

The background of the cover is a photograph of a river flowing through a lush, green forest. The river is in the center, with water splashing over rocks. The banks are covered in tall grass and various trees. A red circle is overlaid on the bottom right of the image, containing the title text. A dotted white line runs diagonally from the top left towards the bottom right, passing through the red circle.

ANNUAL FINANCIAL REPORT 2016/17



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Understanding the Financial Statements

The Financial Statements compare the current 2016/17 financial year to the previous 2015/16 financial year.

They comprise two main sections namely the main statements and the notes.

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

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

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

5. Statement of Capital Works

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

6. Performance Statement

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

Comprehensive Income Statement

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
Income			
Rates and charges	3	51,753	49,559
Statutory fees and fines	4	1,551	1,142
User fees	5	3,006	3,403
Grants - operating	6	18,409	9,177
Grants - capital	6	7,085	9,661
Contributions - monetary	7	1,581	1,963
Contributions - non monetary	7	5,371	5,020
Share of net profits (or loss) of associates and joint ventures	15	187	179
Other income	9	1,781	1,236
Total income		<u>90,724</u>	<u>81,340</u>
Expenses			
Employee costs	10	(23,905)	(23,466)
Materials and services	11	(27,891)	(26,439)
Depreciation and amortisation	12	(14,360)	(13,416)
Borrowing costs	13	(553)	(517)
Other expenses	14	(4,036)	(3,935)
Net gain (or loss) on disposal of property, infrastructure, plant and equipment	8	(3,822)	(4,537)
Total expenses		<u>(74,567)</u>	<u>(72,310)</u>
Surplus/(deficit) for the year		<u>16,157</u>	<u>9,030</u>
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	21	-	-
Share of other comprehensive income of associates and joint ventures	15	-	162
Total comprehensive result		<u>16,157</u>	<u>9,192</u>

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

Balance Sheet

AS AT 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash and cash equivalents	16	20,217	18,935
Trade and other receivables	18	6,318	7,872
Other financial assets	17	16,610	4,133
Inventories	19	-	3
Other assets	20	612	825
Total current assets		43,757	31,768
Non-current assets			
Trade and other receivables	18	140	17
Investments in associates and joint ventures	15	1,600	1,330
Property, infrastructure, plant and equipment	21	627,791	617,602
Intangible assets	22	1,877	3,058
Total non-current assets		631,408	622,007
Total assets		675,165	653,775
Liabilities			
Current liabilities			
Trade and other payables	23	9,793	7,953
Trust funds and deposits	24	1,801	1,600
Provisions	25	5,964	5,378
Interest-bearing loans and borrowings	26	1,512	1,357
Total current liabilities		19,070	16,288
Non-current liabilities			
Provisions	25	6,081	6,206
Interest-bearing loans and borrowings	26	12,416	9,925
Total non-current liabilities		18,497	16,131
Total liabilities		37,567	32,419
Net assets		637,598	621,356
Equity			
Accumulated surplus		331,836	316,123
Reserves	27	305,762	305,233
Total Equity		637,598	621,356

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2017					
Balance at beginning of the financial year		621,356	316,123	301,495	3,738
Surplus/(deficit) for the year		16,157	16,157	-	-
Adjustment due to change in Library Ownership		85	69	16	-
Transfers to other reserves	27(b)	-	1,150	-	(1,150)
Transfers from other reserves	27(b)	-	(1,663)	-	1,663
Balance at end of the financial year		637,598	331,836	301,511	4,251

		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2016					
Balance at beginning of the financial year		612,164	305,268	301,333	5,563
Surplus/(deficit) for the year		9,030	9,030	-	-
Net asset revaluation increment/(decrement)	27(a)	162	-	162	-
Transfers to other reserves	27(b)	-	(2,250)	-	2,250
Transfers from other reserves	27(b)	-	4,075	-	(4,075)
Balance at end of the financial year		621,356	316,123	301,495	3,738

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2017

		2017 Inflows/ (Outflows) \$'000	2016 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		52,390	49,348
Statutory fees and fines		1,556	1,142
User fees		2,850	3,239
Grants - operating		17,179	9,307
Grants - capital		9,885	8,476
Contributions - monetary		1,581	1,963
Interest received		760	789
Trust funds and deposits taken		7,813	8,052
Other receipts		1,196	588
Net GST refund/payment		1,974	2,150
Employee costs		(23,323)	(23,234)
Materials and services		(26,057)	(26,878)
Trust funds and deposits repaid		(7,612)	(7,979)
Other payments		(4,101)	(4,044)
Net cash provided by/(used in) operating activities	28	<u>36,091</u>	<u>22,919</u>
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment		(24,699)	(29,697)
Proceeds from sale of property, infrastructure, plant and equipment		274	547
Payments for investments		(12,477)	-
Proceeds from Investments		-	8,869
Net cash provided by/(used in) investing activities		<u>(36,902)</u>	<u>(20,281)</u>
Cash flows from financing activities			
Finance costs		(553)	(517)
Proceeds from borrowings		4,000	3,279
Repayment of borrowings		(1,354)	(1,452)
Net cash provided by/(used in) financing activities		<u>2,093</u>	<u>1,310</u>
Net increase (decrease) in cash and cash equivalents		1,282	3,948
Cash and cash equivalents at the beginning of the financial year		<u>18,935</u>	<u>14,987</u>
Cash and cash equivalents at the end of the financial year		<u>20,217</u>	<u>18,935</u>
Financing arrangements	29	8,463	7,108
Restrictions on cash assets	16	8,069	7,488

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 2017

	Note	2017 \$'000	2016 \$'000
Property			
Land		27	24
Total land		27	24
Buildings		7,487	13,183
Total buildings		7,487	13,183
Total property		7,514	13,207
Plant and equipment			
Plant, machinery and equipment		733	556
Computers and telecommunications		116	380
Total plant and equipment		849	936
Infrastructure			
Roads		9,884	9,176
Bridges		1,288	1,451
Footpaths and cycleways		1,095	970
Drainage		1,684	801
Waste management		78	508
Parks, open space and streetscapes		1,937	2,455
Other infrastructure		114	88
Total infrastructure		16,080	15,449
Total capital works expenditure		24,443	29,592
Represented by:			
Asset renewal expenditure		12,813	15,899
Asset expansion expenditure		6,049	5,230
Asset upgrade expenditure		5,581	8,463
Total capital works expenditure		24,443	29,592

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Introduction

The Baw Baw Shire Council was established by an Order of the Governor in Council on 2 December 1994 and is a body corporate.

The Council's main office is located at Drouin.

Statement of compliance

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

Note 1 Significant accounting policies

(a) Basis of accounting

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

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

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

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

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

(b) Changes in accounting policies

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

(c) Principles of consolidation

The consolidated financial statements of Council incorporate all entities controlled by Council as at 30 June 2017, 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.

There are no incorporated entities controlled by Council as at 30 June 2017.

(d) Committees of management

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 1 Significant accounting policies (cont.)

(e) Accounting for investments in associates and joint arrangements

Associates

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

Joint arrangements

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

(i) Joint operations

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

(ii) Joint ventures

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

(f) Revenue recognition

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

Rates and Charges

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

Statutory fees and fines

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

User fees

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

Grants

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

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

Contributions

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

Sale of property, infrastructure, plant and equipment

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

Interest

Interest is recognised as it is earned.

Dividends

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

Other Income

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 1 Significant accounting policies (cont.)

(g) Fair value measurement

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

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

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

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

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

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

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

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

(h) Cash and cash equivalents

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

(i) Trade and other receivables

Short term receivables are carried at invoice amount as amortised cost using the effective interest rate method would not impact the carrying value. A provision for doubtful debts is recognised when there is objective evidence that an impairment has occurred. Long term receivables are carried at amortised cost using the effective interest rate method.

(j) Other financial assets

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

(k) Inventories

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

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

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

A non-current asset classified as held for sale (including disposal groups) is measured at the lower of its carrying amount and fair value less costs 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.

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

Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the 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 detailed in Note 1(n) have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 1 Significant accounting policies (cont.)

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

Revaluation

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

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use of an asset result in changes to the permissible or practical highest and best use of the asset. Further details regarding the fair value hierarchy are disclosed at **Note 21** Property, infrastructure, plant and equipment.

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

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

Land under roads

Council recognises land under roads it controls at fair value.

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

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

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

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

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

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 1 Significant accounting policies (cont.)

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

Asset recognition thresholds and depreciation periods

	Depreciation Period	Threshold Limit \$'000
Property		
land	-	All
land under roads	-	All
Buildings		
buildings	30-80 years	25
Plant and Equipment		
plant, machinery and equipment	2-7 years	All
fixtures, fittings and furniture	1-20 years	10
computers and telecommunications	1-20 years	10
Infrastructure		
road pavements and seals	14-85 years	10
road formation and earthworks	-	10
road kerb, 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 and cycleways	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

(o) Repairs and maintenance

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

(p) Investment property

Investment property is held to generate long-term rental yields. Investment property is measured initially at cost, including transaction costs. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefit in excess of the originally assessed performance of the asset will flow to the Council. Subsequent to initial recognition at cost, investment property is carried at fair value, determined annually by independent valuers. Changes to fair value are recorded in the comprehensive income statement in the period that they arise. Rental income from the leasing of investment properties is recognised in the comprehensive income statement on a straight line basis over the lease term. Council has no investment properties during 2016/17 financial year.

(q) Impairment of assets

At each reporting date, the Council reviews the carrying value of its assets to determine whether there is any indication that these assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs 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.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 1 Significant accounting policies (cont.)

(r) Trust funds and deposits

Amounts received as deposits and retention amounts controlled by Council are recognised as trust funds until they are returned, transferred in accordance with the purpose of the receipt, or forfeited (refer to **Note 24**).

(s) Borrowings

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

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

Borrowing costs

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

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

(t) Employee costs and benefits

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

Wages and salaries and annual leave

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

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

Long service leave

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

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

The components of this current liability are measured at :

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

Classification of employee costs

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

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

(u) Landfill rehabilitation provision

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 1 Significant accounting policies (cont.)

(v) Leases

Finance leases

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

Operating leases

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

Leasehold improvements

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

(w) Goods and Services Tax (GST)

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

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

(x) Financial guarantees

Financial guarantee contracts are not recognised as a liability in the balance sheet unless the lender has exercised their right to call on the guarantee or Council has other reasons to believe that it is probable that the right will be exercised. Details of guarantees that Council has provided, that are not recognised in the balance sheet, are disclosed at **Note 33** contingent liabilities and contingent assets.

(y) Contingent assets and contingent liabilities and commitments

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

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

(z) Pending accounting standards

The following new AAS's have been issued that are not mandatory for the 30 June 2017 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.

Revenue from contracts with customers (AASB 15) (applies 2019/20)

The standard shifts the focus from the transaction-level to a contract-based approach. Recognition is determined based on what the customer expects to be entitled to (rights and obligations), while measurement encompasses estimation by the entity of the amount expected to be entitled for performing under the contract. The full impact of this standard is not known however it is most likely to impact where contracts extend over time, where there are rights and obligations that may vary the timing or amount of the consideration, or where there are multiple performance elements. This has the potential to impact on the recognition of certain grant income.

Leases (AASB 16) (applies 2019/20)

The classification of leases as either finance leases or operating leases is eliminated for lessees. Leases will be recognised in the Balance Sheet by capitalising the present value of the minimum lease payments and showing a 'right-of-use' asset, while future lease payments will be recognised as a financial liability. The nature of the expense recognised in the profit or loss will change. Rather than being shown as rent, or as leasing costs, it will be recognised as depreciation on the 'right-of-use' asset, and an interest charge on the lease liability. The interest charge will be calculated using the effective interest method, which will result in a gradual reduction of interest expense over the lease term.

Council has a significant number of operating leases that will be impacted as a result of this change. This will see assets and liabilities of approximately \$172,826 recognised.

(aa) Rounding

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 2 Budget comparison

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

The budget figures detailed below are those adopted by Council on 25 May 2016. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for income and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

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

(a) Income and Expenditure

	Budget 2017 \$'000	Actual 2017 \$'000	Variance 2017 \$'000	Ref
Income				
Rates and charges	51,165	51,753	588	1
Statutory fees and fines	1,196	1,551	355	
User fees	3,025	3,006	(19)	
Grants - operating	13,254	18,409	5,155	2
Grants - capital	6,796	7,085	289	
Contributions - monetary	1,791	1,581	(210)	
Contributions - non monetary	10,500	5,371	(5,129)	3
Share of net profits/(losses) of associates and joint ventures	30	187	157	
Other income	842	1,781	939	4
Total income	88,599	90,724	2,125	
Expenses				
Employee costs	(23,667)	(23,905)	(238)	
Materials and services	(24,422)	(27,891)	(3,469)	5
Depreciation and amortisation	(12,741)	(14,360)	(1,619)	6
Borrowing costs	(633)	(553)	80	
Other expenses	(4,512)	(4,036)	476	7
Net (loss) on disposal of property, infrastructure, plant and equipment	(1,038)	(3,822)	(2,784)	8
Total expenses	(67,013)	(74,567)	(7,554)	
Surplus/(deficit) for the year	21,586	16,157	(5,429)	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Rates and charges	The favourable variance is primarily due to rates from supplementary valuations exceeding budget.
2	Grants - operating	The favourable variance of \$5.1m is primarily due to \$4.5m Victoria Grants Commission income received in advance for the 2017/18 financial year, combined with additional funding for Family Day Care and Public Health.
3	Contributions - non monetary	Contributions-non monetary is lower than budget due to a lower level of economic activity resulting in less than expected contributions from subdivisions.
4	Other income	Income from Property leases has exceeded budget, and the budget was set in the User fees income category. In addition, Council has received \$73k of income resulting from Council elections and \$80k from lawn mowing.
5	Materials and services	The major factor contributing to expenditure exceeding budget was the transfer of expenditure from capital to operations of \$3.2m. Expenditure has been transferred from works in progress due to a review of expenditure classifications.
6	Depreciation and amortisation	Depreciation expense has exceeded budget. This is due to the timing of developing the budget for depreciation as it did not take into account the capitalisation of the IT Core System Upgrade.
7	Other expenses	Expenditure was below budget by \$476k due to savings in computer lease costs as well as lower than expected payments for community grants and contributions.
8	Net loss on disposal of property, infrastructure, plant and equipment	The written down value of assets has exceeded budget as Council was required to write off the book value of buildings (West Gippsland Arts Centre) of \$2.298m combined with a write off of \$1.48m for roads-sealed surface.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 2 Budget comparison (cont)

(b) Capital Works

	Budget 2017 \$'000	Actual 2017 \$'000	Variance 2017 \$'000	Ref
Property				
Land	880	27	(853)	1
Total Land	880	27	(853)	
Buildings	9,717	7,487	(2,230)	2
Total Buildings	9,717	7,487	(2,230)	
Total Property	10,597	7,514	(3,083)	
Plant and Equipment				
Plant, machinery and equipment	495	733	238	
Fixtures, fittings and furniture	-	-	-	
Computers and telecommunications	355	116	(239)	
Total Plant and Equipment	850	849	(1)	
Infrastructure				
Roads	9,983	9,884	(99)	
Bridges	2,185	1,288	(897)	3
Footpaths and cycleways	1,076	1,095	19	
Drainage	2,577	1,684	(893)	4
Waste management	322	78	(244)	
Parks, open space and streetscapes	1,935	1,937	2	
Other infrastructure	200	114	(86)	
Total Infrastructure	18,278	16,080	(2,198)	
Total Capital Works Expenditure	29,725	24,443	(5,282)	
Represented by:				
Asset renewal expenditure	14,899	12,813	(2,086)	
Asset expansion expenditure	6,710	6,049	(661)	
Asset upgrade expenditure	8,116	5,581	(2,535)	
Total Capital Works Expenditure	29,725	24,443	(5,282)	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Land	Land acquisition program lower than anticipated.
2	Buildings	There is a timing variance on works associated with the West Gippsland Arts Centre of \$2.0m due to delays in the awarding of the contract combined with savings on the Ellinbank Reserve change rooms of \$0.5m.
3	Bridges	The most significant project which is underspent is the Allambee Estate Road Bridge by \$918k due to a delay in the opening of funding applications. This project has been identified for ongoing works with funding carried over to the 2017/18 financial year.
4	Drainage	The Tarwin Street Retarding Basin project is underspent by \$792k. The timing of the project is dependent upon the outcome of a funding application.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 3 Rates and charges

Council uses Capital Improved Value (CIV) as the basis of valuation of all properties within the municipal district. The CIV of a property is its market value of land and improvements as of January 2016.

The valuation base used to calculate general rates for 2016/17 was \$9,421million (2015/16 \$9,239 million).

	2017 \$'000	2016 \$'000
General Rates	43,319	41,660
Waste management charge	7,405	7,188
Supplementary rates and rate adjustments	812	502
Interest on rates and charges	217	209
Total rates and charges	51,753	49,559

The date of the latest general revaluation of land for rating purposes within the municipal district was 1st January 2016, and the valuation will be first applied in the rating year commencing 1st July 2016.

Note 4 Statutory fees and fines

Infringements and costs	232	115
Town Planning Fees	323	346
Land information certificates	149	127
Permits	718	454
Other fees	129	100
Total statutory fees and fines	1,551	1,142

Note 5 User fees

Aged and health services	1,154	1,332
Arts Centre	709	958
Registration and other permits	552	517
Waste management services	201	169
Leases and rentals	70	185
Other fees and charges	320	242
Total user fees	3,006	3,403

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
Note 6 Grants		
Grants were received in respect of the following :		
Summary of grants		
Commonwealth funded grants	18,860	10,390
State funded grants	6,634	8,448
Total grants received	25,494	18,838
Operating Grants		
Recurrent - Commonwealth Government		
Victoria Grants Commission	13,123	4,356
Family day care	677	589
General home care	1,121	1,102
Aged care	278	336
Recurrent - State Government		
General home care	1,120	1,102
Aged care	278	335
School crossing supervisors	103	102
Maternal and child health	624	532
Community and cultural development/ Community Well-being	-	10
Community safety	175	53
Arts Centre	130	130
Preschool and early years	73	72
Environmental health and management/Landcare	137	69
Rural access inclusive communities	114	119
Disability	-	(22)
Other	230	75
Total recurrent operating grants	18,183	8,960
Non-recurrent - Commonwealth Government		
Natural disaster	-	105
Other	62	60
Non-recurrent - State Government		
Economic development	107	40
Community and cultural development/ Community Well-being	27	-
Arts Centre	15	-
Other	15	12
Total non-recurrent operating grants	226	217
Total operating grants	18,409	9,177
Capital Grants		
Recurrent - Commonwealth Government		
Roads to recovery	4,030	3,835
Total recurrent capital grants	4,030	3,835
Non-recurrent - Commonwealth Government		
Plant, machinery and equipment	15	7
Non-recurrent - State Government		
Local and collector roads	734	2,607
Waste	353	183
Recreation	333	1,453
Bridges	-	319
Drainage	-	(2)
Buildings	1,620	1,259
Total non-recurrent capital grants	3,055	5,826
Total capital grants	7,085	9,661

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
Note 6 Grants (cont'd)		
Unspent grants received on condition that they be spent in a specific manner		
Balance at start of year	2,150	2,570
Received during the financial year and remained unspent at balance date	1,667	1,639
Received in prior years and spent during the financial year	(1,800)	(2,059)
Balance at year end*	2,017	2,150

* This amount excludes Victoria Grants Commission (Financial Assistance Grants) received in advance as this grant revenue is classified as untied and not allocatable to specific projects or services.

Note 7 Contributions		
Monetary	1,581	1,963
Non-monetary	5,371	5,020
Total contributions	6,952	6,983

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

Land	681	181
Roads and footpath	2,869	2,570
Drainage assets	1,347	1,735
Kerb and Channels	474	534
Total non-monetary contributions	5,371	5,020

Note 8 Net gain/(loss) on disposal of property, infrastructure, plant and equipment

Proceeds of sale	274	547
Written down value of assets disposed	(4,096)	(5,084)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	(3,822)	(4,537)

Note 9 Other income

Interest	609	668
Other rent	309	90
Other	863	478
Total other income	1,781	1,236

Note 10(a) Employee costs

Wages and salaries	20,848	20,318
WorkCover	171	285
Casual staff	621	635
Superannuation	1,891	1,862
Fringe benefits tax	119	190
Other	255	176
Total employee costs	23,905	23,466

Note 10(b) Superannuation

Council made contributions to the following funds:

Defined benefit fund

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	144	163
	144	163

Accumulation funds

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	1,747	1,699
	1,747	1,699
Employer contributions payable at reporting date.	91	173

Refer to **Note 32** for further information relating to Council's superannuation obligations.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
Note 11 Materials and services		
Contract payments	16,553	13,602
Building maintenance	668	642
General maintenance	1,284	1,002
Utilities	673	711
Office administration	878	806
Information technology	951	678
Insurance	643	525
Consultants	1,168	1,146
Other	5,073	7,327
Total materials and services	27,891	26,439

Note 12 Depreciation and amortisation

Property	2,130	2,006
Plant and equipment	717	732
Infrastructure	10,202	9,933
Total depreciation	13,049	12,671
Intangible assets	1,311	745
Total depreciation and amortisation	14,360	13,416

Refer to **Note 21 and 22** for a more detailed breakdown of depreciation and amortisation charges

Note 13 Borrowing costs

Interest - Borrowings	553	517
Total borrowing costs	553	517

Note 14 Other expenses

Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	59	40
Auditors' remuneration - Internal	44	93
Councillors' allowances	322	299
Operating lease rentals	410	488
Bank Charges	174	167
Contributions-WGRLC and Logan Park	1,742	1,650
Council grants	602	579
Natural disaster	100	94
Other	583	525
Total other expenses	4,036	3,935

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
Note 15 Investments in associates, joint arrangements and subsidiaries		
(a) Investments in associates		
Investments in associates accounted for by the equity method are:		
- West Gippsland Regional Library Corporation	1,600	1,330
West Gippsland Regional Library Corporation		
<i>Background</i>		
The West Gippsland Regional Library Corporation was established by an Order of the Governor in Council on the 11th December 1995 and is a body corporate. The Corporation's main office is located at 64 Victoria Street Warragul. Council holds a 43.55% equity (2016:41%) in the West Gippsland Regional Library Corporation.		
Fair value of investment in West Gippsland Regional Library Corporation	1,600	1,330
Council's share of accumulated surplus/(deficit)		
Council's share of accumulated surplus(deficit) at start of year	1,069	890
Reported surplus(deficit) for year	187	179
Share of Movement due to change in percentage in ownership	67	-
Transfer to Reserves	(129)	-
Council's share of accumulated surplus(deficit) at end of year	1,194	1,069
Council's share of reserves		
Council's share of reserves at start of year	261	99
Reserve increment	129	162
Share of Movement due to change in percentage in ownership for Asset Reserve	16	-
Council's share of reserves at end of year	406	261
Movement in carrying value of specific investment		
Carrying value of investment at start of year	1,330	989
Share of surplus(deficit) for year	187	179
Share of asset revaluation	-	162
Share of Movement due to change in percentage in ownership	83	-
Carrying value of investment at end of year	1,600	1,330
Council's share of expenditure commitments		
Operating commitments	-	-
Capital commitments	-	111
Council's share of expenditure commitments	-	111

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
Note 16 Cash and cash equivalents		
Cash on hand	10	10
Cash at bank	9,707	9,925
Term deposits	10,500	9,000
	<u>20,217</u>	<u>18,935</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 24)	1,801	1,600
- Reserve funds allocated due to external restrictions (contractual agreement) (Note 27)	4,251	3,738
- Unspent grants (Note 6)	2,017	2,150
Total restricted funds	<u>8,069</u>	<u>7,488</u>
Total unrestricted cash and cash equivalents	<u>12,148</u>	<u>11,447</u>
Intended allocations		
Although not externally restricted the following amounts have been allocated for specific future purposes by Council:		
- Cash held to fund carried forward capital works	6,922	3,345
Total funds subject to intended allocations	<u>6,922</u>	<u>3,345</u>
Total unrestricted cash and cash equivalents adjusted for intended allocation*	<u>5,226</u>	<u>8,102</u>
Refer also to Note 17 for details of other financial assets held by Council.		
Note 17 Other financial assets		
Term deposits	16,610	4,133
Total other financial assets*	<u>16,610</u>	<u>4,133</u>
* Total of unrestricted cash and investments (term deposits) is \$21.836m. This amount represents the total available cash and investments that is unrestricted as at 30 June 2017.		
Note 18 Trade and other receivables		
Current		
<i>Statutory receivables</i>		
Rates debtors	3,171	3,639
<i>Non statutory receivables</i>		
Sundry and other debtors	2,234	3,544
Net GST receivable	913	689
Total current trade and other receivables	<u>6,318</u>	<u>7,872</u>
Non-current		
<i>Non statutory receivables</i>		
Sundry and other debtors	140	17
Total non-current trade and other receivables	<u>140</u>	<u>17</u>
Total trade and other receivables	<u>6,458</u>	<u>7,889</u>
(a) Ageing of Receivables		
At balance date other debtors representing financial assets were past due but not impaired. The ageing of the Council's trade & other receivables (excluding statutory receivables) was:		
Current (not yet due)	1,240	3,403
Past due by up to 30 days	708	121
Past due between 31 and 180 days	209	11
Past due between 181 and 365 days	77	9
Past due by more than 1 year	140	17
Total trade & other receivables	<u>2,374</u>	<u>3,561</u>
Note 19 Inventories		
Inventories held for sale	-	3
Total inventories	<u>-</u>	<u>3</u>
Note 20 Other assets		
Prepayments	133	340
Accrued income	479	485
Total other assets	<u>612</u>	<u>825</u>

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 21 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2016	Acquisitions	Contributions	Revaluation	Depreciation	Disposal	Transfers	At Fair Value 30 June 2017
Land	85,086	265	681	-	-	-	-	86,032
Buildings	76,234	7,995	-	-	(2,130)	(2,297)	-	79,802
Plant and Equipment	3,180	820	-	-	(717)	(201)	-	3,082
Infrastructure	426,455	21,462	4,690	-	(10,202)	(1,483)	-	440,922
Work in progress	26,647	24,443	-	-	-	(2,351)	(30,786)	17,953
	617,602	54,985	5,371	-	(13,049)	(6,332)	(30,786)	627,791

Summary of Work in Progress

	Opening WIP	Additions	Transfers	Write Offs	Closing WIP
Building	15,323	7,165	(17,160)	(545)	4,783
Land	108	27	-	(100)	35
Plant and Equipment	630	1,065	(999)	(12)	684
Infrastructure	10,586	16,186	(12,627)	(1,694)	12,451
Total	26,647	24,443	(30,786)	(2,351)	17,953

	Note	Land - specialised	Land - non specialised	Total Land	Buildings - specialised	Total Buildings	Work In Progress	Total Property
Land and Buildings								
At fair value 1 July 2016		60,870	24,216	85,086	121,532	121,532	15,431	222,049
Accumulated depreciation at 1 July 2016		-	-	-	(45,298)	(45,298)	-	(45,298)
		60,870	24,216	85,086	76,234	76,234	15,431	176,751
Movements in fair value								
Acquisition of assets at fair value		-	265	265	7,995	7,995	7,192	15,452
Contributed assets		81	600	681	-	-	-	681
Fair value of assets disposed		-	-	-	(3,372)	(3,372)	-	(3,372)
Transfers		-	-	-	-	-	(17,160)	(17,160)
Write offs		-	-	-	-	-	(645)	(645)
		81	865	946	4,623	4,623	(10,613)	(5,044)
Movements in accumulated depreciation								
Depreciation and amortisation		-	-	-	(2,130)	(2,130)	-	(2,130)
Accumulated depreciation of disposals		-	-	-	1,075	1,075	-	1,075
		-	-	-	(1,055)	(1,055)	-	(1,055)
At fair value 30 June 2017		60,951	25,081	86,032	126,155	126,155	4,818	217,005
Accumulated depreciation at 30 June 2017		-	-	-	(46,353)	(46,353)	-	(46,353)
		60,951	25,081	86,032	79,802	79,802	4,818	170,652

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 21 Property, infrastructure, plant and equipment (cont'd)

Plant and Equipment	Note	Plant machinery and equipment	Fixtures fittings and furniture	Work In Progress	Total plant and equipment
At fair value 1 July 2016		5,515	4,166	630	10,311
Accumulated depreciation at 1 July 2016		(2,723)	(3,778)	-	(6,501)
		2,792	388	630	3,810
Movements in fair value					
Acquisition of assets at fair value		731	89	1,065	1,885
Fair value of assets disposed		(805)	-	-	(805)
Transfers		-	-	(999)	(999)
Write offs		-	-	(12)	(12)
		(74)	89	54	69
Movements in accumulated depreciation					
Depreciation and amortisation		(604)	(113)	-	(717)
Accumulated depreciation of disposals		604	-	-	604
		-	(113)	-	(113)
At fair value 30 June 2017		5,441	4,255	684	10,380
Accumulated depreciation at 30 June 2017		(2,723)	(3,891)	-	(6,614)
		2,718	364	684	3,766

Infrastructure	Note	Roads	Bridges	Footpaths and cycleways	Drainage	Off Street car parks	Parks open spaces and streetscapes	Work In Progress	Total Infrastructure
At fair value 1 July 2016		379,281	23,495	33,156	64,281	6,760	13,543	10,586	531,102
Accumulated depreciation at 1 July 2016		(66,101)	(8,846)	(3,970)	(10,508)	(2,406)	(2,230)	-	(94,061)
		313,180	14,649	29,186	53,773	4,354	11,313	10,586	437,041
Movements in fair value									
Acquisition of assets at fair value		7,052	825	702	911	235	11,737	16,186	37,648
Contributed assets		2,346	-	997	1,347	-	-	-	4,690
Fair value of assets disposed		(2,460)	(284)	(42)	(75)	(9)	-	-	(2,870)
Transfers		-	-	-	-	-	-	(12,627)	(12,627)
Write offs		-	-	-	-	-	-	(1,694)	(1,694)
		6,938	541	1,657	2,183	226	11,737	1,865	25,147
Movements in accumulated depreciation									
Depreciation and amortisation		(8,181)	(254)	(515)	(727)	(158)	(367)	-	(10,202)
Accumulated depreciation of disposals		1,135	223	10	16	3	-	-	1,387
		(7,046)	(31)	(505)	(711)	(155)	(367)	-	(8,815)
At fair value 30 June 2017		386,219	24,036	34,813	66,464	6,986	25,280	12,451	556,249
Accumulated depreciation at 30 June 2017		(73,147)	(8,877)	(4,475)	(11,219)	(2,561)	(2,597)	-	(102,876)
		313,072	15,159	30,338	55,245	4,425	22,683	12,451	453,373

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 21 Property, infrastructure, plant and equipment cont'd

Valuation of land and buildings

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

Specialised land is valued at fair value using site values adjusted for 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.

Details of the Council's land and buildings and information about the fair value hierarchy as at 30 June 2017 are as follows:

	Level 1	Level 2	Level 3	DoV
Land	-	-	25,081	03/15
Specialised land	-	-	60,951	03/15
Specialised Buildings	-	-	<u>79,802</u>	03/15
Total	-	-	<u>165,834</u>	

Valuation of infrastructure

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

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

Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2017 are as follows:

	Level 1	Level 2	Level 3	DoV
Roads	-	-	313,072	03/14
Bridges	-	-	15,159	03/15
Footpaths and cycleways	-	-	30,338	03/15
Drainage	-	-	55,245	03/14
Off street car parks	-	-	4,425	03/14
Parks, open space and streetscapes	-	-	<u>22,683</u>	03/14
Total	-	-	<u>440,922</u>	

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 21 Property, infrastructure, plant and equipment cont'd	2017	2016
	\$'000	\$'000
<i>Description of significant unobservable inputs into level 3 valuations</i>		
<p>Specialised land and land under roads is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 5% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$0.46 and \$380 per square metre.</p>	60,951	60,870
<p>Specialised buildings are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement costs is calculated on a square metre basis and ranges from \$169 to \$3,350 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 30 years to 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 buildings are sensitive to changes in expectations or requirements that could either shorten or extend the useful lives of buildings.</p>	79,802	76,234
<p>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.</p>	440,922	426,455
Reconciliation of specialised land		
Land under roads	17,992	17,958
Parks and reserves	24,152	24,105
Other	18,807	18,807
Total specialised land	60,951	60,870

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
Note 22 Intangible assets		
Software	1,877	3,058
Total intangible assets	1,877	3,058
	Goodwill	Software
Gross carrying amount		Total
Balance at 1 July 2015	-	3,113
Additions from acquisition-Asset Management System	-	1,572
Balance at 1 July 2016	-	4,685
Other Additions	115	130
Balance at 1 July 2017	115	4,815
Accumulated amortisation and impairment		
Balance at 1 July 2015	-	882
Amortisation expense	-	745
Balance at 1 July 2016	-	1,627
Amortisation expense	-	1,311
Impairments 2017	115	-
Balance at 1 July 2017	-	2,938
Net book value at 30 June 2016	-	3,058
Net book value at 30 June 2017	-	1,877
Note 23 Trade and other payables		
Trade payables	8,916	7,044
Accrued expenses	877	909
Total trade and other payables	9,793	7,953
Note 24 Trust funds and deposits		
Refundable deposits	113	144
Fire services levy	45	17
Retention Amounts	1,540	1,285
Other refundable deposits	103	154
Total trust funds and deposits	1,801	1,600

Purpose and nature of items

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

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

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 25 Provisions

	Employee	Landfill restoration	Total
	\$ '000	\$ '000	\$ '000
2017			
Balance at beginning of the financial year	5,681	5,903	11,584
Additional provisions	3,170	549	3,719
Amounts used	(2,467)	(451)	(2,918)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	(340)	-	(340)
Balance at the end of the financial year	6,044	6,001	12,045
2016			
Balance at beginning of the financial year	5,595	5,046	10,641
Additional provisions	3,106	2,447	5,553
Amounts used	(2,916)	(1,590)	(4,506)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	(104)	-	(104)
Balance at the end of the financial year	5,681	5,903	11,584
	2017	2016	
	\$'000	\$'000	
(a) Employee provisions			
Current provisions expected to be wholly settled within 12 months			
Annual leave	1,405	1,285	
Long service leave	724	525	
Other	267	177	
	2,396	1,987	
Current provisions expected to be wholly settled after 12 months			
Annual leave	617	563	
Long service leave	2,516	2,153	
	3,133	2,716	
Total current employee provisions	5,529	4,703	
Non-current			
Long service leave	515	978	
Total non-current employee provisions	515	978	
Aggregate carrying amount of employee provisions:			
Current	5,529	4,703	
Non-current	515	978	
Total aggregate carrying amount of employee provisions	6,044	5,681	
(b) Land fill restoration			
Current	435	675	
Non-current	5,566	5,228	
	6,001	5,903	

Note 26 Interest-bearing loans and borrowings

Current		
Borrowings - secured (1)	1,512	1,357
	1,512	1,357
Non-current		
Borrowings - secured (1)	12,416	9,925
	12,416	9,925
Total	13,928	11,282
(1) Borrowings are secured by registered charge over general rates revenue of Council		
(a) The maturity profile for Council's borrowings is:		
Not later than one year	1,512	1,357
Later than one year and not later than five years	9,137	2,757
Later than five years	3,279	7,168
	13,928	11,282

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 27 Reserves

	Balance at beginning of reporting period	Increment (decrement)	Balance at end of reporting period
	\$'000	\$'000	\$'000
(a) Asset revaluation reserves			
2017			
Property			
Land	34,184	-	34,184
Buildings	56,564	-	56,564
	90,748	-	90,748
Infrastructure			
Infrastructure assets	210,486	-	210,486
	210,486	-	210,486
Other revaluation assets			
West Gippsland Regional Library Corporation	261	16	277
	261	16	277
Total asset revaluation reserves	301,495	16	301,511
2016			
Property			
Land	34,184	-	34,184
Buildings	56,564	-	56,564
	90,748	-	90,748
Infrastructure			
Infrastructure assets	210,486	-	210,486
	210,486	-	210,486
Other revaluation assets			
West Gippsland Regional Library Corporation	261	-	261
	261	-	261
Total asset revaluation reserves	301,495	-	301,495

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

	Balance at beginning of reporting period	Transfer from accumulated surplus	Transfer to accumulated surplus	Balance at end of reporting period
	\$'000	\$'000	\$'000	\$'000
2017				
(b) Other reserves				
Open space	1,109	279	-	1,388
Car parking	5	-	-	5
Development contribution levy DCP01	886	759	(1,126)	519
Development contribution levy DCP02	794	463	-	1,257
Land sales	713	-	-	713
Native vegetation offset scheme	231	33	(24)	240
West Gippsland Regional Library Corporation	-	129	-	129
Total Other reserves	3,738	1,663	(1,150)	4,251
2016				
Open space	731	378	-	1,109
Car parking	5	-	-	5
Development contribution levy DCP01	4,186	770	(4,070)	886
Development contribution levy DCP02	-	794	-	794
Land sales	491	222	-	713
Native vegetation offset scheme	150	86	(5)	231
Total Other reserves	5,563	2,250	(4,075)	3,738

Open space: The Open Space Reserve holds funds contributed by developers for works associated with developing improved open space and recreational facilities within Council. Funds are contributed in accordance with Section 18 of the Subdivision Act 1988 and transfers are restricted to the purpose of creating open space such as parks, playgrounds, pavilions and other such items where it is deemed that these works should occur at a later point than the initial development.

Car parking: This reserve retains funds contributed by developers for works associated with developments that require additional car parking within Council. Transfers to the reserve comprise contribution income from developers in lieu of the provision of additional car parking spaces.

DCP01 & 02: These reserves retain funds received from developers for infrastructure provision related to the Baw Baw Shire Development Contributions Plans. DCP01 refers to the Baw Baw Shire Development Contribution Plan 23 March 2007 and DCP02 refers to the Warragul Development Contributions Plan September 2014. Transfers from these reserves will be for nominated capital works for development infrastructure projects and community infrastructure projects. These funds are tied directly to the income received or cash funds refunded to developers for capital works completed directly by the developer.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 27 Reserves

(b) Other reserves (cont'd)

Land sales: This reserve comprises sale proceeds from land previously identified as open space land that, at the time of acquisition, would qualify for funding from the Open Space Reserve (refer above).

Native vegetation offset: Funds contributed to Council from developers and residents who propose to remove native vegetation. The funds are then applied to offset the removal of native vegetation by making an equivalent contribution to Victoria's biodiversity. Offset requirements are determined in accordance with permitted clearing of native vegetation – Biodiversity assessment guidelines.

West Gippsland Regional Library Corporation: This reserve comprises Council's share of the Regional Library Corporation Facilities Reserve. Refer to Note 15 that reports Council's share of library reserves - Reserve increment \$129k.

	2017 \$'000	2016 \$'000
Note 28 Reconciliation of cash flows from operating activities to surplus/(deficit)		
Surplus/(deficit) for the year	16,157	9,030
Depreciation/amortisation	14,360	13,416
Profit/(loss) on disposal of property, infrastructure, plant and equipment	3,822	4,537
Contributions - Non-monetary assets	(5,371)	(5,020)
Share of net profits (losses) of associates accounted for by the equity method	(187)	(179)
Finance cost	553	517
Prior year WIP expensed	2,351	752
Change in assets and liabilities:		
(Increase)/decrease in trade and other receivables	1,431	(1,202)
(Increase)/decrease in inventories	3	(3)
Decrease in prepayments	207	(28)
Increase/(decrease) in accrued income	6	(340)
Increase/(decrease) in trade and other payables	2,097	423
Increase/(Decrease) in provisions	461	943
Increase/(Decrease) in Trust funds and deposits (including FSPL)	201	73
Net cash provided by/(used in) operating activities	36,091	22,919

Note 29 Financing arrangements

Bank overdraft	1,500	1,500
Credit card facilities	250	250
Borrowings	20,665	16,665
Total facilities	22,415	18,415
Used facilities		
Credit card facilities	(24)	(25)
Borrowings	(13,928)	(11,282)
Total used facilities	(13,952)	(11,307)
Unused facilities	8,463	7,108

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 30 Commitments

The Council has entered into the following commitments

	Not later than 1 year	Later than 1 year and not later than 2 years	Later than 2 years and not later than 5 years	Later than 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2017					
Operating					
Recycling	1,710	1,383	-	-	3,093
Garbage collection	4,058	2,858	-	-	6,916
Meals for delivery	305	305	-	-	610
Roads	4,064	4,075	4,085	-	12,224
Other	1,759	1,252	1,200	-	4,211
Total	11,896	9,873	5,285	-	27,054
Capital					
Buildings	9,889	-	-	-	9,889
Roads	231	15	-	-	246
Other	1,540	-	-	-	1,540
Total	11,660	15	-	-	11,675

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
Note 31 Operating leases		
(a) Operating lease commitments		
At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities):		
Not later than one year	289	718
Later than one year and not later than five years	2,012	2,275
Later than five years	788	373
	<u>3,089</u>	<u>3,366</u>

Note 32 Superannuation

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

Accumulation

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receive both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2017, this was 9.5% as required under Superannuation Guarantee legislation).

Defined Benefit

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

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

Funding arrangements

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

As at 30 June 2016, 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 102.0%. To determine the VBI, the Fund Actuary used the following long-term assumptions:

Net investment returns 7.0% pa

Salary information 4.25% pa

Price inflation (CPI) 2.5% pa.

Vision Super has advised that the estimated VBI at 30 June 2017 was 103.1%.

The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2016 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 2016 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 2017, this rate was 9.5% of members' salaries (9.5% in 2015/2016). This rate will increase in line with any increase to the contribution rate. In addition, Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 32 Superannuation (cont'd)

Funding calls

If the Defined Benefit category is in an unsatisfactory financial position at an actuarial investigation or the Defined Benefit category's VBI is below its shortfall limit at any time other than the date of the actuarial investigation, the Defined Benefit category has a shortfall for the purposes of SPS 160 and the Fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring. The Fund monitors its VBI on a quarterly basis and the Fund has set its shortfall limit at 97%. In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including Council) are required to make an employer contribution to cover the shortfall. Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's Defined Benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated. Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up. If there is a surplus in the Fund, the surplus cannot be returned to the participating employers. In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

2016 Interim actuarial investigation surplus amounts

The Fund's interim actuarial investigation as at 30 June 2016 identified the following in the defined benefit category of which Council is a contributing employer:

A VBI surplus of \$40.3 million; and

A total service liability surplus of \$156 million.

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2016. The total service liability surplus means that the current value of the assets in the Fund's Defined Benefit category plus expected future contributions exceeds the value of expected future benefits and expenses. Council was notified of the 30 June 2016 VBI during August 2016.

2017 Full triennial actuarial investigation

A full actuarial investigation is being conducted for the Fund's position as at 30 June 2017. It is anticipated that this actuarial investigation will be completed in December 2017.

Future superannuation contributions

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2018 are \$130,000.

Note 33 Contingent liabilities and contingent assets

Contingent Liabilities

Defined Benefit Funding Calls

Council has obligations under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme, matters relating to this potential obligation are outlined in **Note 32**. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists. At this point in time it is not known if additional contributions will be required, their timing or potential amount.

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. Council took a bank guarantee for landfill rehabilitation obligation. This bank guarantee is still active and will be fully discharged when Council finishes its 30 years landfill aftercare program.

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

Legal Proceedings

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 34

Financial instruments

(a) Objectives and policies

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

(b) Market risk

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

Interest rate risk

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

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

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

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

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

(c) Credit risk

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

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

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

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

Council may also be subject to credit risk for transactions which are not included in the balance sheet, such as when Council provide a guarantee for another party. Details of our contingent liabilities are disclosed in **Note 33**.

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 33**, 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 26**.

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

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 34 Financial instruments (cont'd)

(e) Fair value

Fair value hierarchy

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

(f) Sensitivity disclosure analysis

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

- A parallel shift of + 0.5 % and -0.25% 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.

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

	2017 No.
Note 35 Related party disclosures	
(i) Related Parties	
<i>Parent entity</i>	
Baw Baw Shire Council has no subsidiaries.	
<i>Associates</i>	
Interests in associates are detailed in Note 15 .	
(ii) Key Management Personnel	
Details of persons holding the position of Councillor or other members of key management personnel at any time during the year are:	
Councillors	
Councillor J Gauci (Mayor since 19 November 2015)	
Councillor P Kostos (Deputy Mayor from 19 November 2015 to 21 October 2016)	
Councillor M Power (Deputy Mayor from 9 November 2016)	
Councillor D Brown (Councillor until 21 October 2016)	
Councillor M Cook (Councillor until 21 October 2016)	
Councillor G Murphy (Councillor until 21 October 2016)	
Councillor T Jones	
Councillor D Balfour (Councillor until 21 October 2016)	
Councillor T Williamson (Councillor until 21 October 2016)	
Councillor J O'Donnell (Councillor from 2 November 2016)	
Councillor K Cook (Councillor from 2 November 2016)	
Councillor D Goss (Councillor from 2 November 2016)	
Councillor M Leaney (Councillor from 2 November 2016)	
Councillor D Wallace (Councillor from 2 November 2016)	
Total Number of Councillors	14
Chief Executive Officer and other Key Management Personnel	7
Total Key Management Personnel	21
(iii) Remuneration of Key Management Personnel	2017 \$,000
Total remuneration of key management personnel was as follows:	
Short-term benefits	1,421
Long-term benefits	27
Post Employment Benefits	117
Total	1,565
The numbers of key management personnel whose total remuneration from Council and any related entities, fall within the following bands:	
	2017 No.
\$1 - \$9,999	5
\$10,000-\$19,999	5
\$20,000 - \$29,999	3
\$40,000 - \$49,999	-
\$50,000 - \$59,999	1
\$60,000 - \$69,999	1
\$90,000 - \$99,999	1
\$100,000 - \$109,999	-
\$140,000 - \$149,999	-
\$150,000 - \$159,999	2
\$200,000 - \$209,999	-
\$210,000 - \$219,999	1
\$220,000 - \$229,999	1
\$240,000 - \$249,999	1
	21
(iv) Transactions with related parties	2017 \$
During the period Council entered into the following transactions with related parties, on normal commercial terms and conditions.	
Councillor Debbie Brown Browns Transport and Earthmoving Pty Ltd	38,359
Councillor Joe Gauci Gauci Electrics Pty Ltd	52,269
Councillor Darren Wallace Beveridge Williams & Co Pty Ltd	572

Notes to the Financial Report

FOR THE YEAR ENDED 30 JUNE 2017

Note 35 Related party disclosures (cont'd)

2017

\$

- (iv) 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.

Cr Mikaela Power

Ms Liana Thompson

Mr Malcolm Lewis

Total Contributions

1,742,232

- (v) **Outstanding balances with related parties**

No Outstanding Balances with related parties are in existence as at balance date.

- (vi) **Loans to/from related parties**

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

- (vii) **Commitments to/from related parties**

No aggregate amount of commitments are in existence at balance date that have been made, guaranteed or secured by the council to a related party.

Note 36 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 \$142,000

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

	2017	2016
Income Range:	No.	No.
\$142,000 - \$149,999	5	7
\$150,000 - \$159,999	4	2
	<u>9</u>	<u>9</u>
	2017	2016
	\$,000	\$,000
Total Remuneration for the reporting year for Senior Officers included above, amounted to:	<u>1,302</u>	<u>1,326</u>

* 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.

Note 37 Events occurring after balance date

No matters have occurred after balance date that require disclosure in the financial report.

Certification of the Financial Statements

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



Malcolm Lewis MBA FCPA
Principal Accounting Officer

Date : 20 September 2017
Trafalgar

In our opinion the accompanying financial statements present fairly the financial transactions of Baw Baw Shire Council for the year ended 30 June 2017 and the financial position of the Council as at that date.

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

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



Councillor Mikaela Power
Councillor

Date : 20 September 2017
Trafalgar



Councillor Danny Goss
Councillor

Date : 20 September 2017
Trafalgar



Alison Leighton
Chief Executive Officer

Date : 20 September 2017
Trafalgar

Independent Auditor's Report

To the Councillors of Baw Baw Shire Council

Opinion	<p>I have audited the financial report of Baw Baw Shire Council (the council) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2017 • comprehensive income statement for the year then ended • statement of changes in equity for the year then ended • statement of cash flows for the year then ended • statement of capital works for the year then ended • notes to the financial statements, including a summary of significant accounting policies • certification of the financial statements. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the council as at 30 June 2017 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>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. My responsibilities under the Act are further described 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 Australia. 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>
Councillors' responsibilities for the financial report	<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, and using the going concern basis of accounting unless it is inappropriate to do so.</p>

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.



MELBOURNE
22 September 2017

Tim Loughnan
as delegate for the Auditor-General of Victoria



Performance Statement

FOR THE YEAR ENDED 30 JUNE 2017

Description of municipality

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

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

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

The council covers an area of 4,027 square kilometres and has a population of 48,072 (estimated resident population as of 30 March 2017).

Sustainable Capacity Indicators

FOR THE YEAR ENDED 30 JUNE 2017

	Indicator/measure	Results 2015	Results 2016	Results 2017	Material Variations and Comments
C1	Population Expenses per head of municipal population [Total expenses / Municipal population]	\$1,406	\$1,550	\$1,551	Council's total expenses were \$74,567,000 during 2016/17, resulting in a cost to deliver Council services per head of population of \$1,551.
C2	Infrastructure per head of municipal population [Value of infrastructure / Municipal population]	\$11,266	\$11,418	\$11,270	The value of the municipality's infrastructure was \$11,270 per head of population. Council increased investment in the annual capital works program by 1.7 per cent, however population increased by 3 per cent resulting in a minor reduction from the previous year.
C3	Population density per length of road [Municipal population / Kilometres of local roads]	26	26	27	There are approximately 27 residents for each kilometre of local roads.
C4	Own-source revenue Own-source revenue per head of municipal population [Own-source revenue / Municipal population]	\$1,080	\$1,190	\$1,212	This indicates Councils capacity to generate own source revenue (mainly rates and user charges) per head of population. The result for 2016/17 reflects a favourable position and ongoing sustainability.
C5	Recurrent grants Recurrent grants per head of municipal population [Recurrent grants / Municipal population]	\$409	\$274	\$462	Council received recurrent grants of \$22,213,000 during the year. The 2015/16 lower result relates to Victoria Grants Commission funding received in the prior year. The 2016/17 result relates to Victoria Grants Commission funding received in advance for the 2017/18 year.
C6	Disadvantage Relative Socio-Economic Disadvantage [Index of Relative Socio-Economic Disadvantage by decile]	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.

Definitions

"adjusted underlying revenue" means total income other than:

- (a) non-recurrent grants used to fund capital expenditure; and
- (b) non-monetary asset contributions; and
- (c) contributions to fund capital expenditure from sources other than those referred to above

"infrastructure" means non-current property, plant and equipment excluding land

"local road" means a sealed or unsealed road for which the council is the responsible road authority under the *Road Management Act 2004*

"population" means the resident population estimated by council

"own-source revenue" means adjusted underlying revenue other than revenue that is not under the control of council (including government grants)

"relative socio-economic disadvantage", in relation to a municipality, means the relative socio-economic disadvantage, expressed as a decile for the relevant financial year, of the area in which the municipality is located according to the Index of Relative Socio-Economic Disadvantage (Catalogue Number 2033.0.55.001) of SEIFA

"SEIFA" means the Socio-Economic Indexes for Areas published from time to time by the Australian Bureau of Statistics on its Internet website

"unrestricted cash" means all cash and cash equivalents other than restricted cash.

Service Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2017

Service/indicator/measure		Results 2015	Results 2016	Results 2017	Material Variations and Comments
AF6	Aquatic Facilities Utilisation Utilisation of aquatic facilities [Number of visits to aquatic facilities / Municipal population]	1.9	1.4	4.7	Council's aquatic facilities include those at Drouin, Neerim South, Rawson, Trafalgar, Thorpdale and the Warragul Leisure Centre. The results for the number of visitors has increased significantly due to the redevelopment and re-opening of the Warragul Leisure Centre.
AM4	Animal Management Health and safety Animal management prosecutions [Number of successful animal management prosecutions]	1	7	9	Council conducted a total of nine successful animal management prosecutions in 2016/17. These prosecutions were conducted in relation to dog attacks, dog rushes and dogs at large offences, and are conducted on an as needs basis or when required under the provisions of the <i>Domestic Animals Act</i> 1994. However, Council's primary strategy is focused on communication and education of pet owners.
FS4	Food Safety Health and safety Critical and major non-compliance outcome notifications [Number of critical non-compliance outcome notifications and major non-compliance outcome notifications about a food premises followed up / Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises] x100	46.5%	40.9%	58.9%	From 1 July 2016, 'Critical and major non-compliance outcome notifications' is reported by calendar year. Previously this indicator was reported by financial year. This has been implemented to better align reporting with the Department of Health and Human Services. This may result in some variances year on year.

Service Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2017

Service/indicator/measure		Results 2015	Results 2016	Results 2017	Material Variations and Comments
G5	Governance Satisfaction Satisfaction with council decisions [Community satisfaction rating out of 100 with how council has performed in making decisions in the interest of the community]	53	47	46	The annual Community Satisfaction Survey assesses the community's satisfaction with Councils performance. Satisfaction with Council decisions was rated as 46 out of 100, one less than obtained in 2015/16.
	Home and Community Care (HACC) Participation Participation in HACC service [Number of people that received a HACC service / Municipal target population for HACC services] x100	44.4%	44.1%	n/a	Reporting on HACC ceased on 1 July 2016 due to the introduction of the Commonwealth Government's National Disability Insurance Scheme (NDIS) and Commonwealth Home Support Program (CHSP).
HC6	Participation Participation in HACC service by CALD people [Number of CALD people who receive a HACC service / Municipal target population in relation to CALD people for HACC services] x100	32.6%	32.2%	n/a	
LB4	Libraries Participation Active library members [Number of active library members / Municipal population] x100	20.8%	19.0%	18.7%	During the year 8,994 active library members borrowed a library collection item, which represents 18.7 per cent of the estimated resident Baw Baw population. This is a decrease from last year's due to the decrease in the library's member's count.
MC4	Maternal and Child Health (MCH) Participation Participation in the MCH service [Number of children who attend the MCH service at least once (in the year) / Number of children enrolled in the MCH service] x100	77.0%	76.1%*	71.2%	During the year, 2,497 children were enrolled in the Maternal Child Health service and 1,777 of those children attended the service at least once during the year. There has been a small decrease in the number of children attending the service and a small increase in children enrolled, which has resulted in an overall decrease in participation in the service

Service Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2017

Service/indicator/measure		Results 2015	Results 2016	Results 2017	Material Variations and Comments
MC5	Participation <i>Participation in the MCH service by Aboriginal children</i> [Number of Aboriginal children who attend the MCH service at least once (in the year) / Number of Aboriginal children enrolled in the MCH service] x100	65.2%	53.1%*	68.5%	compared to the previous year. Forty-five Aboriginal children were enrolled in the Maternal Child Health service and of those, 31 children attended the service at least once during the year. This has been a significant increase on last year. A health screening day was held at the end of 2016 which enabled assessment of some children not seen in a while.

* To ensure comparability of indicators, these comparative figures for 2016 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 2016, as disclosed in the below table.

Service/indicator/measure		Previously reported 2016		Restated in 2016	Reason for restatement
MC4	Maternal and Child Health (MCH) Participation <i>Participation in the MCH service</i>		0.0%	76.1%	In 2016 there was a state wide initiative to transition the majority of councils offering Maternal and Child Health services to a new database. The database was not expected to be able to provide reliable reporting until after the Annual Report deadline, so no result was reported for 2015/16
MC5	Participation <i>Participation in the MCH service by Aboriginal children</i>		0.0%	53.1%	

Service Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2017

Service/Indicator/measure		Results 2015	Results 2016	Results 2017	Material Variations and Comments
R5 SP4 WC5	Roads Satisfaction Satisfaction with sealed local roads [Community satisfaction rating out of 100 with how council has performed on the condition of sealed local roads]	36	38	42	The annual Community Satisfaction Survey assesses the community's satisfaction with Councils performance. Satisfaction with sealed local roads was rated as 42 out of 100, four more than obtained in 2015/16.
	Statutory Planning Decision making Council planning decisions upheld at VCAT [Number of VCAT decisions that did not set aside Councils decision in relation to a planning application / Number of VCAT decisions in relation to planning applications] x100	75.0%	62.5%	57.1%	During the 2016/17 year, the number of planning applications appealed decreased. Of those that were appealed, four out of seven Council decisions were upheld compared to five out of eight in 2015/16
	Waste Collection Waste diversion Kerbside collection waste diverted from landfill [Weight of recyclables and green organics collected from kerbside bins / Weight of garbage, recyclables and green organics collected from kerbside bins] x100	53.1%	52.0%	53.0%	The result for this performance measure remains consistent. Over half of the Shire's waste is recycled or placed into the green organics bin, rather than into landfill.
Definitions "Aboriginal child" means a child who is an Aboriginal person "Aboriginal person" has the same meaning as in the Aboriginal Heritage Act 2006 "active library member" means a member of a library who has borrowed a book from the library "annual report" means an annual report prepared by a council under sections 131, 132 and 133 of the Act "CALD" means culturally and linguistically diverse and refers to persons born outside Australia in a country whose national language is not English "class 1 food premises" means food premises, within the meaning of the <i>Food Act 1984</i> , that have been declared as class 1 food premises under section 19C of that Act "class 2 food premises" means food premises, within the meaning of the <i>Food Act 1984</i> , that have been declared as class 2 food premises under section 19C of that Act "Community Care Common Standards" means the Community Care Common Standards for the delivery of HACC services, published from time to time by the Commonwealth "critical non-compliance outcome notification" means a notification received by council under section 19N(3) or (4) of the <i>Food Act 1984</i> , or advice given to council by an authorized officer under that Act, of a deficiency that poses an immediate serious threat to public health "food premises" has the same meaning as in the <i>Food Act 1984</i> "HACC program" means the Home and Community Care program established under the Agreement entered into for the purpose of the Home and Community Care Act 1985 of the Commonwealth "HACC service" means home help, personal care or community respite provided under the HACC program "local road" means a sealed or unsealed road for which the council is the responsible road authority under the <i>Road Management Act 2004</i> "major non-compliance outcome notification" means a notification received by a council under section 19N(3) or (4) of the <i>Food Act 1984</i> , or advice given to council by an authorized officer under that Act, of a deficiency that does not pose an immediate serious threat to public health but may do so if no remedial action is taken "MCH" means the Maternal and Child Health Service provided by a council to support the health and development of children within the municipality from birth until school age "population" means the resident population estimated by council "target population" has the same meaning as in the Agreement entered into for the purposes of the Home and Community Care Act 1985 of the Commonwealth "WorkSafe reportable aquatic safety incident" means an incident relating to a council aquatic facility that is required to be notified to the Victorian WorkCover Authority under Part 5 of the <i>Occupational Health and Safety Act 2004</i> .					

Financial Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2017

Dimension/indicator/measure	Results			Results			Forecasts			Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Efficiency Revenue level										
E1 Average residential rate per residential property assessment [Residential rate revenue / Number of residential property assessments]	\$1,735*	\$1,797*	\$1,846	\$1,761	\$1,780	\$1,807	\$1,835			The average rates payable for each residential property for 2016/17 was \$1,846. This calculation now includes the actual residential rate revenue and as a result the 2014/15 and 2015/16 years figures are being re-stated in 2016/17.
E2 Expenditure level Expenses per property assessment [Total expenses / Number of property assessments]	\$2,721	\$2,729	\$2,930	\$2,771	\$2,851	\$2,887	\$2,984			Council's total expenses were \$74,567,000 during 2016/17, resulting in a cost to deliver Council services per property assessment of \$2,930.
E3 Workforce turnover Resignations and terminations compared to average staff [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100	16.7%	17.5%	17.2%	11.0%	11.1%	11.4%	11.7%			Fifty-six of Councils permanent staff resigned during the year out of a total average of 327 permanent staff. This is consistent with the previous year result.

* To ensure comparability of indicators, these comparative figures for 2015 & 2016 have been amended to accord with the current presentation. The restated comparatives which has changed materially on amounts previously disclosed in the Performance Statements for the year ended 30 June 2015 and 30 June 2016, as disclosed in the below table.

Dimension/indicator/measure	Previously reported		Previously reported		Reason for restatement	
	2015	2016	2015	2016	2015	2016
E1 Efficiency Revenue level	\$1,643	\$1,735	\$1,669	\$1,797		
					For the 2014/15 and 2015/16 years, a pro rata calculation had been used to determine the average residential rate per residential property assessment. This methodology has been reviewed for 2016/17 and previous year data recalculated and updated based on the LGPRF guidelines.	

Financial Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2017

Dimension/indicator/measure		Results 2015	Results 2016	Results 2017	Forecasts				Material Variations and Comments
L1	Liquidity Working capital Current assets compared to current liabilities [Current assets / Current liabilities] x100	206.0%	195.1%	229.5%	159.7%	173.6%	195.1%	166.9%	Council has current assets of \$43,757,000 and current liabilities of \$19,070,000. The result indicates improved working capital and the ability to adequately meet liabilities as they fall due.
	Unrestricted cash Unrestricted cash compared to current liabilities [Unrestricted cash / Current liabilities] x100	13.1%*	49.7%*	27.4%	74.5%	93.4%	104.1%	88.6%	The result indicates Councils ability to meet liabilities as they fall due from available (unrestricted) cash. Budget and future years ratio calculations assume there are no 'other financial assets' and all cash is unrestricted resulting in higher ratio figures for forecasted future years.
Dimension/indicator/measure		Previously reported 2015	Restated in 2015	Previously reported 2016	Restated in 2016	Reason for restatement			
L2	Liquidity Unrestricted cash	82.1%	13.1%	75.1%	49.7%	For the 2014/15 and 2015/16 years, reporting of 'other financial assets' were previously included in 'unrestricted cash'. This has been reviewed as per LGPRF Guidelines for 2016/17 and previous year data recalculated and updated.			

* To ensure comparability of indicators, these comparative figures for 2015 & 2016 have been amended to accord with the current presentation. The restated comparatives which has changed materially on amounts previously disclosed in the Performance Statements for the year ended 30 June 2015 and 30 June 2016, as disclosed in the below table.

Financial Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2017

Dimension/ <i>indicator/measure</i>	Results			Results			Forecasts			Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021			
Obligations Asset renewal Asset renewal compared to depreciation [Asset renewal expense / Asset depreciation] x100	110.3%	118.5%	89.2%	95.9%	58.3%	59.2%	72.4%	Investment in asset renewal was lower than the previous year primarily due to the timing of works associated with the West Gippsland Arts Centre which will be completed in 2017/18.		
O1										
Loans and borrowings Loans and borrowings compared to rates [Interest bearing loans and borrowings / Rate revenue] x100	20.1%	22.9%	26.9%	23.4%	21.3%	20.0%	19.6%	Total debt as a percentage of rates for 2016/17 is approximately 26.9% and is well within Councils Borrowing Policy that allows for a maximum of 40% debt to rates.		
O2										
Loans and borrowings repayments compared to rates [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100	4.0%	4.0%	3.7%	4.1%	2.6%	1.8%	1.0%	Council paid \$1,907,000 in principal and interest against its borrowings compared to rates & charges revenue received of \$52,390,000. The result indicates Councils adequate ability to meet debt commitments from rates revenue.		
O3										
Indebtedness Non-current liabilities compared to own source revenue [Non-current liabilities / Own source revenue] x100	24.4%	31.6%	31.7%	31.4%	29.9%	29.2%	22.2%	The Victorian Auditor General (VAGO) has identified 40% or less as low risk. Council is well within the VAGO threshold of low risk for indebtedness.		
O4										

Financial Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2017

Dimension/indicator/measure		Results			Results			Forecasts			Material Variations and Comments
		2015	2016	2017	2018	2019	2020	2021			
OP1	Operating position Adjusted underlying result Adjusted underlying surplus (or deficit) [Adjusted underlying surplus (deficit)/ Adjusted underlying revenue] x100	7.2%	-5.9%	7.6%	1.2%	-0.6%	0.0%	-0.7%			The 2015/16 result mainly relates to Victoria Grants Commission funding received in the prior year. The 2016/17 result relates to Victoria Grants Commission funding received in advance for the 2017/18 year.
	Stability Rates concentration Rates compared to adjusted underlying revenue [Rate revenue / Adjusted underlying revenue] x100	67.6%	77.1%	64.1%	73.8%	74.3%	74.1%	74.0%			The variation on the previous year result mainly relates to the Victoria Grants Commission funding received in advance for the 2017/18 year.
	Rates effort Rates compared to property values [Rate revenue / Capital improved value of rateable properties in the municipality] x100	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%			Council received \$51,753,000 in rates & charges revenue in 2016/17. The result remains constant at approximately 0.5% due to minimal movement in valuations to movement in rate revenue.
Definitions "adjusted underlying revenue" means total income other than: (a) non-recurrent grants used to fund capital expenditure; and (b) non-monetary asset contributions; and (c) contributions to fund capital expenditure from sources other than those referred to above "adjusted underlying surplus (or deficit)" means adjusted underlying revenue less total expenditure "asset renewal expenditure" means expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability "current assets" has the same meaning as in the AAS "current liabilities" has the same meaning as in the AAS "non-current assets" means all assets other than current assets "non-current liabilities" means all liabilities other than current liabilities "non-recurrent grant" means a grant obtained on the condition that it be expended in a specified manner and is not expected to be received again during the period covered by a Councils Strategic Resource Plan "own-source revenue" means adjusted underlying revenue other than revenue that is not under the control of council (including government grants "population" means the resident population estimated by council "rate revenue" means revenue from general rates, municipal charges, service rates and service charges											
S1											

Other Information

FOR THE YEAR ENDED 30 JUNE 2017

Basis of preparation

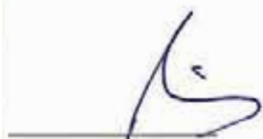
Council is required to prepare and include a performance statement within its annual report. The performance statement includes the results of the prescribed sustainable capacity, service performance and financial performance indicators and measures together with a description of the municipal district 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.

Certification of the Performance Statement

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



Malcolm Lewis MBA FCPA
Principal Accounting Officer
Dated: 20 September 2017

In our opinion, the accompanying performance statement of the Baw Baw Shire Council for the year ended 30 June 2017 presents fairly the results of Councils 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.



Councilor Mikaela Power
Councillor
Dated: 20 September 2017



Councilor Darryn Goss
Councillor
Dated: 20 September 2017



Helen Leighton
Chief Executive Officer
Dated: 20 September 2017

Independent Auditor's Report

To the Councillors of Baw Baw Shire Council

Opinion	<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"> • description of municipality for the year ended 30 June 2017 • sustainable capacity indicators for the year ended 30 June 2017 • service performance indicators for the year ended 30 June 2017 • financial performance indicators for the year ended 30 June 2017 • other information and • the certification of the performance statement. <p>In my opinion, the performance statement of Baw Baw Shire Council in respect of the year ended 30 June 2017 presents fairly, in all material respects, in accordance with the performance reporting requirements of Part 6 of the <i>Local Government Act 1989</i>.</p>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Standards on Assurance Engagements. My responsibilities under the Act are further described 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 Australia 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>
Councillors' responsibilities for the performance statement	<p>The Councillors is 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>

**Auditor's
responsibilities for the
audit of the
performance
statement**

As required by the *Audit Act 1994*, 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. 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 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 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 our 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 statement of performance, including the disclosures, and whether the statement of performance 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.

MELBOURNE
22 September 2017



Tim Loughnan
as delegate for the Auditor-General of Victoria



Contact Us

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