023 \$ '000	Operating 2022 \$ '000	Capital 2023 \$ '000	Capital 2022 \$ '000
Unspent grants and contributions				
Unspent funds at 1 July	1,832	838	23,995	22,251
Add: Funds recognised as revenue in the reporting year but not yet spent in accordance with the conditions	6,816	1,534	6,718	7,615
Add: Funds received and not recognised as revenue in the current year	490	107	7,806	710
Less: Funds recognised as revenue in previous years that have been spent during the reporting year	(455)	(75)	(6,016)	(6,440)
Less: Funds received in prior year but revenue recognised and funds spent in current year	(239)	(572)	(303)	(141)
Unspent funds at 30 June	8,444	1,832	32,200	23,995

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 some include staffing requirements and specific recycling 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

	2023 \$ '000	2022 \$ '000
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	255	284
– Cash and investments	10,288	3,534
Dividend income from investments at fair value through profit or loss	1,018	1,172
Amortisation of discounts and premiums on financial instrument transactions		
– Debt securities at amortised cost / held to maturity investments	30	(9)
Total interest and investment income (losses)	11,591	4,981

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.

B2-6 Other income

	2023 \$ '000	2022 \$ '000
	Notes	
Fair value increment on investment properties	C1-9	1,000
Rental income	C2-2	4,679
Fair value increment on investments	C1-2	–
Total other income		5,679

B3 Costs of providing services

B3-1 Employee benefits and on-costs

	2023 \$ '000	2022 \$ '000
Salaries and wages	97,052	92,936
Employee termination costs	1,395	640
Employee leave entitlements (ELE)	17,419	16,029
Superannuation	12,091	11,489
Workers' compensation insurance	4,075	6,766
Fringe benefit tax (FBT)	363	284
Other	5	64
Total employee costs	132,400	128,208
Less: capitalised costs	(5,950)	(5,668)
Total employee costs expensed	126,450	122,540

Accounting policy

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

All employees of 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	2023 \$ '000	2022 \$ '000
Raw materials and consumables		28,600	26,372
Contractor costs		55,492	57,266
Audit Fees	F2-1	363	316
Bank charges		714	597
Councillor and Mayoral fees and associated expenses	F1-2	745	597
Election expenses		–	984
Insurance		4,063	3,845
Street lighting		2,109	2,370
Telephone and communications		921	924
Cost of sales		1,441	857
Training and travel		970	824
Electricity		1,471	1,389
Newcastle Airport		4,624	3,400
S355 local committee working expenses		203	161
Water		1,381	1,018
Volunteer services		249	238
Rehabilitation and restoration expenses		12,684	(3,407)
Legal expenses		1,141	776
Expenses from short-term leases		508	24
Expenses from leases of low value assets		16	25
Variable lease expense relating to usage		3,885	3,839
Other		1,913	1,598
Total materials and services		123,493	104,013

Accounting policy

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

B3-3 Borrowing costs

	Notes	2023 \$ '000	2022 \$ '000
(i) Interest bearing liability costs			
Interest on leases		1,019	1,022
Interest on loans *		2,101	2,151
Interest on loans - Newcastle Airport *		1,830	316
Total interest bearing liability costs		4,950	3,489
Less: capitalised costs		(217)	–
Total interest bearing liability costs expensed		4,733	3,489
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	C3-5	310	1
Other borrowing costs		105	–
Total other borrowing costs		415	1
Total borrowing costs expensed		5,148	3,490

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.

(*) Comparatives have been reclassified to disclose borrowing costs separately for Newcastle Airport

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

	Notes	2023 \$ '000	2022 \$ '000
Depreciation and amortisation			
Property, plant and equipment	C1-8	8,382	8,209
Infrastructure	C1-8	45,566	41,910
Newcastle Airport	C1-8	3,019	2,663
Other assets	C1-8	2,042	2,290
Right of use assets	C2-1	4,220	3,789
Intangibles - software	C1-10	1,292	1,359
Intangibles - Newcastle Airport	C1-10	125	125
Less: capitalised depreciation		(208)	(215)
Total depreciation and amortisation costs		64,438	60,130
Impairment (reversals) / revaluation decrement of IPPE			
Capital WIP		375	–
Operational land		(153)	(1,916)
Community land		–	(1,856)
Crown land		(618)	–
Infrastructure		225	3,799
Plant and equipment		–	4
Amounts taken through revaluation reserve		546	(27)
Total IPP&E impairment / revaluation decrement costs		375	4
Total depreciation, amortisation and impairment for intangibles and IPPE		64,813	60,134

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.

Reversals of impairment of non-financial assets

After an impairment loss has been recognised, it is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

The reversal is recognised in other comprehensive income and is treated as a revaluation increase, except to the extent that an impairment loss on the same class of asset was previously recognised in the Income Statement, where a reversal of that impairment loss is also recognised in the Income Statement.

B3-5 Other expenses

	Notes	2023 \$ '000	2022 \$ '000
Impairment of receivables	C1-4	235	470
Fair value decrement on investments	C1-2	–	5,260
Fair value decrement on investment properties	C1-9	254	–
Net share of interests in joint ventures and associates using the equity method	D1-2	61	170
Donations, contributions and assistance to other organisations (Section 356)		1,832	4,321
Contributions/levies to other levels of government			
– Emergency services levy (includes FRNSW, SES, and RFS levies)		4,111	3,449
– NSW government waste levy		38,518	38,607
– Other levies		2,494	1,095
Total other expenses		47,505	53,372

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	2023 \$ '000	2022 \$ '000
Gain (or loss) on disposal of infrastructure, property, plant and equipment	C1-8		
Proceeds from disposal – infrastructure, property, plant and equipment		1,213	995
Less: carrying amount of infrastructure, property, plant and equipment sold/written off		(10,486)	(6,324)
Gain (or loss) on disposal		(9,273)	(5,329)
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		2,140	9,386
Less: carrying amount of non-current assets held for sale sold/written off		(1,945)	(9,500)
Gain (or loss) on disposal		195	(114)
Net gain (or loss) from disposal of assets		(9,078)	(5,418)

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 28 June 2022 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	2023 Budget	2023 Actual	2023 ----- Variance -----		
Revenues					
Rates and annual charges	208,307	208,533	226	0%	F
User charges and fees	102,132	104,302	2,170	2%	F
Other revenues	10,356	13,564	3,208	31%	F
Favourable variance is largely driven by the recovery from insurance claims and recoupment of investments. This is partially offset by a reduction in revenue from parking fines related to a change in consumer behaviour post Covid.					
Operating grants and contributions	16,687	36,727	20,040	120%	F
Favourable variance includes additional revenues received for the Financial Assistance Grant, with the FY24 portion received 100% in advance. Additional funds were received relating to disaster recovery funding and an increase in federal and state transport grants.					
Capital grants and contributions	33,762	20,240	(13,522)	(40)%	U
Unfavourable variance is driven by a reduction in developer contributions due to changing economic conditions and a reduction in non-cash contributions of community land, roads and drainage.					
Interest and investment revenue	3,359	11,591	8,232	245%	F
Favourable result is related to better than forecast investment conditions and the increasing interest rate environment.					
Other income	6,039	9,604	3,565	59%	F
Variance is driven by a favourable increment in the value of Council's investments compared to budget and an increase in rental income from Council's share of Newcastle Airport.					

B5-1 Material budget variations (continued)

\$ '000	2023 Budget	2023 Actual	2023 ----- Variance -----	
Expenses				
Employee benefits and on-costs	125,271	126,450	(1,179)	(1)% U
Materials and services	104,359	123,493	(19,134)	(18)% U
Unfavourable variance is related to revised contract estimates for the rehabilitation of a former landfill site and increased costs in the delivery of Council's capital works program.				
Borrowing costs	3,773	5,148	(1,375)	(36)% U
Unfavourable variance is related to the increased cost of borrowings related to market conditions and Council's share of Newcastle Airport costs.				
Depreciation, amortisation and impairment of non-financial assets	63,407	64,813	(1,406)	(2)% U
Other expenses	44,650	47,505	(2,855)	(6)% U
Net losses from disposal of assets	4,149	9,078	(4,929)	(119)% U
The unfavourable result to budget is 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	81,972	127,668	45,696	56% F
Favourable variance to budget was driven by additional receipts compared to Council's long-term financial plan.				
Cash flows from investing activities	(91,399)	(119,172)	(27,773)	30% U
Unfavourable variance due to an increase in payments for investing activities compared to Council's long-term financial plan.				
Cash flows from financing activities	10,751	(9,524)	(20,275)	(189)% U
Unfavourable variance due to the reduction in proceeds from borrowings and an increase in repayment of borrowings compared to Council's long-term financial plan.				

C Financial position

C1 Assets we manage

C1-1 Cash and cash equivalents

	2023 \$ '000	2022 \$ '000
Cash assets		
Cash at bank and on hand	37,236	55,265
Deposits at call	37,089	20,088
Total cash and cash equivalents	74,325	75,353

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 and derivatives

	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Financial assets at fair value through profit and loss				
Managed funds	–	48,514	–	43,717
Total	–	48,514	–	43,717
Debt securities at amortised cost				
Term deposits – fixed rate	61,805	26,000	31,809	33,000
Term deposits – floating rate	10,000	–	11,000	10,000
Floating rate notes	38,502	67,947	36,400	45,975
Bonds	12,851	62,274	5,698	70,501
Total	123,158	156,221	84,907	159,476
Derivatives - Newcastle Airport				
Interest rate swap contract - cash flow hedge	–	996	–	–
Total	–	996	–	–
Total financial investments	123,158	205,731	84,907	203,193
Total cash assets, cash equivalents and investments	197,483	205,731	160,260	203,193

C1-2 Financial investments and derivatives (continued)

Derivatives - instruments used

Newcastle Airport Partnership holds derivative financial instruments at fair value based on Level 2 observable inputs (refer to Note E2-1). As at 30 June 2023, 87% (30 June 2022: 0%) of externally drawn borrowings for Newcastle Airport Partnership were hedged through interest rate swaps, as follows:

\$ '000	2023	2022
Hedge relationship	Cash flow hedge	-
Instrument type	AUD IRS	
Notional amount	30,000	
Weighted average hedged rate	3.518%	
Hedge ratio	1:1	
At reporting date		
Carrying amount of hedging instruments – Assets	996	
Carrying amount of hedging instruments – Liabilities	-	
Balances deferred in OCI (Hedge Reserves)	(996)	
During the period		
Change in fair value of hedging instruments	996	
Change in value of hedged item used to determine hedge effectiveness	(1,106)	
Changes in the value of the hedging instrument recognised in OCI	996	
Hedge ineffectiveness recognised in profit or loss	-	

Hedge accounting

On initial designation of a derivative as a hedging instrument, Newcastle Airport Partnership documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy for undertaking the hedge transaction.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Any gains or losses arising from changes in fair value of derivatives, except those that qualify as effective hedges, are immediately recognised in profit or loss. When Newcastle Airport Partnership designates certain derivatives to be part of a hedging relationship, and they meet the criteria for hedge accounting, all hedges are classified as cash flow hedges.

The hedge ratio is one, due to the notional value of the hedged item equating to the notional value of the hedging instrument.

Cash flow hedges

Newcastle Airport Partnership's interest rate swaps are accounted for as cash flow hedges. They are used to hedge exposure to variability in forecast cash flows where the transaction is committed or highly probable. Initial recognition of the derivative is at fair value. Subsequent to initial recognition, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the cash flow hedge reserve under equity. Any ineffective portion of the derivative is recognised immediately in profit or loss. The amount accumulated in the cash flow hedge reserve is reclassified to profit or loss in the same period that the hedged cash flow affects profit or loss.

If the derivative no longer meets the criteria for hedge accounting, for example if it expires, is sold, terminated, exercised or the designation is revoked, then hedge accounting is discontinued prospectively and the balance in equity is reclassified to profit or loss when the forecast transactions are not expected to occur anymore.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as above.

C1-2 Financial investments and derivatives (continued)

Financial investments - 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

	2023 \$ '000	2022 \$ '000
(a) Externally restricted cash, cash equivalents and investments		
Total cash, cash equivalents and investments	403,214	363,453
Less: Externally restricted cash, cash equivalents and investments	<u>(61,630)</u>	<u>(44,128)</u>
Cash, cash equivalents and investments not subject to external restrictions	341,584	319,325
External restrictions		
External restrictions – included in liabilities		
External restrictions included in cash, cash equivalents and investments above comprise:		
Security bonds, deposits and retentions	1,412	1,638
Specific purpose unexpended grants – general fund	10,097	2,342
Deferred Salary Scheme	418	–
External restrictions – included in liabilities	11,927	3,980
External restrictions – other		
External restrictions included in cash, cash equivalents and investments above comprise:		
Developer contributions – general	22,506	21,664
Specific purpose unexpended grants (recognised as revenue) – general fund	7,697	1,329
Domestic waste management	11,611	9,369
Bequests and donations	1,542	1,559
Special Benefit Rates	1,254	1,005
Rawson Crown Land Reserve	3,376	3,433
Childcare sinking Fund	806	608
Building Better Cities	324	454
Contributions to specific works	344	491
Community Facilities Fund	243	236
External restrictions – other	49,703	40,148
Total external restrictions	61,630	44,128

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.

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

	2023 \$ '000	2022 \$ '000
(b) Internal allocations		
Cash, cash equivalents and investments not subject to external restrictions	341,584	319,325
Less: Internally restricted cash, cash equivalents and investments	(315,072)	(292,686)
Unrestricted and unallocated cash, cash equivalents and investments	26,512	26,639
Internal allocations		
At 30 June, Council has internally allocated funds to the following:		
Employees leave entitlements	13,451	11,976
Works program - New and upgrade	14,722	35,589
Works program - Infrastructure Agreed level of service	173,478	135,085
Works program - Specific projects	19,614	26,743
Newcastle Airport	9,717	13,144
Workers compensation: Self insurance	10,001	2,859
Local committees and childcare	628	438
Superannuation - Defined benefits	655	643
Waste Management - Remediation provision	61,972	60,139
Works carried forward	10,834	6,070
Total internal allocations	315,072	292,686

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

C1-4 Receivables

	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Rates and annual charges	6,518	436	6,043	457
Interest and extra charges ¹	363	125	372	109
User charges and fees	13,266	–	23,178	–
Accrued revenues				
– Interest on financial investments and derivatives	2,128	–	1,061	–
Government grants and subsidies	694	–	22	–
Net GST receivable	3,323	–	3,368	–
Revenue NSW	1,642	854	1,045	823
Total	27,934	1,415	35,089	1,389
Less: provision for impairment				
User charges and fees	(66)	–	(300)	–
Revenue NSW	(131)	(104)	(136)	(154)
Total provision for impairment – receivables	(197)	(104)	(436)	(154)
Total net receivables	27,737	1,311	34,653	1,235

(1) Interest was charged on overdue rates and charges at 6.00% (2022: 6.00%). 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.

Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1.

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

	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Inventories at cost				
Stores and materials	1,404	–	1,267	–
Total inventories	1,404	–	1,267	–

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

	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Work relating to infrastructure grants	2,735	–	36	–
Total contract assets	2,735	–	36	–

Accounting policy

Contract assets

Contract assets represent Council's 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

	2023	2022
	\$ '000	\$ '000
Non-current assets held for sale		
Land	–	366
Buildings	1,233	–
Total non-current assets held for sale	1,233	366
Total non-current assets classified as held for sale	1,233	366

Details of assets and disposal groups

On 23 May 2023, Council endorsed the sale of 16 relocatable cabins from Stockton Beach Holiday Park. The cabins were sold by public auction on 8 August 2023.

Settlement occurred during the financial year for the land 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 2022			Asset movements during the reporting period						At 30 June 2023		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Renewals	New assets	Carrying value of disposals	Depreciation and Impairment	Transfers	Revaluation increments/ (decrements)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Capital WIP	46,679	(1,558)	45,121	17,963	17,697	(243)	(375)	(17,196)	–	64,038	(1,071)	62,967
Plant and equipment	54,362	(35,387)	18,975	3,885	1,453	(1,262)	(6,043)	1,652	–	55,424	(36,764)	18,660
Office equipment	5,731	(2,901)	2,830	–	1,348	(204)	(1,091)	–	–	6,583	(3,700)	2,883
Furniture and fittings	20,498	(3,533)	16,965	37	189	(31)	(974)	172	–	20,845	(4,487)	16,358
Land:												
– Operational	145,834	(153)	145,681	–	111	–	–	(696)	19,049	164,145	–	164,145
– Community	79,492	–	79,492	–	–	–	–	(2,207)	11,042	88,327	–	88,327
– Crown	34,521	(618)	33,903	–	–	–	–	–	7,765	41,668	–	41,668
– Under roads (post 30/6/08)	10,132	–	10,132	–	80	–	–	–	4,753	14,965	–	14,965
– Depreciable land improvements	6,074	(2,176)	3,898	–	275	–	(274)	–	571	7,278	(2,808)	4,470
Infrastructure:												
– Buildings	414,609	(217,295)	197,314	314	696	(426)	(10,045)	(630)	37,707	436,106	(211,176)	224,930
– Other structures	175,246	(101,145)	74,101	2,025	4,322	(891)	(7,424)	5,768	9,095	209,996	(123,000)	86,996
– Roads	777,222	(416,695)	360,527	9,518	1,555	(4,168)	(15,800)	4,292	20,364	827,087	(450,799)	376,288
– Bridges	55,568	(30,361)	25,207	1,416	–	(247)	(616)	142	4,643	66,016	(35,471)	30,545
– Footpaths	208,457	(104,466)	103,991	251	2,135	(285)	(4,589)	1,264	5,876	223,747	(115,104)	108,643
– Bulk earthworks (non-depreciable)	215,826	–	215,826	–	7	(232)	–	–	12,308	227,909	–	227,909
– Stormwater drainage	309,744	(176,549)	133,195	846	2,544	(1,867)	(3,429)	1,499	6,537	325,562	(186,237)	139,325
– Swimming pools	35,206	(20,389)	14,817	–	–	–	(421)	–	2,106	40,357	(23,855)	16,502
– Other open space/recreational assets	34,948	(15,165)	19,783	1,561	1,619	(455)	(1,440)	1,417	2,643	43,224	(18,096)	25,128
– Other infrastructure	114,093	(56,929)	57,164	175	759	(45)	(1,802)	387	7,658	131,462	(67,166)	64,296
Other assets:												
– Heritage collections	81,837	–	81,837	–	248	–	–	–	–	82,085	–	82,085
– Library books	14,668	(7,004)	7,664	–	378	(57)	(442)	–	946	16,242	(7,753)	8,489
– Other	20	(20)	–	–	–	–	–	–	–	20	(20)	–
Waste management asset	28,179	(15,615)	12,564	–	(1,352)	–	(1,600)	–	–	26,828	(17,216)	9,612
Newcastle Airport	82,753	(24,078)	58,675	–	19,060	(73)	(3,019)	(245)	–	100,608	(26,210)	74,398
Total infrastructure, property, plant and equipment	2,951,699	(1,232,037)	1,719,662	37,991	53,124	(10,486)	(59,384)	(4,381)	153,063	3,220,522	(1,330,933)	1,889,589

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

	At 1 July 2021			Asset movements during the reporting period						At 30 June 2022		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Renewals	New assets	Carrying value of disposals	Depreciation and Impairment	Transfers	Revaluation increments/ (decrements)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
By aggregated asset class	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '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

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 the building shell on four 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.

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

	2023 \$ '000	2022 \$ '000
At fair value		
Opening balance at 1 July	14,990	13,990
Net gain/(loss) from fair value adjustments	(254)	1,000
Transfers from owner-occupied property	1,324	–
Closing balance at 30 June	16,060	14,990

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

	2023 \$ '000	2022 \$ '000
Software		
Opening values at 1 July		
Gross book value	9,967	9,776
Accumulated amortisation	(7,603)	(6,435)
Net book value – opening balance	2,364	3,341
Movements for the year		
Purchases	–	382
Transfers	–	–
Gross book value written off	(862)	(191)
Accumulated amortisation charges written off	859	191
Amortisation charges	(1,292)	(1,359)
Closing values at 30 June		
Gross book value	9,105	9,967
Accumulated amortisation	(8,036)	(7,603)
Total software – net book value	1,069	2,364
Newcastle Airport		
Opening values at 1 July		
Gross book value	1,889	1,900
Accumulated amortisation	(422)	(306)
Net book value – opening balance	1,467	1,594
Movements for the year		
Other movements	245	–
Amortisation charges	(125)	(125)
Gross book value written off	–	(11)
Accumulated amortisation charges written off	–	9
Closing values at 30 June		
Gross book value	2,134	1,889
Accumulated amortisation	(547)	(422)
Total Newcastle Airport – net book value	1,587	1,467
Total intangible assets – net book value	2,656	3,831

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

	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Prepayments	3,234	283	8,674	453
Security Deposits	12	-	6,452	-
Total other assets	3,246	283	15,126	453

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 plant and equipment with lease terms of 5 years with some having options to renew; 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. Council agreed to the renewal option. 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 2023 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 \$12,444,829 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.

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
2023					
Opening balance at 1 July	88	30,163	449	332	31,032
Additions to right-of-use assets	1,622	–	2,555	–	4,177
Adjustments to right-of-use assets due to re-measurement of lease liability	–	1,124	–	18	1,142
Depreciation charge	(223)	(1,840)	(2,153)	(4)	(4,220)
Balance at 30 June	1,487	29,447	851	346	32,131
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
		2023	2023	2022	2022
		Current	Non-current	Current	Non-current
		\$ '000	\$ '000	\$ '000	\$ '000
Total lease liabilities		2,805	32,334	2,405	31,719

(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
2023					
Cash flows	3,750	13,752	25,673	43,175	35,139
2022					
Cash flows	3,310	12,131	27,209	42,650	34,124

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:

	2023 \$ '000	2022 \$ '000
Interest on lease liabilities	1,019	1,022
Variable lease payments based on usage not included in the measurement of lease liabilities	3,885	3,839
Income from sub-leasing right of use assets	(440)	164
Depreciation of right of use assets	4,220	3,789
Expenses relating to short-term leases	508	24
Expenses relating to low-value leases	16	25
	9,208	8,863

(d) Statement of Cash Flows

Total cash outflow for leases	5,542	5,294
	5,542	5,294

(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 individually material from a Statement of Financial Position 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.

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 Council's service delivery objective (refer note C1-8).

	2023 \$ '000	2022 \$ '000
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(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)	839	813
Total income relating to operating leases for investment property assets	839	813

Operating lease expenses

Direct operating expenses that generated rental income	(78)	(120)
Direct operating expenses that did not generate rental income	(222)	(225)
Total expenses relating to operating leases	(300)	(345)

(ii) Assets held as property, plant and equipment

Council provides operating leases on Council assets for the purpose of commercial 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)	4,987	3,866
Total income relating to operating leases for Council assets	4,987	3,866

Amount of IPPE leased out by Council under operating leases

Buildings	58,381	36,516
Plant and Equipment	611	423
Newcastle Airport	2,018	4,018
Total amount of IPPE leased out by Council under operating leases	61,010	40,957

C2-2 Council as a lessor (continued)

	2023 \$ '000	2022 \$ '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	3,488	2,531
1–2 years	3,040	2,659
2–3 years	2,861	1,472
3–4 years	2,131	1,411
4–5 years	2,012	1,362
> 5 years	29,656	19,909
Total undiscounted lease payments to be received	43,188	29,344

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

	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Goods and services	44,974	–	40,269	–
Accrued expenses:				
– Salaries and wages	3,539	–	2,683	–
– Other expenditure accruals	305	–	411	–
Security bonds, deposits and retentions	1,412	–	1,638	–
Government departments and agencies	390	–	147	–
Prepaid rates	3,007	–	2,767	–
Newcastle Airport accruals	4,303	2,036	4,293	165
Total payables	57,930	2,036	52,208	165

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

–	–
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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 25 days of recognition.

C3-2 Contract Liabilities

	Notes	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Grants and contributions received in advance:					
Unexpended capital grants (to construct Council controlled assets)	(i)	3,583	6,024	1,603	500
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	490	–	239	–
Total grants received in advance		4,073	6,024	1,842	500
Other income received in advance:					
Funds received prior to performance obligations (AASB 15)	(ii)	3,351	–	3,142	–
Deposits received in advance of services provided	(iii)	4,679	285	4,902	316
Total other income received in advance		8,030	285	8,044	316
Total contract liabilities		12,103	6,309	9,886	816

Notes

(i) Council has received funding to construct assets including community and sporting facilities, 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 current liability is expected to be recognised as revenue 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

	2023 \$ '000	2022 \$ '000
Grants and contributions received in advance:		
Capital grants (to construct Council controlled assets)	303	–
Operating grants (received prior to performance obligation being satisfied)	239	873
Other income received in advance:		
Funds received prior to performance obligations (AASB 15)	2,378	1,929
Deposits received in advance of services provided	4,879	50
Total revenue recognised that was included in the contract liability balance at the beginning of the period	7,799	2,852

Significant changes in contract liabilities

The receipt of significant grant funding in advance for projects such as roads and construction of Council controlled assets.

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

	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Loans – secured	2,303	24,157	4,925	36,855
Loans – Newcastle Airport	–	34,500	–	24,400
Total borrowings	2,303	58,657	4,925	61,255

(a) Changes in liabilities arising from financing activities

	2022		Non-cash movements			2023
	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	41,780	(15,320)	–	–	–	26,460
Loans - Newcastle Airport	24,400	10,100	–	–	–	34,500
Lease liability (Note C2-1b)	34,124	(4,304)	4,177	–	1,142	35,139
Total liabilities from financing activities	100,304	(9,524)	4,177	–	1,142	96,099

	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

(b) Financing arrangements

	2023 \$ '000	2022 \$ '000
Total financing facilities available at reporting date:		
– Intraday facility	3,000	3,000
– Credit cards/purchase cards	350	350
– Loans - secured	26,459	41,780
– Loans - Newcastle Airport	117,500	50,000
Total financing arrangements	147,309	95,130
Drawn facilities at reporting date:		
– Credit cards/purchase cards	46	37
– Loans - secured	26,459	41,780
– Loans - Newcastle Airport	34,500	24,400
Total drawn financing arrangements	61,005	66,217

C3-3 Borrowings (continued)

	2023 \$ '000	2022 \$ '000
Undrawn facilities at reporting date:		
– Intraday facility	3,000	3,000
– Credit cards/purchase cards	304	313
– Loans - secured	–	–
– Loans - Newcastle Airport	83,000	25,600
Total undrawn financing arrangements	86,304	28,913

Breaches and defaults

During the current year, up to and including 30 June 2023, 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 2023 the debt ratio was 7% (excluding transactions and balances relating to Newcastle Airport).

C3-4 Employee benefit provisions

	2023 Current \$ '000	2023 Non-current \$ '000	2022 Current \$ '000	2022 Non-current \$ '000
Annual leave	11,132	–	11,226	–
Sick leave	4,780	–	4,790	–
Long service leave	19,551	1,115	18,933	969
Termination benefits	439	–	–	–
Other	55	–	37	–
Total employee benefit provisions	35,957	1,115	34,986	969

	2023 \$ '000	2022 \$ '000
Current employee benefit provisions not expected to be settled within the next 12 months	22,559	23,047

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 and therefore all annual leave, vested long service leave and accumulated sick leave is presented as current.

Short-term obligations

Liabilities for wages and salaries (including annual leave, accumulating sick 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, accumulating sick 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 using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on 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

	2023 Current \$ '000	2023 Non-Current \$ '000	2022 Current \$ '000	2022 Non-Current \$ '000
Asset remediation	22,332	44,709	18,595	48,092
Self insurance – workers compensation	1,689	8,312	2,628	6,651
Other	–	20	–	10
Total provisions	24,021	53,041	21,223	54,753

Movements in provisions

	Self insurance \$ '000	Asset remediation \$ '000	Other \$ '000	Total \$ '000
2023				
At beginning of year	9,279	66,687	10	75,976
Changes to provision:				
– New provision	–	–	10	10
– Revised discount rate	91	(2,052)	–	(1,961)
– Revised costs	3,711	13,384	–	17,095
Unwinding of discount	–	310	–	310
Amounts used (payments)	(3,080)	(11,288)	–	(14,368)
Total provisions at end of year	10,001	67,041	20	77,062
2022				
At beginning of year	6,310	80,079	10	86,399
Changes to provision:				
– Revised discount rate	(803)	(13,521)	–	(14,324)
– Revised costs	6,817	454	–	7,271
Unwinding of discount	–	1	–	1
Amounts used (payments)	(3,045)	(326)	–	(3,371)
Total provisions at end of year	9,279	66,687	10	75,976

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 make good condition clauses for end of term, within leases 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 a borrowing cost.

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 and investments 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 infrastructure, property, plant and equipment.

Hedging reserve

The hedging reserve is used to record movements in fair value for the derivative instruments held by Newcastle Airport. The interest rate swaps held by Newcastle Airport are designated in a cash flow hedge relationship, with gains and losses recognised in other comprehensive income.

D Council structure

D1 Interests in other entities

	Notes	Council's share of net assets	
		2023 \$ '000	2022 \$ '000
Council's share of net assets			
Net share of interests in joint ventures and associates using the equity method – assets			
Associates	D1-2	487	548
Total Council's share of net assets		487	548

D1-1 Interests in joint arrangements

Joint operations

Principal activity	Principal place of business	Percentage owned (%)		
		2023	2022	
(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.

During the reporting period, Newcastle Airport Pty Limited in its capacity as agent for the Newcastle Airport Partnership, entered into a new finance arrangement. The Syndicated Facility Agreement places restrictions on the payment of distributions to partners, including a clause preventing payment of distributions until the terminal expansion has reached practical completion and a completion certificate has been issued under the construction contract.

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 (%)	
			2023	2022
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.

D1-2 Interests in associates (continued)

Summarised financial information for associates

	Arrow Collaborative Services Limited	
	2023	2022
	\$ '000	\$ '000
Statement of financial position		
Current assets		
Cash and cash equivalents	2,808	1,753
Other current assets	1,997	1,891
Non-current assets	1,472	2,182
Current liabilities		
Payables	700	549
Other current liabilities	2,971	2,428
Non-current liabilities		
Other non-current liabilities	110	39
Net assets	2,496	2,810
Statement of income and other comprehensive income		
Income	9,411	8,269
Expenses	(9,725)	(9,142)
Profit/(loss) from continuing operations	(314)	(873)
Profit/(loss) for period	(314)	(873)
Total comprehensive income	(314)	(873)
Share of income – Council (%)	19%	19%
Profit/(loss) – Council (\$)	(61)	(170)
Total comprehensive income – Council (\$)	(61)	(170)
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)	2,810	3,683
Profit/(loss) for the period	(314)	(873)
Closing net assets	2,496	2,810
Council's share of net assets (%)	19%	19%
Council's share of net assets (\$) ^	487	548

(^) 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, Property & Performance service unit 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 2023 \$ '000	Carrying value 2022 \$ '000	Fair value 2023 \$ '000	Fair value 2022 \$ '000
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Financial assets

Measured at amortised cost

Investments

– Debt securities at amortised cost	279,379	244,383	277,206	241,774
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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, Property & Performance service unit manages the cash and investments portfolio with the assistance of independent advisors.

Council has an investment policy which complies with section 625 of the *Local Government Act 1993* and the Ministerial Investment Order. 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.

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

(a) Market risk – interest rate and price risk

	2023	2022
	\$ '000	\$ '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	2,654	2,162
Impact of a 10% movement in price of investments		
– Equity / Income Statement	4,851	4,372

Newcastle Airport

Newcastle Airport Partnership's interest rate risk arises primarily from interest bearing liabilities with variable interest rates where interest rate movements can impact Newcastle Airport Partnership's cash flows.

Newcastle Airport Partnership uses derivative financial instruments to mitigate its exposures to interest rate risks.

Newcastle Airport Partnership's policy is to maintain hedging arrangements in accordance with the bands below:

Year 1-3	50%-100%
Year 4-7	25%-75%

By entering into Interest rate swap contracts, Newcastle Airport Partnership agrees to exchange the net difference between fixed and floating interest rate amounts (based on Australian BBSY) calculated by reference to agreed notional principal amounts.

All floating for fixed IRS are designated as cash flow hedges. The IRS and the interest payments on the related loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the loan period.

The fair value of IRS contracts at reporting date are determined by discounting the related future cash flows using the cash and swap curves at the reporting date and credit risk inherent in the contract.

(b) Credit risk

Council's major receivables comprise rates and annual charges and 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.

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

Credit risk profile

Receivables – rates and annual charges

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

	Not yet overdue \$ '000	overdue rates and annual charges		Total \$ '000
		< 5 years \$ '000	≥ 5 years \$ '000	
2023				
Gross carrying amount	109	6,230	615	6,954
2022				
Gross carrying amount	106	5,794	600	6,500

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 2023 is determined as follows:

	Not yet overdue \$ '000	0 - 30 days \$ '000	Overdue debts \$ '000		> 90 days overdue \$ '000	Total \$ '000
			31 - 60 days	61 - 90 days		
2023						
Gross carrying amount	9,756	8,023	1,327	670	2,031	21,807
Expected loss rate (%)	0.00%	0.10%	3.34%	6.53%	10.09%	1.38%
ECL provision	–	8	44	44	205	301
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

(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, financial instruments can be sold 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. For interest rate swap contracts the cash flows will be estimated based on net settlement cash flows using the forward interest rates applicable at the end of the reporting period.

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

	Weighted average interest rate %	Subject to no maturity \$ '000	payable in:			Total cash outflows \$ '000	Actual carrying values \$ '000
			≤ 1 Year \$ '000	1 - 5 Years \$ '000	> 5 Years \$ '000		
2023							
Payables	0.00%	1,412	56,518	1,700	336	59,966	59,966
Borrowings	5.77%	–	6,287	25,201	53,365	84,853	60,960
Derivatives - Interest rate swap contracts	3.52%	–	(291)	(726)	(54)	(1,071)	(996)
Total financial liabilities / (financial assets)		1,412	62,514	26,175	53,647	143,748	119,930
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
Derivatives - Interest rate swap contracts	0.00%	–	–	–	–	–	–
Total financial liabilities / (financial assets)		1,638	58,428	47,654	27,109	134,829	118,553

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

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

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

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

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

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

\$ '000	Notes	Fair value measurement hierarchy				Total	
		Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		2023	2022
		2023	2022	2023	2022	2023	2022
Recurring fair value measurements							
Financial investments and derivatives C1-2							
At fair value through profit or loss		48,514	43,717	–	–	48,514	43,717
Derivatives - Newcastle Airport		996	–	–	–	996	–
Total financial investments and derivatives		49,510	43,717	–	–	49,510	43,717
Investment property C1-9							
Commercial office and retail		16,060	–	–	14,990	16,060	14,990
Total investment property		16,060	–	–	14,990	16,060	14,990
Infrastructure, property, plant and equipment C1-8							
Plant and equipment		–	–	18,660	18,975	18,660	18,975
Office equipment		–	–	2,883	2,830	2,883	2,830
Furniture and fittings		–	–	16,358	16,965	16,358	16,965
Operational land		–	–	164,145	145,681	164,145	145,681
Community land		–	–	88,327	79,492	88,327	79,492
Crown land		–	–	41,668	33,903	41,668	33,903
Land under roads		–	–	14,965	10,132	14,965	10,132
Depreciable land improvements		–	–	4,470	3,898	4,470	3,898
Buildings – non-specialised		–	–	2,669	352	2,669	352
Buildings – specialised		–	–	222,261	196,962	222,261	196,962
Other structures		–	–	86,996	74,101	86,996	74,101
Roads		–	–	376,288	360,527	376,288	360,527
Bridges		–	–	30,545	25,207	30,545	25,207
Footpaths		–	–	108,643	103,991	108,643	103,991
Bulk earthworks (non depreciable)		–	–	227,909	215,826	227,909	215,826

continued on next page ...

E2-1 Fair value measurement (continued)

\$ '000	Notes	Fair value measurement hierarchy					
		Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		Total	
		2023	2022	2023	2022	2023	2022
Stormwater drainage		–	–	139,325	133,195	139,325	133,195
Swimming pools		–	–	16,502	14,817	16,502	14,817
Other open space/rec assets		–	–	25,128	19,783	25,128	19,783
Other infrastructure		–	–	64,296	57,164	64,296	57,164
Heritage collections		–	–	82,085	81,837	82,085	81,837
Library books		–	–	8,489	7,664	8,489	7,664
Waste management asset		–	–	9,612	12,564	9,612	12,564
Newcastle Airport		–	–	74,398	58,675	74,398	58,675
Total infrastructure, property, plant and equipment		–	–	1,826,622	1,674,541	1,826,622	1,674,541
Non-current assets classified as held for sale	C1-7						
Land and buildings		–	–	1,233	366	1,233	366
Total Non-current assets classified as held for sale		–	–	1,233	366	1,233	366

(b) Transfers between levels in the fair value hierarchy

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

Valuations of Investment Properties performed at the end of the year utilised both a market and income approach so were transferred from level 3 to level 2 in the fair value hierarchy.

(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 investments and derivatives

This asset class is comprised of funds invested into TCorp's Individually Managed Long Term Growth Fund, and Interest Rate Swaps (IRS) held by Newcastle Airport (NAP) of which Council holds 50% ownership.

The valuation applied to the TCorp 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 TCorp fund holding consists of an identifiable number of units held in the fund unit trust.

Valuation of IRS was provided by KPMG and derived using third party licensed derivative pricing tool, based on contractual terms stipulated in swap confirmations, observable market data and generally accepted valuation techniques applicable to IRS. Fair valuation methodology was applied in calculating the risk-free fair values of derivatives (using relevant market rates) using external pricing tools and comparison of the risk free fair values to those of counterparty banks.

The value of financial instruments and derivatives are determined based on observable market inputs, categorised as Level 2.

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.

E2-1 Fair value measurement (continued)

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 2023, valuations for three of Council's investment properties were undertaken and inputs considered to be observable inputs, therefore at Level 2 of the Fair Value Hierarchy.

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 2023, the full valuations of Investment properties were performed by Preston Rowe Paterson, David A Rich, Director, AAPI CPV, API Member No 69265.

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. At each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full valuation was performed by AssetVal Pty Ltd, Suzanna Ham, Certified Practising Valuer AAPI, API Member No 70497, at 30 June 2023.

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.

E2-1 Fair value measurement (continued)

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 2023, Council performed desktop valuations of crown land and community land.

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. As at 30th June 2023, council performed a desktop valuation of Land under roads.

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. As at 30th June 2023, council performed a desktop valuation of Depreciable land improvements.

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 2023. Valuations were performed by external valuers AssetVal Pty Ltd, Suzanna Ham, Certified Practising Valuer AAPI, API Member No 70497. At each reporting period carrying amount of assets is assessed against fair value for any material differences.

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.

E2-1 Fair value measurement (continued)

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.

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). As at 30th June 2023, council performed a desktop valuation of Other structures.

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 2023, 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. As at 30th June 2023, council performed a desktop valuation of Bridges

E2-1 Fair value measurement (continued)

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

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 30th June 2023, council performed a desktop valuation of Footpaths.

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.

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 2023, Council performed a desktop valuation of Bulk earthworks.

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 2023, council performed a desktop valuation of Stormwater drainage.

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,

E2-1 Fair value measurement (continued)

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). As at 30th June 2023, council performed a desktop valuation of Swimming pools.

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.

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). As at 30th June 2023, council performed a desktop valuation of Other open space/recreational assets.

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. As at 30th June 2023, council performed a desktop valuation of Other infrastructure.

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 2023, the last valuation performed by council was a desktop valuation on 30 June 2022.

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.

E2-1 Fair value measurement (continued)

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. As at 30th June 2023, council performed a desktop valuation of Library books.

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.

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.

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	
		2023 \$ '000	2022 \$ '000
Opening balance		1,689,897	1,555,178
Total gains or losses for the period			
Recognised in profit or loss – realised	B2-6,B3-5	–	1,000
Other movements			
Transfers from/(to) level 2 FV hierarchy		(14,990)	–
Transfers from/(to) another asset class		15,627	20,618
Purchases (GBV)		55,455	26,166
Disposals (WDV)		(12,188)	(6,324)
Depreciation and impairment		(59,009)	(55,076)
Revaluation increment/(decrement)		153,063	148,335
Closing balance		1,827,855	1,689,897

E2-1 Fair value measurement (continued)

(e) Fair value measurements using significant unobservable 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.

Infrastructure, property, plant and equipment

Class	Fair value 2023 \$'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Plant & equipment	18,660	Cost approach	<ul style="list-style-type: none"> Current replacement cost of modern equivalent asset Remaining useful life 	<ul style="list-style-type: none"> 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	2,883	Cost approach	<ul style="list-style-type: none"> Current replacement cost of modern equivalent asset Remaining useful life 	<ul style="list-style-type: none"> 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	16,358	Cost approach	<ul style="list-style-type: none"> Current replacement cost of modern equivalent asset Remaining useful life 	<ul style="list-style-type: none"> 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	164,145	Market approach	<ul style="list-style-type: none"> Total value of land 	<ul style="list-style-type: none"> 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	88,327	Market approach	<ul style="list-style-type: none"> Average unit rate based on VG valuations 	<ul style="list-style-type: none"> VG assessment 	Significant changes in the unimproved capital value would result in significant changes to fair value measurement.
Crown land	41,668	Market approach	<ul style="list-style-type: none"> Average unit rate based on VG valuations 	<ul style="list-style-type: none"> VG assessment 	Significant changes in the unimproved capital value would result in significant changes to fair value measurement.

E2-1 Fair value measurement (continued)

Class	Fair value 2023 \$'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Land under roads	14,965	Market approach, discounted average land value	<ul style="list-style-type: none"> Average unit rate based on total land valuation Discounting factors 	<ul style="list-style-type: none"> 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	4,470	Cost approach	<ul style="list-style-type: none"> Current replacement cost of modern equivalent asset Remaining useful life Asset condition 	<ul style="list-style-type: none"> 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	2,669	Market approach	<ul style="list-style-type: none"> Market value Asset condition 	<ul style="list-style-type: none"> 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	222,261	Cost approach	<ul style="list-style-type: none"> Current replacement cost of modern Equivalent asset Remaining useful life Asset condition 	<ul style="list-style-type: none"> 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	86,996	Cost approach	<ul style="list-style-type: none"> Current replacement cost of modern equivalent asset Remaining useful life Asset condition 	<ul style="list-style-type: none"> 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	376,288	Cost approach	<ul style="list-style-type: none"> Current replacement cost of modern equivalent asset Remaining useful life Asset condition 	<ul style="list-style-type: none"> 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.

E2-1 Fair value measurement (continued)

Class	Fair value 2023 \$'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Bridges	30,545	Cost approach	<ul style="list-style-type: none"> • Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition 	<ul style="list-style-type: none"> • 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	108,643	Cost approach	<ul style="list-style-type: none"> • Current replacement cost of modern Equivalent asset • Remaining useful life • Asset condition 	<ul style="list-style-type: none"> • 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)	227,909	Cost approach	<ul style="list-style-type: none"> • Average unit rate 	<ul style="list-style-type: none"> • Unit rates (\$ per cubic metre) 	Significant changes to the average unit rate would result in significant changes to fair value measurement.
Stormwater drainage	139,325	Cost approach	<ul style="list-style-type: none"> • Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition 	<ul style="list-style-type: none"> • 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	16,502	Cost approach	<ul style="list-style-type: none"> • Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition 	<ul style="list-style-type: none"> • 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	25,128	Cost approach	<ul style="list-style-type: none"> • Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition 	<ul style="list-style-type: none"> • 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	64,296	Cost approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • 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	82,085	Market approach	<ul style="list-style-type: none"> • Market Value • Asset Condition 	<ul style="list-style-type: none"> • 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.

E2-1 Fair value measurement (continued)

Class	Fair value 2023 \$'000	Valuation technique(s)	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Library books	8,489	Cost approach Market approach	<ul style="list-style-type: none"> • Current replacement cost of modern equivalent asset • Remaining useful life • Asset condition • Market value 	<ul style="list-style-type: none"> • 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	9,612	Cost approach	<ul style="list-style-type: none"> • Discount rate • Cost escalation rate 	<ul style="list-style-type: none"> • 3.95% • 2.43% 	Significant changes in the discount rate and cost escalation rate would result in significant changes to fair value measurement.
Newcastle Airport	74,398	Cost approach	<ul style="list-style-type: none"> • Current replacement cost of modern equivalent asset • Remaining useful life 	<ul style="list-style-type: none"> • 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 8.0% of salaries for the year ending 30 June 2023 (increasing to 8.5% 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 \$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 2022. 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 2023 was \$989,782. The last formal valuation of the Fund was undertaken by the Fund Actuary, Richard Boyfield FIAA as at 30 June 2022.

E3-1 Contingencies (continued)

The amount of past service contributions included in the total employer contribution advised above is \$630,997. Council's expected contribution to the plan (including past service contributions) for the next annual reporting period is \$1,002,279.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2023 is:

Defined Benefit reserves only*	\$millions	Asset Coverage
Assets	2,290.9	
Past Service Liabilities	2,236.1	102.4%
Vested Benefits	2,253.6	101.7%

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

The share of this deficit that is broadly attributed to Council is 3.27% as at 30 June 2023.

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 asset for the surplus has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct any future deficiency.

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

Investment return	6.0% per annum
Salary inflation	3.5% per annum
Increase in CPI	6.0% for FY 22/23 2.5% per annum thereafter

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 2023.

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. Council provides bank guarantees to the value of \$9.279 million to the State Insurance Regulatory Authority (SIRA). Subsequent to 30 June 2023, the security requirement has increased to \$10.001 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.

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. Further, Council will investigate if these liabilities can be reimbursed through relevant insurance policies.

(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 still 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.

ASSETS NOT RECOGNISED

1. 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 owed 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:

	2023	2022
	\$ '000	\$ '000
Compensation:		
Short-term benefits	6,089	6,047
Post-employment benefits	544	505
Other long-term benefits	104	42
Termination benefits	497	108
Total	7,234	6,702

F1-1 Key management personnel (KMP) (continued)

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
2023					
Employee expenses relating to close family members ¹	164	–	Enterprise Agreement 2019, Enterprise Agreement 2023	–	–
2022					
Employee expenses relating to close family members ¹	139	–	Enterprise Agreement 2019	–	–

A councillor, through their role as an elected member, is a Director on the Board of the Newcastle Art Gallery Foundation (Foundation) and currently has 10% of voting power. This entitlement increases to 26% for special resolutions. The Foundation has agreed to provide funding to Council for the purpose of the Newcastle Art Gallery expansion project. During the 2022-23 financial year, Council received \$0.6M. The Foundation has committed to providing at least \$10.5M in funding, to a maximum of \$13.0M.

(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 4 close family members of KMP employed by Council during 2023 (2022: 3).

F1-2 Councillor and Mayoral fees and associated expenses

	2023 \$ '000	2022 \$ '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	104	102
Councillors' fees	453	395
Councillor superannuation (incl. mayor)	56	–
Councillor expenses (incl. mayor) – other (excluding fees above)	132	100
Total	745	597

F2 Other relationships

F2-1 Audit fees

	2023 \$ '000	2022 \$ '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	145	142
Total fees paid or payable to the NSW Auditor-General	145	142
Other services: Other firms		
(i) Audit and other assurance services		
Other audit and assurance services	218	174
Total fees paid or payable to other firms	218	174
Total audit fees	363	316

G Other matters

G1-1 Statement of Cash Flows information

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

	2023 \$ '000	2022 \$ '000
Net operating result from Income Statement	28,074	4,631
Add / (less) non-cash items:		
Depreciation and amortisation	64,438	60,130
(Gain) / loss on disposal of assets	9,078	5,418
Non-cash capital grants and contributions	(4,364)	(1,192)
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investments classified as ‘at fair value’ or ‘held for trading’	(3,778)	5,260
– Investment property	254	(1,000)
– Revaluation decrements / impairments of IPP&E direct to P&L	375	4
Amortisation of premiums, discounts and prior period fair valuations		
– Financial assets at amortised cost / held to maturity (2022)	(30)	9
Share of net (profits)/losses of associates/joint ventures using the equity method	61	170
Movements in operating assets and liabilities and other cash items:		
(Increase) / decrease of receivables	7,129	(8,571)
Increase / (decrease) in provision for impairment of receivables	(289)	(192)
(Increase) / decrease of inventories	(137)	(136)
Decrease/(increase) in other assets	12,050	(6,988)
(Increase) / decrease of contract asset	(2,699)	(36)
Increase / (decrease) in payables	4,705	1,677
Increase / (decrease) in other accrued expenses payable	750	597
Increase / (decrease) in other liabilities	2,138	(519)
Increase / (decrease) in contract liabilities	7,710	(234)
Increase / (decrease) in employee benefit provision	1,117	(1,091)
Increase / (decrease) in other provisions	1,086	(10,423)
Net cash flows from operating activities	127,668	47,514

(b) Non-cash investing and financing activities

Other dedications	4,364	1,192
Total non-cash investing and financing activities	4,364	1,192

G2-1 Commitments

Capital commitments (exclusive of GST)

	2023 \$ '000	2022 \$ '000
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	10,817	54,843
Plant and equipment	4,550	59,486
Open Spaces	6,915	374
Land improvements	32,847	62,507
Road infrastructure	1,129	930
Other	3,337	3,200
Total commitments	59,595	181,340

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 system upgrades.

Open spaces commitments relate to the construction of grandstands at Lambton Pool, Passmore Oval and Darling St Oval 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 and other road and traffic repairs.

Other commitments relate to the increase in social and affordable housing in the Newcastle LGA.

G3 Statement of developer contributions as at 30 June 2023

G3-1 Summary of developer contributions

	Opening balance at 1 July 2022 \$ '000	Contributions received during the year			Interest and investment income earned \$ '000	Amounts expended \$ '000	Internal borrowings \$ '000	Held as restricted asset at 30 June 2023 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash Land \$ '000	Non-cash Other \$ '000					
Traffic and transport	615	67	–	–	21	(20)	–	683	–
Social infrastructure	14,155	202	–	–	461	–	–	14,818	–
Open space and recreation	993	1,667	–	–	36	(1,541)	–	1,155	–
Transport	–	386	–	–	4	(260)	–	130	–
Community facilities	53	308	–	–	12	–	–	373	–
Plan preparation and administration	–	58	–	–	–	(44)	–	14	–
S7.11 contributions – under a plan	15,816	2,688	–	–	534	(1,865)	–	17,173	–
S7.12 levies – under a plan	5,823	3,106	–	–	166	(3,762)	–	5,333	–
Total S7.11 and S7.12 revenue under plans	21,639	5,794	–	–	700	(5,627)	–	22,506	–
S7.4 planning agreements	25	–	–	224	–	(249)	–	–	–
Total contributions	21,664	5,794	–	224	700	(5,876)	–	22,506	–

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.

G3-2 Developer contributions by plan

	Opening balance at 1 July 2022 \$ '000	Contributions received during the year				Interest and investment income earned \$ '000	Amounts expended \$ '000	Internal borrowings \$ '000	Held as restricted asset at 30 June 2023 \$ '000	Cumulative balance of internal borrowings (to)/from \$ '000
		Cash \$ '000	Non-cash Land \$ '000	Non-cash Other \$ '000						
Contribution plan – Western Corridor										
Traffic and transport	615	67	–	–	21	(20)	–	683	–	
Social infrastructure	14,155	202	–	–	461	–	–	14,818	–	
Total	14,770	269	–	–	482	(20)	–	15,501	–	
Contribution plan – Fern Bay cross boundary										
Open space and recreation	820	8	–	–	27	–	–	855	–	
Total	820	8	–	–	27	–	–	855	–	
Contribution plan - S7.11 Development contributions plan										
Transport	–	386	–	–	4	(260)	–	130	–	
Open space and recreation	173	1,659	–	–	9	(1,541)	–	300	–	
Community facilities	53	308	–	–	12	–	–	373	–	
Plan preparation and administration	–	58	–	–	–	(44)	–	14	–	
Total	226	2,411	–	–	25	(1,845)	–	817	–	

S7.12 Levies – under a plan

Development Contributions Plan - Jan 2022

Other	5,823	3,106	–	–	166	(3,762)	–	5,333	–
Total	5,823	3,106	–	–	166	(3,762)	–	5,333	–

G4 Statement of performance measures

G4-1 Statement of performance measures – consolidated results

\$ '000	Amounts 2023	Indicator 2023	Indicator 2022	Benchmark
1. Operating performance				
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	14,059	3.69%	(0.64)%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	380,543			
2. Own source operating revenue				
Total continuing operating revenue excluding all grants and contributions ¹	343,816	85.79%	86.23%	> 60.00%
Total continuing operating revenue inclusive of all grants and contributions ¹	400,783			
3. Unrestricted current ratio				
Current assets less all external restrictions	212,093	1.99x	1.95x	> 1.50x
Current liabilities less specific purpose liabilities	106,657			
4. Debt service cover ratio				
Operating results before capital excluding interest and depreciation/impairment/amortisation ^{1,2}	83,645	3.38x	5.00x	> 2.00x
Principal repayments (from the Statement of Cash Flows) + borrowing costs (from the Income Statement)	24,772			
5. Rates and annual charges outstanding percentage				
Rates and annual charges outstanding	7,442	3.44%	3.36%	< 10.00%
Rates and annual charges collectable	216,077			
6. Cash expense cover ratio				
Current year's cash and cash equivalents + term deposits	172,130	6.49	6.05	> 3.00
Monthly payments from cash flow of operating and financing activities	26,512	months	months	months

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

(2) Excludes impairment/revaluation decrements of IPPE, fair value decrements, 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 2023, the Statement of Financial Position as at 30 June 2023, 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.

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 2023, 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).

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

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 2023 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/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
- 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.

A handwritten signature in black ink, appearing to read 'Lisa Berwick', with a horizontal line underneath the name.

Lisa Berwick
Delegate of the Auditor-General for New South Wales

31 October 2023
SYDNEY



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

Contact: Lisa Berwick
 Phone no: 02 9275 7165
 Our ref: R008-16585809-46453

31 October 2023

Dear Lord Mayor

**Report on the Conduct of the Audit
 for the year ended 30 June 2023
 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 2023 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 2023 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

	2023	2022	Variance
	\$m	\$m	%
Rates and annual charges revenue	208.5	199.1	↑ 4.7
Grants and contributions revenue	57.0	48.5	↑ 17.5
Operating result from continuing operations	28.1	4.6	↑ 510.9
Net operating result before capital grants and contributions	7.8	(12.5)	↑ 162.4

Rates and annual charges revenue (\$208.5 million) increased by \$9.4 million (4.7 per cent) in 2022–23 due to

- annual rate peg increase applied to ordinary rates (3.7 per cent)
- increase of \$4.3 million in domestic waste management services revenue.

Grants and contributions revenue (\$57.0 million) increased by \$8.5 million (17.5 per cent) in 2022–23 due to:

- decrease of \$1.4 million of developer contributions recognised during the year
- increase of \$5.0 million of Transport for NSW contributions recognised received for regional roadworks
- receiving 100 per cent of the financial assistance grants for 2023-24 in advance (75 per cent in 2021-22).

The Council's operating result from continuing operations (\$28.1 million including depreciation, amortisation and impairment expense of \$64.8 million) was \$23.5 million higher than the 2021–22 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 (\$7.8 million) was \$20.3 million higher than the 2021–22 result. The movement is mainly attributable to the increase in revenue as noted above and increase of \$5.3 million in operating grants and contributions recognised during the year.

STATEMENT OF CASH FLOWS

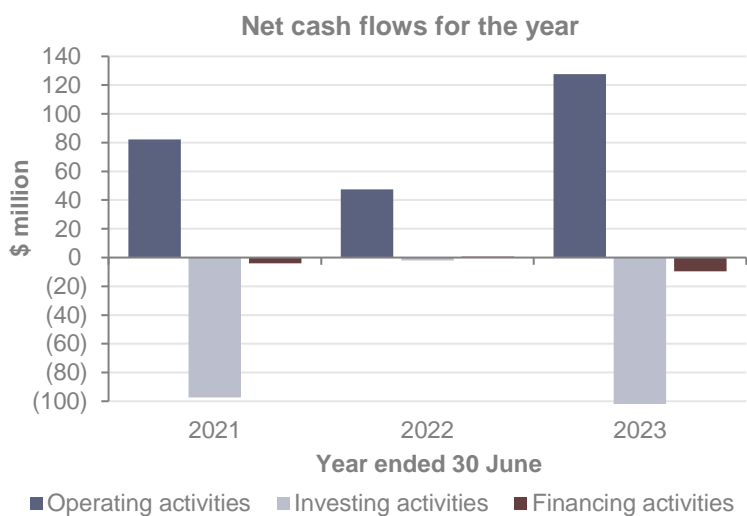
The Statement of Cash Flows illustrates the flow of cash and cash equivalents moving in and out of Council during the year.

The increase in cash provided from operating activities is mainly due to increase in rates and annual charges and user charges and fees during the year.

The decrease in cash used in investing activities is mainly due to acquisition of term deposits and purchase of IPPE.

The decrease in cash provided from financing activities is due repayment of borrowings during the year.

The Council's cash and cash equivalent balances at 30 June 2023 was \$74.3 million (2022: \$75.4 million). The net cash flow for the year was a decrease of \$1.0 million.



FINANCIAL POSITION

Cash and investments

Cash and investments	2023	2022	Commentary
	\$m	\$m	
Total cash, cash equivalents and investments	403.2	363.5	Externally restricted balances comprise mainly of developer contributions and domestic waste management.
Restricted and allocated cash, cash equivalents and investments:			Externally restricted balances increased by \$17.5 million due to an increase in specific purpose unexpended grants - general fund.
• External restrictions	61.6	44.1	Internal allocations are determined by council policies or decisions, which are subject to change.
• Internal allocations	315.1	292.7	Internal allocations increased by \$22.4 million due to an increase in the works program - Infrastructure agreed level of service.

Debt

The Council has \$61.0 million of borrowings as at 30 June 2023 (2022: \$66.2 million).

The Council has an accumulated drawdown facility limit of \$147.3 million as at 30 June 2023 (2022: \$95.1 million), of which \$117.5 million pertains to the Newcastle Airport Partnership joint operation.

As at 30 June 2023, \$86.3 million of the total facility remains unutilised.

PERFORMANCE

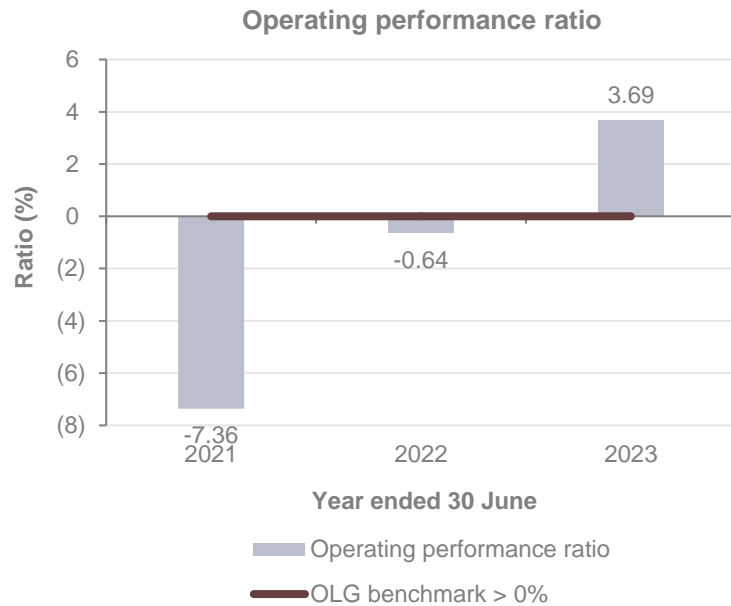
Performance measures

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 met the benchmark for the current reporting period.

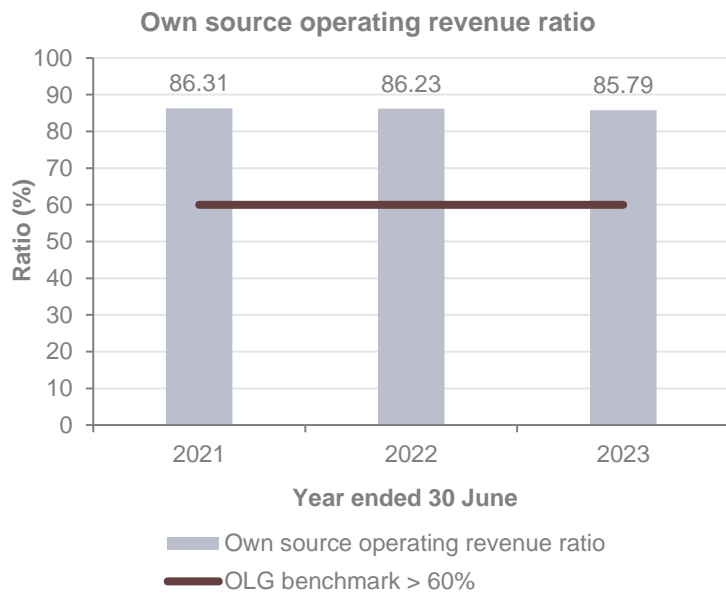
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by OLG is greater than zero per cent.



Own source operating revenue ratio

The Council met the benchmark for the current reporting period.

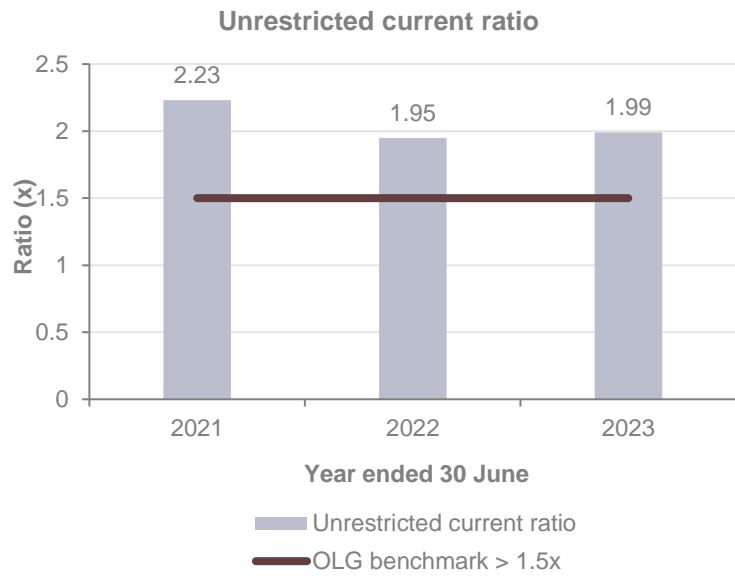
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

The Council met the benchmark for the current reporting period.

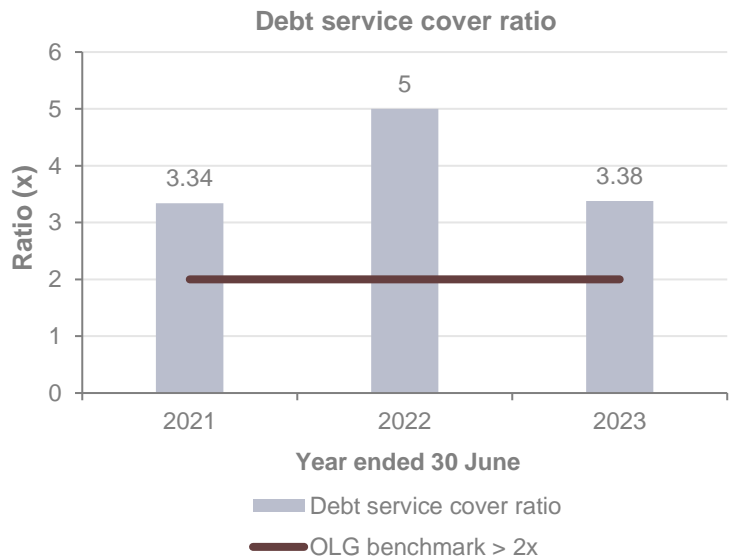
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

The Council met the benchmark for the current reporting period.

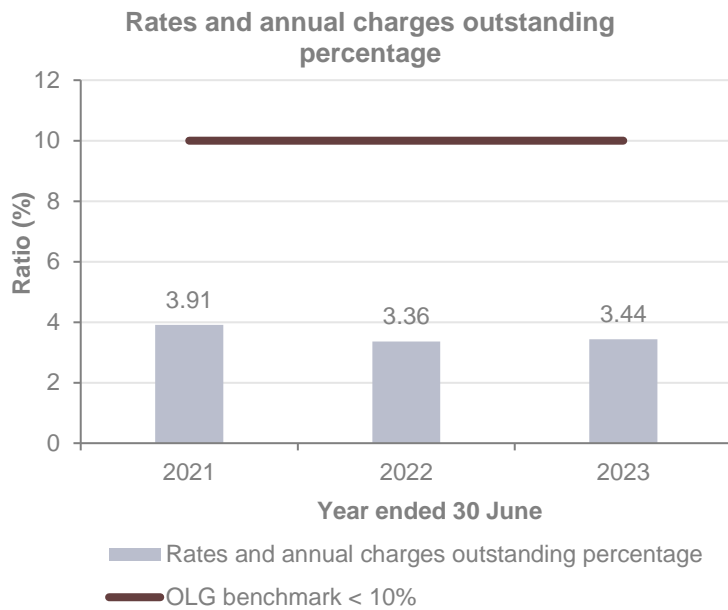
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding percentage

The Council met the benchmark for the current reporting period.

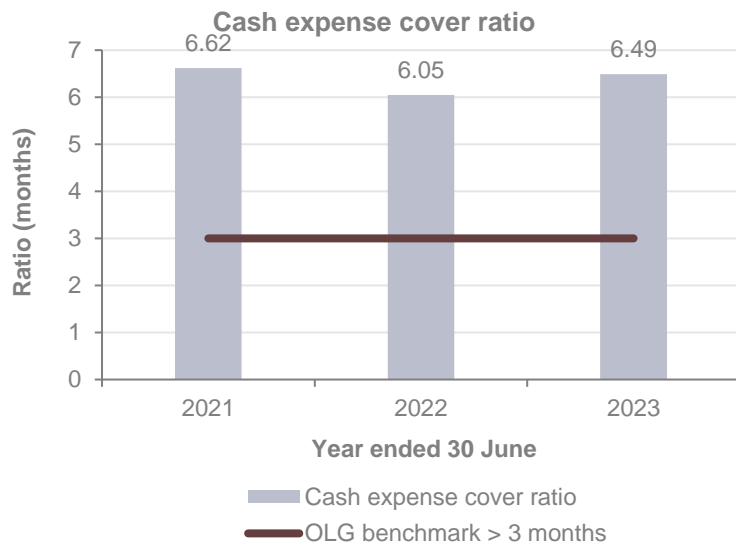
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.



Cash expense cover ratio

The Council met the 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 renewed \$20.0 million (2022: \$16.2 million) of infrastructure, property, plant and equipment during the 2022-23 financial year. This was mainly spent on road renewals (\$9.5 million) and plant and equipment renewals (\$3.9 million). A further \$35.4 million (2022: \$9.9 million) was spent on new assets. This was mainly for Newcastle Airport (\$19.1 million) and other structures (\$4.3 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.



Lisa Berwick
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

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

Newcastle City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2023



City of
Newcastle

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Background

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

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

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

Newcastle City Council

Special Purpose Financial Statements

for the year ended 30 June 2023

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:

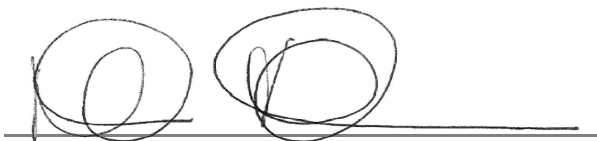
- the NSW Government Policy Statement, '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines, '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*', and
- the Local Government *Code of Accounting Practice and Financial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

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

Signed in accordance with a resolution of Council made on 31 October 2023.



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 2023

	2023 Category 1 \$ '000	2022 Category 1 \$ '000
Income from continuing operations		
Rates and annual charges	19,666	17,121
User charges and fees	4,747	4,810
Other income	23	34
Total income from continuing operations	24,436	21,965
Expenses from continuing operations		
Employee benefits and on-costs	4,397	4,406
Materials and services	9,507	10,527
Borrowing costs	52	71
Depreciation, amortisation and impairment of non-financial assets	2,413	1,598
Calculated taxation equivalents	174	155
Total expenses from continuing operations	16,543	16,757
Surplus (deficit) from all operations before tax	7,893	5,208
Less: corporate taxation equivalent (25%) [based on result before capital]	(1,973)	(1,302)
Surplus (deficit) after tax	5,920	3,906
Opening accumulated surplus	4,095	3,844
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	174	155
– Corporate taxation equivalent	1,973	1,302
Add:		
– Subsidy paid/(contribution) to operations	(8,689)	(5,112)
Closing accumulated surplus	3,473	4,095
Return on capital %	208.0%	109.7%

Newcastle City Council

Income Statement of Waste Management Disposal Service

for the year ended 30 June 2023

	2023 Category 1 \$ '000	2022 Category 1 \$ '000
Income from continuing operations		
Rates and annual charges	12,192	10,438
User charges and fees	51,765	54,012
Grants and contributions provided for operating purposes	120	242
Other income	376	279
Total income from continuing operations	64,453	64,971
Expenses from continuing operations		
Employee benefits and on-costs	4,168	3,964
Materials and services	8,524	7,764
Borrowing costs	28	13
Depreciation, amortisation and impairment of non-financial assets	8,223	7,596
Other expenses	38,518	38,607
Calculated taxation equivalents	203	194
Total expenses from continuing operations	59,664	58,138
Surplus (deficit) from all operations before tax	4,789	6,833
Less: corporate taxation equivalent (30%) [based on result before capital]	(1,437)	(2,049)
Surplus (deficit) after tax	3,352	4,784
Opening accumulated surplus	57,627	63,710
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	203	194
– Corporate taxation equivalent	1,437	2,049
Add:		
– Subsidy paid/(contribution) to operations	(121)	(13,110)
Closing accumulated surplus	62,498	57,627
Return on capital %	6.7%	10.5%

Newcastle City Council

Income Statement of Civic Theatre and Playhouse

for the year ended 30 June 2023

	2023 Category 1 \$ '000	2022 Category 1 \$ '000
Income from continuing operations		
User charges and fees	4,316	1,937
Grants and contributions provided for operating purposes	163	545
Other income	1,354	840
Total income from continuing operations	5,833	3,322
Expenses from continuing operations		
Employee benefits and on-costs	3,567	2,570
Materials and services	2,609	2,063
Depreciation, amortisation and impairment of non-financial assets	1,258	1,058
Calculated taxation equivalents	167	95
Total expenses from continuing operations	7,601	5,786
Surplus (deficit) from all operations before tax	(1,768)	(2,464)
Less: corporate taxation equivalent (25%) [based on result before capital]	–	–
Surplus (deficit) after tax	(1,768)	(2,464)
Opening accumulated surplus	4,317	4,178
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	167	95
Add:		
– Subsidy paid/(contribution) to operations	2,445	2,508
Closing accumulated surplus	5,161	4,317
Return on capital %	(7.8)%	(11.0)%

Newcastle City Council

Income Statement of City Hall

for the year ended 30 June 2023

	2023 Category 1 \$ '000	2022 Category 2 \$ '000
Income from continuing operations		
User charges and fees	1,695	435
Grants and contributions provided for operating purposes	58	68
Other income	683	720
Total income from continuing operations *	2,436	1,223
Expenses from continuing operations		
Employee benefits and on-costs	2,383	1,387
Materials and services	1,306	1,032
Depreciation, amortisation and impairment of non-financial assets	1,488	1,274
Other expenses	1	–
Calculated taxation equivalents	117	59
Total expenses from continuing operations	5,295	3,752
Surplus (deficit) from all operations before tax	(2,859)	(2,529)
Less: corporate taxation equivalent (25%) [based on result before capital]	–	–
Surplus (deficit) after tax	(2,859)	(2,529)
Opening accumulated surplus	20,878	21,844
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	117	59
Add:		
– Subsidy paid/(contribution) to operations	2,310	1,504
Closing accumulated surplus	20,446	20,878
Return on capital %	(6.5)%	(7.4)%

(*) Gross operating revenue exceeded \$2 million in the 2022/23 reporting period, redefining the business activity from Category 2 to Category 1.

Newcastle City Council

Income Statement of Commercial Properties

for the year ended 30 June 2023

	2023 Category 2 \$ '000	2022 Category 2 \$ '000
Income from continuing operations		
User charges and fees	12	10
Other income	839	812
Fair value increment on investment property	–	1,000
Total income from continuing operations	851	1,822
Expenses from continuing operations		
Employee benefits and on-costs	5	7
Materials and services	245	288
Fair value decrement on investment property	254	–
Net loss from the disposal of assets	–	58
Calculated taxation equivalents	162	252
Total expenses from continuing operations	666	605
Surplus (deficit) from all operations before tax	185	1,217
Less: corporate taxation equivalent (25%) [based on result before capital]	(46)	(304)
Surplus (deficit) after tax	139	913
Opening accumulated surplus	14,700	18,802
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	162	252
– Corporate taxation equivalent	46	304
Add:		
– Subsidy paid/(contribution) to operations	822	(5,571)
Closing accumulated surplus	15,869	14,700
Return on capital % ¹	1.2%	8.1%

(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 2023

	2023 Category 1 \$ '000	2022 Category 1 \$ '000
Income from continuing operations		
User charges and fees	2,918	2,276
Other income	9	6
Total income from continuing operations	2,927	2,282
Expenses from continuing operations		
Employee benefits and on-costs	3	6
Materials and services	1,643	1,021
Borrowing costs	12	22
Depreciation, amortisation and impairment of non-financial assets	207	187
Other expenses	142	114
Calculated taxation equivalents	64	61
Debt guarantee fee	8	13
Total expenses from continuing operations	2,079	1,424
Surplus (deficit) from all operations before tax	848	858
Less: corporate taxation equivalent (25%) [based on result before capital]	(212)	(215)
Surplus (deficit) after tax	636	643
Opening accumulated surplus	10,922	11,156
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	64	61
– Debt guarantee fees	8	13
– Corporate taxation equivalent	212	215
Add:		
– Subsidy paid/(contribution) to operations	(1,775)	(1,166)
Closing accumulated surplus	10,067	10,922
Return on capital %	10.3%	9.9%

Newcastle City Council

Income Statement of Beresfield Childcare Centre

for the year ended 30 June 2023

	2023 Category 2 \$ '000	2022 Category 2 \$ '000
Income from continuing operations		
User charges and fees	1,266	1,128
Grants and contributions provided for operating purposes	92	104
Interest and investment income	1	–
Total income from continuing operations	1,359	1,232
Expenses from continuing operations		
Employee benefits and on-costs	1,245	1,068
Materials and services	403	552
Depreciation, amortisation and impairment of non-financial assets	57	48
Other expenses	19	–
Calculated taxation equivalents	2	–
Total expenses from continuing operations	1,726	1,668
Surplus (deficit) from all operations before tax	(367)	(436)
Less: corporate taxation equivalent (25%) [based on result before capital]	–	–
Surplus (deficit) after tax	(367)	(436)
Opening accumulated surplus	924	971
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	2	–
Add:		
– Subsidy paid/(contribution) to operations	302	389
Closing accumulated surplus	861	924
Return on capital %	(22.7)%	(32.5)%

Newcastle City Council

Statement of Financial Position of Waste Management Collection Service

as at 30 June 2023

	2023 Category 1 \$ '000	2022 Category 1 \$ '000
ASSETS		
Current assets		
Receivables	689	587
Total current assets	689	587
Non-current assets		
Infrastructure, property, plant and equipment	3,820	4,812
Right of use assets	852	450
Total non-current assets	4,672	5,262
Total assets	5,361	5,849
LIABILITIES		
Current liabilities		
Contract liabilities	12	8
Lease liabilities	865	781
Employee benefit provisions	969	947
Total current liabilities	1,846	1,736
Non-current liabilities		
Employee benefit provisions	42	18
Total non-current liabilities	42	18
Total liabilities	1,888	1,754
Net assets	3,473	4,095
EQUITY		
Accumulated surplus	3,473	4,095
Total equity	3,473	4,095

Newcastle City Council

Statement of Financial Position of Waste Management Disposal Service

as at 30 June 2023

	2023 Category 1 \$ '000	2022 Category 1 \$ '000
ASSETS		
Current assets		
Investments	23,507	23,380
Receivables	3,270	8,877
Total current assets	26,777	32,257
Non-current assets		
Infrastructure, property, plant and equipment	71,985	64,913
Right of use assets	1,480	76
Total non-current assets	73,465	64,989
Total assets	100,242	97,246
LIABILITIES		
Current liabilities		
Payables	3,327	8,609
Lease liabilities	296	83
Employee benefit provisions	1,081	973
Total current liabilities	4,704	9,665
Non-current liabilities		
Employee benefit provisions	25	25
Provisions	28,577	29,929
Total non-current liabilities	28,602	29,954
Total liabilities	33,306	39,619
Net assets	66,936	57,627
EQUITY		
Accumulated surplus	55,690	52,377
Revaluation reserves	11,246	5,250
Total equity	66,936	57,627

Newcastle City Council

Statement of Financial Position of Civic Theatre and Playhouse

as at 30 June 2023

	2023 Category 1 \$ '000	2022 Category 1 \$ '000
ASSETS		
Current assets		
Receivables	270	263
Inventories	60	71
Total current assets	330	334
Non-current assets		
Infrastructure, property, plant and equipment	22,703	22,385
Total non-current assets	22,703	22,385
Total assets	23,033	22,719
LIABILITIES		
Current liabilities		
Contract liabilities	3,630	4,265
Employee benefit provisions	336	327
Total current liabilities	3,966	4,592
Non-current liabilities		
Employee benefit provisions	19	36
Total non-current liabilities	19	36
Total liabilities	3,985	4,628
Net assets	19,048	18,091
EQUITY		
Accumulated surplus	5,161	4,317
Revaluation reserves	13,887	13,774
Total equity	19,048	18,091

Newcastle City Council

Statement of Financial Position of City Hall

as at 30 June 2023

	2023 Category 1 \$ '000	2022 Category 2 \$ '000
ASSETS		
Current assets		
Inventories	16	12
Total current assets	16	12
Non-current assets		
Infrastructure, property, plant and equipment	43,840	34,005
Total non-current assets	43,840	34,005
Total assets	43,856	34,017
LIABILITIES		
Current liabilities		
Contract liabilities	366	321
Employee benefit provisions	301	210
Total current liabilities	667	531
Non-current liabilities		
Employee benefit provisions	35	14
Total non-current liabilities	35	14
Total liabilities	702	545
Net assets	43,154	33,472
EQUITY		
Accumulated surplus	20,447	20,878
Revaluation reserves	22,707	12,594
Total equity *	43,154	33,472

(*) Gross operating revenue exceeded \$2 million in the 2022/23 reporting period, redefining the business activity from Category 2 to Category 1.

Newcastle City Council

Statement of Financial Position of Commercial Properties

as at 30 June 2023

	2023 Category 2 \$ '000	2022 Category 2 \$ '000
ASSETS		
Current assets		
Receivables	127	59
Total current assets	127	59
Non-current assets		
Investment property	16,060	14,990
Total non-current assets	16,060	14,990
Total assets	16,187	15,049
LIABILITIES		
Current liabilities		
Contract liabilities	31	31
Employee benefit provisions	2	1
Total current liabilities	33	32
Non-current liabilities		
Contract liabilities	285	317
Total non-current liabilities	285	317
Total liabilities	318	349
Net assets	15,869	14,700
EQUITY		
Accumulated surplus	15,869	14,700
Total equity	15,869	14,700

Newcastle City Council

Statement of Financial Position of Stockton Beach Holiday Park

as at 30 June 2023

	2023 Category 1 \$ '000	2022 Category 1 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	3,376	3,433
Receivables	–	97
Non-current assets classified as held for sale	1,233	–
Total current assets	4,609	3,530
Non-current assets		
Infrastructure, property, plant and equipment	8,322	8,927
Total non-current assets	8,322	8,927
Total assets	12,931	12,457
LIABILITIES		
Current liabilities		
Payables	555	–
Contract liabilities	129	50
Borrowings	102	200
Employee benefit provisions	1	39
Total current liabilities	787	289
Non-current liabilities		
Borrowings	102	205
Employee benefit provisions	–	4
Total non-current liabilities	102	209
Total liabilities	889	498
Net assets	12,042	11,959
EQUITY		
Accumulated surplus	10,067	10,922
Revaluation reserves	1,975	1,037
Total equity	12,042	11,959

Newcastle City Council

Statement of Financial Position of Beresfield Childcare Centre

as at 30 June 2023

	2023 Category 2 \$ '000	2022 Category 2 \$ '000
ASSETS		
Current assets		
Receivables	34	22
Total current assets	34	22
Non-current assets		
Infrastructure, property, plant and equipment	1,618	1,341
Total non-current assets	1,618	1,341
Total assets	1,652	1,363
LIABILITIES		
Current liabilities		
Employee benefit provisions	122	95
Total current liabilities	122	95
Non-current liabilities		
Employee benefit provisions	11	26
Total non-current liabilities	11	26
Total liabilities	133	121
Net assets	1,519	1,242
EQUITY		
Accumulated surplus	861	924
Revaluation reserves	658	318
Total equity	1,519	1,242

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* (the Act), the *Local Government (General) Regulation 2021* (the Regulation) and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, 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 revenue more than \$2 million

Waste Management Collection Service

Collection of commercial, domestic and other waste

Waste Management Disposal Service

Waste disposal site activities

Civic Theatre and Playhouse

Operation of entertainment theatre

City Hall

Provision of conference, reception and entertainment facilities

Stockton Beach Holiday Park

Operation of holiday park

Category 2 – business activities with gross operating revenue less than \$2 million

Commercial Properties

Commercial rental properties

Beresfield Childcare Centre

Operation of childcare centre

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 the 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 \$969,000 of combined land values attracts 0%. For the combined land values in excess of \$969,000 up to \$5,925,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$5,925,000 a premium marginal rate of 2.0% applies.
- Payroll tax – 5.45% 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 Special Purpose Financial Statements. 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'.

Note – Significant Accounting Policies (continued)

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

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

The return on capital is calculated as follows:

Surplus (deficit) from continuing operations before capital amounts + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 4.02% at 30 June 2023.

(iii) Dividends

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



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial statements
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 of Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2023, the Statement of Financial Position of each Declared Business Activity as at 30 June 2023 and 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 2023, 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 2022–23 (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).

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

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 2023 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.

A handwritten signature in black ink, appearing to read 'Lisa Berwick', with a horizontal line underneath the name.

Lisa Berwick
Delegate of the Auditor-General for New South Wales

31 October 2023
SYDNEY

Newcastle City Council

SPECIAL SCHEDULES
for the year ended 30 June 2023



City of
Newcastle

Newcastle City Council

Special Schedules

for the year ended 30 June 2023

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Newcastle City Council

Permissible income for general rates

	Notes	Calculation 2022/23 \$ '000	Calculation 2023/24 \$ '000
Notional general income calculation ¹			
Last year notional income yield	a	169,498	174,762
Plus or minus adjustments ²	b	930	280
Notional general income	c = a + b	170,428	175,042
Permissible income calculation			
Special variation percentage ³	d	2.50%	0.00%
Or rate peg percentage	e	0.00%	3.70%
Plus special variation amount	f = d x c	4,261	–
Or plus rate peg amount	g = e x c	–	6,477
Sub-total	h = (c + f + g)	174,689	181,519
Plus (or minus) last year's carry forward total		86	13
Sub-total	i	86	13
Total permissible income	j = h + i	174,775	181,532
Less notional income yield	k	174,762	181,525
Catch-up or (excess) result	l = j - k	13	7
Less unused catch-up ⁴	m	–	–
Carry forward to next year ⁵	n = l + m	13	7

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 or the rate-peg balance amounts will be deducted if they are not caught up within ten years. These amounts can be adjusted for when 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 2024.

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 2022–23 (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).

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

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 2023 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 2023'.

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.



Lisa Berwick
Delegate of the Auditor-General for New South Wales

31 October 2023
SYDNEY

Newcastle City Council

Report on infrastructure assets as at 30 June 2023

Asset Class	Asset Category	Estimated cost		2022/23 Required maintenance ^a	2022/23 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Buildings	Buildings	6,070	36,488	9,310	8,365	224,930	436,106	5.4%	51.0%	33.3%	7.3%	3.0%
	Sub-total	6,070	36,488	9,310	8,365	224,930	436,106	5.4%	51.0%	33.3%	7.3%	3.0%
Other structures	Other structures	1,583	2,406	3,382	219	86,996	209,996	9.7%	22.3%	61.7%	4.2%	2.1%
	Sub-total	1,583	2,406	3,382	219	86,996	209,996	9.7%	22.3%	61.7%	4.2%	2.1%
Roads	Sealed roads	4,373	29,269	7,265	8,549	376,269	826,825	15.1%	54.8%	25.3%	4.4%	0.4%
	Unsealed roads	18	197	–	–	19	262	1.3%	14.4%	9.2%	75.1%	0.0%
	Bridges	387	4,836	40	–	30,545	66,016	18.9%	57.8%	16.1%	7.2%	0.0%
	Footpaths	159	1,433	1,264	2,214	108,643	223,747	9.6%	74.8%	15.0%	0.5%	0.1%
	Other road assets (including bulk earthworks)	–	–	–	–	227,909	227,909	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	4,937	35,735	8,569	10,763	743,385	1,344,759	28.8%	49.0%	18.8%	3.2%	0.2%
Stormwater drainage	Stormwater drainage	31,434	69,005	814	1,064	139,325	325,562	7.7%	43.8%	10.3%	6.9%	31.3%
	Sub-total	31,434	69,005	814	1,064	139,325	325,562	7.7%	43.8%	10.3%	6.9%	31.3%
Open space / recreational assets	Swimming pools	756	4,157	701	1,816	16,502	40,357	8.5%	0.0%	79.3%	12.2%	0.0%
	Other Open Space/Rec Assets	24	98	1,971	8,064	25,128	43,224	22.9%	64.6%	12.2%	0.1%	0.2%
	Sub-total	780	4,255	2,672	9,880	41,630	83,581	15.9%	33.4%	44.6%	5.9%	0.2%
Other infrastructure assets	Other infrastructure assets	6,985	25,589	577	1	64,296	131,462	19.7%	37.6%	22.3%	2.4%	18.0%
	Sub-total	6,985	25,589	577	1	64,296	131,462	19.7%	37.6%	22.3%	2.4%	18.0%
Total – all assets		51,789	173,478	25,324	30,292	1,300,562	2,531,466	19.6%	45.3%	24.8%	4.5%	5.8%

(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 2023

Infrastructure asset performance indicators (consolidated) *

\$ '000	Amounts 2023	Indicator 2023	Indicator 2022	Benchmark
Buildings and infrastructure renewals ratio				
Asset renewals ¹	33,855	74.30%	68.88%	> 100.00%
Depreciation, amortisation and impairment	45,566			
Infrastructure backlog ratio				
Estimated cost to bring to satisfactory standard	51,789	3.98%	3.87%	< 2.00%
Net carrying amount of infrastructure assets	1,300,562			
Asset maintenance ratio				
Actual asset maintenance	30,292	119.62%	124.01%	> 100.00%
Required asset maintenance	25,324			
Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed level of service set by Council	173,478	6.85%	5.77%	
Gross replacement cost	2,531,466			

(*) 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.