



# Baw Baw Shire Council Annual Financial Report.

2019/20





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# Understanding the Financial Statements

The Financial Statements compare the current 2019/20 financial year to the previous 2018/19 financial year.

They comprise two main sections mainly the financial statements and the notes to the financial statements..

There are six 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 Statement of Cash Flows 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 2020

	Note	2020 \$'000	2019 \$'000
<b>Income</b>			
Rates and charges	3.1	60,464	57,616
Statutory fees and fines	3.2	2,237	2,317
User fees	3.3	3,050	2,958
Grants - operating	3.4	15,761	14,670
Grants - capital	3.4	8,504	7,886
Contributions - monetary	3.5	3,644	3,727
Contributions - non monetary	3.5	13,680	16,167
Share of net profits of associates and joint ventures	6.2	164	177
Other income	3.7	3,108	1,813
<b>Total income</b>		<u>110,612</u>	<u>107,331</u>
<b>Expenses</b>			
Employee costs	4.1	(28,637)	(27,278)
Materials and services	4.2	(33,878)	(36,894)
Depreciation	4.3	(16,455)	(15,610)
Amortisation - Intangible	4.4	(120)	(567)
Amortisation - right of use assets	4.5	(734)	-
Borrowing costs	4.6	(401)	(496)
Finance costs - leases	4.7	(36)	-
Other expenses	4.8	(3,644)	(4,223)
Net Loss on disposal of property, infrastructure, plant and equipment	3.6	(5,327)	(601)
<b>Total expenses</b>		<u>(89,232)</u>	<u>(85,669)</u>
<b>Surplus for the year</b>		<u>21,380</u>	<u>21,662</u>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to surplus or deficit in future periods</b>			
Net asset revaluation increment	6.1	13,835	78,466
Share of other comprehensive income of associates and joint ventures	6.2	102	1
<b>Total comprehensive result</b>		<u>35,317</u>	<u>100,129</u>

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

# Balance Sheet

As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5.1	29,417	25,885
Trade and other receivables	5.1	6,470	6,969
Other financial assets	5.1	19,121	25,115
Inventories	5.3	-	7
Non-current assets classified as held for sale	5.2	-	499
Other assets	5.3	3,820	992
<b>Total current assets</b>		<b>58,828</b>	<b>59,467</b>
<b>Non-current assets</b>			
Investments in associates, joint arrangements and subsidiaries	6.2	2,237	1,959
Property, infrastructure, plant and equipment	6.1	799,062	766,434
Right-of-use assets	5.9	5,581	-
Intangible assets	5.3	1,261	363
<b>Total non-current assets</b>		<b>808,141</b>	<b>768,756</b>
<b>Total assets</b>		<b>866,969</b>	<b>828,223</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	5.4	16,445	15,033
Trust funds and deposits	5.4	4,045	4,482
Provisions	5.6	6,603	6,534
Interest-bearing liabilities	5.5	4,000	4,442
Lease liabilities	5.9	606	-
<b>Total current liabilities</b>		<b>31,699</b>	<b>30,491</b>
<b>Non-current liabilities</b>			
Provisions	5.6	12,214	9,922
Interest-bearing liabilities	5.5	7,168	7,168
Lease liabilities	5.9	1,729	-
<b>Total non-current liabilities</b>		<b>21,111</b>	<b>17,090</b>
<b>Total liabilities</b>		<b>52,810</b>	<b>47,581</b>
<b>Net assets</b>		<b>814,159</b>	<b>780,642</b>
<b>Equity</b>			
Accumulated surplus		387,476	369,500
Reserves	9.1	426,683	411,142
<b>Total Equity</b>		<b>814,159</b>	<b>780,642</b>

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

# Statement of Changes in Equity

For the Year Ended 30 June 2020

2020	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		780,642	369,500	404,676	6,466
Impact of change in Accounting Policy - AASB 15 Revenue from contracts with customers	10	(397)	(397)	-	-
Impact of change in Accounting Policy - AASB 1058 Income of not-for-profit entities	10	(1,414)	(1,414)	-	-
		<u>778,831</u>	<u>367,689</u>	<u>404,676</u>	<u>6,466</u>
Surplus/(deficit) for the year		21,380	21,380	-	-
Adjustment due to change in library ownership %	6.2	12	12	-	-
Net asset revaluation increment - infrastructure	9.1	13,835	-	13,835	-
Net asset revaluation increment - library	9.1	102	-	102	-
Rounding Increment	6.2	(1)	(1)	-	-
Transfers to other reserves	9.1	-	(3,689)	-	3,689
Transfers from other reserves	9.1	-	2,085	-	(2,085)
<b>Balance at end of the financial year</b>		<u>814,159</u>	<u>387,477</u>	<u>418,613</u>	<u>8,070</u>

2019		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		681,721	350,637	326,209	4,875
Prior Year adjustment capital work in progress write offs	9.2	(1,208)	(1,208)	-	-
Restated opening balance		<u>680,513</u>	<u>349,429</u>	<u>326,209</u>	<u>4,875</u>
Surplus/(deficit) for the year before prior year adjustments		24,247	24,247	-	-
Prior Year Adjustments net found and derecognised assets and capital works in progress write offs	9.2	(2,585)	(2,585)	-	-
Surplus/(deficit) for the year		<u>21,662</u>	<u>21,662</u>	<u>-</u>	<u>-</u>
Net asset revaluation increment	6.1	78,466	-	78,466	-
Adjustment due to change in library ownership	6.2	1	-	1	-
Transfers to other reserves	9.1	-	(3,845)	-	3,845
Transfers from other reserves	9.1	-	2,254	-	(2,254)
<b>Balance at end of the financial year</b>		<u>780,642</u>	<u>369,500</u>	<u>404,676</u>	<u>6,466</u>

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

# Statement of Cash Flows

For the Year Ended 30 June 2020

	Note	2020 Inflows/ (Outflows) \$'000	2019 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Rates and charges		60,363	58,029
Statutory fees and fines		2,239	2,319
User fees		3,222	3,135
Grants - operating		16,896	14,861
Grants - capital		8,310	6,403
Contributions - monetary		3,644	3,727
Interest received		828	1,031
Trust funds and deposits taken		10,353	12,210
Other receipts		1,211	1,028
Net GST refund/payment		2,673	2,451
Employee costs		(28,547)	(26,412)
Materials and services		(34,520)	(29,472)
Short-term, low value and variable lease payments		(27)	-
Trust funds and deposits repaid		(10,738)	(10,498)
Other payments		(3,752)	(4,335)
<b>Net cash provided by/(used in) operating activities</b>		<u>32,155</u>	<u>34,477</u>
<b>Cash flows from investing activities</b>			
Payments for property, infrastructure, plant and equipment		(33,517)	(21,881)
Proceeds from sale of property, infrastructure, plant and equipment		485	119
Payments for investments		5,994	(6,003)
<b>Net cash provided by/(used in) investing activities</b>		<u>(27,038)</u>	<u>(27,765)</u>
<b>Cash flows from financing activities</b>			
Finance costs		(404)	(493)
Proceeds from borrowings		4,000	4,000
Repayment of borrowings		(4,442)	(4,834)
Interest paid - lease liability		(36)	-
Repayment of lease liabilities		(703)	-
<b>Net cash provided by/(used in) financing activities</b>		<u>(1,585)</u>	<u>(1,327)</u>
Net increase (decrease) in cash and cash equivalents		3,532	5,385
Cash and cash equivalents at the beginning of the financial year		25,885	20,500
<b>Cash and cash equivalents at the end of the financial year</b>		<u>29,417</u>	<u>25,885</u>
Financing arrangements	5.7	4,988	7,079
Restrictions on cash assets	5.1	13,070	13,383

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 2020

	Note	2020 \$'000	2019 \$'000
<b>Property</b>			
Land		138	24
<b>Total land</b>		<u>138</u>	<u>24</u>
Buildings		4,148	6,054
<b>Total buildings</b>		<u>4,148</u>	<u>6,054</u>
<b>Total property</b>		<u>4,286</u>	<u>6,078</u>
<b>Plant and equipment</b>			
Plant, machinery and equipment		531	1,023
Computers and telecommunications		121	775
<b>Total plant and equipment</b>		<u>652</u>	<u>1,798</u>
<b>Infrastructure</b>			
Roads		12,906	11,626
Bridges		875	975
Footpaths and cycleways		1,764	995
Drainage		1,849	547
Waste management		-	273
Parks, open space and streetscapes		5,087	2,184
Other infrastructure		185	241
<b>Total infrastructure</b>		<u>22,666</u>	<u>16,841</u>
<b>Total capital works expenditure</b>		<u>27,604</u>	<u>24,717</u>
<b>Represented by:</b>			
Asset renewal expenditure		16,703	12,095
Asset expansion expenditure		4,457	4,034
Asset upgrade expenditure		6,444	8,588
<b>Total capital works expenditure</b>		<u>27,604</u>	<u>24,717</u>

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

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### OVERVIEW

#### 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 (AAS), other authoritative pronouncements of the Australian Accounting Standards Board, the Local Government Act 1989, and the Local Government (Planning and Reporting) Regulations 2014.

#### 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 6.1)
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to Note 6.1)
- the determination of employee provisions (refer to Note 5.6)
- the determination of landfill provisions (refer to Note 5.6)
- the determination of whether performance obligations are sufficiently specific so as to determine whether an arrangement is within the scope of *AASB 15 Revenue from Contracts with Customers* or *AASB 1058 Income of Not-for-Profit Entities* (refer to Note 3)
- the determination, in accordance with *AASB 16 Leases*, of the lease term, the estimation of the discount rate when not implicit in the lease and whether an arrangement is in substance short-term or low value (refer to Note 5.9)
- other areas requiring judgements

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 (except where transitional requirements of *AASB 15 Revenue from Contracts with Customers*, *AASB 16 Leases* and *AASB 1058 Income of Not-for-Profit Entities* do not require restatement of comparatives under the modified retrospective approach adopted by the Council), and disclosure has been made of any material changes to comparatives.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### Note 1 Performance against budget

The performance against budget 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 26 June 2019. 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*.

#### 1.1 Income and expenditure

	Budget 2020 \$'000	Actual 2020 \$'000	Variance 2020 \$'000	Variance 2020 %	Ref
<b>Income</b>					
Rates and charges	59,931	60,464	533	1%	1
Statutory fees and fines	2,288	2,237	(51)	-2%	
User fees	3,237	3,050	(187)	-6%	
Grants - operating	14,075	15,761	1,686	12%	2
Grants - capital	8,439	8,504	65	1%	
Contributions - monetary	2,061	3,644	1,583	77%	3
Contributions - non monetary	6,703	13,680	6,977	104%	4
Share of net profits/(losses) of associates and joint ventures	37	164	127	343%	
Other income	1,751	3,108	1,357	77%	5
<b>Total income</b>	<b>98,522</b>	<b>110,612</b>	<b>12,090</b>	<b>12%</b>	
<b>Expenses</b>					
Employee costs	(29,182)	(28,637)	545	-2%	6
Materials and services	(29,573)	(33,878)	(4,305)	15%	7
Depreciation	(14,950)	(16,455)	(1,505)	10%	8
Amortisation - Intangible assets	(1,416)	(120)	1,296	-92%	9
Amortisation - Right of use assets	-	(734)	(734)	-100%	10
Borrowing costs	(445)	(401)	44	-10%	
Finance costs - Leases	-	(36)	(36)	-100%	
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	(1,329)	(5,327)	(3,998)	301%	11
Other expenses	(4,431)	(3,644)	787	-18%	12
<b>Total expenses</b>	<b>(81,326)</b>	<b>(89,232)</b>	<b>(7,906)</b>	<b>10%</b>	
<b>Surplus/(deficit) for the year</b>	<b>17,196</b>	<b>21,380</b>	<b>4,184</b>	<b>24%</b>	

#### (i) Explanation of material variations

Variance Ref	Item	Explanation
	Impact of COVID-19	<p>COVID-19 has impacted Council's financial statements in various ways:(although all impacts are considered immaterial)</p> <ul style="list-style-type: none"> <li>- \$0.26m has been recorded as direct costs including contributions to affected groups, refunded permits and registration, IT hardware, advertising.</li> <li>- The West Gippsland Art Centre has been forced to cancel/postpone shows and events, often having already incurred production costs. Art Centre revenue is down \$0.37m on budget. Expenses are reduced leaving a net position \$0.26m under budget.</li> <li>- Payment terms for the fourth rates instalment were extended by one month, from 31 May to 30 June 2020. Penalty interest was exempt for this period.</li> <li>- Council is offering 50% refunds or credit on a number of permit and registration fees for business.</li> <li>- Capital projects have been delayed and various services have been withdrawn.</li> </ul>

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 1.1 Performance against budget(cont'd)

1 Rates	Positive variance is due to greater supplementary rate issued than expected.
2 Grants -operating	Positive variance results from an additional \$0.89m Commonwealth grants after BBSC's assessment was favourable than budgeted. Grants exceed budget for Family Day Care \$0.28m Human Services Family & Children Services Management \$0.20m however this represent equivalent increases in costs. Additional grant income has been received for the Bushfire Recovery Program \$0.24m. Business and Economic Development grants included \$0.31m outside budget.
3 Contributions - monetary	The additional contribution revenue mainly relates to Development Contribution Levies (DCP01 & DCP02) as a result of the high level of economic activity within the region. Monetary contributions revenue is transferred to Other Reserves for future allocation to capital infrastructure projects.
4 Contributions - non monetary	Contributions - non monetary exceeded budget due to an increased number of developer projects achieving practical completion.
5 Other Income	Variance largely resulting from \$1.32m from expected claims in regard to reimbursement of expenses incurred in response to natural disasters.
6 Employee Costs	Underspend is offset by agency/temp staff costs in Materials and services.
7 Materials and services	\$2.38m allocation was necessary to provide for the estimated aftercare costs of the former Trafalgar landfill site. Additional variances to budget include higher than budget agency staff costs (partly offset by underbudget employee costs).
8 Depreciation	The overbudget depreciation expense is partly due to the impact of asset revaluation over 2 years. The Roads revaluation in 2019 was finalised after the budget was endorsed. Drains and Carparks were revalued as at March 2020.
9 Amortisation - Intangible assets	Underspend results from Core System Renewal Stage 1 being fully amortised in July 2019. Stage 2 has now be capitalised and FY 2020 amortisation will revert to previous levels.
10 Amortisation - Right of use assets	Variance resulting from the changed accounting standard(AASB16 Leases) which requires amortisation of all right of use assets. The budget was set prior to this change being known.
11 Net gain/(loss)on disposal of property	Refer Note 3.6
12 Other expenses	Variance largely from changed accounting standard(AASB16 Leases) . Operating computer lease rental/Leasing expenses now transferred to the balance sheet to reduce the future lease liability. The budget was set prior to this change being known. Variances relating to leases in Amortisation - Intangible assets and amortisation - right of use assets are offset by savings in other expenses.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 1.2 Capital works

	Budget 2020 \$'000	Actual 2020 \$'000	Variance \$'000	Ref
<b>Property</b>				
Land	685	138	(547)	1
<b>Total land</b>	<b>685</b>	<b>138</b>	<b>(547)</b>	
Buildings	8,238	4,148	(4,090)	2
<b>Total buildings</b>	<b>8,238</b>	<b>4,148</b>	<b>(4,090)</b>	
<b>Total property</b>	<b>8,923</b>	<b>4,286</b>	<b>(4,637)</b>	
<b>Plant and equipment</b>				
Plant, machinery and equipment	568	531	(37)	
Computers and telecommunications	542	121	(421)	3
<b>Total plant and equipment</b>	<b>1,110</b>	<b>652</b>	<b>(458)</b>	
<b>Infrastructure</b>				
Roads	11,023	12,906	1,883	4
Bridges	1,295	875	(420)	
Footpaths and cycleways	1,291	1,764	473	
Drainage	3,132	1,849	(1,283)	5
Waste management	-	-	-	
Parks, open space and streetscapes	6,711	5,087	(1,624)	6
Other infrastructure	402	185	(217)	
<b>Total infrastructure</b>	<b>23,854</b>	<b>22,666</b>	<b>(1,188)</b>	
<b>Total capital works expenditure</b>	<b>33,887</b>	<b>27,604</b>	<b>(6,283)</b>	
<b>Represented by:</b>				
Asset renewal expenditure	14,170	16,703	2,533	
Asset expansion expenditure	9,107	4,457	(4,650)	
Asset upgrade expenditure	10,610	6,444	(4,166)	
<b>Total capital works expenditure</b>	<b>33,887</b>	<b>27,604</b>	<b>(6,283)</b>	

#### (i) Explanation of material variations

Variance Ref	Item	Explanation
1	Land	Underspend explained by property acquisitions delayed until FY20/21 (Yarragon Retardation \$0.55m & and Sutton St/Pharaohs Rd \$0.32m) & cost savings on Crombie Dr acquisition \$0.18)
2	Building	The variance is related to the Trafalgar and Warragul Early Learning centres. The Victorian School Building Authority elected to self-manage the construction of Trafalgar Early Learning Centre which created a \$1.8m variance. The Warragul Early Learning Centre which was budgeted at \$3.0m does not appear as a building asset (and therefore appears as a variance here) as Council does not own the asset. However, the cost of construction resulted in a Right of Use Asset of \$3.285m for Council, due to the lease of the building to Council for 21 years. (Note 5.9)
3	Computers and telecommunications	Both the Equipment Replacement 19-20 and the Information Technology Program 19-20 are underspent, and will be carried over into 2020/21.
4	Roads	\$2.0m expenditure budget was carried forward from FY18/19.
5	Drainage	Underspend is largely explained by delays in land acquisition holding up projects. Trafalgar Retarding Basin project \$0.63m will be carried forward into FY 20/21 as will Yarragon Drainage project \$0.17m. Copelands Road Wetland and Retarding Basin is underspent \$0.42m with \$0.31m to be carried over to FY 20/21.
6	Parks, open space and streetscapes	Underspend increases to \$3.0m after FY18/19 budget carryovers. The variance is largely explained by - \$1.40m underspend on Drouin Civic Park Redevelopment due to delay in Latrobe Valley Association funding being formalised - to be carried over to FY20/21 - \$0.86m savings against budget on a wide range of projects - \$0.37m underspend on expenses on Darnum Female Friendly Pavilion - to be completed FY20/21 after project was expanded. - \$0.18m underspend on Place Making Program - to be carried over to FY20/21 - Neerim South oval savings of Embankment upgrade \$485k. - Hallora Recreation Reserve \$200k Savings.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### Note 2 Analysis of Council results by program

Council delivers its functions and activities through the following Directorates.

#### 2 (a) Community Infrastructure

Community Infrastructure is responsible for both the planning and delivery of Council's annual and long-term capital works program, and the maintenance of Council's assets. This includes Infrastructure Maintenance, Infrastructure Delivery, Civil Asset planning, Road maintenance, Fleet and Depot support, Open Space Maintenance and Waste.

Recreational facilities are managed by council, and include leisure and pool facilities contracts, support for committees of management of public halls and recreation reserves.

#### Corporate and Community Services

Corporate and Community Services provide a range of services for individuals and families within the community, including Aged and Disability Services and Family and Children's Services.

Safety, Procurement, Human Resources, Payroll, Risk and Insurance Management and Revenue Services are performed within the organisation to ensure that Council meet all statutory compliance requirements and is financially sustainability.

Performance of these functions enable Council to operate strategically to support future growth and development.

#### Chief Executive Office

The Chief Executive office (CEO) represents the management of Council, including day to day operations of the organisation in accordance with the Council plan, implementation of Council decisions, and advocating to government on behalf of Council and the community.

The CEO directorate includes Communications which inform the community of council issues, and Customer Service, which is the first point of external customer contact.

Information Technology and Business Information support the information requirement of Council, and the associated technical infrastructure.

#### Planning and Development

Planning and Development has responsibility for the management of the newly redeveloped iconic West Gippsland Arts Centre, which hosts a variety of performances and events each year. Additionally, Community Cultural Development promotes initiatives and opportunities for arts and cultural activities within the community.

Planning Services within the Directorate are designed to meet day to day, and strategic planning requirements in a major growth region. This includes Statutory Planning, Priority Development, Strategic and Community Planning and Building Services.

Other services that support the community and council are Community Compliance, Public Health, Emergency Management and Environmental Services.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### Note 2.1 Analysis of council results by program (cont'd)

#### 2 (b) Summary of revenues, expenses, grants and assets by program

	Income	Expenses	Surplus/(Deficit)	Grants included in income	Total assets
2020	\$'000	\$'000	\$'000	\$'000	\$'000
Community Infrastructure	25,264	(51,967)	(26,703)	11,831	799,062
Chief Executive Office	317	(6,562)	(6,245)	152	6,842
Corporate & Community Services	76,438	(19,861)	56,577	12,102	61,065
Planning and Development	8,593	(10,842)	(2,249)	180	-
	110,612	(89,232)	21,380	24,265	866,969

	Income	Expenses	Surplus/(Deficit)	Grants included in income	Total assets
2019	\$'000	\$'000	\$'000	\$'000	\$'000
Community Infrastructure	25,380	(46,234)	(20,854)	7,997	766,434
Chief Executive Office	122	(6,555)	(6,433)	117	363
Corporate & Community Services	73,656	(19,254)	54,402	13,778	61,426
Planning and Development	8,174	(11,042)	(2,868)	664	-
	107,332	(83,085)	24,247	22,556	828,223

Community Infrastructure Assets for 2019 varies by (\$3.793m) to prior year financial statements, due to the restated Balance Sheet - refer to note 9.2.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### Note 3 Funding for the delivery of our services

#### 3.1 Rates and charges

Council uses Capital Improved Value as the basis of valuation of all properties within the municipal district. The Capital Improved Value (CIV) of a property is its market value of land and improvements as of January 2019.

The valuation base used to calculate general rates for 2019/20 was \$14,472 million (2018/19 \$12,386 million).

General rates	51,710	48,675
Waste management charge	8,428	8,028
Supplementary rates and rate adjustments	169	730
Interest on rates and charges	157	183
<b>Total rates and charges</b>	<b>60,464</b>	<b>57,616</b>

The date of the latest general revaluation of land for rating purposes within the municipal district was 01/01/2020, and the valuation will be first applied in the rating year commencing 01/07/2020.

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. Total rates and charges have increased due to a continued growth within the shire.

#### 3.2 Statutory fees and fines

Infringements and costs	304	261
Town planning fees	446	641
Land information certificates	137	140
Permits	887	940
Other Fees	463	335
<b>Total statutory fees and fines</b>	<b>2,237</b>	<b>2,317</b>

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

Statutory fees and fines are down compared to prior years due to the 50% refunds on a number of permits and registration fees for businesses as a result of the impacts of COVID-19.

#### 3.3 User fees

Aged and health services	986	1,004
Art Centre	613	672
Registration and other permits	629	591
Leases and Rentals	178	132
Waste management services	341	326
Other fees and charges	303	233
<b>Total user fees</b>	<b>3,050</b>	<b>2,958</b>

##### User fees by timing of revenue recognition

User fees recognised over time	111	-
User fees recognised at a point in time	2,939	-
<b>Total user fees</b>	<b>3,050</b>	<b>-</b>

User fees are recognised as revenue at a point in time, or over time, when (or as) the performance obligation is satisfied. Recognition is based on the underlying contractual terms.

Art centre user fees are down compared to prior years due to the temporary closure of the West Gippsland Art Centre.

# Notes to the Financial Statements

For the Year Ended 30 June 2020

	2020	2019
<b>3.4 Funding from other levels of government</b>	<b>\$'000</b>	<b>\$'000</b>
Grants were received in respect of the following :		
<b>Summary of grants</b>		
Commonwealth funded grants	17,543	14,057
State funded grants	6,722	8,499
<b>Total grants received</b>	<b>24,265</b>	<b>22,556</b>
<b>(a) Operating Grants</b>		
<b>Recurrent - Commonwealth Government</b>		
Financial Assistance Grants	10,055	8,926
Family day care	785	748
Aged Care	1,747	1,894
<b>Recurrent - State Government</b>		
Aged care	213	54
Arts culture and events	130	130
Community safety/public health	68	16
Disability services	373	428
Environment management/landcare	-	43
Fire prevention and emergency response	60	98
Maternal and child health	792	764
Preschool and early years	160	70
School crossing supervisors	186	-
Other	58	135
<b>Total recurrent operating grants</b>	<b>14,627</b>	<b>13,306</b>
<b>Non-recurrent - Commonwealth Government</b>		
Other	80	60
<b>Non-recurrent - State Government</b>		
Aged care	189	331
Arts culture and events	17	63
Community safety/public health	97	62
Disability services	-	-
Economic development	153	116
Fire prevention and emergency response	301	71
Garbage recycling	192	44
Maternal and child health	61	232
Preschool and early years	-	73
Recreations	4	8
Rural Access and inclusive communities	26	135
Waste	12	-
Other	2	169
<b>Total non-recurrent operating grants</b>	<b>1,134</b>	<b>1,364</b>
<b>Total operating grants</b>	<b>15,761</b>	<b>14,670</b>

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 3.4 Funding from other levels of government (cont'd)

	2020	2019
	\$'000	\$'000
<b>(b) Capital Grants</b>		
<i>Recurrent - Commonwealth Government</i>		
Roads to recovery	3,340	217
<b>Total recurrent capital grants</b>	<u>3,340</u>	<u>217</u>
<b>Total recurrent capital grants</b>		
<i>Non-recurrent - Commonwealth Government</i>		
Buildings	1,536	2,039
Recreation	-	173
<i>Non-recurrent - State Government</i>		
Local and collector roads	625	1,648
Waste	40	221
Recreation	1,916	1,192
Drainage	-	18
Buildings	1,047	2,235
Footpaths	-	126
Future design and investigation	-	17
<b>Total non-recurrent capital grants</b>	<u>5,164</u>	<u>7,669</u>
<b>Total capital grants</b>	<u><u>8,504</u></u>	<u><u>7,886</u></u>

### (c) Unspent grants received on condition that they be spent in a specific manner

#### Operating

Balance at start of year	1,021	929
Impact of change in Accounting Policy - AASB 15	(397)	-
Received during the financial year and remained unspent at balance date	443	871
Received in prior years and spent during the financial year	(112)	(779)
Balance at year end	<u>955</u>	<u>1,021</u>

#### Capital

Balance at start of year	1,414	2,578
Impact of change in Accounting Policy - AASB 1058	(1,414)	-
Received during the financial year and remained unspent at balance date	-	1,369
Received in prior years and spent during the financial year	-	(2,533)
Balance at year end	<u>-</u>	<u>1,414</u>

Grant income is recognised at the point in time when the council satisfies its performance obligations as specified in the underlying agreement.

### 3.5 Contributions

Monetary	3,644	3,727
Non-monetary	13,680	16,167
<b>Total contributions</b>	<u>17,324</u>	<u>19,894</u>

*Contributions of non monetary assets were received in relation to the following asset classes.*

Land	2,091	3,339
Infrastructure	11,589	12,828
<b>Total non-monetary contributions</b>	<u>13,680</u>	<u>16,167</u>

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

### 3.6 Net gain/(loss) on disposal of property, infrastructure, plant and equipment

Proceeds of sale	485	110
Written down value of assets disposed*	(5,812)	(711)
<b>Total net gain/(loss) on disposal of property, infrastructure, plant and equipment</b>	<u>(5,327)</u>	<u>(601)</u>

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

\* The \$5.81m written down value of assets disposed comprises of:

- \$5.31m written down value of assets disposed (per note 6.1 Property, infrastructure, plant and equipment).

This comprises \$5.19m relating to the write off of infrastructure and buildings that were replaced and upgraded by capital assets plus plant and equipment disposals of \$0.12m (offset by the proceeds from sale of \$0.12m)

- \$.50m loss on sale of land.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

	2020	2019
	\$'000	\$'000
<b>3.7 Other income</b>		
Interest	671	855
Other rent	249	241
Capital contributions	279	299
Natural disaster funding	1,406	-
Other	503	418
<b>Total other income</b>	<u>3,108</u>	<u>1,813</u>

Interest is recognised as it is earned.

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.

### Note 4 The cost of delivering services

#### 4.1(a) Employee costs

Wages and salaries	24,582	23,186
WorkCover	344	237
Casual staff	956	1,093
Superannuation	2,275	2,324
Fringe benefits tax	200	176
Other	280	262
<b>Total employee costs</b>	<u>28,637</u>	<u>27,278</u>

#### (b) Superannuation

Council made contributions to the following funds:

##### Defined benefit fund

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	71	114
	<u>71</u>	<u>114</u>
Employer contributions payable at reporting date.	5	34

##### Accumulation funds

Employer contributions to Local Authorities Superannuation Fund (Vision Super - Clearing house)	2,204	2,210
	<u>2,204</u>	<u>2,210</u>
Employer contributions payable at reporting date.	155	273

Refer to note 9.4 for further information relating to Council's superannuation obligations.

#### 4.2 Materials and services

Art and Culture	358	443
Assets written off	71	2,585
Building maintenance	854	693
Consultants	1,135	937
Delivered meals	247	311
Family day care	705	729
Fleet vehicles and plant costs	889	1,132
General maintenance	1,340	1,852
Information technology	1,235	988
Insurance	756	600
Legal	737	705
Marketing costs	630	694
Office administration	954	978
Recreation services	1,339	1,177
Roads and infrastructure	7,026	7,254
Training	342	537
Utilities	701	825
Waste	9,909	9,767
Other contract payments	3,306	3,305
Other	1,344	1,382
<b>Total materials and services</b>	<u>33,878</u>	<u>36,894</u>

Assets written off - prior year adjustment made in the 18/19 figures - refer note 9.2.

#### 4.3 Depreciation

Property	2,309	2,163
Plant and equipment	585	608
Infrastructure	13,561	12,839
<b>Total depreciation</b>	<u>16,455</u>	<u>15,610</u>

Refer to note 6.1 for a more detailed breakdown of depreciation and amortisation charges and accounting policy.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

	2020	2019
	\$'000	\$'000
<b>4.4 Amortisation - Intangible assets</b>		
Software	120	567
<b>Total Amortisation - Intangible assets</b>	<u>120</u>	<u>567</u>
<b>4.5 Amortisation - Right of use assets</b>		
IT equipment	343	-
Fleet	175	-
Property	210	-
Art centre	6	-
<b>Total Amortisation - Right of use assets</b>	<u>734</u>	<u>-</u>
<b>4.6 Borrowing costs</b>		
Interest - Borrowings	401	496
<b>Total borrowing costs</b>	<u>401</u>	<u>496</u>
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.		
<b>4.7 Finance Costs - Leases</b>		
Interest - lease liabilities	36	-
<b>Total finance costs</b>	<u>36</u>	<u>-</u>
<b>4.8 Other expenses</b>		
Auditors' remuneration - VAGO - annual financial audit, performance audit and Road to Recovery acquittal	44	50
Auditors' remuneration - Internal Audit	34	46
Councillors' allowances	360	367
Operating lease rentals	48	513
Bank Charges	164	182
Contributions - West Gippsland Regional Library Corporation	1,894	1,827
Council grants	597	627
Others	503	611
<b>Total other expenses</b>	<u>3,644</u>	<u>4,223</u>

Operating lease rentals have decreased this year due to the changed accounting standards (AASB16 Leases) - refer to Note 5.9

### Note 5 Our financial position

#### 5.1 Financial assets

##### (a) Cash and cash equivalents

Cash on hand	10	10
Cash at bank	15,407	13,875
Term deposits	14,000	12,000
<b>Total cash and cash equivalents</b>	<u>29,417</u>	<u>25,885</u>

##### (b) Other financial assets

Term deposits - current	19,121	25,115
<b>Total other financial assets</b>	<u>19,121</u>	<u>25,115</u>
<b>Total financial assets</b>	<u>48,538</u>	<u>51,000</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 5.4)	4,045	4,482
- Reserve funds allocated due to external restrictions (contractual agreement)	8,070	6,466
- Unspent grants (Note 3.4c)	955	2,435
<b>Total restricted funds</b>	<u>13,070</u>	<u>13,383</u>
<b>Total unrestricted cash and cash equivalents</b>	<u>16,347</u>	<u>12,502</u>

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

	2020	2019
	\$'000	\$'000

### Note 5 Our financial position (cont'd)

#### (b) Other financial assets (cont'd)

##### 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	6,283	7,235
Total funds subject to intended allocations	<u>6,283</u>	<u>7,235</u>

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.

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

	2020	2019
	\$'000	\$'000

(c) Trade and other receivables

<b>Current</b>		
Rates debtors	3,187	3,097
<i>Non statutory receivables</i>		
Sundry & other debtors	2,144	3,037
Net GST receivable	1,139	835
Total current trade and other receivables	<u>6,470</u>	<u>6,969</u>
<b>Non-current</b>		
Total non-current trade and other receivables	<u>-</u>	<u>-</u>
<b>Total trade and other receivables</b>	<u>6,470</u>	<u>6,969</u>

Short term receivables are carried at invoice amount. A provision for doubtful debts is recognised based on expected loss model.

Long term receivables are carried at amortised cost using the effective interest rate method.

#### (d) Ageing of Receivables

The ageing of the Council's trade and other receivables (excluding statutory receivables) that are not impaired was:

Current (not yet due)	1,732	2,677
Past due by up to 30 days	164	119
Past due between 31 and 180 days	104	92
Past due between 181 and 365 days	20	57
Past due by more than 1 year	124	92
Total trade and other receivables	<u>2,144</u>	<u>3,037</u>

#### (e) Individually impaired Receivables

At balance date, the other debtors representing financial assets with a nominal value of \$3k (2019:\$15k) were impaired.

## 5.2 Assets we manage

### Non current assets classified as held for sale

Cost of acquisition	-	499
Total non current assets classified as held for sale	<u>-</u>	<u>499</u>

Non-current assets classified as held for sale (including disposal groups) are measured at the lower of its carrying amount and fair value less costs of disposal, 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.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

<b>5.3 Non-financial assets</b>	<b>2020</b>	<b>2019</b>
<b>(a) Inventories</b>	<b>\$'000</b>	<b>\$'000</b>
Inventories held for distribution	-	7
<b>Total inventories</b>	<b>-</b>	<b>7</b>

Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential. 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.

<b>(b) Other assets</b>		
Prepayments	1,279	707
Accrued income	2,509	253
Other	32	32
<b>Total other assets</b>	<b>3,820</b>	<b>992</b>

<b>(c) Intangible assets</b>	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Software	1,261	363
<b>Total intangible assets</b>	<b>1,261</b>	<b>363</b>

	<b>Software</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>

#### Gross carrying amount

Balance at 1 July 2019	5,177	5,177
Other additions	1,018	1,018
<b>Balance at 1 July 2020</b>	<b>6,195</b>	<b>6,195</b>

#### Accumulated amortisation and impairment

Balance at 1 July 2019	4,814	4,814
Amortisation expense	120	120
<b>Balance at 1 July 2020</b>	<b>4,934</b>	<b>4,934</b>

Net book value at 30 June 2019	363	363
<b>Net book value at 30 June 2020</b>	<b>1,261</b>	<b>1,261</b>

Intangible assets with finite lives are amortised as an expense on a systematic basis over the asset's useful life. Amortisation is generally calculated on a straight line basis, at a rate that allocates the asset value, less any estimated residual value over its estimated useful life. Estimates of the remaining useful lives and amortisation method are reviewed at least annually, and adjustments made where appropriate.

<b>5.4 Payables</b>	<b>2020</b>	<b>2019</b>
<b>(a) Trade and other payables</b>	<b>\$'000</b>	<b>\$'000</b>
Trade payables	10,503	8,378
Accrued expenses	3,081	6,655
<b>Trade and other payables</b>	<b>13,584</b>	<b>15,033</b>

<b>(b) Unearned income</b>		
Grants received in advance - operating	1,536	-
Grants received in advance - capital	1,325	-
<b>Total unearned income</b>	<b>2,861</b>	<b>-</b>
<b>Total Trade and other payable</b>	<b>16,445</b>	<b>15,033</b>

<b>(c) Trust funds and deposits</b>		
Refundable deposits	509	457
Fire services levy	94	-
Retention amounts	3,297	3,869
Other refundable deposits	145	156
<b>Total trust funds and deposits</b>	<b>4,045</b>	<b>4,482</b>

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. Trust funds that are forfeited, resulting in council gaining control of the funds, are to be recognised as revenue at the time of forfeit.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 5.4 Payables (cont'd)

#### *Purpose and nature of items*

Refundable deposits - Deposits are taken by council as a form of surety in a number of circumstances, including in relations 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.

5.5 Interest-bearing liabilities	2020	2019
	\$'000	\$'000
<b>Current</b>		
Borrowings - secured	4,000	4,442
	<u>4,000</u>	<u>4,442</u>
<b>Non-current</b>		
Borrowings - secured	7,168	7,168
	<u>7,168</u>	<u>7,168</u>
<b>Total</b>	<u>11,168</u>	<u>11,610</u>

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	4,000	4,442
Later than one year and not later than five years	7,168	3,889
Later than five years	-	3,279
	<u>11,168</u>	<u>11,610</u>

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.

### 5.6 Provisions

	Employee	Landfill	Total
	\$ '000	restoration \$ '000	\$ '000
<b>2020</b>			
Balance at beginning of the financial year	6,611	9,845	16,456
Additional provisions	3,553	2,034	5,587
Amounts used	(3,229)	(399)	(3,628)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	(183)	583	400
Balance at the end of the financial year	<u>6,752</u>	<u>12,063</u>	<u>18,815</u>
<b>2019</b>			
Balance at beginning of the financial year	5,834	7,225	13,059
Additional provisions	3,943	971	4,914
Amounts used	(2,988)	(265)	(3,253)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	(178)	1,914	1,736
Balance at the end of the financial year	<u>6,611</u>	<u>9,845</u>	<u>16,456</u>

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

5.6 Provisions (cont'd)	2020	2019
(a) Employee provisions	\$'000	\$'000
<b>Current provisions expected to be wholly settled within 12 months</b>		
Annual leave	1,551	1,564
Long service leave	699	864
Other	291	314
	<u>2,541</u>	<u>2,742</u>
<b>Current provisions expected to be wholly settled after 12 months</b>		
Annual leave	866	704
Long service leave	2,740	2,603
	<u>3,606</u>	<u>3,307</u>
Total current employee provisions	<u>6,147</u>	<u>6,049</u>
<b>Non-current</b>		
Long service leave	607	562
Annual leave	-	-
Total non-current employee provisions	<u>607</u>	<u>562</u>
Aggregate carrying amount of employee provisions:		
Current	6,147	6,049
Non-current	607	562
Total aggregate carrying amount of employee	<u>6,754</u>	<u>6,611</u>

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. LSL is measured at present value. Unconditional LSL is disclosed as a 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.

Key assumptions:	2020	2019
- discount rate	0.87%	1.32%
- index rate	2.00%	2.70%

(b) Landfill restoration	2020	2019
	\$'000	\$'000
Current	456	485
Non-current	11,607	9,360
	<u>12,063</u>	<u>9,845</u>

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.

Key assumptions:	2020	2019
- discount rate	0.87%	1.04%
- index rate	2.00%	2.00%

(c) Summary of provisions	2020	2019
	\$'000	\$'000
Current	6,603	6,534
Non-current	12,214	9,922
	<u>18,817</u>	<u>16,456</u>

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 5.7 Financing arrangements

The Council has the following funding arrangements in place as at 30 June 2020.

Bank overdraft	1,500	1,500
Credit card facilities	250	250
Other facilities	14,418	16,964
Total facilities	<u>16,168</u>	<u>18,714</u>

Used facilities

Credit card facilities	(12)	(25)
Borrowings	(11,168)	(11,610)
Total used facilities	<u>(11,180)</u>	<u>(11,635)</u>
Unused facilities	<u>4,988</u>	<u>7,079</u>

### 5.8 Commitments

The Council has entered into the following commitments. Commitments are not recognised in the Balance Sheet. Commitments are disclosed at their nominal value and presented inclusive of the GST payable.

2020	Not later than 1	Later than 1	Later than 2	Later than 5	Total
	year	year and not	years and not	years	
	\$'000	later than 2	later than 5	years	\$'000
		years	years		
		\$'000	\$'000	\$'000	\$'000
<b>Operating</b>					
Recycling	1,829	-	-	-	1,829
Garbage collection	7,312	2,964	-	-	10,276
Roads	8,899	9,046	9,227	9,412	36,584
Meals for delivery	298	285	-	-	583
Consultancies	490	-	-	-	490
Home care services	24	-	-	-	24
Cleaning contracts for council buildings	400	65	-	-	465
Other	1,364	1,333	1,342	1,364	5,403
Total	<u>20,616</u>	<u>13,693</u>	<u>10,569</u>	<u>10,776</u>	<u>55,654</u>
<b>Capital</b>					
Buildings	574	-	-	-	574
Roads	1,122	-	-	-	1,122
Consultancies	280	-	-	-	280
Other	1,694	-	-	-	1,694
Total	<u>3,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,670</u>

2019	Not later than 1	Later than 1	Later than 2	Later than 5	Total
	year	year and not	years and not	years	
	\$'000	later than 2	later than 5	years	\$'000
		years	years		
		\$'000	\$'000	\$'000	\$'000
<b>Operating</b>					
Recycling	1,220	-	-	-	1,220
Garbage collection	11,616	8,535	2,210	-	22,361
Roads	5,448	-	-	-	5,448
Meals for delivery	320	-	-	-	320
Consultancies	48	-	-	-	48
Home care services	12	-	-	-	12
Cleaning contracts for council buildings	513	58	-	-	571
Other	2,643	91	39	-	2,773
Total	<u>21,820</u>	<u>8,684</u>	<u>2,249</u>	<u>-</u>	<u>32,753</u>
<b>Capital</b>					
Buildings	3,505	-	-	-	3,505
Roads	3,091	-	-	-	3,091
Consultancies	3	-	-	-	3
Other	1,080	-	-	-	1,080
Total	<u>7,679</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,679</u>

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 5.9 Leases

#### Policy applicable before 1 July 2019

As a lessee, council classifies leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to council.

Operating lease payments, including any contingent rentals, were recognised as an expense in the comprehensive income statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset was not recognised in the balance sheet.

All incentives for the agreement of a new or renewed operating lease were recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

In the event that lease incentives were received to enter into operating leases, the aggregate cost of incentives were recognised as a reduction of rental expense over the lease term on a straight-line basis, unless another systematic basis was more representative of the time pattern in which economic benefits from the leased asset were consumed.

#### Policy applicable after 1 July 2019

Council has applied *AASB 16 Leases* using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information. The council applied the approach consistently to all leases in which it is a lessee.

On transition to *AASB 16 Leases*, Council elected to apply the practical expedient to 'grandfather' the assessment of which transactions are leases. The council has applied this practical expedient to all of its contracts and therefore applied *AASB 16 Leases* only to contracts that were previously identified as leases.

At inception of a contract, all entities would assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To identify whether a contract conveys the right to control the use of an identified asset, it is necessary to assess whether:

- The contract involves the use of an identified asset;
- The customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The customer has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed, on or after 1 July 2019.

As a lessee, Council recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date less any lease incentives received; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, an appropriate incremental borrowing rate. Generally, Council uses an appropriate incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that Council is reasonably certain to exercise, lease payments in an optional renewal period if Council is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless Council is reasonably certain not to terminate early.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Council has elected to apply the temporary option available under *AASB 16 Leases* which allows not-for-profit entities to not measure right-of-use assets at initial recognition at fair value in respect of leases that have significantly below-market terms. There are no significant leases of this nature.

	IT	Fleet	Property	Art Centre	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Right-of-Use Assets					
Balance at 1 July 2019	961	433	1,615	28	3,037
Additions	-	-	3,278	-	3,278
Amortisation charge	(343)	(175)	(210)	(6)	(734)
Balance at 30 June 2020	618	258	4,683	22	5,581

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 5.9 Leases (Cont'd)

<b>Lease Liabilities</b>	<b>2020</b>
Maturity analysis - contractual undiscounted cash flows	\$'000
Less than one year	635
One to five years	1,318
More than five years	485
Total undiscounted lease liabilities as at 30 June 2020	<u>2,438</u>

Lease liabilities included in the Balance Sheet at 30 June:

	<b>Total undiscounted lease liability as at 30 June 2020</b>	<b>Interest due to discounting</b>	<b>Total discounted lease liability at 30 June 2020</b>
Current	635	(29)	606
Non-current	1,803	(74)	1,729
Total lease liabilities	<u>2,438</u>	<u>(103)</u>	<u>2,335</u>

#### **Short-term and low value leases**

Council has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets (individual assets worth less than existing capitalisation thresholds for a like asset up to a maximum of AUD\$10,000), including IT equipment. Council recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

<b>Expenses relating to:</b>	<b>2020</b>
	\$'000
Short-term leases	23
Leases of low value assets	2
<b>Total</b>	<u>25</u>

#### **Non-cancellable lease commitments - Short-term and low-value leases**

Commitments for minimum lease payments for short-term and low-value leases are payable as follows:

Payable:	
Within one year	2
Later than one year but not later than five years	3
Total lease commitments	<u>5</u>

#### i. Leases classified as operating leases under AASB 117 Leases

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at Council's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Council applied this approach to all applicable leases.

Council used the following practical expedients when applying AASB 16 Leases to leases previously classified as operating leases under AASB 117 Leases .

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of AASB 137 Provisions, Contingent Liabilities and Contingent Assets onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

#### ii. Leases previously classified as finance leases

For leases that were classified as finance leases under AASB 117 Leases , the carrying amount of the right-of-use asset and the lease liability at 1 July 2019 are determined at the carrying amount of the lease asset and lease liability under AASB 117 Leases immediately before that date.

Council is not required to make any adjustments on transition to AASB 16 Leases for leases in which it acts as a lessor, except for a sub-lease. Council accounted for its leases in accordance with AASB 16 Leases from the date of initial application.

#### **Impact on financial statements**

When measuring lease liabilities, Council discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 1.324%.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 5.9 Leases (Cont'd)

	2019 \$'000
Operating lease commitment at 30 June 2019, undiscounted	1,584
Less: interest due to discounting	(56)
Operating lease commitment at 30 June 2019 (discounted) as disclosed in Council's financial statements	1,528
Additional leases not included in 2018/2019	1,534
Subtotal lease liabilities	3,062
- Recognition exemption for:	
short-term leases	(23)
leases of low-value assets	(2)
Total Exempt Leases	(25)
Finance lease liabilities recognised as at 1 July 2019	3,037

### 6.1 Property, infrastructure, plant and equipment

#### Summary of property, infrastructure, plant and equipment

	Restated At Fair Value 30 June 2019 \$'000	Additions \$'000	Contributions \$'000	Revaluation \$'000	Depreciation \$'000	Disposal \$'000	Write-off \$'000	Transfers \$'000	At Fair Value 30 June 2020 \$'000
Building	85,235	3,733	-	-	(2,309)	(444)	-	-	86,215
Land	130,951	625	2,163	-	-	-	-	-	133,739
Plant and equipment	2,670	514	-	-	(585)	(124)	-	-	2,475
Infrastructure	523,666	16,631	11,516	13,834	(13,561)	(4,745)	-	-	547,341
Work in progress	23,912	27,604	-	-	-	-	(71)	(22,153)	29,292
	766,434	49,107	13,679	13,834	(16,455)	(5,313)	(71)	(22,153)	799,062

#### Summary of Work in Progress

	Opening WIP \$'000	Additions \$'000	Write-off \$'000	Transfers \$'000	Closing WIP \$'000
Building	3,727	5,546	-	(3,696)	5,577
Land	107	193	-	(115)	185
Plant and equipment	1,628	610	-	(1,122)	1,116
Infrastructure	18,450	21,255	(71)	(17,220)	22,414
Total	23,912	27,604	(71)	(22,153)	29,292

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 6.1 Property, infrastructure, plant and equipment (cont'd)

#### (a) Property

	Land - specialised	Land - non specialised	Total Land & Land Improvements	Buildings - specialised	Work In Progress	Total Property
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	66,764	64,193	130,957	137,168	3,994	272,119
Accumulated depreciation at 1 July 2019	-	-	-	(51,933)	-	(51,933)
	66,764	64,193	130,957	85,235	3,994	220,186
<b>Prior period adjustments (refer 9.2)</b>						
Found Assets at valuation	13	-	13	-	-	13
Found asset accumulated depreciation at valuation	-	-	-	-	-	-
Derecognised asset at valuation	(19)	-	(19)	-	-	(19)
Derecognised asset accumulated depreciation at valuation	-	-	-	-	-	-
Prior year adjusted capital WIP writeback - pre 2018/9	-	-	-	-	(160)	(160)
<b>Restated Opening Balance</b>						
At fair value 1 July 2019 Restated	66,758	64,193	130,951	137,168	3,834	272,113
Accumulated depreciation at fair value 1 July 2019 Restated	-	-	-	(51,933)	-	(51,933)
	66,758	64,193	130,951	85,235	3,834	220,180
<b>Movements in fair value</b>						
Additions	-	625	625	3,733	5,739	10,097
Contributions	73	2,090	2,163	-	-	2,163
Revaluation	-	-	-	-	-	-
Disposal	-	-	-	(605)	-	(605)
Write - off	-	-	-	-	-	-
Transfers	-	-	-	-	(3,811)	(3,811)
	73	2,715	2,788	3,128	1,928	7,844
<b>Movements in accumulated depreciation</b>						
Depreciation and amortisation	-	-	-	(2,309)	-	(2,309)
Accumulated depreciation of disposals	-	-	-	161	-	161
Impairment losses recognised in operating result	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
	-	-	-	(2,148)	-	(2,148)
At fair value 30 June 2020	66,831	66,908	133,739	140,296	5,762	279,797
Accumulated depreciation at 30 June 2020	-	-	-	(54,081)	-	(54,081)
	66,831	66,908	133,739	86,215	5,762	225,716

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 6.1 Property, infrastructure, plant and equipment (cont'd)

#### (b) Plant and Equipment

	Plant machinery and equipment	Fixtures fittings and furniture	Work In progress	Total plant and equipment
	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	5,524	4,262	1,628	11,414
Accumulated depreciation at 1 July 2019	(3,047)	(4,069)	-	(7,116)
	2,477	193	1,628	4,298
<b>Movements in fair value</b>				
Additions	514	-	610	1,124
Contributions	-	-	-	-
Revaluation	-	-	-	-
Disposal	(281)	-	-	(281)
Write-off	-	-	-	-
Transfers	-	-	(1,122)	(1,122)
Impairment losses recognised in operating result	-	-	-	-
	233	-	(512)	(279)
<b>Movements in accumulated depreciation</b>				
Depreciation and amortisation	(552)	(33)	-	(585)
Accumulated depreciation of disposals	157	-	-	157
Impairment losses recognised in operating result	-	-	-	-
Transfers	-	-	-	-
	(395)	(33)	-	(428)
At fair value 30 June 2020	5,757	4,262	1,116	11,135
Accumulated depreciation at 30 June 2020	(3,442)	(4,102)	-	(7,544)
	2,315	160	1,116	3,591

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 6.1 Property, infrastructure, plant and equipment (cont'd)

#### (c) Infrastructure

	Roads	Bridges & Major culverts	Footpaths and cycleways	Drainage	Parks open spaces and streetscapes	Off street car parks	Work In Progress	Total Infrastructure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	444,266	30,098	44,022	76,084	27,953	7,588	22,545	652,556
Accumulated depreciation at 1 July 2019	(76,238)	(5,686)	(5,554)	(12,832)	(3,634)	(2,869)	-	(106,813)
	368,028	24,412	38,468	63,252	24,319	4,719	22,545	545,743
<b>Prior Period adjustments as at 30/6/19 (refer note 9.2):</b>								
Found assets at valuation	604	9	8	31	-	1,326	-	1,978
Found asset accumulated depreciation at valuation	(259)	-	-	-	-	(421)	-	(680)
Derecognised asset at valuation	(878)	-	(51)	(23)	-	(95)	-	(1,047)
Derecognised asset accumulated depreciation at valuation	172	2	3	2	-	38	-	217
Prior year adjusted Capital WIP writeback - 2018/19	-	-	-	-	-	-	(2,585)	(2,585)
Prior year adjusted Capital WIP writeback - pre 2018/19	-	-	-	-	-	-	(1,510)	(1,510)
<b>Restated Opening Balance</b>								
At fair value 1 July 2019 restated	443,992	30,107	43,979	76,092	27,953	8,819	18,450	649,392
Accumulated depreciation at fair value 1 July 2019	(76,325)	(5,684)	(5,551)	(12,830)	(3,634)	(3,252)	-	(107,276)
	367,667	24,423	38,428	63,262	24,319	5,567	18,450	542,116
<b>Movements in fair value</b>								
Additions	11,535	371	694	676	3,165	190	21,255	37,886
Contributions	5,248	169	2,104	3,995	-	-	-	11,516
Revaluation	-	-	-	12,793	-	3,357	-	16,150
Disposal	(6,316)	-	(144)	(68)	-	(23)	-	(6,551)
Write-off	-	-	-	-	-	-	(71)	(71)
Transfers	-	-	-	-	-	-	(17,220)	(17,220)
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-
	10,467	540	2,654	17,396	3,165	3,524	3,964	41,710
<b>Movements in accumulated depreciation</b>								
Depreciation and amortisation	(10,722)	(370)	(690)	(1,001)	(560)	(218)	-	(13,561)
Revaluation increments/decrements	-	-	-	(2,735)	-	419	-	(2,316)
Accumulated depreciation of disposals	1,766	-	19	13	-	8	-	1,806
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
	(8,956)	(370)	(671)	(3,723)	(560)	209	-	(14,071)
At fair value 30 June 2020	454,459	30,647	46,633	93,488	31,118	12,343	22,414	691,102
Accumulated depreciation at 30 June 2020	(85,281)	(6,054)	(6,222)	(16,553)	(4,194)	(3,043)	-	(121,347)
	369,178	24,593	40,411	76,935	26,924	9,300	22,414	569,755

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 6.1 Property, infrastructure, plant and equipment (cont'd)

#### 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 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.

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.

In accordance with Council's policy, the threshold limits have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

	Depreciation Period	Threshold Limit
		\$'000
<i>Asset recognition thresholds and depreciation periods</i>		
Land & land improvements		
land	-	All
land under roads	-	All
Buildings		
buildings	30-80 years	25
Plant and Equipment		
plant, machinery and equipment	2-7 years	All
fixture fittings and furniture	1-20 years	10
computer and telecommunications	1-20 years	10
Infrastructure		
roads - pavements and seals	10-85 years	10
roads - formation and earthworks	-	10
roads - kerbs, channel and minor culverts	80 years	5
road bridges	60-100 years	20
pedestrian bridges	60-100 years	10
major culverts	60-100 years	20
footpaths	10-80 years	10
drainage	100 years	10
waste management	10 years	10
open space and recreational facilities	10-100 years	5
off street car parks	25-85 years	10
Intangible assets		
intangible assets	2-10 years	100

#### Land under roads

Council recognises land under roads it controls at fair value.

#### Depreciation and amortisation

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 above and are consistent with the prior year unless otherwise stated.

#### Repairs and maintenance

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.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 6.1 Property, infrastructure, plant and equipment (cont'd)

#### Valuation of land and buildings

Valuation of land and buildings were undertaken by a qualified independent valuer Gippsland Property Valuations (Jonathan Barnett AAPI registration number 63207). 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 englobo (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.

The date of the current valuation is detailed in the following table. An indexed based revaluation was conducted in the current year, this valuation was based on Gippsland Property Valuations BBSC Land Valuation - Annual Fair Value Assessment. The valuation showed a 5% increase in land values as at 31 March 2020 since last revalued in March 2019. Since the increase was less than 10%, it has not been adjusted as movement not considered material. A full revaluation of these assets will be conducted in 2020/21.

Details of the Council's land and buildings and information about the fair value hierarchy as at 30 June 2020 are as follows:

	Level 1	Level2	Level 3	Date of Valuation
Land	-	-	66,908	Mar-19
Specialised land	-	-	66,831	Mar-19
Specialised buildings	-	-	86,215	Mar-18
Total	-	-	219,954	

#### Valuation of infrastructure

Valuation of roads, footpaths and cycleways were undertaken by a qualified independent engineer on 31 March 2019 (Peter Maloney MIE Aust Registration number 284058).

Valuation of bridges and major culverts were undertaken by a qualified independent engineer on 31 March 2018 (Peter Maloney MIE Aust registration number 284058)

Valuations of Drainage and off street car parks has been determined in accordance with a Council's valuation undertaken on 31 March 2020 (Yadwinder Singh Hunjan MIE Aust Registration number 2992437).

Valuation of remaining 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 2020 are as follows:

	Level 1	Level2	Level 3	Date of Valuation
Roads	-	-	369,178	Mar-19
Bridges and major culverts	-	-	24,593	Mar-18
Footpaths and cycleways	-	-	40,411	Mar-19
Drainage	-	-	76,935	Mar-20
Parks, open space and streetscapes	-	-	26,924	Mar-14
Off street car parks	-	-	9,300	Mar-20
Total	-	-	547,341	

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 6.1 Property, infrastructure, plant and equipment (cont'd)

#### *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 \$1.00 and \$944 per square metre.

**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 are calculated on a square metre basis and ranges from \$890 to \$3,620 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.

**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.

	2020	2019
	\$'000	\$'000
Reconciliation of specialised land		
Land under roads	18,254	18,188
Parks and reserves	18,912	18,911
Other	29,665	29,665
<b>Total specialised land</b>	<b>66,831</b>	<b>66,764</b>

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

	2020	2019
	\$'000	\$'000
<b>6.2 Investments in associates, joint arrangements and subsidiaries</b>		
<b>(a) Investments in associates</b>		
- West Gippsland Regional Library Corporation	2,237	1,959
<b>West Gippsland Regional Library Corporation</b>		
<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 corporations' main office is located at 64 Victoria Street Warragul Council holds 44.31% equity (2019 44.05%, 2018 43.84%, 2017 43.55%) in the West Gippsland Regional Library Corporation.		
<b>Fair value of Council's investment in West Gippsland Library Corporation</b>	<u>2,237</u>	<u>1,959</u>
<b>Council's share of accumulated surplus/(deficit)</b>		
Council's share of accumulated surplus/(deficit) at start of year	1,508	1,368
Reported surplus for year	164	177
Share of movement due to change in percentage in Ownership	10	(37)
Transfers to/from reserves	54	-
Council's share of accumulated surplus/(deficit) at end of year	<u>1,736</u>	<u>1,508</u>
<b>Council's share of reserves</b>		
Council's share of reserves at start of year	451	408
Share of movement due to change in percentage in ownership for other reserves	1	-
Share of movement due to change in percentage in ownership for asset revaluation	2	-
Share of asset revaluation	102	1
Transfers to/from reserves	(54)	42
Rounding increment(decrement)	(2)	-
Council's share of reserves at end of year	<u>500</u>	<u>451</u>
<b>Movement in carrying value of specific investment</b>		
Carrying value of investment at start of year	1,959	1,777
Share of surplus for year	164	177
Share of asset revaluation	102	-
Share of movement due to change in percentage in ownership	12	5
Carrying value of investment at end of year	<u>2,237</u>	<u>1,959</u>

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.

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.

For joint operations, Council recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations.

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.

The consolidated financial statements of Council incorporate all entities controlled by Council as at 30 June 2020, and their income and expenses for that part of the reporting period in which control existed.

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.

### Committees of management

All entities controlled by Council that have material revenues, expenses, assets or liabilities, such as committees of management, have been included in this financial report. Any transactions between these entities and Council have been eliminated in full.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

	2020	2019
	No.	No.
<b>Note 7 People and relationships</b>		
<b>7.1 Council and key management remuneration</b>		
<b>(a) Related parties</b>		
<i>Parent entity</i>		
Baw Baw Shire council has no subsidiaries.		
<b>(b) Key management personnel</b>		
Details of persons holding the position of Councillor or other members of key management personnel at any time during the year are:		
<b>Councillors</b>		
Mayor D Goss		
Deputy Mayor P Kostos		
Councillor M Power		
Councillor J Gauci		
Councillor T Jones		
Councillor J O'Donnell		
Councillor K Cook		
Councillor D Wallace		
Councillor M Leaney		
<b>Key management personnel</b>		
Chief Executive Officer		
Director - Corporate & Community Services		
Director - Community Infrastructure		
Director - Planning and Development		
Executive Manager Economic Development		
Chief Information Officer		
<b>Total number of councillors</b>	9	9
<b>Total of chief executive officer and other key management personnel</b>	7	6
<b>Total number of key management personnel</b>	16	15
<b>(c) Remuneration of key management personnel</b>	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Total remuneration of key management personnel was as follows:		
Short-term benefits	1,781	1,521
Long-term benefits	35	29
Post employment benefits	154	134
Termination benefits	-	-
<b>Total</b>	1,970	1,684
The numbers of key management personnel whose total remuneration from Council and any related entities, fall within the following bands:		
	<b>2020</b>	<b>2019</b>
	<b>No.</b>	<b>No.</b>
\$20,000 - \$29,999	7	7
\$60,000 - \$69,999	1	1
\$70,000 - \$79,999	1	1
\$150,000 - \$159,999	-	1
\$160,000 - \$169,999	1	-
\$190,000 - \$199,999	-	1
\$200,000 - \$209,999	-	1
\$210,000 - \$219,999	2	1
\$230,000 - \$239,999	1	-
\$240,000 - \$249,999	-	1
\$250,000 - \$259,999	1	-
\$260,000 - \$269,999	1	-
\$290,000 - \$299,999	1	-
\$310,000 - \$319,999	-	-
\$330,000 - \$339,999	-	1
	16	15

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### Note 7 People and relationships (cont'd)

#### (d) Senior officer remuneration

A Senior Officer is an officer of Council, other than Key Management Personnel, who:

- a) has management responsibilities and reports directly to the Chief Executive; or
- b) whose total annual remuneration exceeds \$151,000 (2019: \$148,000)

\*Note that it is the total annual remuneration that determines if an officer is a senior officer, regardless of the actual remuneration paid in the period.

The number of Senior Officers are shown below in their relevant income bands:

	2020	2019
Income Range:	No.	No.
< \$159,999 (Including one in the prior year annual remuneration range of \$148k-\$149k)	6	10
\$160,000 - \$169,999	7	3
\$170,000 - \$179,999	1	-
\$180,000 - \$189,999	1	-
\$190,000 - \$199,999	1	1
\$200,000 - \$209,999	1	-
\$230,000 - \$239,999	-	1
	17	15
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Total Remuneration for the reporting year for Senior Officers included above, amounted to:	2,822	1,956

### 7.2 Related party disclosure

#### (a) Transactions with related parties

During the period Council entered into the following transactions with related parties, on normal commercial terms and conditions.

	2020	2019
<i>Councillor Joe Gauci</i> <i>Gauci Electrics Pty Ltd</i>	70,587	38,089

During the year the following key management personnel, were board members of the West Gippsland Regional Library Corporation to which the Shire made the following contributions as per the Regional Library Agreement.

Mr Mark Dupe   Cr. Keith Cook   Mr Martin Hopley	1,894,658	1,826,893
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#### (b) Outstanding balances with related parties

No outstanding balances with related parties are in existence as at balance date.

#### (c) Loans to/from related parties

No loans have been made, guaranteed or secured by the council to a related party.

#### (d) Commitments to/from related parties

The aggregate amount of commitments in existence at balance date that have been made, guaranteed or secured by the council to a related party.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### Note 8 Managing uncertainties

#### 8.1 Contingent assets and liabilities

##### (a) Contingent Assets

###### Development Contributions Plan(DCPs)

Council has two DCPs(DCP02 Warragul and DCP03 Drouin) designed to collect levy income from developers for the purpose of funding the constructions of infrastructure assets including roads, drainage and community facilities. As a balance date the estimated value of levies to be collected is \$283.70m. As DCP02 and DCP03 are designed to be cost neutral the full amount of the \$283.70m is expected to be expended on infrastructure assets.

##### (b) Contingent liabilities

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

##### Superannuation

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 below. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists.

###### Future superannuation contributions

In addition to the disclosed contributions, Council has paid unfunded liability payments to Vision Super totalling \$163,623 (2019/20 year). The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2021 are \$136,810.

##### Development Contributions Plans(DCPs)

Council has one DCP (DCP01 - whole of municipal district) where levy income collected will insufficient to fully fund the construction of designated infrastructure assets. The balance of works not fully funded by DCP01 are to be met by council. As at balance date the estimated value of infrastructure works to be funded by council is \$21.90m.

##### (c) Guarantees for loans to other entities

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 and Favouree	Amount	Issue Date	Status
303398 - State Victoria Environment Protection Authority (Trafalgar Landfill)	\$446,688	24/06/08	Active
Total	\$446,688		

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.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 8.2 Change in accounting standards

The following new AAS's have been issued that are not mandatory for the 30 June 2020 reporting period. Council has assessed these pending standards and has identified the following potential impacts will flow from the application of these standards in future reporting periods.

#### **AASB 1059 Service Concession Arrangements: Grantors (AASB 1059) (applies 2020/21 for LG Sector)**

AASB 1059 addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from the grantor's perspective. It requires the grantor to:

- recognise a service concession asset constructed, developed or acquired from a third party by the operator, including an upgrade to an existing asset of the grantor, when the grantor controls the asset;
- reclassify an existing asset (including recognising previously unrecognised identifiable intangible assets and land under roads) as a service concession asset when it meets the criteria for recognition as a service concession asset;
- initially measure a service concession asset constructed, developed or acquired by the operator or reclassified by the grantor at current replacement cost in accordance with the cost approach to fair value in *AASB 13 Fair Value Measurement*. Subsequent to the initial recognition or reclassification of the asset, the service concession asset is accounted for in accordance with *AASB 116 Property, Plant and Equipment* or *AASB 138 Intangible Assets*, as appropriate, except as specified AASB 1059;
  
- recognise a corresponding liability measured initially at the fair value (current replacement cost) of the service concession asset, adjusted for any other consideration between the grantor and the operator; and
- disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of assets, liabilities, revenue and cash flows arising from service concession arrangements.

Based on the Council's current assessment, there is expected to be no material impact on the transactions and balances recognised in the financial statements.

#### **AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material (applies 2020/21 for LG Sector)**

The Standard principally amends *AASB 101 Presentation of Financial Statements* and *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across AASB Standards and other publications. The impacts on the local government sector are expected to be minimal.

#### **AASB 2019-1 Amendments to Australian Accounting Standards - References to the Conceptual Framework (applies 2020/21 for LG Sector)**

This Standard sets out amendments to Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the Conceptual Framework for Financial Reporting (Conceptual Framework) by the AASB. The impacts on the local government sector are expected to be minimal.

### 8.3 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 the notes 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.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 8.3 Financial instruments (Cont'd)

#### (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. Particularly significant areas of credit risk exist in relation to outstanding fees and fines as well as loans and receivables from sporting clubs and associations. 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 8.1(b).

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.

#### (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 8.1(c), 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 5.5.

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

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 8.3 Financial Instruments (Cont'd)

#### (e) 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 -.25% in market interest rates (AUD) from year-end rates of 1.5%.

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.

### 8.4 Fair value measurement

#### *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.

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.

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

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.

#### *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. 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.

#### *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 of disposal 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.

### 8.5 Events occurring after balance date

Since 30 June 2020, there has been a significant increase in COVID-19 cases in Victoria. This has resulted in the Victorian Government reintroducing increased measures to contain the spread of the virus, including travel restrictions, quarantines, curfews, social distancing, and closures of non-essential services. This has triggered significant disruptions to businesses throughout regional and rural Victoria, resulting in further economic slowdown. The Government has responded with additional financial interventions to stabilise the economy. Several of Council services have now been or continue to be closed, including Council's recreation facilities, West Gippsland Art Centre, Public Halls, community centres and indoor/outdoor sporting facilities. Essential services continue to be provided.

While these events have impacted Baw Baw Shire Council's financial performance, the overall effect is not considered material in 19/20. The Council has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2020 have not been adjusted to reflect their impact. The uncertainty of the effect of the significant economic downturn and recession that has been caused by the actions needed to control the impact of Covid-19. The duration and impact of the COVID-19 pandemic remains unclear at this time. It is not possible to reliably estimate the duration and severity of the consequences, as well as their impact on the financial position and results of Baw Baw Shire Council for future periods.

The Council is not aware of any other after reporting date events.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### Note 9 Other matters

	Balance at beginning of reporting period \$'000	Increment (decrement) \$'000	Balance at end of reporting period \$'000
<b>9.1 Reserves</b>			
<b>(a) Asset revaluation reserves</b>			
<b>2020</b>			
<b>Property</b>			
Land and land improvements	73,692	-	73,692
Buildings	51,430	-	51,430
	125,122	-	125,122
<b>Infrastructure</b>			
Infrastructure assets	279,274	13,835	293,109
	279,274	13,835	293,109
<b>Other revaluation assets</b>			
West Gippsland Regional Library Corporation	280	102	382
	280	102	382
<b>Total asset revaluation reserves</b>	404,676	13,937	418,613
<b>2019</b>			
<b>Property</b>			
Land and land improvements	56,027	17,665	73,692
Buildings	51,430	-	51,430
	107,457	17,665	125,122
<b>Infrastructure</b>			
Infrastructure assets	218,473	60,801	279,274
	218,473	60,801	279,274
<b>Other revaluation assets</b>			
West Gippsland Regional Library Corporation	279	1	280
	279	1	280
<b>Total asset revaluation reserves</b>	326,209	78,467	404,676

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

	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
<b>(b) Other reserves</b>				
<b>2020</b>				
Open space	2,337	559	-	2,896
Development contribution levy DCP01	1,443	848	(325)	1,966
Development contribution levy DCP02	1,485	2,106	(1,109)	2,482
Land sales	713	-	(562)	151
Native vegetation offset scheme	316	45	(35)	326
West Gippsland Regional Library Corporation	172	-	(54)	118
Open Space PSP	-	131	-	131
<b>Total other reserves</b>	6,466	3,689	(2,085)	8,070
<b>2019</b>				
Open space	1,779	558	-	2,337
Development contribution levy DCP01	1,090	1,503	(1,150)	1,443
Development contribution levy DCP02	915	1,666	(1,096)	1,485
Land sales	713	-	-	713
Native vegetation offset scheme	248	76	(8)	316
West Gippsland Regional Library Corporation	130	42	-	172
<b>Total other reserves</b>	4,875	3,845	(2,254)	6,466

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### Note 9(b) Other matters (Cont'd)

**Open space:** The open Space Reserve holds fund contributed by developers for work 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 with Council. Transfers to the reserve comprise contribution income from developers in lieu of the provision of additional car parking spaces.

**DCP01 & DCP02:** These reserves retain funds received from developers for infrastructure provision related to the Baw Baw Shire Council 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 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.

**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.

**West Gippsland Regional Library Corporation:** This reserve comprises Council's share of the Regional Library Corporation Facilities Reserve. Refer to Note 6.2 that reports council's share of library reserves.

### (c) Summary of Reserves

	2020	2019
	\$'000	\$'000
Asset revaluation reserve	418,613	404,676
Other reserves	8,070	6,466
	<u>426,683</u>	<u>411,142</u>

Reconciliation to balance sheet for asset revaluation reserve and other reserves.

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 9.2 Prior year adjustments

#### REASONS FOR ADJUSTMENTS:

- 1 Change in ownership was completed to recognise roads assets identified as controlled by third parties. Council completed a control and ownership test on roads, land, buildings, footpath and cycleways assets. This review resulted in the inclusion and exclusion of some asset items with a net gain of \$0.46m.
- 2 \$4.33m expenditure has been identified from capital works in progress as not meeting the criteria of an asset in terms of Council's Accounting policies and is expensed accordingly. This includes significant amounts of expenditure from prior years:
- \$2.58m 2018/19 financial year
  - \$1.67m pre - 2018/19 financial year

A third balance sheet has not been presented to disclose the prior year adjustments as they were considered not material to the comparative amounts in the Balance Sheet. The net changes are displayed in the following table:

#### Restatement of financial statements as prior year adjustment

##### Financial statement line item/balance affect

##### Balance sheet (extract)

\*Prior year adjustments (\$3,793m) consist of those relative to periods before 1 July 2018: \$462k for found/derecognised assets and (\$1,670k) for capital WIP write offs, totalling (\$1,208k) and those adjustments that relate to the prior year 2018/19 financial year, of (\$2,585k) capital WIP write offs.

2019	Note	As previously		Restated
		Disclosed	Adj 2019 *	
Non current assets		2019	2019	
Property, infrastructure, plant and equipment (WIP)	6.1	770,227	(3,793)	766,434
Total non-current assets		772,549	(3,793)	768,756
Total assets		832,016	(3,793)	828,223
Current liability		30,491	-	30,491
Non current liability		17,090	-	17,090
Total liability		47,581	-	47,581
Equity				
Accumulated surplus		373,293	(3,793)	369,500
Reserves		411,142	-	411,142
Total equity		784,435	(3,793)	780,642

#### Statement of changes in equity

Accumulated surplus	373,293	(3,793)	369,500
Balance at opening of the financial Year	784,435	(3,793)	780,642

#### \*Prior year adjustments consists of:

Adjustments relative to periods prior to 2018/19: (refer details below table)	2020 \$,000
Found and derecognised assets	462
Prior year adjusted capital work in progress write offs:	
Pre - 2018/19	(1,670)
2018/19 Financial year	(2,585)
<b>Total prior year adjustments</b>	<b>(3,793)</b>

#### Details of found and derecognised assets

	Current Cost	Accumulated depreciation	Written down value
Land	(6)	-	(6)
Roads	(274)	(87)	(361)
Bridges & major culverts	9	2	11
Footpaths and cycleways	(43)	3	(40)
Drainage	8	2	10
Off street car parks	1,231	(383)	848
<b>Total found and derecognised assets</b>	<b>925</b>	<b>(463)</b>	<b>462</b>

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

	2020	2019
9.3 Reconciliation of cash flows from operating activities to surplus/(deficit)	\$'000	\$'000
Surplus/(deficit) for the year	21,380	24,247
Depreciation/amortisation	17,309	16,177
Net loss on disposal of property, infrastructure, plant and equipment	5,327	601
Share of net profits of associates accounted for by the equity method	(164)	(177)
Finance Costs	437	496
Contributions - Non-monetary assets	(13,680)	(16,167)
Capital WIP expensed	72	1,922
<i>Change in assets and liabilities:</i>		
(Increase)/decrease in trade and other receivables	499	(920)
(Increase)/decrease in prepayments	(572)	(144)
Increase/(decrease) in accrued income	(2,256)	(43)
Increase/(decrease) in trade and other payables	1,872	3,331
(Decrease)/increase in other liabilities	(437)	1,764
(Increase)/decrease in inventories	7	(7)
Increase/(decrease) in provisions	2,361	3,397
Net cash provided by/(used in) operating activities	32,155	34,477

### 9.4 Superannuation

Council makes the majority of its employer superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund (Vision Superannuation). 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 Comprehensive Operating Statement when they are made or due.

#### Accumulation

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receives 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 2020, this was 9.5% as required under Superannuation Guarantee (SG) 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 2019, 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 107.1%. The financial assumptions used to calculate the VBIs were:

- Net investment returns 6.0% pa
- Salary information 3.5% pa
- Price inflation (CPI) 2.0% pa.

Vision Super has advised that the estimated VBI at 30 June 2020 was 104.6%.

The VBI is used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2019 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 2018 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 2020, this rate was 9.5% of members' salaries (9.5% in 2018/2019). This rate will increase in line with any increases in the SG contribution rate and reviewed as part of the 30 June 2020 triennial valuation.

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 Statements

## For the Year Ended 30 June 2020

### 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.

### The 2019 interim actuarial investigation surplus amounts

An actuarial investigation is conducted annually for the Defined Benefit category of which Council is a contributing employer. Generally, a full actuarial investigation is conducted every three years and interim actuarial investigations are conducted for each intervening year. An interim investigation was conducted as at 30 June 2019 and a full actuarial investigation was conducted as at 30 June 2017.

The Fund's actuarial investigations identified the following for the Defined Benefit category of which Council is a contributing employer:

	2019	2017
	\$m	\$m
- A VBI Surplus	151.3	69.8
- A total service liability surplus	233.4	193.5
- A discounted accrued benefits surplus	256.7	228.8

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 2019.

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 as at 30 June 2019.

The discounted accrued benefit surplus means that the current value of the assets in the Fund's Defined Benefit category exceeds the value of benefits payable in the future but accrued in respect of service to 30 June 2019.

Council was notified of the 30 June 2019 VBI during August 2019 (2018: August 2018).

### The 2020 triennial actuarial investigation

An triennial actuarial investigation is being conducted for the Fund's position as at 30 June 2020 as the Fund provides lifetime pensions in the Defined Benefit category. It is anticipated that this actuarial investigation will be completed by 31 December 2020. The financial assumptions for the purposes of this investigation are:

	2020 Triennial investigation	2017 Triennial investigation
Net investment return	5.6% pa	6.5%pa
Salary inflation	2.5% pa for the first two years and 2.75% pa thereafter	3.5% pa
Price inflation	2.0% pa	2.5% pa

# Notes to the Financial Statements

## For the Year Ended 30 June 2020

### 10 Change in accounting policy

Council has adopted *AASB 15 Revenue from Contracts with Customers*, *AASB 16 Leases* and *AASB 1058 Income of Not-for-Profit Entities*, from 1 July 2019. This has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

Due to the transition methods chosen by Council in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards except in relation to contracts that were not complete at 1 July 2019. The transition impact of these are detailed below.

#### a) AASB 15 Revenue from Contracts with Customers - Impact of Adoption

*AASB 15 Revenue from Contracts with Customers* applies to revenue transactions where Council provides services or goods under contractual arrangements.

Council adopted *AASB 15 Revenue from Contracts with Customers* using the modified (cumulative catch up) method. Revenue for 2019 as reported under *AASB 118 Revenue* is not adjusted, because the new standard is only applied from the date of initial application.

*AASB 15 Revenue from Contracts with Customers* requires revenue from contracts with customers to be recognised as Council satisfies the performance obligations under the contract.

#### b) AASB 16 Leases

*AASB 16 Leases* requires right of use assets and related liabilities for all lease agreements to be recognised on the balance sheet. The Statement of Comprehensive Income is to separately recognise the amortisation of the right of use asset, and the finance costs relating to the lease. Council has elected to adopt the modified (cumulative catch up) method under the standard and as such has not adjusted 2019 disclosures. The transition impact of these are detailed below.

#### c) AASB 1058 Income of Not-for-Profit Entities

*AASB 1058 Income of Not-for-Profit Entities* applies to income received where no contract is in place. This includes statutory charges (such as rates) as well as most grant agreements.

Council adopted *AASB 1058 Income of Not-for-Profit Entities* using the modified (cumulative catch up) method. Income for 2019 is not adjusted, because the new standard is only applied from the date of initial application.

*AASB 1058 Income of Not-for-Profit Entities* requires income to be recognised as Council satisfies the performance obligations under the contract.

#### d) Transition impacts

The following table summarises the impacts of transition to the new standards on Council's retained earnings at 1 July 2019:

	2019 \$'000
Retained earnings at 30 June 2019	373,755
Revenue adjustment - impact of <i>AASB 15 Revenue from Contracts with Customers</i>	(397)
Revenue adjustment - impact of <i>AASB 1058 Not-for-Profit Entities</i>	(1,414)
Retained earnings at 1 July 2019 (post adoption)	371,944

	As reported 30 June 2019 \$'000	1 July 2019 Adjustments \$'000	Post adoption \$'000
<b>Assets</b>			
Right of use Assets	-	3,037	3,037
	-	3,037	3,037
<b>Liabilities</b>			
Unearned income - operating grants	-	397	397
Unearned income - capital grants	-	1,414	1,414
Lease liabilities	-	3,037	3,037
	-	4,848	4,848

# 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*, the Australian Accounting Standards and other mandatory professional reporting requirements.

  
Jane Watson  
Principal Accounting Officer

Date : 14/10/20

Warragul

In our opinion the accompanying financial statements present fairly the financial transactions of Baw Baw Shire Council for the year ended 30 June 2020 and the financial position of the Council as at that date.

As at the date of signing, we are not aware of any circumstances that 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.



Mayor Danny Goss

Councillor

Date : 14/10/20

Warragul

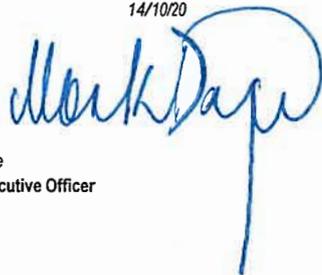


Councillor Mikaela Power

Councillor

Date : 14/10/20

Warragul



Mark Dupe

Chief Executive Officer

Warragul

# Independent Auditor's Report

## *To the Councillors of Baw Baw Shire Council*

<b>Opinion</b>	<p>I have audited the financial report of Baw Baw Shire Council (the council) which comprises the:</p> <ul style="list-style-type: none"> <li>• balance sheet as at 30 June 2020</li> <li>• comprehensive income statement for the year then ended</li> <li>• statement of changes in equity for the year then ended</li> <li>• statement of cash flows for the year then ended</li> <li>• statement of capital works for the year then ended</li> <li>• notes to the financial statements, including significant accounting policies</li> <li>• certification of the annual financial report.</li> </ul> <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the council as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 6 of the <i>Local Government Act 1989</i> and applicable Australian Accounting Standards.</p>
<b>Basis for Opinion</b>	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
<b>Councillors' responsibilities for the financial report</b>	<p>The Councillors of the council are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Local Government Act 1989</i>, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Councillors are responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>

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**Auditor's responsibilities for the audit of the financial report**

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 council's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Councillors
- conclude on the appropriateness of the Councillors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the council to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Councillors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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MELBOURNE  
21 October 2020



Sanchu Chummar

*as delegate for the Auditor-General of Victoria*

# Baw Baw Shire Council Performance Statement



# Performance Statement

For the Year Ended 30 June 2020

## 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 an estimated resident population of 53,396 (as at 30 June 2020).

Much like the rest of the world, during 2019/20 Baw Baw Shire Council has had to manage the impact of COVID-19 to ensure we continue to provide services the community needs as well as the support it requires to persist through this global pandemic. In relation to the performance statement for 2019/20, utilisation of aquatic facilities is the service most impacted by COVID-19. Despite the challenges posed by the pandemic, Council has maintained a high level of service across all performance indicators.

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# Sustainable Capacity Indicators

For the Year Ended 30 June 2020

	Indicator/measure	Results				Material Variations and Comments
		2017	2018	2019	2020	
	<b>Population</b>					
C1	<i>Expenses per head of municipal population</i> [Total expenses / Municipal population]	\$1,557*	\$1,570*	\$1,647*	\$1,671	Council's total expenses were \$89.232 million during 2019/20, resulting in a cost to deliver Council services per head of population of \$1,671.
C2	<i>Infrastructure per head of municipal population</i> [Value of infrastructure / Municipal population]	\$11,270	\$11,076	\$12,290	\$12,460	The value of Council's infrastructure was \$12,460 per head of population. Increased investment in the annual capital works program and revaluation of existing infrastructure has resulted in a corresponding and increased (favourable) result.
C3	<i>Population density per length of road</i> [Municipal population / Kilometres of local roads]	27	28	29	30	Increasing population density per length of road over the last four years reflects the population growth in the west of the Shire.
	<b>Own-source revenue</b>					
C4	<i>Own-source revenue per head of municipal population</i> [Own-source revenue / Municipal population]	\$1,212	\$1,205	\$1,247	\$1,293	This indicates Council's capacity to generate own source revenue (mainly rates and user charges) per head of population. The result for 2019/20 reflects a favourable position and ongoing sustainability.
	<b>Recurrent grants</b>					
C5	<i>Recurrent grants per head of municipal population</i> [Recurrent grants / Municipal population]	\$462	\$339	\$260	\$336	Council received recurrent grants of \$17.967 million during the year. This is higher than expected mainly due to receiving Financial Assistance Grants in the prior financial year.
	<b>Disadvantage</b>					
C6	<i>Relative Socio-Economic Disadvantage</i> [Index of Relative Socio-Economic Disadvantage by decile]	6	6	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 and ten is the least disadvantaged.
	<b>Workforce turnover</b>					
C7	<i>Resignations and terminations compared to average staff</i> [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100	17.2%	20.1%	14.2%	19.6%	Workforce turnover for 2019/20 was influenced by the conclusion of a number of fixed-term contracts and a series of retrenchments in the Aged and Disability team in response to sector Government funding changes. Council's unplanned turnover rate for 2019/20 was 13.8% which is lower than that of previous years.

# Sustainable Capacity Indicators

For the Year Ended 30 June 2020

\* To ensure comparability of indicators, these comparative figures for 2017, 2018 & 2019 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 2017, 30 June 2018 and 30 June 2019, as disclosed in the below table.

	<i>Indicator/measure</i>	2017		2018		2019		Material Variations and Comments
		Previously reported	Restated	Previously reported	Restated	Previously reported	Restated	
C1	<b>Population</b> <i>Expenses per head of municipal population</i> [Total expenses / Municipal population]	\$1,551	\$1,557	\$1,549	\$1,570	\$1,597	\$1,647	Prior years have been restated, as Council has made audit adjustments in the Financial Statements relating to total expenses.

# Service Performance Indicators

For the Year Ended 30 June 2020

Service/indicator/measure	Results				Material Variations and Comments
	2017	2018	2019	2020	
<b>Aquatic facilities</b> <b>Utilisation</b> AF6 <i>Utilisation of aquatic facilities</i> [Number of visits to aquatic facilities / Municipal population]	4.7	5.2	5.0	3.7	<p>Council aquatic facilities include those at Drouin, Neerim South, Rawson, Trafalgar, Thorpdale and the Warragul Leisure Centre. Due to the COVID-19 pandemic, Council's aquatic and leisure venues closed on 22 March 2020, in line with advice and restrictions placed by State and Federal Governments.</p> <p>Following a change in restriction levels, the Warragul Leisure Centre (Council's only indoor aquatic venue that operates all year round) reopened for lap swimming only on 9 June 2020.</p> <p>The venue continues to operate at reduced patron and programming capacity due to the restrictions still in place and as such, sees much lower levels of attendance than can be expected during normal operations.</p> <p>The total number of attendances for Warragul Leisure Centre for the 2019/20 financial year was 189,102. This is a decrease of 58,839 (24%) in comparison to the previous financial year. The deficit indicates the significant impact the COVID-19 pandemic had on the aquatic and leisure industry as a whole.</p>
<b>Animal management</b> <b>Health and safety</b> AM4 <i>Animal management prosecutions</i> [Number of successful animal management prosecutions]	9	3	15	N/A	<p>This measure was replaced by AM7 from 1 July 2019.</p>
<b>Health and safety</b> AM7 <i>Animal management prosecutions</i> [Number of successful animal management prosecutions / Number of animal management prosecutions] x 100	New in 2020	New in 2020	New in 2020	100%	<p>During 2019/20 Council conducted a total of seven animal management prosecutions and were successful with all seven cases. Prosecutions are conducted on an as needs basis or when required under the Domestic Animals Act 1994. Council's primary strategy remains focused on communication, education and promotion of responsible pet ownership.</p>

# Service Performance Indicators

For the Year Ended 30 June 2020

	Service/indicator/measure	Results				Material Variations and Comments
		2017	2018	2019	2020	
FS4	<b>Food safety</b> <b>Health and safety</b> Critical and major non-compliance outcome notifications [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	58.9%	76.7%	100%	100%	During the reporting period there were a total of 40 notifications of food premises being critically or majorly non-compliant. All were followed up to ensure compliance, with the exception of two food businesses that chose to cease trading.
G5	<b>Governance</b> <b>Satisfaction</b> Satisfaction with council decisions [Community satisfaction rating out of 100 with how council has performed in making decisions in the interest of the community]	46	48	43	46	The annual Community Satisfaction Survey assesses the community's satisfaction with Council's performance. Satisfaction with Council making decisions in the interest of the community has increased to a rating of 46 out of 100.
LB4	<b>Libraries</b> <b>Participation</b> Active library borrowers in municipality [Number of active library borrowers in the last three years / The sum of the population for the last three years] x100	15.0%	14.9%	14.5%	14.3%	During the year 7,180 library members borrowed a library collection item. This equates to 14% of Baw Baw Shire Council residents being active library members. This indicator does not include the increasing number of members who use the library service for accessing Wi-Fi and computers, or who don't borrow an item whilst visiting our libraries. Note: All West Gippsland Libraries closed to the public from 18 March 2020 to 22 June 2020 due to COVID-19.
MC4	<b>Maternal and Child Health (MCH)</b> <b>Participation</b> 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	71.2%	72.1%	70.6%	70.9%	During the 2019/20, 2,629 children were enrolled in the Maternal and Child Health service and 1,863 of those children attended the service at least once during the year.
MC5	<b>Participation</b> 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	68.5%	81.5%	78.5%	84.3%	Participation in the Maternal and Child Health by Aboriginal children remains high. 80 Aboriginal children enrolled in the Maternal and Child Health service and of those 67 children attended the service at least once during the year.

# Service Performance Indicators

For the Year Ended 30 June 2020

		Results				Material Variations and Comments
Service/indicator/measure		2017	2018	2019	2020	
R5	<b>Roads</b> <b>Satisfaction</b> Satisfaction with sealed local roads [Community satisfaction rating out of 100 with how Council has performed on the condition of sealed local roads]	42	42	40	41	The annual Community Satisfaction Survey assesses the community's satisfaction with Council's performance. Satisfaction with sealed local roads increased slightly on the previous year and was rated 41 out of 100.
	<b>Statutory Planning</b> <b>Decision making</b> 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	57.1%	90.0%	50.0%	50.0%	
WC5	<b>Waste Collection</b> <b>Waste diversion</b> 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	53.0%	52.5%	53.2%	55.6%	Waste diverted from landfill in 2019/20 is the highest achieved over the past four years. More than half of waste collected by Council is being recycled or processed as green organics. In collaboration with its waste contractors, Council continues to implement and develop waste recycling education programs and initiatives.

# Financial Performance Indicators

For the Year Ended 30 June 2020

Dimension / Indicator / Measure	Results					Forecasts			Material Variations and Comments
	2017	2018	2019	2020	2021	2022	2023	2024	
<b>E1</b> <b>Efficiency</b> <b>Revenue level</b> Average residential rate per residential property assessment [Residential rate revenue / Number of residential property assessments]	\$1,846	\$1,876	\$1,899	N/A	N/A	N/A	N/A	N/A	This measure was replaced by E4 from 1 July 2019.
<b>E2</b> <b>Expenditure level</b> Expenses per property assessment [Total expenses / Number of property assessments]	\$2,942*	\$3,043*	\$3,245*	\$3,378	\$3,148	\$3,142	\$3,151	\$3,143	Council's total expenses in 2019/20 were \$89.232 million, resulting in a cost to deliver Council services per property assessment of \$3,378 for 2019/20.
<b>E4</b> <b>Revenue level</b> Average rate per property assessment [General rates and Municipal charges / Number of property assessments]	New in 2020	New in 2020	New in 2020	\$1,969	\$1,972	\$1,988	\$1,994	\$1,999	The average rates payable for each property in 2019/20 was \$1,969.
<b>L1</b> <b>Liquidity</b> <b>Working capital</b> Current assets compared to current liabilities [Current assets / Current liabilities] x100	229.5%	209.3%	195.0%	185.6%	221.6%	255.1%	260.5%	277.6%	Council has current assets of \$58.828 million and current liabilities of \$31.699 million. Whilst working capital decreased on the previous year, Council still remains able to meet liabilities as and when they're due.
<b>L2</b> <b>Unrestricted cash</b> Unrestricted cash compared to current liabilities [Unrestricted cash / Current liabilities] x100	27.4%	21.0%	17.3%	28.9%	28.2%	28.1%	47.5%	65.2%	The result indicates Council's ability to meet liabilities as they fall due from available (unrestricted) cash.
<b>O1</b> <b>Obligations</b> <b>Asset renewal</b> Asset renewal compared to depreciation [Asset renewal expense / Asset depreciation] x 100	89.2%	80.6%	77.5%	N/A	N/A	N/A	N/A	N/A	This measure was replaced by O5 from 1 July 2019.

# Financial Performance Indicators

For the Year Ended 30 June 2020

Dimension / Indicator / Measure	Results					Forecasts			Material Variations and Comments
	2017	2018	2019	2020	2021	2022	2023	2024	
<b>O2</b> <b>Loans and borrowings</b> Loans and borrowings compared to rates [Interest bearing loans and borrowings / Rate revenue] x100	26.9%	22.9%	20.2%	<b>18.5%</b>	24.5%	21.5%	29.1%	28.1%	Total debt as a percentage of rates for 2019/20 is 18.47% and is well within Council's Borrowing Policy that allows for a maximum of 40% debt to rates.
<b>O3</b> Loans and borrowings repayments compared to rates [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100	3.7%	3.9%	9.3%	<b>8.0%</b>	7.2%	6.8%	0.9%	1.1%	Council paid \$4.846 million in principal and interest against its borrowings compared to rates and charges revenue received of \$60.464 million. The result indicates Council's adequate ability to meet debt commitments from rate revenue.
<b>O4</b> <b>Indebtedness</b> Non-current liabilities compared to own source revenue [Non-current liabilities / Own source revenue] x100	31.7%	24.5%	26.3%	<b>30.6%</b>	33.8%	35.1%	41.1%	39.5%	The Victorian Auditor General (VAGO) has identified 40% or less as low risk. Council's result of 30.6% is well within the VAGO threshold of low risk for indebtedness.
<b>O5</b> <b>Asset renewal and upgrade</b> Asset renewal and upgrade compared to depreciation [Asset renewal and asset upgrade expense / Asset depreciation] x100	New in 2020	New in 2020	New in 2020	<b>140.7%</b>	137.0%	116.3%	114.0%	92.6%	During 2019/20 Council focussed on ensuring the asset renewal program covered asset depreciation and achieved a result of 100%. The result of 140.7% reflects changes to the Local Government Reporting Framework and includes expenses arising from asset upgrades.
<b>OP1</b> <b>Operating position</b> <b>Adjusted underlying result</b> Adjusted underlying surplus (or deficit) [Adjusted underlying surplus (deficit) / Adjusted underlying revenue] x100	7.3%*	-1.3%*	-2.6%*	<b>-1.3%</b>	-2.0%	13.1%	0.8%	1.2%	The result for 2019/20 mainly relates to Financial Assistance Grants funding received in advance in 2019/20.
<b>S1</b> <b>Stability</b> <b>Rates concentration</b> Rates compared to adjusted underlying revenue [Rate revenue / Adjusted underlying revenue] x100	64.1%	69.5%	69.0%	<b>68.6%</b>	74.6%	64.0%	72.9%	73.0%	Council received \$60.464 million in rates and charges revenue during 2019/20 out of total adjusted underlying revenue of \$88.124 million.

# Financial Performance Indicators

For the Year Ended 30 June 2020

Dimension/Indicator/measure	Results					Forecasts			Material Variations and Comments
	2017	2018	2019	2020	2021	2022	2023	2024	
S2 <b>Rates effort</b> Rates compared to property values [Rate revenue / Capital improved value of rateable properties in the municipality] x100	0.54%	0.53%	0.46%	<b>0.42%</b>	0.41%	0.40%	0.39%	0.38%	Council received \$60.464 million in rates and charges revenue in 2019/20. This result remains constant at 0.5% due to minimal movement in valuations relative to movement in rate revenue.
* To ensure comparability of indicators, these comparative figures for 2017, 2018 & 2019 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 2017, 30 June 2018 and 30 June 2019, as disclosed in the below table.									
Indicator/measure	2017		2018		2019		Material Variations and Comments		
	Previously reported	Restated	Previously reported	Restated	Previously reported	Restated			
E2 <b>Efficiency</b> <b>Expenditure level</b> Expenses per property assessment [Total expenses / Number of property assessments]	\$2,930	\$2,942	\$3,002	\$3,043	\$3,147	\$3,245	Prior years have been restated, as Council has made audit adjustments in the Financial Statements relating to total expenses.		
OP1 <b>Operating position</b> <b>Adjusted underlying result</b> Adjusted underlying surplus (or deficit) [Adjusted underlying surplus (deficit) / Adjusted underlying revenue] x100	7.6%	7.3%	0.1%	-1.3%	0.5%	-2.6%	Prior years have been restated, as Council has made audit adjustments in the Financial Statements relating to total expenses.		

# Other information

For the Year Ended 30 June 2020

## 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 Councils 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.

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# 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*.



Jane Watson  
Principal Accounting Officer  
Dated: 14/10/20

In our opinion, the accompanying performance statement of the Baw Baw Shire Council for the year ended 30 June 2020 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.



Mayor Danny Goss  
Councillor  
Dated: 14/10/20



Councillor Mikaela Power  
Councillor  
Dated: 14/10/20



Mark Dupe  
Chief Executive Officer  
Dated: 14/10/20

# Independent Auditor's Report

## To the Councillors of Baw Baw Shire Council

<p><b>Opinion</b></p>	<p>I have audited the accompanying performance statement of Baw Baw Shire Council (the council) which comprises the:</p> <ul style="list-style-type: none"> <li>• description of municipality for the year ended 30 June 2020</li> <li>• sustainable capacity indicators for the year ended 30 June 2020</li> <li>• service performance indicators for the year ended 30 June 2020</li> <li>• financial performance indicators for the year ended 30 June 2020</li> <li>• other information and</li> <li>• the certification of the performance statement.</li> </ul> <p>In my opinion, the performance statement presents fairly, in all material respects, the performance of the council for the year ended 30 June 2020 in accordance with the performance reporting requirements of Part 6 of the <i>Local Government Act 1989</i>.</p>
<p><b>Basis for Opinion</b></p>	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Standards on Assurance Engagements. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the performance statement</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. I and my staff are independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the performance statement in Victoria and have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
<p><b>Councillors' responsibilities for the performance statement</b></p>	<p>The Councillors are responsible for the preparation and fair presentation of the performance statement in accordance with the performance reporting requirements of the <i>Local Government Act 1989</i> and for such internal control as the Councillors determines is necessary to enable the preparation and fair presentation of the statement of performance that is free from material misstatement, whether due to fraud or error.</p>
<p><b>Auditor's responsibilities for the audit of the performance statement</b></p>	<p>As required by the <i>Audit Act 1994</i>, my responsibility is to express an opinion on the performance statement based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the performance statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Standards on Assurance Engagements will always detect a material misstatement when it exists.</p>

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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this performance statement.

As part of an audit in accordance with the Australian Standards on Assurance Engagements, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the performance statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 council's internal control
- evaluate the overall presentation, structure and content of the performance statement, including the disclosures, and whether performance statement represents the underlying events and results in a manner that achieves fair presentation.

I communicate with the Councillors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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MELBOURNE  
21 October 2020



Sarfchu Chummar

*as delegate for the Auditor-General of Victoria*

