

A photograph of a rural landscape featuring a chain-link fence in the foreground, a grassy field, and rolling hills under a cloudy sky with a bright sun. A purple circle is overlaid on the right side of the image, containing the text 'ANNUAL FINANCIAL REPORT 2015/16'.

**ANNUAL
FINANCIAL
REPORT
2015/16**





Financial Table of Contents

Understanding the Financial Statements.....	4
Financial Statements	
Comprehensive Income Statement.....	6
Balance Sheet.....	7
Statement of Changes in Equity.....	8
Statement of Cash Flows	9
Statement of Capital Works	10
Notes to the Financial Statements	
Introduction	11
Note 1 – Significant accounting policies.....	11
Note 2 – Budget comparison.....	18
Note 3 – Rates and charges	20
Note 4 – Statutory fees and fines.....	20
Note 5 – User fees	20
Note 6 – Grants.....	21
Note 7 – Contributions	22
Note 8 – Net gain / (loss) on disposal of property plant and equipment.....	22
Note 9 – Other income	22
Note 10 – Employee costs	22
Note 11 – Materials and services.....	23
Note 12 – Depreciation and amortisation	23
Note 13 – Borrowing costs	23
Note 14 – Other expenses.....	23
Note 15 – Investments in associates, joint ventures and subsidiaries.....	24
Note 16 – Cash and cash equivalents.....	25
Note 17 – Trade and other receivables.....	25
Note 18 – Other financial assets	25
Note 19 – Non current assets classified as held for sale.....	25
Note 20 – Inventories	25
Note 21 – Other assets.....	25
Note 22 – Property, infrastructure, plant and equipment	26
Note 23 – Intangible assets	30
Note 24 – Trade and other payables	30
Note 25 – Trust funds and deposits	31
Note 26 – Provisions	31
Note 27 – Interest bearing loans and borrowings	32
Note 28 – Reserves	33
Note 29 – Reconciliation of cash flows from operating activities to surplus/ (deficit).....	34
Note 30 – Financing arrangements.....	34
Note 31 – Commitments.....	35
Note 32 – Operating leases	36
Note 33 – Superannuation.....	36
Note 34 – Contingent liabilities and contingent assets	37
Note 35 – Financial Instruments	38
Note 36 – Related Party transactions	40
Note 37 – Events occurring after balance date	41
Certification of the Financial Report	42
VAGO- Independent Auditors Report.....	44
Performance Statements.....	46
Certification of Performance Statements	55
VAGO- Independent Auditors Report.....	56

Understanding the Financial Statements

The Financial Statements compare the current 2015/16 financial year to the previous 2014/15 financial year. They comprise two main sections namely the main statements and the notes.

There are five main statements:

1. Comprehensive Income Statement
2. Balance Sheet
3. Statement of Changes in Equity
4. Cash Flow Statement
5. Statement of Capital Works
6. Performance Statement

1. Comprehensive Income Statement

The Comprehensive Income Statement is designed to show if Council's operations were in surplus or deficit during the financial year.

The surplus/(deficit) amount is calculated as total income less total expenses. A surplus means that income was greater than expenses.

The Comprehensive Income Statement contains:

- Income - the sources of Council's income under various income headings.
- Expenses - the expenditure incurred in running the Council during the year. This expenditure relates to the 'operations' and does not include the capital costs associated with the purchase or the creation of fixed assets. While asset purchase costs are not included in the expenses they are included within 'Depreciation and amortisation'. This amount is the value of the assets 'used up' during the year.
- Other comprehensive income – this section includes items such as net asset revaluation increments and impairment of expenses. Impairment occurs when the value of Council's assets are reduced or impaired usually due to damage or obsolescence.

The comprehensive result is arrived at by adjusting the net surplus/(deficit) by the other comprehensive income items. The comprehensive result is also equal to the movement in Council's net assets (total equity) from the prior year.

2. Balance Sheet

The Balance Sheet shows what Council owns as assets and what it owes as liabilities. It presents a one page summary which is a snapshot of the financial position as at 30 June.

The bottom line of this statement is called 'net assets' which is the net worth of Council which has been built up over many years.

Net assets = Total assets – total liabilities = Total equity

Assets and liabilities are separated into current and non-current. Generally, current means those assets or liabilities which will fall due in the next 12 months.

3. Statement of Changes in Equity

During the course of the year the value of total equity as set out in the Balance Sheet changes. The Statement of Changes in Equity shows the values of these changes that may include:

- The 'profit or loss' from operations, described in the statement as 'surplus/(deficit) for the year'.
- The use of monies from Council's reserves and transfers to Council's reserves.
- The revaluation of fixed assets.
- The share of revaluations of investments in joint venture assets.
- The recognition of an asset for the first time.

4. Statement of Cash Flows

The Cash Flow Statement provides a summary of Council's cash receipts and cash payments during the year. The bottom line is the cash balance at the end of the financial year.

This statement shows the movements in the bank balance during the course of the year and is dissected into the following three sections:

- Cash flows from operating activities – All receipts to and payments from Council's bank account for normal operations. Receipts include monies from rates, grants and from amounts owing to Council. Payments mainly include monies paid to suppliers and employees.
- Cash flow from investing activities – This section mainly comprises payments for the creation or purchase of fixed assets (capital items) as well as the proceeds from asset sales.
- Cash flow from financing activities – This section includes the proceeds from loan borrowing as well as loan interest and the repayment of outstanding loans.

5. Statement of Capital Works

Statement of capital works shows all capital expenditure of Baw Baw Shire Council in relation to non-current assets and asset expenditure type prepared in accordance with the model statement of capital works in the Local Government Financial Report.

6. Performance Statement

The Performance Statement provides the results of the sustainable capacity, service performance and financial performance indicators and measures required under the *Local Government Act 1989* and *Local Government (Planning and Reporting) Regulations 2014*.

Comprehensive Income Statement

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Income			
Rates and charges	3	49,350	47,058
Statutory fees and fines	4	1,142	1,187
User fees	5	3,403	3,337
Grants - operating	6	9,177	18,660
Grants - capital	6	9,661	6,610
Contributions - monetary	7	1,963	983
Contributions - non monetary	7	5,020	8,985
Share of net profits (or loss) of associates and joint ventures	15	179	(51)
Other income	9	1,445	1,507
Total income		<u>81,340</u>	<u>88,276</u>
Expenses			
Employee costs	10	(23,466)	(24,464)
Materials and services	11	(26,439)	(23,282)
Depreciation and amortisation	12	(13,416)	(11,671)
Borrowing costs	13	(517)	(491)
Other expenses	14	(3,935)	(4,691)
Net loss on disposal of property, infrastructure, plant and equipment	8	(4,537)	(3,414)
Total expenses		<u>(72,310)</u>	<u>(68,013)</u>
Surplus/(deficit) for the year		<u>9,030</u>	<u>20,263</u>
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	15,28	162	(8,682)
Total comprehensive result		<u>9,192</u>	<u>11,581</u>

The above comprehensive income statement should be read in conjunction with the accompanying notes.

Balance Sheet

AS AT 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Assets			
Current assets			
Cash and cash equivalents	16	18,935	14,987
Trade and other receivables	17	7,889	6,684
Other financial assets	18	4,133	13,002
Non-current assets classified as held for sale	19	-	251
Inventories	20	3	-
Other assets	21	825	458
Total current assets		<u>31,785</u>	<u>35,382</u>
Non-current assets			
Investments in associates and joint ventures	15	1,330	989
Property, infrastructure, plant and equipment	22	617,602	602,819
Intangible assets	23	3,058	2,231
Total non-current assets		<u>621,990</u>	<u>606,039</u>
Total assets		<u>653,775</u>	<u>641,421</u>
Liabilities			
Current liabilities			
Trade and other payables	24	7,953	7,634
Trust funds and deposits	25	1,600	1,526
Provisions	26	5,378	6,557
Interest-bearing loans and borrowings	27	1,357	1,455
Total current liabilities		<u>16,288</u>	<u>17,172</u>
Non-current liabilities			
Provisions	26	6,206	4,084
Interest-bearing loans and borrowings	27	9,925	8,001
Total non-current liabilities		<u>16,131</u>	<u>12,085</u>
Total liabilities		<u>32,419</u>	<u>29,257</u>
Net assets		<u>621,356</u>	<u>612,164</u>
Equity			
Accumulated surplus		316,123	305,268
Reserves	28	305,233	306,896
Total Equity		<u>621,356</u>	<u>612,164</u>

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2016					
Balance at beginning of the financial year		612,164	305,268	301,333	5,563
Surplus/(deficit) for the year		9,030	9,030	-	-
Net asset revaluation increment/(decrement)	28(a)	162	-	162	-
Transfers to other reserves	28(b)	-	(2,250)	-	2,250
Transfers from other reserves	28(b)	-	4,075	-	(4,075)
Balance at end of the financial year		621,356	316,123	301,495	3,738

		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2015					
Balance at beginning of the financial year		600,583	286,233	310,015	4,335
Surplus/(deficit) for the year		20,263	20,263	-	-
Net asset revaluation increment/(decrement)	28(a)	(8,682)	-	(8,682)	-
Transfers to other reserves	28(b)	-	(1,606)	-	1,606
Transfers from other reserves	28(b)	-	378	-	(378)
Balance at end of the financial year		612,164	305,268	301,333	5,563

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

	2016 Inflows/ (Outflows) \$'000	2015 Inflows/ (Outflows) \$'000
Cash flows from operating activities		
Rates and charges	49,139	46,378
Statutory fees and fines	1,142	1,188
User fees	3,239	4,631
Grants - operating	9,307	18,745
Grants - capital	8,476	4,689
Contributions - monetary	1,963	983
Interest received	998	1,049
Trust funds and deposits taken	8,052	7,166
Other receipts	588	469
Net GST refund/payment	2,150	1,728
Employee costs	(23,234)	(25,189)
Materials and services	(26,878)	(23,089)
Trust funds and deposits repaid	(7,979)	(8,785)
Other payments	(4,044)	(4,790)
Net cash provided by/(used in) operating activities	29 <u>22,919</u>	<u>25,173</u>
Cash flows from investing activities		
Payments for property, infrastructure, plant, equipment and intangible assets	(29,697)	(19,072)
Proceeds from sale of property, infrastructure, plant and equipment	547	939
Payments for investments	-	(13,002)
Redemption from investment	8,869	-
Net cash provided by/(used in) investing activities	<u>(20,281)</u>	<u>(31,135)</u>
Cash flows from financing activities		
Finance costs	(517)	(464)
Proceeds from borrowings	3,279	4,436
Repayment of borrowings	(1,452)	(1,419)
Net cash provided by/(used in) financing activities	<u>1,310</u>	<u>2,553</u>
Net increase (decrease) in cash and cash equivalents	3,948	(3,409)
Cash and cash equivalents at the beginning of the financial year	14,987	18,396
Cash and cash equivalents at the end of the financial year	<u>18,935</u>	<u>14,987</u>
Financing arrangements	30 7,108	7,048
Restrictions on cash assets	16 7,488	9,659

The above statement of cash flows should be read in conjunction with the accompanying notes.

Statement of Capital Works

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Property			
Land		24	49
Total land		<u>24</u>	<u>49</u>
Buildings		13,183	6,385
Total buildings		<u>13,183</u>	<u>6,385</u>
Total property		<u>13,207</u>	<u>6,434</u>
Plant and equipment			
Plant, machinery and equipment		556	618
Computers and telecommunications		380	1,125
Total plant and equipment		<u>936</u>	<u>1,743</u>
Infrastructure			
Roads		9,176	8,945
Bridges		1,451	396
Footpaths and cycleways		970	372
Drainage		801	1,943
Waste management		508	1,721
Parks, open space and streetscapes		2,455	1,458
Other infrastructure		88	141
Total infrastructure		<u>15,449</u>	<u>14,976</u>
Total capital works expenditure		<u>29,592</u>	<u>23,153</u>
Represented by:			
New asset expenditure		-	4,247
Asset renewal expenditure		15,899	12,869
Asset expansion expenditure		5,230	-
Asset upgrade expenditure		8,463	6,037
Total capital works expenditure		<u>29,592</u>	<u>23,153</u>
Less Waste		-	(1,692)
Less Natural Disaster expenditure		-	(532)
Less Current year capital transferred to operations		-	(1,515)
Capital expenditure acquisitions*		<u>29,592</u>	<u>19,414</u>

*2016 adjustments were included to relevant capital works asset classes above.

The above statement of capital works should be read in conjunction with the accompanying notes.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Introduction

The Baw Baw Shire Council was established by an Order of the Governor in Council on 2 December 1994 and is a body corporate. The Council's main office is located at Drouin.

Statement of compliance

These financial statements are a general purpose financial report that consists of a Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, Statement of Capital Works and Notes accompanying these financial statements. The general purpose financial report complies with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the Local Government Act 1989, and the Local Government (Planning and Reporting) Regulations 2014.

Note 1 Significant accounting policies

(a) Basis of accounting

The accrual basis of accounting has been used in the preparation of these financial statements, whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated judgements are based on professional judgement derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AAS's that have significant effects on the financial statements and estimates relate to:

- the fair value of land, buildings, infrastructure, plant and equipment (refer to **Note 1 (m)**)
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to **Note 1 (n)**)
- the determination of employee provisions (refer to **Note 1 (t)**)

Unless otherwise stated, all accounting policies are consistent with those applied in the prior year. Where appropriate, comparative figures have been amended to accord with current presentation, and disclosure has been made of any material changes to comparatives.

(b) Changes in accounting policies

There have been no changes in accounting policies from the previous period.

(c) Principles of consolidation

There are no incorporated entities controlled by Council as at 30 June 2016.

Subsidiaries are all entities over which Council has control. Council controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Council. They are deconsolidated from the date that control ceases.

Where dissimilar accounting policies are adopted by entities and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

(d) Committees of management

Council's controlled Committees of Management did not demonstrate material revenues, expenses, assets or liabilities and are subsequently excluded from this financial report.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 1 Significant accounting policies (cont.)

(e) Accounting for investments in associates and joint arrangements

Associates

Associates are all entities over which Council has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement.

(i) Joint operations

Council recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate headings.

(ii) Joint ventures

Interests in joint ventures are accounted for using the equity method. Under this method, the interests are initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise Council's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

(f) Revenue recognition

Income is recognised when the Council obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to the Council and the amount of the contribution can be measured reliably.

Rates and Charges

Annual rates and charges are recognised as revenues when Council issues annual rates notices. Supplementary rates are recognised when a valuation and reassessment is completed and a supplementary rates notice issued.

Statutory fees and fines

Statutory fees and fines (including parking 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 first occurs.

User fees

User fees are recognised as revenue when the service has been provided or the payment is received, whichever first occurs.

Grants

Grant income is recognised when Council obtains control of the contribution. This is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and are valued at their fair value at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in **Note 6**. The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

Contributions

Monetary and non monetary contributions are recognised as revenue when Council obtains control over the contributed asset.

Sale of property, infrastructure, plant and equipment

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

Interest

Interest is recognised as it is earned.

Dividends

Dividend revenue is recognised when the Council's right to receive payment is established.

Other Income

Other income is measured at the fair value of the consideration received or receivable and is recognised when Council gains control over the right to receive the income.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 1 Significant accounting policies (cont.)

(g) Fair value measurement

Council measures certain assets and liabilities at fair value where required or permitted by Australian Accounting Standards. AASB 13 Fair value measurement, aims to improve consistency and reduce complexity by providing a definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards.

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, Council has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, Council determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits at call, and other highly liquid investments with original maturities of 90 days or less, net of outstanding bank overdrafts.

(i) Trade and other receivables

Receivables are carried at amortised cost using the effective interest rate method. A provision for doubtful debts is recognised when there is objective evidence that an impairment has occurred.

(j) Other financial assets

Other financial assets are valued at fair value, being market value, at balance date. Term deposits are measured at amortised cost. Any unrealised gains and losses on holdings at balance date are recognised as either a revenue or expense.

(k) Inventories

Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential. Inventories are measured at the lower of cost and net realisable value.

All other inventories, including land held for sale, are measured at the lower of cost and net realisable value. Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

(l) Non-current assets classified as held for sale

A non-current asset classified as held for sale (including disposal groups) is measured at the lower of its carrying amount and fair value less costs to sell, and are not subject to depreciation. Non-current assets, disposal groups and related liabilities and assets are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale (or disposal group sale) is expected to be completed within 12 months from the date of classification.

(m) Recognition and measurement of property, plant and equipment, infrastructure, intangibles

Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the amount for which the asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

Where assets are constructed by Council, cost includes all materials used in construction, direct labour, borrowing costs incurred during construction, and an appropriate share of directly attributable variable and fixed overheads.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 1 Significant accounting policies (cont.)

(m) Recognition and measurement of property, plant and equipment, infrastructure, intangibles (cont'd)

In accordance with Council's policy, the threshold limits detailed in **Note 1 (n)** have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

Revaluation

Subsequent to the initial recognition of assets, non-current physical assets, other than plant and equipment, are measured at their fair value, being the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. At balance date, the Council reviewed the carrying value of the individual classes of assets measured at fair value to ensure that each asset materially approximated its fair value. Where the carrying value materially differed from the fair value at balance date, the class of asset was revalued.

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use of an asset result in changes to the permissible or practical highest and best use of the asset. Further details regarding the fair value hierarchy are disclosed at **Note 22** Property, infrastructure, plant and equipment.

In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis ranging from 2 to 5 years. The valuation is performed either by experienced council officers or independent experts.

Where the assets are revalued, the revaluation increments are credited directly to the asset revaluation reserve except to the extent that an increment reverses a prior year decrement for that class of asset that had been recognised as an expense in which case the increment is recognised as revenue up to the amount of the expense. Revaluation decrements are recognised as an expense except where prior increments are included in the asset revaluation reserve for that class of asset in which case the decrement is taken to the reserve to the extent of the remaining increments. Within the same class of assets, revaluation increments and decrements within the year are offset.

Land under roads

Council recognises land under roads it controls at fair value.

(n) Depreciation and amortisation of property, infrastructure, plant and equipment and intangibles

Buildings, land improvements, plant and equipment, infrastructure, and other assets having limited useful lives are systematically depreciated over their useful lives to the Council in a manner which reflects consumption of the service potential embodied in those assets. Estimates of remaining useful lives and residual values are made on a regular basis with major asset classes reassessed annually. Depreciation rates and methods are reviewed annually.

Where assets have separate identifiable components that are subject to regular replacement, these components are assigned distinct useful lives and residual values and a separate depreciation rate is determined for each component.

Road earthworks are not depreciated on the basis that they are assessed as not having a limited useful life.

Straight line depreciation is charged based on the residual useful life as determined each year.

Depreciation periods used are listed below and are consistent with the prior year unless otherwise stated.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 1 Significant accounting policies (cont.)

(n) Depreciation and amortisation of property, infrastructure plant and equipment and intangibles (cont'd)

Asset recognition thresholds and depreciation periods

	Depreciation Period	Threshold Limit
	Years	\$'000
Property		
land	N/A	All
land under roads	N/A	All
landfill site	N/A	All
Buildings		
buildings-new construction	30-80	25
buildings-extensions	30-80	25
buildings-renovations	30-80	25
Plant and Equipment		
plant, machinery and equipment-construction plant	5-7	All
plant, machinery and equipment-vehicles	4-5	All
plant, machinery and equipment-minor	2-5	All
fixtures, fittings, furniture, computers and telecommunications	1-20	10
Infrastructure		
road pavements and seals	14-85	10
road formation and earthworks	N/A	10
road kerb and channel	80	5
road bridges	60-100	20
pedestrian bridges	60-100	10
major culverts	60-100	20
footpaths and cycleways	10-80	10
drainage	100	10
waste management	10	10
open space and recreational facilities	10-100	5
off street car parks	25-85	10
Intangible assets		
intangible assets	2-10	100

(o) Repairs and maintenance

Routine maintenance, repair costs, and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold the cost is capitalised and depreciated. The carrying value of the replaced asset is expensed.

(p) Investment property

Investment property, comprising freehold office complexes, is held to generate long-term rental yields. Investment property is measured initially at cost, including transaction costs. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefit in excess of the originally assessed performance of the asset will flow to the Council. Subsequent to initial recognition at cost, investment property is carried at fair value, determined annually by independent valuers. Changes to fair value are recorded in the comprehensive income statement in the period that they arise. Rental income from the leasing of investment properties is recognised in the comprehensive income statement on a straight line basis over the lease term. Council has no investment properties during 2015/16 financial year.

(q) Impairment of assets

At each reporting date, the Council reviews the carrying value of its assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the comprehensive income statement, unless the asset is carried at the revalued amount in which case, the impairment loss is recognised directly against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 1 Significant accounting policies (cont.)

(r) Trust funds and deposits

Amounts received as deposits and retention amounts controlled by Council are recognised as trust funds until they are returned, transferred in accordance with the purpose of the receipt, or forfeited (refer to **Note 25**).

(s) Borrowings

Borrowings are initially measured at fair value, being the cost of the interest bearing liabilities, net of transaction costs. The measurement basis subsequent to initial recognition depends on whether the Council has categorised its interest-bearing liabilities as either financial liabilities designated at fair value through the profit and loss, or financial liabilities at amortised cost. Any difference between the initial recognised amount and the redemption value is recognised in net result over the period of the borrowing using the effective interest method.

The classification depends on the nature and purpose of the interest bearing liabilities. The Council determines the classification of its interest bearing liabilities at initial recognition.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except where they are capitalised as part of a qualifying asset constructed by Council. Except where specific borrowings are obtained for the purpose of specific asset acquisition, the weighted average interest rate applicable to borrowings at balance date, excluding borrowings associated with superannuation, is used to determine the borrowing costs to be capitalised.

Borrowing costs include interest on bank overdrafts, interest on borrowings, and finance lease charges.

(t) Employee costs and benefits

The calculation of employee costs and benefits includes all relevant on-costs and are calculated as follows at reporting date.

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be wholly settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employee services up to the reporting date, classified as current liabilities and measured at their nominal values.

Liabilities that are not expected to be wholly settled within 12 months of the reporting date are recognised in the provision for employee benefits as current liabilities, measured at the present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

Long service leave

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

Current liability - unconditional LSL is disclosed as a current liability even when the council does not expect to settle the liability within 12 months because it will not have the unconditional right to defer settlement of the entitlement should an employee take leave within 12 months.

The components of this current liability are measured at :

- present value - component that is not expected to be wholly settled within 12 months.
- nominal value - component that is expected to be wholly settled within 12 months.

Classification of employee costs

Non-current liability - conditional LSL that has been accrued, where an employee is yet to reach a qualifying term of employment, is disclosed as a non - current liability. There is an unconditional right to defer settlement of the entitlement until the employee has completed the requisite years of service.

This non-current LSL liability is measured at present value.

(u) Landfill rehabilitation provision

Council is obligated to restore Trafalgar site to a particular standard. The forecast life of the site is based on current estimates of remaining capacity and the forecast rate of infill. The provision for landfill restoration has been calculated based on the present value of the expected cost of works to be undertaken. The expected cost of works has been estimated based on current understanding of work required to reinstate the site to a suitable standard. Accordingly, the estimation of the provision required is dependent on the accuracy of the forecast timing of the work, work required and related costs.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 1 Significant accounting policies (cont.)

(v) Leases

Finance leases

Leases of assets where substantially all the risks and rewards incidental to ownership of the asset, are transferred to the Council are classified as finance leases. Finance leases are capitalised, recording an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments, including any guaranteed residual value. Lease payments are allocated between the reduction of the lease liability and the interest expense. Leased assets are depreciated on a straight line basis over their estimated useful lives to the Council where it is likely that the Council will obtain ownership of the asset or over the term of the lease, whichever is the shorter. Council currently has no finance leases.

Operating leases

Lease payments for operating leases are required by the accounting standard to be recognised on a straight line basis, rather than expensed in the years in which they are incurred.

Leasehold improvements

Leasehold improvements are recognised at cost and are amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter. At balance date, Council has no leasehold improvements.

(w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(x) Financial guarantees

Financial guarantee contracts are not recognised as a liability in the balance sheet unless the lender has exercised their right to call on the guarantee or Council has other reasons to believe that it is probable that the right will be exercised. Details of guarantees that Council has provided, that are not recognised in the balance sheet, are disclosed at **Note 34** contingent liabilities and contingent assets.

(y) Contingent assets and contingent liabilities and commitments

Contingent assets and contingent liabilities are not recognised in the Balance Sheet, but are disclosed by way of a **Note 34** and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Commitments are not recognised in the Balance Sheet. Commitments are disclosed at their nominal value by way of **Note 31** and presented inclusive of the GST payable.

(z) Pending accounting standards

Certain new AAS's have been issued that are not mandatory for the 30 June 2016 reporting period. Council has assessed these pending standards and has identified that no material impact will flow from the application of these standards in future reporting periods.

(aa) Rounding

Unless otherwise stated, amounts in the financial report have been rounded to the nearest thousand dollars. Figures in the financial statement may not equate due to rounding.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 2 Budget comparison

The budget comparison notes compare Council's financial plan, expressed through its annual budget, with actual performance. The *Local Government (Planning and Reporting) Regulations 2014* requires explanation of any material variances. Council has adopted a materiality threshold of \$500,000 where further explanation is warranted. Explanations have not been provided for variations below the materiality threshold unless the variance is considered to be material because of its nature.

The budget figures detailed below are those adopted by Council on 25 May 2015. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for income and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

These notes are prepared to meet the requirements of the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*.

(a) Income and Expenditure

	Budget 2016 \$'000	Actual 2016 \$'000	Variance 2016 \$'000	Ref
Income				
Rates and charges	49,120	49,350	230	
Statutory fees and fines	1,196	1,142	(54)	
User fees	3,544	3,403	(141)	
Grants - operating	12,873	9,177	(3,696)	1
Grants - capital	10,882	9,661	(1,221)	2
Contributions - monetary	1,168	1,963	795	3
Contributions - non monetary	10,692	5,020	(5,672)	4
Share of net profits/(losses) of associates and joint ventures	-	179	179	
Other income	783	1,445	662	5
Total income	90,258	81,340	(8,918)	
Expenses				
Employee costs	23,104	23,466	(362)	
Materials and services	23,472	26,439	(2,967)	6
Depreciation and amortisation	12,860	13,416	(556)	
Borrowing costs	613	517	96	
Other expenses	4,449	3,935	514	7
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	942	4,537	(3,595)	8
Total expenses	65,440	72,310	(6,870)	
Surplus/(deficit) for the year	24,818	9,030	(15,788)	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Grants-operating	Victorian Grants Commission income of \$3.9m was received in advance at the end of the prior 2015 year.
2	Grants-capital	Council did not receive \$2.25m of funding for the Warragul Leisure Centre project but the impact of this was partially offset by the receipt of additional income of \$1.3m for Roads to Recovery.
3	Contributions-monetary	Warragul Development Contributions Plan contribution of \$795k was not identified at the time of completion of the 2016 budget.
4	Contributions-non monetary	Contributions-non monetary is lower than budget due to a lower level of economic activity resulting in less than expected contributions from subdivisions.
5	Other income	Income from investments exceeded budget by \$374k as cash holdings were in excess of budget during the financial year. Additionally, Council received \$100k of unbudgeted income from insurance claims.
6	Materials and services	Expenditure exceeded budget by \$2.9m due to the write-off of capital works (in progress) from prior years of \$0.8m plus a further \$2m additional landfill provision.
7	Other expenses	Expenditure was below budget by \$514k mainly due to savings in computer lease costs as well as lower than expected payments for community grants and contributions.
8	Net gain(loss) on disposal of property, infrastructure, plant and equipment	Council was required to write off the book value of buildings (Warragul Leisure Centre) to the value of \$2.5m that was not identified at the time of completion of the 2016 budget. In addition the replacement of road resealing works resulted in the higher than expected write off of book value by a further \$1.9m.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 2 Budget comparison (cont.)

(b) Capital Works

	Budget 2016 \$'000	Actual 2016 \$'000	Variance 2016 \$'000	Ref
Property				
Land	203	24	(179)	
Total Land	203	24	(179)	
Buildings	15,705	13,183	(2,522)	1
Total Buildings	15,705	13,183	(2,522)	
Total Property	15,908	13,207	(2,701)	
Plant and Equipment				
Plant, machinery and equipment	480	556	76	
Computers and telecommunications	977	380	(597)	2
Total Plant and Equipment	1,457	936	(521)	
Infrastructure				
Roads	10,971	9,176	(1,795)	3
Bridges	1,423	1,451	28	
Footpaths and cycleways	384	970	586	4
Drainage	1,306	801	(505)	5
Waste management	1,828	508	(1,320)	6
Parks, open space & streetscapes	1,838	2,455	617	7
Other infrastructure	93	88	(5)	
Total Infrastructure	17,843	15,449	(2,394)	
Total Capital Works Expenditure	35,208	29,592	(5,616)	
Represented by:				
New asset expenditure	-	-	-	
Asset renewal expenditure	17,846	15,899	(1,947)	
Asset expansion expenditure	6,558	5,230	(1,328)	
Asset upgrade expenditure	10,804	8,463	(2,341)	
Total Capital Works Expenditure	35,208	29,592	(5,616)	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Buildings	Reduction in expenditure of \$2.25m due to non receipt of equivalent grant funding for the Warragul Leisure Centre project.
2	Computers and Telecommunications	Budgeted expense to implement a document management system (\$0.5m) was not incurred with unspent funds to be carried forward to the ensuing 2017 year.
3	Roads	Under expenditure is mainly due to Darnum Park Road (\$0.5m) and the Memorial Precinct Construction (\$0.6m) projects withdrawn during the financial year due to non-availability of budgeted external funding. In addition a further \$0.7m savings from various projects was reallocated to complete urgent footpath works.
4	Footpaths and Cycleways	Higher than budget expenditure for the new footpath program by \$0.7m due to Council's decision to reallocate savings from the Roads budget.
5	Drainage	Unbudgeted expenditure mainly comprises savings attributable to the Longwarry Flooding Mitigation project (tender savings). In addition further investigation is required before Council can complete the Yarragon Retardation-Land Acquisition project.
6	Waste Management	For management control purposes the Waste Management budget included expenditure for the Trafalgar landfill site rehabilitation works. By contrast the actual expenditure of \$1.3m was allocated to the Balance Sheet provision account consistent with accounting standards.
7	Parks, open space & streetscape	The variance is mainly due to a \$0.8m overspend against Bellbird Park Sustainable Wastewater Reuse due to additional work that was fully funded by corresponding external income.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 3 Rates and charges

Council uses Capital Improved Value (CIV) as the basis of valuation of all properties within the municipal district. The CIV of a property is its market value of land and improvements as of January 2014.

The valuation base used to calculate general rates for 2015/16 was \$9,239million (2014/15 \$9,041 million).

	2016 \$'000	2015 \$'000
General Rates	41,660	39,616
Waste management charge	7,188	6,810
Supplementary rates, waste and adjustments	502	632
Total rates and charges	<u>49,350</u>	<u>47,058</u>

The date of the latest general revaluation of land for rating purposes within the municipal district was 1st January 2014, and the valuation will be first applied in the rating year commencing 1st July 2014.

Note 4 Statutory fees and fines

Infringements and costs	115	195
Town planning fees	346	299
Land information certificates	127	111
Permits	454	482
Other fees	100	100
Total statutory fees and fines	<u>1,142</u>	<u>1,187</u>

Note 5 User fees

Aged and health services	1,332	1,282
Arts Centre	958	1,006
Registration and other permits	517	509
Waste management services	169	187
Leases and rentals	185	128
Other fees and charges	242	225
Total user fees	<u>3,403</u>	<u>3,337</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
Note 6 Grants		
Grants were received in respect of the following :		
Summary of grants		
Commonwealth funded grants	10,390	16,202
State funded grants	8,448	9,068
Total grants received	<u>18,838</u>	<u>25,270</u>
Operating Grants		
Recurrent - Commonwealth Government		
Victoria Grants Commission	4,356	12,436
Family day care	589	522
General home care	1,102	1,079
Aged care	336	340
Recurrent - State Government		
General home care	1,102	1,079
Aged care	335	340
School crossing supervisors	102	97
Maternal and child health	532	512
Community and cultural development	10	5
Community safety	53	125
Arts Centre	130	135
preschool and early years	72	59
Environmental health and management/Landcare	69	170
Rural access inclusive communities	119	138
Disability	(22)	200
Other	75	190
Total recurrent operating grants	<u>8,960</u>	<u>17,427</u>
Non-recurrent - Commonwealth Government		
Natural disaster	105	-
Other	60	53
Non-recurrent - State Government		
Economic development	40	175
Natural disaster	-	927
Other	12	78
Total non-recurrent operating grants	<u>217</u>	<u>1,233</u>
Total operating grants	<u>9,177</u>	<u>18,660</u>
Capital Grants		
Recurrent - Commonwealth Government		
Roads to recovery	3,835	1,342
Total recurrent capital grants	<u>3,835</u>	<u>1,342</u>
Non-recurrent - Commonwealth Government		
Public lighting	-	430
Plant, machinery and equipment	7	-
Non-recurrent - State Government		
Local and collector roads	2,607	1,136
Waste	183	43
Recreation	1,453	888
Bridges	319	547
Drainage	(2)	292
Footpaths and cycleways	-	30
Building	1,259	1,887
Plant, machinery and equipment	-	15
Total non-recurrent capital grants	<u>5,826</u>	<u>5,268</u>
Total capital grants	<u>9,661</u>	<u>6,610</u>
Unspent grants received on condition that they be spent in a specific manner		
Balance at start of year	2,570	3,023
Received during the financial year and remained unspent at balance date	1,639	2,161
Received in prior years and spent during the financial year	(2,059)	(2,614)
Balance at year end	<u>2,150</u>	<u>2,570</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
Note 7 Contributions		
(a) Monetary		
Open space	378	165
Contribution to Developer Contribution Projects	1,564	800
Other	21	18
Total Monetary contributions	<u>1,963</u>	<u>983</u>
(b) Non-monetary		
Land	181	238
Buildings	-	67
Roads and footpath	2,570	5,138
Drainage assets	1,735	2,518
Kerb and Channels	534	1,024
Total non-monetary contributions	<u>5,020</u>	<u>8,985</u>
Note 8 Net gain/(loss) on disposal of property, infrastructure, plant and equipment		
Proceeds of sale	547	939
Written down value of assets disposed	(5,084)	(4,353)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	<u>(4,537)</u>	<u>(3,414)</u>
Note 9 Other income		
Interest	877	1,056
Other rent	90	147
Other	478	304
Total other income	<u>1,445</u>	<u>1,507</u>
Note 10 (a) Employee costs		
Wages and salaries	20,318	21,223
WorkCover	285	289
Casual staff	635	705
Superannuation	1,862	1,857
Fringe benefits tax	190	209
Other	176	181
Total employee costs	<u>23,466</u>	<u>24,464</u>
Note 10 (b) Superannuation		
Council made contributions to the following funds:		
Defined benefit fund		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)*	163	132
	<u>163</u>	<u>132</u>
Accumulation funds		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)*	1,699	1,725
	<u>1,699</u>	<u>1,725</u>
Employer contributions payable at reporting date.	173	207

Refer to **Note 33** for further information relating to Council's superannuation obligations.

* \$85k was reclassified between defined benefit funds and accumulation funds resulting in restated balances for 2015.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
Note 11 Materials and services		
Contract payments	13,602	12,502
Building maintenance	642	731
General maintenance	1,002	681
Utilities	711	650
Office administration	806	938
Information technology	678	557
Insurance	525	533
Consultants	1,146	878
* Other materials & services	7,327	5,812
Total materials and services	<u>26,439</u>	<u>23,282</u>

* \$2.5million landfill provision increase to meet EPA landfill aftercare requirement in 2015/16 compared to \$0.5 million in 2014/15.

Note 12 Depreciation and amortisation

Property	2,006	1,825
Plant and equipment	732	846
Infrastructure	9,933	8,973
Landfill	-	26
Total depreciation	<u>12,671</u>	<u>11,670</u>
Intangible assets	745	1
Total depreciation and amortisation	<u>13,416</u>	<u>11,671</u>

Refer to **Note 22 and 23** for a more detailed breakdown of depreciation and amortisation charges

Note 13 Borrowing costs

Interest - Borrowings	517	491
Total borrowing costs	<u>517</u>	<u>491</u>

Note 14 Other expenses

Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	40	32
Auditors' remuneration - Internal	93	29
Councillors' allowances	299	289
Operating lease rentals	488	834
Bank charges	167	173
Contributions-WGRLC and Logan Park	1,650	1,631
Council grants	579	601
Natural disaster	94	532
Other	525	570
Total other expenses	<u>3,935</u>	<u>4,691</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	\$'000	\$'000
Note 15 Investments in associates, joint ventures and subsidiaries		
(a) Investments in associates		
Investments in associates accounted for by the equity method are:		
- West Gippsland Regional Library Corporation	1,330	989
West Gippsland Regional Library Corporation		
<i>Background</i>		
The West Gippsland Regional Library Corporation was established by an Order of the Governor in Council on the 11th December 1995 and is a body corporate. The Corporation's main office is located at 64 Victoria Street Warragul. Council holds a 41% interest in the West Gippsland Regional Library Corporation.		
Fair value of Council's investment in West Gippsland Regional Library Corporation	1,330	989
Council's share of accumulated surplus/(deficit)		
Council's share of accumulated surplus/(deficit) at start of year	890	941
Reported surplus/(deficit) for year	179	(51)
Council's share of accumulated surplus/(deficit) at end of year	1,069	890
Council's share of reserves		
Council's share of reserves at start of year	99	99
Revaluation increment	162	-
Council's share of reserves at end of year	261	99
Movement in carrying value of specific investment		
Carrying value of investment at start of year	989	1,040
Share of surplus/(deficit) for year	179	(51)
Share of asset revaluation	162	-
Carrying value of investment at end of year	1,330	989
Council's share of expenditure commitments		
Capital commitments	111	-
Council's share of expenditure commitments	111	-

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	\$'000	\$'000
Note 16 Cash and cash equivalents		
Cash on hand	10	14
Cash at bank	9,925	11,012
Term deposits	9,000	3,961
	<u>18,935</u>	<u>14,987</u>
Councils cash and cash equivalents are subject to external restrictions that limit amounts available for discretionary use. These include:		
- Trust funds and deposits (Note 25)	1,600	1,526
- Reserve funds allocated due to external restrictions (contractual agreement) (Note 28)	3,738	5,563
- Unspent grants (Note 6)	2,150	2,570
Total restricted funds	<u>7,488</u>	<u>9,659</u>
Total unrestricted cash and cash equivalents	<u>11,447</u>	<u>5,328</u>
Intended allocations		
Although not externally restricted the following amounts have been allocated for specific future purposes by Council:		
- Cash held to fund carried forward capital works	3,345	4,227
Total funds subject to intended allocations	<u>3,345</u>	<u>4,227</u>
Total unrestricted cash and cash equivalents adjusted for intended allocation	<u>8,102</u>	<u>1,101</u>
Refer also to Note 18 for details of other financial assets held by Council.		
Note 17 Trade and other receivables		
Current		
Rates debtors	3,639	3,287
Other debtors	2,800	2,067
Sundry debtors	761	613
Net GST receivable	689	717
Total current trade and other receivables	<u>7,889</u>	<u>6,684</u>
Total trade and other receivables	<u>7,889</u>	<u>6,684</u>
(a) Ageing of Receivables		
At balance date other debtors representing financial assets were past due but not impaired. These amounts relate to a number of independent customers for whom there is no recent history of default. The ageing of the Council's trade & other receivables (excluding statutory receivables) was:		
Current (not yet due)	3,403	846
Past due by up to 30 days	121	1,612
Past due between 31 and 180 days	11	165
Past due between 181 and 365 days	9	25
Past due by more than 1 year	17	32
Total Other and Sundry debtors	<u>3,561</u>	<u>2,680</u>
(b) Provision for doubtful debts		
Council has assessed there are no doubtful debts and continues to actively manage overdue debtors through payment plans.		
Note 18 Other financial assets		
Term deposits	4,133	13,002
Total other financial assets	<u>4,133</u>	<u>13,002</u>
Note 19 Non current assets classified as held for sale		
Cost of acquisition	-	251
Total non current assets classified as held for sale	<u>-</u>	<u>251</u>
Note 20 Inventories		
Inventories held for sale	3	-
Total inventories	<u>3</u>	<u>-</u>
Note 21 Other assets		
Prepayments	340	312
Accrued income	485	146
Total other assets	<u>825</u>	<u>458</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 22 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2016	Accumulated Depreciation	WDV 30 June 2016	At Fair Value 30 June 2015	Accumulated Depreciation	WDV 30 June 2015
Land	85,086	-	85,086	85,288	(78)	85,210
Buildings	121,532	(45,298)	76,234	121,614	(44,611)	77,003
Plant and Equipment	9,681	(6,501)	3,180	9,611	(6,480)	3,131
Infrastructure	520,516	(94,061)	426,455	510,246	(85,595)	424,651
Work in progress	26,647	-	26,647	12,824	-	12,824
	<u>763,462</u>	<u>(145,860)</u>	<u>617,602</u>	<u>739,583</u>	<u>(136,764)</u>	<u>602,819</u>

Summary of Work in Progress

	Opening WIP	Additions	Transfers	Write Offs	Closing WIP
Buildings	6,853	13,107	(4,356)	(173)	15,431
Plant and Equipment	2,204	791	(2,365)	-	630
Infrastructure	3,767	15,694	(8,296)	(579)	10,586
Total	<u>12,824</u>	<u>29,592</u>	<u>(15,017)</u>	<u>(752)</u>	<u>26,647</u>

	Note	Land - specialised	Land - non specialised	Landfill sites	Total Land	Buildings - specialised	Total Buildings	Work In Progress	Total Property
At fair value 1 July 2015		60,511	24,466	311	85,288	121,614	121,614	6,853	213,755
Accumulated depreciation at 1 July 2015		-	-	(78)	(78)	(44,611)	(44,611)	-	(44,689)
		<u>60,511</u>	<u>24,466</u>	<u>233</u>	<u>85,210</u>	<u>77,003</u>	<u>77,003</u>	<u>6,853</u>	<u>169,066</u>
Movements in fair value									
Acquisition of assets at fair value		183	-	-	183	3,968	3,968	13,107	17,258
Fair value of assets disposed		-	(220)	-	(220)	(4,050)	(4,050)	-	(4,270)
Transfers		176	(30)	(311)	(165)	-	-	(4,356)	(4,521)
Write offs		-	-	-	-	-	-	(173)	(173)
		<u>359</u>	<u>(250)</u>	<u>(311)</u>	<u>(202)</u>	<u>(82)</u>	<u>(82)</u>	<u>8,578</u>	<u>8,294</u>
Movements in accumulated depreciation									
Depreciation and amortisation		-	-	-	-	(2,006)	(2,006)	-	(2,006)
Accumulated depreciation of disposals		-	-	-	-	1,319	1,319	-	1,319
Transfers		-	-	78	78	-	-	-	78
		<u>-</u>	<u>-</u>	<u>78</u>	<u>78</u>	<u>(687)</u>	<u>(687)</u>	<u>-</u>	<u>(609)</u>
At fair value 30 June 2016		60,870	24,216	-	85,086	121,532	121,532	15,431	222,049
Accumulated depreciation at 30 June 2016		-	-	-	-	(45,298)	(45,298)	-	(45,298)
		<u>60,870</u>	<u>24,216</u>	<u>-</u>	<u>85,086</u>	<u>76,234</u>	<u>76,234</u>	<u>15,431</u>	<u>176,751</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 22 Property, infrastructure, plant and equipment (cont'd)

Plant and Equipment	Note	Plant machinery and equipment	Fixtures fittings and furniture	Work In Progress	Total plant and equipment
At fair value 1 July 2015		5,403	4,208	2,204	11,815
Accumulated depreciation at 1 July 2015		(2,743)	(3,737)	-	(6,480)
		<u>2,660</u>	<u>471</u>	<u>2,204</u>	<u>5,335</u>
Movements in fair value					
Acquisition of assets at fair value		1,073	11	791	1,875
Fair value of assets disposed		(961)	(53)	-	(1,014)
Transfers		-	-	(2,365)	(2,365)
		<u>112</u>	<u>(42)</u>	<u>(1,574)</u>	<u>(1,504)</u>
Movements in accumulated depreciation					
Depreciation and amortisation		(645)	(87)	-	(732)
Accumulated depreciation of disposals		665	46	-	711
		<u>20</u>	<u>(41)</u>	<u>-</u>	<u>(21)</u>
At fair value 30 June 2016		5,515	4,166	630	10,311
Accumulated depreciation at 30 June 2016		(2,723)	(3,778)	-	(6,501)
		<u>2,792</u>	<u>388</u>	<u>630</u>	<u>3,810</u>

Infrastructure	Note	Roads	Bridges and Major Culverts	Footpaths and cycleways	Drainage	Off street car parks	Parks, open space and streetscapes	Work In Progress	Total Infrastructure
At fair value 1 July 2015		374,979	22,916	31,314	62,430	6,735	11,872	3,767	514,013
Accumulated depreciation at 1 July 2015		(58,882)	(9,260)	(3,484)	(9,811)	(2,260)	(1,898)	-	(85,595)
		<u>316,097</u>	<u>13,656</u>	<u>27,830</u>	<u>52,619</u>	<u>4,475</u>	<u>9,974</u>	<u>3,767</u>	<u>428,418</u>
Movements in fair value									
Acquisition of assets at fair value		6,677	1,409	1,862	1,880	41	1,360	15,694	28,923
Fair value of assets disposed		(2,375)	(830)	(20)	(29)	(16)	-	-	(3,270)
Transfers		-	-	-	-	-	311	(8,296)	(7,985)
Write Offs		-	-	-	-	-	-	(579)	(579)
		<u>4,302</u>	<u>579</u>	<u>1,842</u>	<u>1,851</u>	<u>25</u>	<u>1,671</u>	<u>6,819</u>	<u>17,089</u>
Movements in accumulated depreciation									
Depreciation and amortisation		(8,107)	(226)	(487)	(703)	(156)	(254)	-	(9,933)
Accumulated depreciation of disposals		888	640	1	6	10	-	-	1,545
Transfers		-	-	-	-	-	(78)	-	(78)
		<u>(7,219)</u>	<u>414</u>	<u>(486)</u>	<u>(697)</u>	<u>(146)</u>	<u>(332)</u>	<u>-</u>	<u>(8,466)</u>
At fair value 30 June 2016		379,281	23,495	33,156	64,281	6,760	13,543	10,586	531,102
Accumulated depreciation at 30 June 2016		(66,101)	(8,846)	(3,970)	(10,508)	(2,406)	(2,230)	-	(94,061)
		<u>313,180</u>	<u>14,649</u>	<u>29,186</u>	<u>53,773</u>	<u>4,354</u>	<u>11,313</u>	<u>10,586</u>	<u>437,041</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 22 Property, infrastructure, plant and equipment (cont'd)

Valuation of land and buildings

Valuation of land and buildings were undertaken by a qualified independent valuer Herron Todd White on 31 March 2015 (Craig McMillan AAPI, registration no.62705 and Ben Walpole, AAPI). The valuation of land and buildings is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions the valuation is reduced to reflect this limitation. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the comprehensive income statement.

Specialised land is valued at fair value using site values adjusted for engloba (undeveloped and/or unserviced) characteristics, access rights and private interests of other parties and entitlements of infrastructure assets and services. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the comprehensive income statement.

Any significant movements in the unobservable inputs for land and land under roads will have a significant impact on the fair value of these assets.

Details of the Council's land and buildings and information about the fair value hierarchy as at 30 June 2016 are as follows:

	Level 1	Level 2	Level 3
Non-Specialised Land		24,216	-
Specialised land	-	-	60,870
Specialised Buildings			76,234
Total	-	24,216	137,104

Valuation of infrastructure

Valuation of infrastructure assets has been determined in accordance with a Council's valuation undertaken on 31 March 2014 by Teck Ting (Civil) MIE Aust, CP Eng.

The valuation is at fair value based on replacement cost less accumulated depreciation as at the date of valuation.

Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2016 are as follows:

	Level 1	Level 2	Level 3
Roads	-	-	313,180
Bridges and Major Culverts	-	-	14,649
Footpaths and cycleways	-	-	29,186
Drainage	-	-	53,773
Open Space and recreational facilities	-	-	11,313
Off street car parks	-	-	4,354
Total	-	-	426,455

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 22 Property, infrastructure, plant and equipment (cont'd)

2016
\$'000

2015
\$'000

Description of significant unobservable inputs into level 3 valuations

Specialised land and land under roads is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 5% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$0.46 and \$380 per square metre.

60,870 60,511

Specialised buildings are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement costs is calculated on a square metre basis and ranges from \$169 to \$3,350 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 30 years to 80 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of buildings are sensitive to changes in expectations or requirements that could either shorten or extend the useful lives of buildings.

76,234 77,003

Infrastructure assets are valued based on the depreciated replacement cost. Significant unobservable inputs include the current replacement cost and remaining useful lives of infrastructure. The remaining useful lives of infrastructure assets are determined on the basis of the current condition of the asset and vary from 10 years to 100 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

426,455 424,651

Reconciliation of specialised land

Land under roads

17,958 17,911

Parks, Gardens and reserves

24,105 23,793

Other

18,807 18,807

Total specialised land

60,870 60,511

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	\$'000	\$'000
Note 23 Intangible assets		
Software	3,058	2,231
Total intangible assets	<u>3,058</u>	<u>2,231</u>
	Software	
	\$'000	
Gross carrying amount		
Software		
Balance at 1 July 2014	882	
Additions from internal developments	-	
Additions from acquisition-Core System	2,231	
Balance at 1 July 2015	<u>3,113</u>	
Additions from acquisition-Asset Management System	1,572	
Balance at 30 June 2016	<u>4,685</u>	
Accumulated amortisation and impairment		
Balance at 1 July 2014	881	
Amortisation expense	1	
Balance at 1 July 2015	<u>882</u>	
Amortisation expense	745	
Balance at 30 June 2016	<u>1,627</u>	
Net book value at 30 June 2015	<u>2,231</u>	
Net book value at 30 June 2016	<u>3,058</u>	
Note 24 Trade and other payables	2016	2015
	\$'000	\$'000
Trade payables	7,044	6,768
Accrued expenses	909	866
Total trade and other payables	<u>7,953</u>	<u>7,634</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	\$'000	\$'000
Note 25 Trust funds and deposits		
Refundable deposits	144	166
Refundable bonds	1,285	1,182
Fire services levy	17	42
Other refundable deposits	154	136
Total trust funds and deposits	<u>1,600</u>	<u>1,526</u>

Purpose and nature of items

Refundable deposits - Deposits are taken by council as a form of surety in a number of circumstances, including in relation to building works, tender deposits, contract deposits and the use of civic facilities.

Fire Service Levy - Council is the collection agent for fire services levy on behalf of the State Government. Council remits amounts received on a quarterly basis. Amounts disclosed here will be remitted to the state government in line with that process.

Retention Amounts - Council has a contractual right to retain certain amounts until a contractor has met certain requirements or a related warrant or defect period has elapsed. Subject to the satisfactory completion of the contractual obligations, or the elapsing of time, these amounts will be paid to the relevant contractor in line with Council's contractual obligations.

Note 26 Provisions

	Employee	Landfill restoration	Total
	\$ '000	\$ '000	\$ '000
2016			
Balance at beginning of the financial year	5,595	5,046	10,641
Additional provisions	3,106	2,447	5,553
Amounts used	(2,916)	(1,590)	(4,506)
Increase/(decrease) in the discounted amount arising because of time and the effect of any change in the discount rate	(104)	-	(104)
Balance at the end of the financial year	<u>5,681</u>	<u>5,903</u>	<u>11,584</u>
2015			
Balance at beginning of the financial year	5,620	6,389	12,009
Additional provisions	2,949	578	3,527
Amounts used	(2,693)	(1,921)	(4,614)
Increase/(decrease) in the discounted amount arising because of time and the effect of any change in the discount rate	(281)	-	(281)
Balance at the end of the financial year	<u>5,595</u>	<u>5,046</u>	<u>10,641</u>
(a) Employee provisions		2016	2015
Current provisions expected to be wholly settled within 12 months		\$'000	\$'000
Annual leave		1,285	1,295
Long service leave		525	183
Other		177	167
		<u>1,987</u>	<u>1,645</u>
Current provisions expected to be wholly settled after 12 months			
Annual leave		563	568
Long service leave		2,153	2,369
		<u>2,716</u>	<u>2,937</u>
Total current employee provisions		<u>4,703</u>	<u>4,582</u>
Non-current			
Long service leave		978	1,013
Total non-current employee provisions		<u>978</u>	<u>1,013</u>
Aggregate carrying amount of employee provisions:			
Current		4,703	4,582
Non-current		978	1,013
Total aggregate carrying amount of employee provisions		<u>5,681</u>	<u>5,595</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
Note 26 Provisions (cont'd)		
(b) Land fill restoration		
Current	675	1,975
Non-current	5,228	3,071
	<u>5,903</u>	<u>5,046</u>
Total current provision	<u>5,378</u>	<u>6,557</u>
Total non-current provision	<u>6,206</u>	<u>4,084</u>

Note 27 Interest-bearing loans and borrowings

Current		
Borrowings - secured (1)	1,357	1,455
	<u>1,357</u>	<u>1,455</u>
Non-current		
Borrowings - secured (1)	9,925	8,001
	<u>9,925</u>	<u>8,001</u>
Total	<u>11,282</u>	<u>9,456</u>

(1) Borrowings are secured by registered charge over general rates revenue of Council

(a) The maturity profile for Council's borrowings is:

Not later than one year	1,357	1,455
Later than one year and not later than five years*	2,757	4,112
Later than five years*	7,168	3,889
	<u>11,282</u>	<u>9,456</u>

* Adjustment for \$3,279k between categories in 2015 results to provide correct comparison

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 28 Reserves

	Balance at beginning of reporting period	Increment (decrement)	Balance at end of reporting period
	\$'000	\$'000	\$'000
(a) Asset revaluation reserves			
2016			
Property			
Land	34,184	-	34,184
Buildings	56,564	-	56,564
	90,748	-	90,748
Infrastructure			
Roads, bridges and major culverts, footpaths and drainage	210,486	-	210,486
	210,486	-	210,486
Other revaluation assets			
West Gippsland Regional Library Corporation	99	162	261
	99	162	261
Total asset revaluation reserves	301,333	162	301,495

2015			
Property			
Land	47,285	(13,101)	34,184
Buildings	47,924	8,640	56,564
	95,209	(4,461)	90,748
Infrastructure			
Roads, bridges and major culverts, footpaths and drainage	214,707	(4,221)	210,486
	214,707	(4,221)	210,486
Other revaluation assets			
West Gippsland Regional Library Corporation	99	-	99
	99	-	99
Total asset revaluation reserves	310,015	(8,682)	301,333

The asset revaluation reserve is used to record the increased (net) value of Council's assets over time.

	Balance at beginning of reporting period	Transfer from accumulated surplus	Transfer to accumulated surplus	Balance at end of reporting period
	\$'000	\$'000	\$'000	\$'000
(b) Other reserves				
2016				
Open space	731	378	-	1,109
Car parking	5	-	-	5
Development contribution levy DCP01	4,186	770	(4,070)	886
Development contribution levy DCP02	-	794	-	794
Land sales	491	222	-	713
Native vegetation offset scheme	150	86	(5)	231
Total Other reserves	5,563	2,250	(4,075)	3,738
2015				
Open space	566	165	-	731
Car parking	5	-	-	5
Development contribution levy	3,764	800	(378)	4,186
Land sales	-	491	-	491
Native vegetation offset scheme	-	150	-	150
Total Other reserves	4,335	1,606	(378)	5,563

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 28 (b) (continued)

Open space	The Open Space Reserve holds funds contributed by developers for works associated with developing improved open space and recreational facilities within Council. Funds are contributed in accordance with Section 18 of the Subdivision Act 1988 and transfers are restricted to the purpose of creating open space such as parks, playgrounds, pavilions and other such items where it is deemed that these works should occur at a later point than the initial development.
Car parking	This reserve retains funds contributed by developers for works associated with developments that require additional car parking within Council. Transfers to the reserve comprise contribution income from developers in lieu of the provision of additional car parking spaces.
DCP01 & 02	These reserves retain funds received from developers for infrastructure provision related to the Baw Baw Shire Development Contributions Plans. DCP01 refers to the Baw Baw Shire Development Contribution Plan 23 March 2007 and DCP02 refers to the Warragul Development Contributions Plan September 2014. Transfers from these reserves will be for nominated capital works for development infrastructure projects and community infrastructure projects. These funds are tied directly to the income received or cash funds refunded to developers for capital works completed directly by the developer.
Land sales	This reserve comprises sale proceeds from land previously identified as open space land that, at the time of acquisition, would qualify for funding from the Open Space Reserve (refer above).
Native vegetation offset	Funds contributed to Council from developers and residents who propose to remove native vegetation. The funds are then applied to offset the removal of native vegetation by making an equivalent contribution to Victoria's biodiversity. Offset requirements are determined in accordance with permitted clearing of native vegetation – Biodiversity assessment guidelines.

2016 **2015**
\$'000 **\$'000**

Note 29 Reconciliation of cash flows from operating activities to surplus/(deficit)

Surplus/(deficit) for the year	9,030	20,263
Depreciation/amortisation	13,416	11,671
Profit/(loss) on disposal of property, infrastructure, plant and equipment	4,537	3,414
Contributions - Non-monetary assets	(5,020)	(8,985)
Share of net profits (losses) of associates accounted for by the equity method	(179)	51
Finance cost	517	491
Prior year WIP write-off	752	-
Change in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(1,202)	(1,965)
(Increase)/decrease in inventories	(3)	-
Decrease in prepayments	(28)	(45)
Increase/(decrease) in accrued income	(340)	(7)
Increase/(decrease) in trade and other payables	423	3,273
Increase/(Decrease) in provisions	943	(1,369)
Increase/(Decrease) in Trust funds and deposits (including FSPL)	73	(1,619)
Net cash provided by/(used in) operating activities	<u>22,919</u>	<u>25,173</u>

Note 30 Financing arrangements

Bank overdraft	1,500	1,500
Credit card facilities*	250	250
Borrowings*	16,665	14,786
Total facilities	<u>18,415</u>	<u>16,536</u>
Used facilities		
Credit card facilities*	(25)	(32)
Borrowings*	(11,282)	(9,456)
Total used facilities	<u>(11,307)</u>	<u>(9,488)</u>
Unused facilities	<u>7,108</u>	<u>7,048</u>

*2015 result was updated with the inclusion of credit card facilities and borrowings for comparative purposes

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 31 Commitments

The Council has entered into the following commitments

2016	Not later than 1	Later than 1 year	Later than 2	Later than 5	Total
	year	and not later than 2 years	years and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
Recycling	1,709	1,383	1,383	-	4,475
Garbage collection	3,870	2,670	2,670	-	9,210
Meals for delivery	164	-	-	-	164
Roads	4,053	4,064	8,159	-	16,276
Other	881	677	1,597	373	3,528
Total	10,677	8,794	13,809	373	33,653
Capital					
Roads	1,320	-	-	-	1,320
Buildings	3,128	-	-	-	3,128
Drainage	94	-	-	-	94
Bridges	18	-	-	-	18
Other	197	-	-	-	197
Total	4,757	-	-	-	4,757

2015	Not later than 1	Later than 1 year	Later than 2	Later than 5	Total
	year	and not later than 2 years	years and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
Recycling	1,285	1,285	1,285	-	3,855
Garbage collection	3,871	3,871	5,341	-	13,083
Consultancies	5	-	-	-	5
Cleaning contracts for council buildings	47	-	-	-	47
Meals for delivery	165	-	-	-	165
Roads	4,355	4,355	13,065	-	21,775
Other	670	571	979	244	2,464
Total	10,398	10,082	20,670	244	41,394
Capital					
Buildings	11,976	-	-	-	11,976
Landfill	867	-	-	-	867
Total	12,843	-	-	-	12,843

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	\$'000	\$'000
Note 32 Operating leases		
(a) Operating lease commitments		
At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities):		
Not later than one year	718	506
Later than one year and not later than five years	2,275	1,385
Later than five years	373	244
	<u>3,366</u>	<u>2,135</u>

Note 33 Superannuation

Council makes the majority of its employer superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund - Vision Super. This Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently. Obligations for contributions to the Fund are recognised as an expense in the Comprehensive Income Statement when they are made or due.

Accumulation

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receive both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2016, this was 9.5% as required under Superannuation Guarantee legislation).

Defined Benefit

Council does not use defined benefit accounting for its defined benefit obligations under the Fund's Defined Benefit category. This is because the Fund's Defined Benefit category is a pooled multi-employer sponsored plan.

There is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of Council in the Fund cannot be measured as a percentage compared with other participating employers. Therefore, the Fund Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.

Funding arrangements

Council makes employer contributions to the Defined Benefit category of the Fund at rates determined by the Trustee on the advice of the Fund Actuary.

As at 30 June 2015, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which Council is a contributing employer was 105.8%. To determine the VBI, the fund Actuary used the following long-term assumptions:

Net investment returns 7.0% pa

Salary information 4.25% pa

Price inflation (CPI) 2.5% pa.

Vision Super has advised that the estimated VBI at 30 June 2016 was 102.0%. The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2015 interim actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

Employer contributions

Regular contributions

On the basis of the results of the 2015 interim actuarial investigation conducted by the Fund Actuary, Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2016, this rate was 9.5% of members' salaries (9.5% in 2014/2015). This rate will increase in line with any increase to the contribution rate. In addition, Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 33 Superannuation (cont'd)

Funding calls

If the Defined Benefit category is in an unsatisfactory financial position at an actuarial investigation or the Defined Benefit category's VBI is below its shortfall limit at any time other than the date of the actuarial investigation, the Defined Benefit category has a shortfall for the purposes of SPS 160 and the Fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring. The Fund monitors its VBI on a quarterly basis and the Fund has set its shortfall limit at 97%.

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including Council) are required to make an employer contribution to cover the shortfall. Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's Defined Benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up. If there is a surplus in the Fund, the surplus cannot be returned to the participating employers. In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

2015 Interim actuarial investigation surplus amounts

The Fund's interim actuarial investigation as at 30 June 2015 identified the following in the defined benefit category of which Council is a contributing employer:

A VBI surplus of \$130.8 million; and

A total service liability surplus of \$239 million.

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2015. The total service liability surplus means that the current value of the assets in the Fund's Defined Benefit category plus expected future contributions exceeds the value of expected future benefits and expenses. Council was notified of the 30 June 2015 VBI during August 2015.

Future superannuation contributions

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2017 is \$130,000.

Note 34 Contingent liabilities and contingent assets

Contingent liabilities

1. Defined Benefit funding calls

Council has obligations under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme, matters relating to this potential obligation are outlined in **Note 33**. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists. At this point in time it is not known if additional contributions will be required, their timing or potential amount.

2. Landfill rehabilitation liabilities

Council previously operated a landfill at Trafalgar. Operations ceased at the landfill in November 2011. Council is continuing to carry out site rehabilitation works. At balance date, Council has a landfill provision with a balance of \$5.903 million.

3. Guarantees for loans to other entities

Council took a bank guarantees for landfill rehabilitation obligation. This bank guarantee is still active and will be fully discharged when Council finishes its 30 years landfill aftercare program. The amount disclosed for financial guarantee in this note is the nominal amount of the underlying loan that is guaranteed by the Council, not the fair value of the financial guarantee.

Number	Amount	Issue Date	Favouree	Status
306398	\$446,688	24/06/2008	State of Victoria Environment Protection Authority	Active
Total	\$446,688			

4. Legal proceedings

Council has received a claim from a contractor for additional costs, while undertaking a contract. Council is defending the claim.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 35 Financial instruments

(a) Objectives and policies

The Council's principal financial instruments comprise cash assets, term deposits, receivables (excluding statutory receivables), payables (excluding statutory payables) and bank borrowings. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument is disclosed in **Note 1** of the financial statements. Risk management is carried out by senior management under policies approved by the Council. These policies include identification and analysis of the risk exposure to Council and appropriate procedures, controls and risk minimisation.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of council financial instruments will fluctuate because of changes in market prices. The Council's exposure to market risk is primarily through interest rate risk with only insignificant exposure to other price risks and no exposure to foreign currency risk.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Council's interest rate liability risk arises primarily from long term loans and borrowings at fixed rates which exposes council to fair value interest rate risk / Council does not hold any interest bearing financial instruments that are measured at fair value, and therefore has no exposure to fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Council has minimal exposure to cash flow interest rate risk through its cash and deposits that are at floating rates.

Investment of surplus funds is made with approved financial institutions under the *Local Government Act 1989*. Council manages interest rate risk by adopting an investment policy that ensures:

- diversification of investment product;
- monitoring of return on investment; and
- benchmarking of returns and comparison with budget.

There has been no significant change in the Council's exposure, or its objectives, policies and processes for managing interest rate risk or the methods used to measure this risk from the previous reporting period.

Interest rate movements have not been sufficiently significant during the year to have an impact on the Council's year end result.

(c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause Council to make a financial loss. Council have exposure to credit risk on some financial assets included in the balance sheet. To help manage this risk:

- council have a policy for establishing credit limits for the entities Council deal with;
- council may require collateral where appropriate; and
- council only invest surplus funds with financial institutions which have a recognised credit rating specified in council's investment policy.

Receivables consist of a large number of customers, spread across the ratepayer, business and government sectors. Credit risk associated with the Council's financial assets is minimal because the main debtor is secured by a charge over the rateable property.

There are no material financial assets which are individually determined to be impaired.

Council may also be subject to credit risk for transactions which are not included in the balance sheet, such as when Council provide a guarantee for another party. Details of our contingent liabilities are disclosed in **Note 34**.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Council does not hold any collateral.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 35 Financial instruments (cont'd)

(d) Liquidity risk

Liquidity risk includes the risk that, as a result of council's operational liquidity requirements it will not have sufficient funds to settle a transaction when required or will be forced to sell a financial asset at below value or may be unable to settle or recover a financial asset.

To help reduce these risks Council:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments;
- monitor budget to actual performance on a regular basis; and
- set limits on borrowings relating to the percentage of loans to rate revenue and percentage of loan principal repayments to rate revenue.

The Council's maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed on the face of the balance sheet and the amounts related to financial guarantees disclosed in **Note 34**, and is deemed insignificant based on prior periods' data and current assessment of risk.

There has been no significant change in Council's exposure, or its objectives, policies and processes for managing liquidity risk or the methods used to measure this risk from the previous reporting period.

With the exception of borrowings, all financial liabilities are expected to be settled within normal terms of trade. Details of the maturity profile for borrowings are disclosed at **Note 27**.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

(e) Fair value

Fair value hierarchy

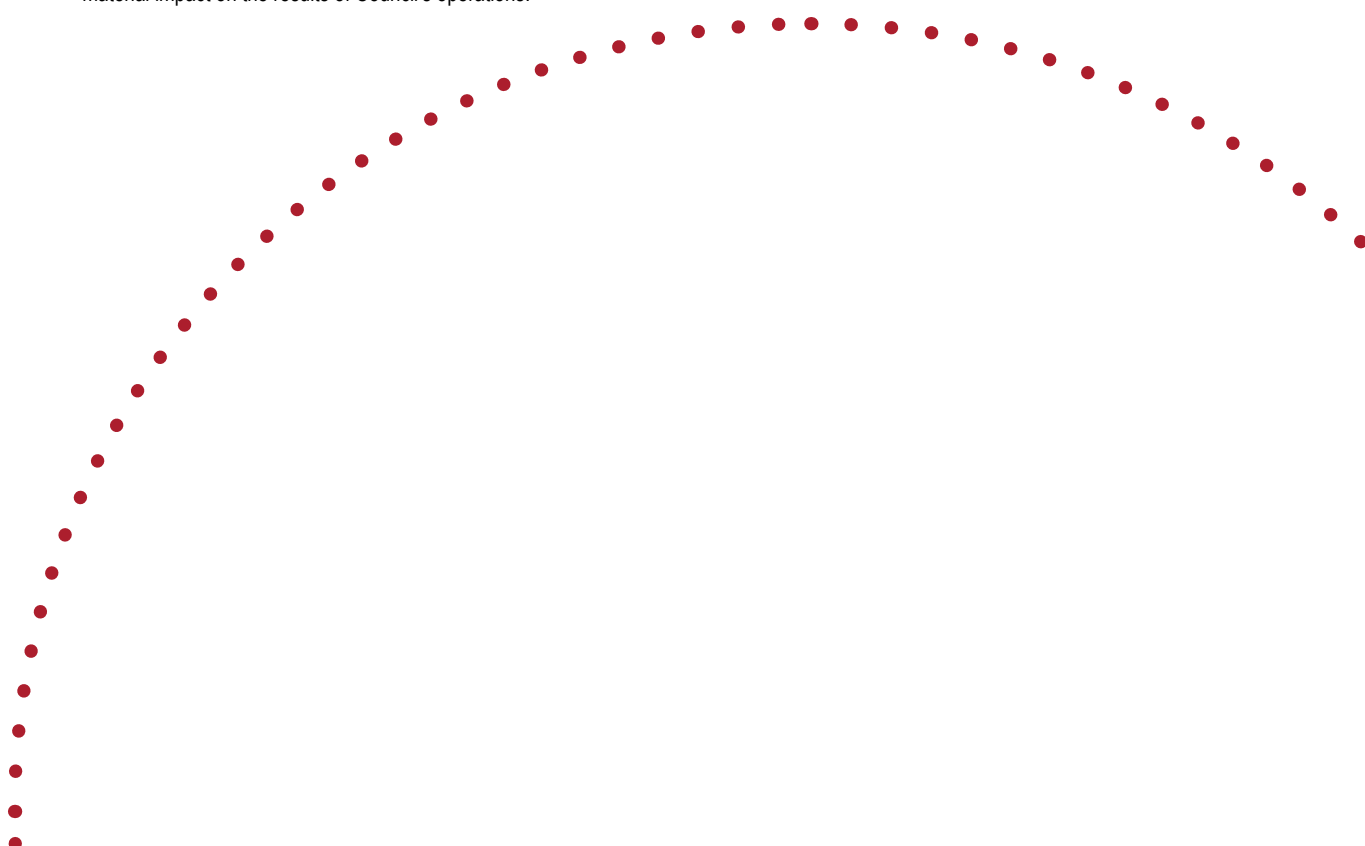
Council's financial assets and liabilities are not valued in accordance with the fair value hierarchy, Council's financial assets and liabilities are measured at amortised cost.

(f) Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, Council believes the following movements are 'reasonably possible' over the next 12 months:

- A parallel shift of + 0.5% and -0.5% in market interest rates (AUD) from year-end rates of 1.75%.

These movements will not have a material impact on the valuation of Council's financial assets and liabilities, nor will they have a material impact on the results of Council's operations.



Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 36 Related party transactions

(i) Responsible Persons

Names of persons holding the position of a Responsible Person at the Council at any time during the year are:

Councillors	Councillor J Gauci (Mayor since 19 November 2015)
	Councillor P Kosto (Deputy Mayor since 19 November 2015)
	Councillor D Brown (Mayor until 18 November 2015)
	Councillor M Cook (Deputy Mayor until 18 November 2015)
	Councillor G Murphy
	Councillor M Power
	Councillor T Jones
	Councillor D Balfour
	Councillor T Williamson

Chief Executive Officer	Helen Anstis
	Liana Thompson (Acting 05-19 October 2015)
	Matthew Cripps (Acting 18-27 January 2016)
	Philip Cantillon (Acting 04-17 January 2016)

(ii) Remuneration of Responsible Persons

The numbers of Responsible Persons whose total remuneration from Council and any related entities, excluding retirement benefits, fall within the following bands:

	2016	2015
	No.	No.
\$1 - \$9,999	1	1
\$10,000 - \$19,999	2	-
\$20,000 - \$29,999	7	7
\$40,000 - \$49,999	1	1
\$50,000 - \$59,999	1	1
\$250,000 - \$259,999	-	1
\$300,000 - \$309,999	1	-
	<u>13</u>	<u>11</u>
	\$'000	\$'000
	613	550

Total Remuneration for the reporting year for Responsible Persons included above amounted to:

(iii) Senior Officers Remuneration

A Senior Officer other than a Responsible Person, is an officer of Council who:

- has management responsibilities and reports directly to the Chief Executive; or
- whose total annual remuneration exceeds \$139,000

The number of Senior Officers other than the Responsible Persons, are shown below in their relevant income bands:

Redundancies

2016	2015		2016	2015
No.	No.	Income Range:	No.	No.
		<\$139,000	1	3
		\$139,000 - \$139,999	2	-
	*1	\$140,000 - \$149,999	3	7
*1	*3	\$150,000 - \$159,999	6	3
	-	\$160,000 - \$169,999	1	-
	*1	\$170,000 - \$179,999	-	1
	*2	\$180,000 - \$189,999	-	4
	*1	\$190,000 - \$199,999	2	2
		\$200,000 - \$209,999	1	-
	*1	\$210,000 - \$219,999	-	1
	*1	\$230,000 - \$239,999	-	1
	*1	\$240,000 - \$249,999	-	1
*1		\$270,000 - \$279,999	1	-
	*1	Over \$339,000	-	1
			<u>17</u>	<u>24</u>
			\$'000	\$'000
			2,764	4,008

Total Remuneration for the reporting year for Senior Officers included above, amounted to

Note: the 2015-16 senior officer remuneration includes one-off redundancies (comprising redundancy payments, leave entitlements and normal pays) for 2 officers that total \$427,000 as identified by a * with the number of redundancies for each income range. Comparatively, the 2014-15 senior officer remuneration included one-off redundancies (comprising redundancy payments, leave entitlements and normal pays) for 12 officers that total \$2,386,000 as identified by an * with the number of redundancies for each income range.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

Note 36 Related party transactions (cont'd)

(iv) Responsible persons retirement benefits

The aggregate amount paid during the reporting period by Council in connection with the retirement of responsible persons was \$0 (2014/15 - \$0)

(v) Loans to responsible persons

No loans in existence at balance date that have been made, guaranteed or secured by the council to a responsible person of the council, or a related party of a responsible person.

(vi) Transactions with responsible persons

During the period Council entered into the following transactions with responsible persons or related parties of responsible persons.

2015/16

Councillor Debbie Brown	Browns Transport and Earthmoving Pty Ltd	\$233,122.51
Councillor Joe Gauci	Gauci Electrics Pty Ltd	\$40,208.14

2014/15

Councillor Debbie Brown	Browns Transport and Earthmoving Pty Ltd	\$580,880.24
Councillor Joe Gauci	Gauci Electrics Pty Ltd	\$118,008.34

All transactions with related parties are in accordance with standard Council conditions of procurement.

Note 37 Events occurring after balance date

During August 2016 Council approved the acquisition of the Utopia Pet Lodge as an ongoing business to provide short term pet accommodation. Following Ministerial consent, this acquisition does not activate S193 (entrepreneurial powers) of the Local Government Act. The facility will be owned and operated by Council and provide an additional income stream to supplement the operating costs of an animal pound to be co-located on the site of the Utopia Pet Lodge.

Certification of the Financial Statements

In my opinion the accompanying financial statements have been prepared in accordance with the *Local Government Act 1989*, the *Local Government (Planning and Reporting) Regulations 2014*, Australian Accounting Standards and other mandatory professional reporting requirements.



Malcolm Lewis MBA FCPA
Principal Accounting Officer
Date: 14/9/16
Warragul

In our opinion the accompanying financial statements present fairly the financial transactions of Baw Baw Shire Council for the year ended 30 June 2016 and the financial position of the Council as at that date.

As at the date of signing, we are not aware of any circumstances which would render any particulars in the financial statements to be misleading or inaccurate.

We have been authorised by the Council and by the *Local Government (Planning and Reporting) Regulations 2014* to certify the financial statements in their final form.



Councillor Peter Kostos
Councillor
Date: 14/9/16
Warragul



Councillor David Balfour
Councillor
Date: 14/9/16
Warragul



Helen Anstis
Chief Executive Officer
Date: 14/9/16
Warragul



INDEPENDENT AUDITOR'S REPORT

To the Councillors, Baw Baw Shire Council

The Financial Report

I have audited the accompanying financial report for the year ended 30 June 2016 of the Baw Baw Shire Council which comprises the comprehensive income statement, balance sheet, statement of changes in equity, statement of cash flows, statement of capital works, notes comprising a summary of the significant accounting policies and other explanatory information, and the certification of the financial statements.

The Councillors' Responsibility for the Financial Report

The Councillors of the Baw Baw Shire Council are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Local Government Act 1989*.

The Councillors are responsible for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994* and the *Local Government Act 1989*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Councillors, as well as evaluating the overall presentation of the financial report.

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

Independent Auditor's Report (continued)


Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, I and my staff and delegates complied with the applicable independence requirements of the Australian Auditing Standards and relevant ethical pronouncements.

Opinion

In my opinion the financial report presents fairly, in all material respects, the financial position of the Baw Baw Shire Council as at 30 June 2016 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Local Government Act 1989*.

MELBOURNE
19 September 2016


Andrew Greaves
Auditor-General

Performance Statement

FOR THE YEAR ENDED 30 JUNE 2016

Description of municipality

Baw Baw Shire Council is approximately 100 kilometres east of Melbourne in West Gippsland. The shire was formed in 1994 from the amalgamation of the former Buln Buln and Narracan Shires, the Rural City of Warragul, and some parts of the Shire of Upper Yarra.

The northern half of the shire is heavily forested and lies in the Great Dividing Range and its foothills, including parts of the Mt Baw Baw National Park, while the shire is bounded by the Strzelecki Range and its foothills to the south. The middle part of the shire is more densely populated, particularly in areas close to the Princes Highway and the Gippsland railway line, but still retains its rural environment.

Baw Baw's main industries (in terms of economic value of output) include manufacturing; construction; rental, hiring and real estate; agriculture, forestry and fishing; and health care and social assistance.

The council covers an area of 4,027 square kilometres and has a population of 46,638 (estimated resident population as of 30 June 2015).

Sustainable Capacity Indicators

FOR THE YEAR ENDED 30 JUNE 2016

	<i>Indicator/measure</i>	Results 2015	Results 2016	Material Variations and Comments
C1	Population <i>Expenses per head of municipal population</i> [Total expenses / Municipal population]	\$1,406	\$1,550	Council's total expenses were \$72,310,000 during 2015/16, resulting in a cost to deliver Council services per head of population of \$1,550. This is a variation to the previous year result due to the reclassification of net loss on disposal now included in total expenses. Using this same methodology, the previous year results would have been \$1,480 which represents a 4.7% increase.
C2	<i>Infrastructure per head of municipal population</i> [Value of infrastructure / Municipal population]	\$11,266	\$11,418	The value of the municipality's infrastructure was \$11,418 per head of population. Increased investment in the annual capital works program has resulted in a corresponding and increased (favourable) result.
C3	<i>Population density per length of road</i> [Municipal population / Kilometres of local roads]	26	26	There are approximately 26 residents for each kilometre of local roads.
C4	Own-source revenue <i>Own-source revenue per head of municipal population</i> [Own-source revenue / Municipal population]	\$1,080	\$1,190	This indicates Council's capacity to generate own source revenue (mainly rates and user charges) per head of population. The result for 2015/16 reflects a favourable position and ongoing sustainability.
C5	Recurrent grants <i>Recurrent grants per head of municipal population</i> [Recurrent grants / Municipal population]	\$409	\$274	Council received recurrent grants of \$12,795,000 during the year. This is lower than expected mainly due to Victoria Grants Commission payment of \$4 million received in the prior financial year.
C6	Disadvantage <i>Relative Socio-Economic Disadvantage</i> [Index of Relative Socio-Economic Disadvantage by decile]	6	6	The Australian Bureau of Statistics (ABS) prepares an index of relative socio-economic disadvantage. The result for the municipality is six, where one is the most disadvantaged and 10 is the least disadvantaged.

Service Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2016

	Service/indicator/measure	Results 2015	Results 2016	Material Variations and Comments
AF6	Aquatic Facilities Utilisation <i>Utilisation of aquatic facilities</i> [Number of visits to aquatic facilities / Municipal population]	1.9*	1.4	Council's aquatic facilities include those at Drouin, Neerim South, Rawson, Trafalgar, Thorpdale and the Warragul Leisure Centre. The result for this performance measure is lower this year due to the closure of the aquatic facilities at the Warragul Leisure Centre for redevelopment.
AM4	Animal Management Health and safety <i>Animal management prosecutions</i> [Number of successful animal management prosecutions]	1	7	Council conducted a total of seven successful animal management prosecutions in 2015/16. These prosecutions were conducted in relation to dog attacks, dog rushes and dogs at large offences, and are conducted on an as needs basis or when required under the provisions of the Domestic Animals Act 1994. However, Council's primary strategy is focused on communication and education of pet owners.
FS4	Food Safety Health and safety <i>Critical and major non-compliance outcome notifications</i> [Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises followed up / Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises] x100	46.5%*	40.9%	During the year, Council recorded a total of 181 critical non-compliance notifications and major non-compliance notifications about food premises, and followed up 74 of these due to resourcing challenges.

* To ensure comparability of indicators, these comparative figures for 2015 have been amended to accord with the current presentation. The restated comparatives which has changed materially on amounts previously disclosed in the Performance Statements for the year ended 30 June 2015, as disclosed in the below table.

	Service/indicator/measure	Previously reported 2015	Restated in 2015	Reason for restatement
AF6	Aquatic Facilities Utilisation <i>Utilisation of aquatic facilities</i>	2	1.9	Review of reporting identified an overstatement of the number of visits to aquatic facilities.
FS4	Food Safety Health and safety <i>Critical and major non-compliance outcome notifications</i>	60.7%	46.5%	Process improvements to reporting identified errors in calculations of the number of non-compliance notifications and the number followed up.

Service Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2016

	Service/indicator/measure	Results 2015	Results 2016	Material Variations and Comments
G5	Governance Satisfaction Satisfaction with council decisions [Community satisfaction rating out of 100 with how council has performed in making decisions in the interest of the community]	53	47	The annual Community Satisfaction Survey assesses the community's satisfaction with Council's performance. Satisfaction with Council decisions was rated as 47 out of 100, six less than obtained in 2014/15.
HC6	Home and Community Care (HACC) Participation Participation in HACC service [Number of people that received a HACC service / Municipal target population for HACC services] x100	44.4%	44.1%	Council's performance for 2015/16 remains consistent with last year, with 2,065 people receiving a Home and Community Care service out of a target population of 4,679.
HC7	Participation Participation in HACC service by CALD people [Number of CALD people who receive a HACC service / Municipal target population in relation to CALD people for HACC services] x100	32.6%	32.2%	Council's performance for 2015/16 remains consistent with last year, with 175 culturally and linguistically diverse (CALD) people receiving a Home and Community Care service out of a target population of 543.
LB4	Libraries Participation Active library members [Number of active library members / Municipal population] x100	20.8%	19.0%	During the year 8,876 library members borrowed a library collection item, which represents approximately 19 per cent of the estimated resident Baw Baw population. This is consistent with last year's result.
MC4	Maternal and Child Health (MCH) Participation Participation in the MCH service [Number of children who attend the MCH service at least once (in the year) / Number of children enrolled in the MCH service] x100	77.0%	0.0%	In 2016 there was a state wide initiative to transition the majority of councils offering Maternal and Child Health services to a new database. The database is not expected to provide reliable information until the end of September 2016 which is after the deadline for the annual report, therefore, we are unable to report this data for the 2015/2016 financial year.
MC5	Participation Participation in the MCH service by Aboriginal children [Number of Aboriginal children who attend the MCH service at least once (in the year) / Number of Aboriginal children enrolled in the MCH service] x100	65.2%	0.0%	In 2016 there was a state wide initiative to transition the majority of councils offering Maternal and Child Health services to a new database. The database is not expected to provide reliable information until the end of September 2016 which is after the deadline for the annual report, therefore, we are unable to report this data for the 2015/2016 financial year.

Service Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2016

	Service/indicator/measure	Results 2015	Results 2016	Material Variations and Comments
R5	Roads Satisfaction Satisfaction with sealed local roads [Community satisfaction rating out of 100 with how council has performed on the condition of sealed local roads]	36	38	The annual Community Satisfaction Survey assesses the community's satisfaction with Council's performance. Satisfaction with sealed local roads was rated as 38 out of 100, two more than obtained in 2014/15.
SP4	Statutory Planning Decision making Council planning decisions upheld at VCAT [Number of VCAT decisions that did not set aside council's decision in relation to a planning application / Number of VCAT decisions in relation to planning applications] x100	75.0%	62.5%	During the 2015/16 year there was a significant reduction in the number of planning application decisions appealed to the Victorian Civil and Administrative Tribunal (VCAT). Of those that were appealed, five out of eight Council decisions were upheld compared to nine out of 12 last year.
WC5	Waste Collection Waste diversion Kerbside collection waste diverted from landfill [Weight of recyclables and green organics collected from kerbside bins / Weight of garbage, recyclables and green organics collected from kerbside bins] x100	53.1%	52.0%	The result for this performance measure remains consistent. Over half of the Shire's waste is recycled or placed into the green organics bin, rather than into landfill.

Financial Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2016

	Dimension/indicator/measure	Results 2015	Results 2016	2017	2018	2019	2020	Material Variations and Comments
E1	Efficiency Revenue level Average residential rate per residential property assessment [Residential rate revenue / Number of residential property assessments]	\$1,643	\$1,669	\$1,714	\$1,747	\$1,762	\$1,817	The average rates payable for each residential property for 2015/16 was \$1,669.
E2	Expenditure level Expenses per property assessment [Total expenses / Number of property assessments]	\$2,722	\$2,729	\$2,664	\$2,705	\$2,850	\$2,860	Council's total expenses were \$72,310,000 during 2015/16, resulting in a cost to deliver Council services per property assessment of \$2,729 for 2015/16.
E3	Workforce turnover Resignations and terminations compared to average staff [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100	16.7%	17.5%	11.1%	11.6%	12.2%	12.7%	Fifty-six of Council's permanent staff either resigned or had their employment terminated during the year out of a total average of 320 permanent staff. This is consistent with the previous year result.
L1	Liquidity Working capital Current assets compared to current liabilities [Current assets / Current liabilities] x100	206.0%	195.1%	145.8%	161.0%	172.8%	195.2%	Council has current assets of \$31,785,000 and current liabilities of \$16,288,000. The result indicates improved working capital and the ability to adequately meet liabilities as they fall due.
L2	Unrestricted cash Unrestricted cash compared to current liabilities [Unrestricted cash / Current liabilities] x100	82.1%	75.1%	74.9%	90.4%	95.6%	109.2%	The result indicates Council's ability to meet liabilities as they fall due from available (unrestricted) cash.

Financial Performance Indicators

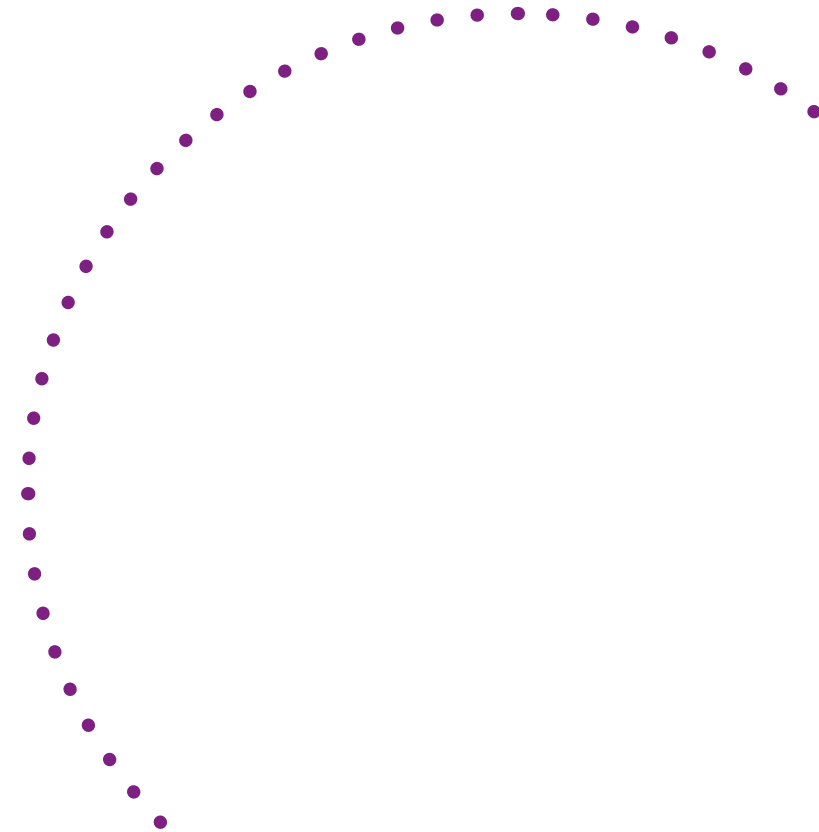
FOR THE YEAR ENDED 30 JUNE 2016

	Dimension/Indicator/Measure	Results	Forecasts			Material Variations and Comments		
		2015	2016	2017	2018		2019	2020
O1	Obligations Asset renewal Asset renewal compared to depreciation [Asset renewal expense / Asset depreciation] x100	110.3%	118.5%	127.7%	76.9%	63.9%	66.5%	Investment in asset renewal during 2015/16 exceeds the rate of depreciation indicating a favourable result and net reduction to the infrastructure gap.
O2	Loans and borrowings Loans and borrowings compared to rates [Interest bearing loans and borrowings / Rate revenue] x100	20.1%	22.9%	27.3%	23.7%	21.5%	20.1%	Total debt as a percentage of rates for 2015/16 is 22.9%, and is well within Council's Borrowing Policy that allows for a maximum of 40% debt to rates.
O3	Loans and borrowings repayments compared to rates [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100	4.0%	4.0%	4.0%	4.1%	2.6%	1.8%	Council paid \$1,969,000 in principal and interest against its borrowings compared to rates & charges revenue received of \$49,350,000. The result indicates Council's adequate ability to meet debt commitments from rate revenue.
O4	Indebtedness Non-current liabilities compared to own source revenue [Non-current liabilities / Own source revenue] x100	24.4%	31.6%	33.3%	30.9%	29.3%	28.5%	The Victorian Auditor General (VAGO) has identified 40% or less as low risk. Council's result is well within the VAGO threshold of low risk for indebtedness.
OP1	Operating position Adjusted underlying result Adjusted underlying surplus (or deficit) [Adjusted underlying surplus (deficit) / Adjusted underlying revenue] x100	7.2%	-5.9%	6.2%	8.8%	1.7%	2.5%	The negative result for 2015/16 mainly relates to Victoria Grants Commission funding received in the prior year. This result is further impacted by increased expenses mainly resulting from a \$2.5 million landfill provision to meet Environment Protection Authority (EPA) aftercare requirements for the former Trafalgar landfill.

Financial Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2016

Dimension/indicator/measure		Results 2015	Results 2016	2017	2018	2019	2020	Material Variations and Comments
S1	Stability Rates concentration Rates compared to adjusted underlying revenue [Rate revenue / Adjusted underlying revenue] x100	67.6%	77.1%	71.6%	69.9%	73.0%	73.7%	The variation on the previous year result mainly relates to Victoria Grants Commission funding received in the prior year.
S2	Rates effort Rates compared to property values [Rate revenue / Capital improved value of rateable properties in the municipality] x100	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%	Council received \$49,350,000 in rates & charges revenue in 2015/16. This result remains constant at 0.5% due to minimal movement in valuations relative to movement in rate revenue.



Other Information

FOR THE YEAR ENDED 30 JUNE 2016

Basis of preparation


Council is required to prepare and include a performance statement within its annual report. The performance statement includes the results of the prescribed sustainable capacity, service performance and financial performance indicators and measures together with a description of the municipal district and an explanation of material variations in the results. This statement has been prepared to meet the requirements of the *Local Government Act 1989* and Local Government (Planning and Reporting) Regulations 2014.

Where applicable the results in the performance statement have been prepared on accounting bases consistent with those reported in the Financial Statements. The other results are based on information drawn from council information systems or from third parties (e.g. Australian Bureau of Statistics).

The performance statement presents the actual results for the current year and for the prescribed financial performance indicators and measures, the results forecast by the council's strategic resource plan. The Local Government (Planning and Reporting) Regulations 2014 requires explanation of any material variations in the results contained in the performance statement.

Certification of the Performance Statement

In my opinion, the accompanying performance statement has been prepared in accordance with the *Local Government Act 1989* and the Local Government (Planning and Reporting) Regulations 2014.

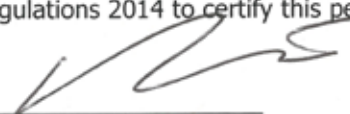

Malcolm Lewis MBA FCPA
Principal Accounting Officer
Dated: 14/9/16


In our opinion, the accompanying performance statement of the Baw Baw Shire Council for the year ended 30 June 2016 presents fairly the results of council's performance in accordance with the *Local Government Act 1989* and the Local Government (Planning and Reporting) Regulations 2014.

The performance statement contains the relevant performance indicators, measures and results in relation to service performance, financial performance and sustainable capacity.

At the date of signing, we are not aware of any circumstances that would render any particulars in the performance statement to be misleading or inaccurate.

We have been authorised by the council and by the Local Government (Planning and Reporting) Regulations 2014 to certify this performance statement in its final form.


Councillor Peter Kostos
Councillor
Dated: 14/9/16


Councillor David Balfour
Councillor
Dated: 14/9/16


Helen Anstis
Chief Executive Officer
Dated: 14/9/16

INDEPENDENT AUDITOR'S REPORT

To the Councillors, Baw Baw Shire Council

The Performance Statement

I have audited the accompanying performance statement for the year ended 30 June 2016 of the Baw Baw Shire Council which comprises the statement, the related notes and the certification of the performance statement.

The Councillors' Responsibility for the Performance Statement

The Councillors of the Baw Baw Shire Council are responsible for the preparation and fair presentation of the performance statement in accordance with the *Local Government Act 1989* and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the performance statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Local Government Act 1989*, my responsibility is to express an opinion on the performance statement based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the performance statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the performance statement. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the performance statement, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the performance statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the overall presentation of the performance statement.

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



Independent Auditor's Report (continued)

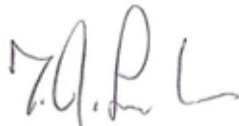
Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, I and my staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Auditor's Opinion

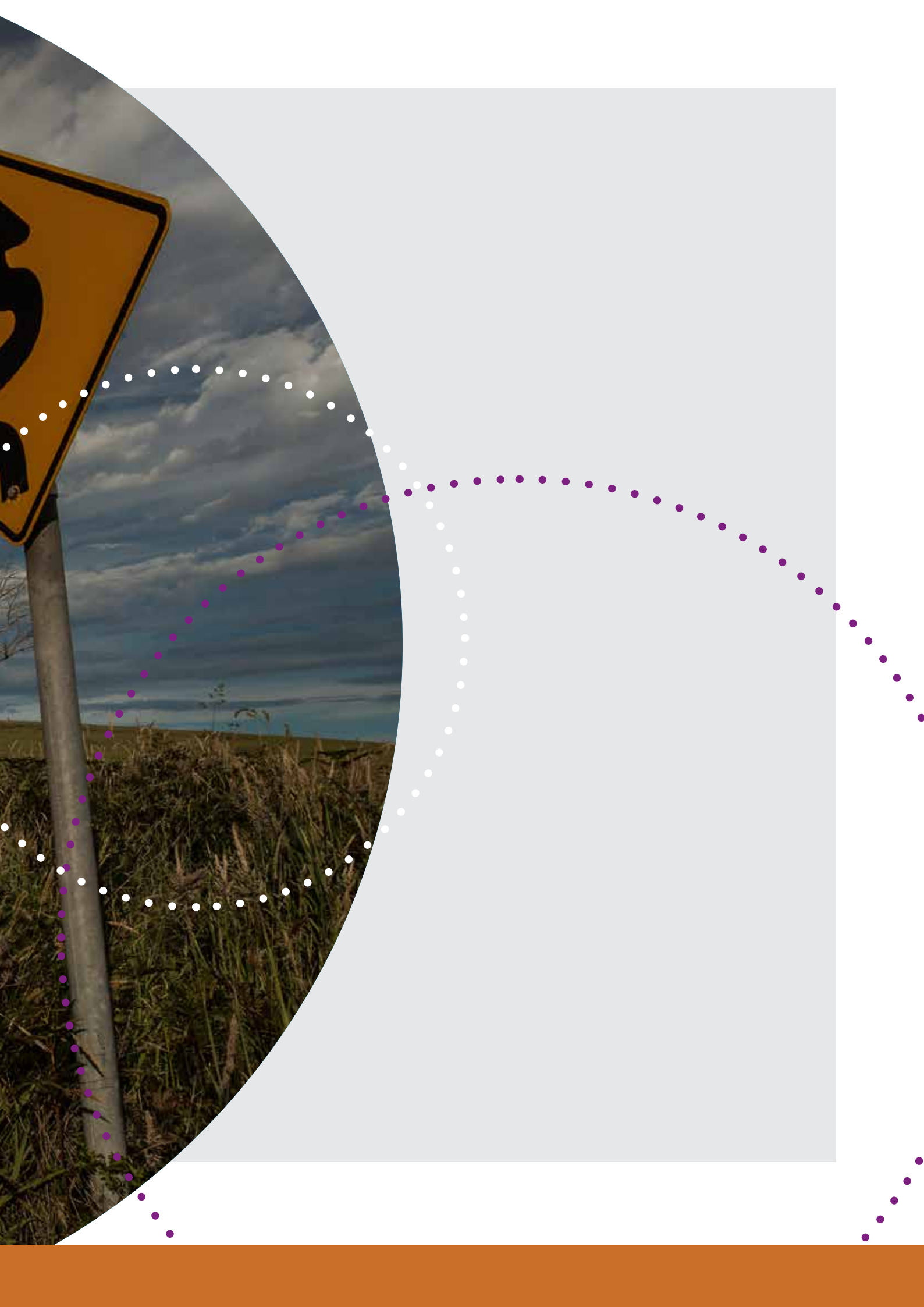
In my opinion, the performance statement of the Baw Baw Shire Council in respect of the 30 June 2016 financial year presents fairly, in all material respects, in accordance with the *Local Government Act 1989*.

MELBOURNE
19 September 2016



Andrew Greaves
Auditor-General







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