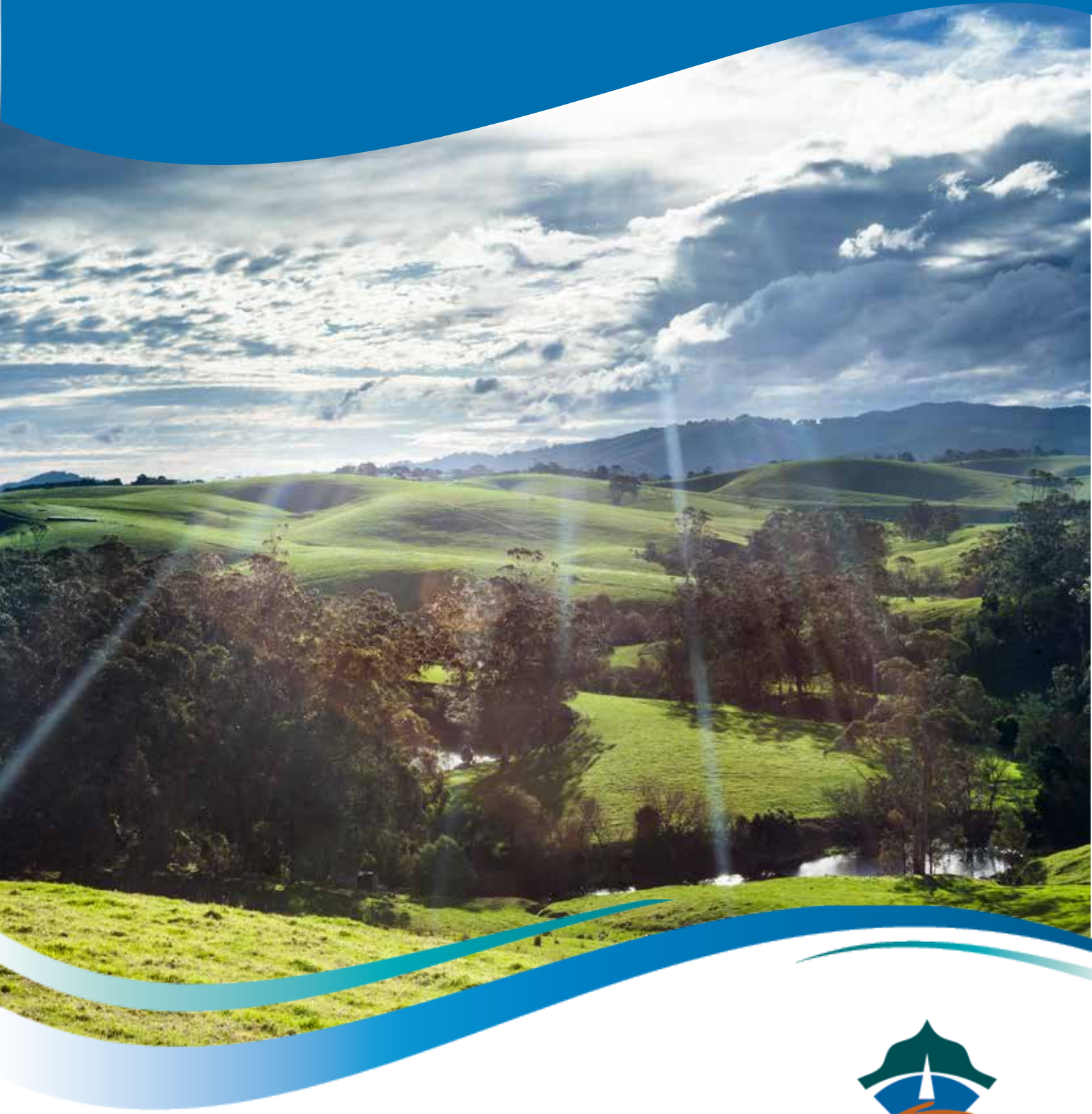


SOUTH GIPPSLAND SHIRE COUNCIL

Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2020



*South Gippsland
Shire Council*

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Certification of the Financials Statements

For the Year Ended 30 June 2020

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

Tracey Costello, CPA
Principal Accounting Officer

Dated: 23 September 2020

Leongatha

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

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

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

Julie Eisenbise
Administrator (Chair)
Dated: 23 September 2020
Leongatha

Rick Brown
Administrator
Dated: 23 September 2020
Leongatha

Kerryn Ellis
Chief Executive Officer
Dated: 23 September 2020
Leongatha

Certification of Financials Statements

For the Year Ended 30 June 2020

VAGO Certificate
Placeholder

Certification of Financials Statements

For the Year Ended 30 June 2020

VAGO Certificate
Placeholder

Comprehensive Income Statement

For the Year Ended 30 June 2020

	Note	2020 \$'000	(Note 9.4) 2019 \$'000
Income			
Rates and charges	3.1	43,908	42,466
Statutory fees and fines	3.2	867	955
User fees	3.3	3,971	4,458
Grants - operating	3.4	15,467	15,365
Grants - capital	3.4	4,548	4,531
Contributions - monetary	3.5a	205	609
Contributions - non monetary	3.5a	188	1,185
Found assets	3.5b	-	348
Net gain (or loss) on disposal of property, infrastructure, plant and equipment	3.6	(68)	12
Fair value adjustments for investment property	6.3	33	(176)
Share of net profits (or loss) of associates and joint ventures	6.2	113	121
Other income	3.7	1,565	1,897
Total income		70,797	71,771
Expenses			
Employee costs	4.1	25,634	26,515
Materials and services	4.2	21,005	24,732
Depreciation	4.3	11,996	11,045
Amortisation - intangible assets	4.4	240	236
Amortisation - right of use assets	4.5	88	-
Assets impaired	6.1	11,419	-
Bad and doubtful debts	4.6	8	22
Borrowing costs	4.7	49	142
Finance costs - leases	4.8	9	-
Other expenses	4.9	3,111	3,383
Total expenses		73,559	66,075
Surplus/(deficit) for the year		(2,762)	5,696
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	6.1	7,285	33,715
Share of other comprehensive income of associate	6.2	70	-
Total comprehensive result		4,593	39,411

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

Balance Sheet

As at 30 June 2020

	Note	2020 \$'000	Restated (Note 9.4) 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1	7,792	7,000
Trade and other receivables	5.1	5,676	5,518
Other financial assets	5.1	30,000	28,273
Inventories	5.2	208	240
Other assets	5.2	218	58
Total current assets		43,894	41,089
Non-current assets			
Other financial assets	5.1	1,000	-
Investments in associates, joint arrangements and subsidiaries	6.2	1,541	1,358
Property, infrastructure, plant and equipment	6.1	555,163	556,132
Right-of-use assets	5.8	179	-
Investment property	6.3	620	587
Intangible assets	5.2	479	705
Total non-current assets		558,982	558,782
Total assets		602,876	599,871
Liabilities			
Current liabilities			
Trade and other payables	5.3	2,762	3,503
Trust funds and deposits	5.3	1,332	1,025
Unearned income	5.3	2,585	-
Provisions	5.5	5,919	5,896
Interest-bearing liabilities	5.4	-	3,350
Lease liabilities	5.8	89	-
Total current liabilities		12,687	13,774
Non-current liabilities			
Provisions	5.5	4,274	3,667
Interest-bearing liabilities	5.4	812	-
Lease liabilities	5.8	94	-
Total non-current liabilities		5,180	3,667
Total liabilities		17,867	17,441
Net assets		585,009	582,430
Equity			
Accumulated surplus		227,587	227,658
Reserves	9.1	357,422	354,772
Total Equity		585,009	582,430

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

Statement of Changes in Equity

For the Year Ended 30 June 2020

2020	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		582,430	227,658	349,793	4,979
Impact of change in accounting policy - AASB 15 Revenue from Contracts with Customers	10	(33)	(33)	-	-
Impact of change in accounting policy - AASB 1058 Income of Not-for-Profit Entities	10	(1,981)	(1,981)	-	-
Impact of change in accounting policy - AASB 16 Leases	5.8	-	-	-	-
Adjusted Opening balance		580,416	225,644	349,793	4,979
Surplus/(deficit) for the year		(2,762)	(2,762)	-	-
Net asset revaluation increment/(decrement)	6.1 / 6.2	7,355	-	7,355	-
Transfers to other reserves	9.1	-	(1,419)	-	1,419
Transfers from other reserves	9.1	-	6,124	-	(6,124)
		4,593	1,943	7,355	(4,705)
Balance at end of the financial year		585,009	227,587	357,148	274

Restated (Note 9.4) 2019		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		543,019	222,537	316,078	4,404
Surplus/(deficit) for the year		5,696	5,696	-	-
Net asset revaluation increment/(decrement)	6.1	33,715	-	33,715	-
Transfers to other reserves	9.1	-	(2,565)	-	2,565
Transfers from other reserves	9.1	-	1,990	-	(1,990)
Balance at end of the financial year		582,430	227,658	349,793	4,979

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 2020

	Note	2020 Inflows/ (Outflows) \$'000	2019 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		43,469	42,323
Statutory fees and fines		867	955
User fees		4,201	4,785
Grants - operating		15,173	15,365
Grants - capital		5,371	4,531
Contributions - monetary		205	609
Interest received		533	686
Trust funds and deposits taken		575	160
Other receipts		1,038	1,249
Net GST refund/payment		3,070	2,643
Employee costs		(24,678)	(26,868)
Materials and services		(24,949)	(27,530)
Short-term, low value and variable lease payments		(10)	-
Trust funds and deposits repaid		(268)	(46)
Other payments		(2,790)	(3,058)
Net cash provided by/(used in) operating activities	9.2	21,807	15,804
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment	6.1	(16,069)	(10,916)
Proceeds from sale of property, infrastructure, plant and equipment		480	803
Payments for investments		(2,727)	(4,007)
Net cash provided by/(used in) investing activities		(18,316)	(14,120)
Cash flows from financing activities			
Finance costs		(68)	(142)
Proceeds from borrowings		812	-
Repayment of borrowings		(3,350)	-
Interest paid - lease liability		(9)	-
Repayment of lease liabilities		(84)	-
Net cash provided by/(used in) financing activities		(2,699)	(142)
Net increase (decrease) in cash and cash equivalents		792	1,542
Cash and cash equivalents at the beginning of the financial year		7,000	5,458
Cash and cash equivalents at the end of the financial year		7,792	7,000
Financing arrangements	5.6		
Restrictions on cash assets	5.1		

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

Statement of Capital Works

For the Year Ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Property			
Land		735	19
Total land		735	19
Buildings		1,542	996
Total buildings		1,542	996
Total property		2,277	1,015
Plant and equipment			
Plant, machinery and equipment		2,140	1,277
Computers and telecommunications		404	481
Total plant and equipment		2,544	1,758
Infrastructure			
Roads		6,429	4,187
Bridges		534	1,583
Major Culverts		46	187
Footpaths and cycleways		878	439
Drainage		152	139
Land stabilisation		1	-
Waste management		-	49
Other infrastructure		3,208	1,559
Total infrastructure		11,248	8,143
Total capital works expenditure		16,069	10,916
Represented by:			
New asset expenditure		-	125
Asset renewal expenditure		13,890	8,949
Asset expansion expenditure		1,887	1,270
Asset upgrade expenditure		292	572
Total capital works expenditure		16,069	10,916

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 2020

OVERVIEW

Introduction

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

The Council's main office is located at 9 Smith Street, Leongatha.

Statement of compliance

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

Significant accounting policies

(a) Basis of accounting

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

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

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

- the fair value of land, buildings, infrastructure, plant and equipment (refer to Note 6.1)
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to Note 6.1)
- the determination of employee provisions (refer to Note 5.5)
- the determination of landfill provisions (refer to Note 5.5)
- the determination of whether performance obligations are sufficiently specific so as to determine whether an arrangement is within the scope of *AASB 15 Revenue from Contracts with Customers* or *AASB 1058 Income of Not-for-Profit Entities* (refer to Note 3)
- the determination, in accordance with *AASB 16 Leases*, of the lease term, the estimation of the discount rate when not implicit in the lease and whether an arrangement is in substance short-term or low value (refer to Note 5.8)
- other areas requiring judgements

Unless otherwise stated, all accounting policies are consistent with those applied in the prior year. Where appropriate, comparative figures have been amended to accord with current presentation (except where transitional requirements of *AASB 15 Revenue from Contracts with Customers*, *AASB 16 Leases* and *AASB 1058 Income of Not-for-Profit Entities* do not require restatement of comparatives under the modified retrospective approach adopted by the Council), and disclosure has been made of any material changes to comparatives.

Notes to the Financial Report

For the Year Ended 30 June 2020

Note 1 Performance against budget

The performance against budget notes compare Council's financial plan, expressed through its annual budget, with actual performance. The *Local Government (Planning and Reporting) Regulations 2014* requires explanation of any material variances. Council has adopted a materiality threshold of the lower of 10 percent or \$100,000 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.

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

1.1 Income and expenditure

	Budget 2020 \$'000	Actual 2020 \$'000	Variance 2020 \$'000	Variance 2020 %	Ref
Income					
Rates and charges	43,869	43,908	39	0%	
Statutory fees and fines	919	867	(52)	-6%	
User fees	4,335	3,971	(364)	-8%	1
Grants - operating	6,609	15,467	8,858	134%	2
Grants - capital	8,407	4,548	(3,859)	-46%	3
Contributions - monetary	1,140	205	(935)	-82%	4
Contributions - non monetary	395	188	(207)	-52%	5
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	146	(68)	(214)	-147%	6
Fair value adjustments for investment property	-	33	33	100%	7
Share of net profits/(losses) of associates and joint ventures	-	113	113	100%	8
Other income	1,711	1,565	(146)	-9%	9
Total income	67,531	70,797	3,266	5%	
Expenses					
Employee costs	24,817	25,634	(817)	-3%	10
Materials and services	21,909	21,005	904	4%	11
Depreciation	11,714	11,996	(282)	-2%	12
Amortisation - Intangible assets	225	240	(15)	-7%	
Amortisation - Right of use assets	-	88	(88)	100%	13
Assets impaired	-	11,419	(11,419)	100%	14
Bad and doubtful debts	-	8	(8)	100%	15
Borrowing costs	108	49	59	55%	16
Finance costs - Leases	-	9	(9)	100%	17
Other expenses	3,581	3,111	470	13%	18
Total expenses	62,354	73,559	(11,205)	-18%	
Surplus/(deficit) for the year	5,177	(2,762)	(7,939)	-153%	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	User fees	Decrease in user fees received at Coal Creek (\$37.5K), Caravan Parks (\$99K), animal registrations (\$60K) and landfills (\$70K) compared to original budget as a result of COVID-19 closures.
2	Grants - operating	50% of Victorian Grants Commission allocation (\$5.7M) relating to 2019-20 was received in advance. In addition, grants for the Long Jetty Restoration (\$971K) and various storm events \$1.2M were carried forward from the prior year and received in 2020.
3	Grants - capital	Grants originally budgeted for, but not received in 2019-20 include Leongatha Business Precinct Project (\$850K), Community Hub - Korumburra (\$354K), Great Southern Rail Trail (\$1.5M), Timms Road Bridge (\$240K), Mirboo North Pool Refurbishment (\$435K) and Baromi Park (\$205K). These projects have been carried forward to 2020-21.
4	Contributions - monetary	Contributions for the Mirboo North Pool Refurbishment (\$700K), Poowong Netball Court (\$50K) and Leongatha Netball Court (\$75K) in the original budget have not been received. These projects have been carried forward to 2020-21.

Notes to the Financial Report

For the Year Ended 30 June 2020

5	Contributions - non-monetary	Original budget consistent with non-monetary contributions received in 2018-19. No developments were completed in 2019-20. Contributions received largely relate to Waterway infrastructure donated.
6	Net gain/(loss) on disposal of property, infrastructure, plant and equipment	Sale of various plant and equipment carried forward to 2020-21. In addition, proceeds of sale lower than expected for a number of disposals.
7	Fair value adjustments for investment property	Fair value adjustments for investment property are not budgeted for.
8	Share of net profits/(losses) of associates and joint ventures	Council share of surplus or deficit is not budgeted for.
9	Other income	Reduced legal costs in pursuing unpaid rates than originally budgeted, resulting in a corresponding lower reimbursement (through other income) of these fees.
10	Employee costs	Administrator wages (\$300K) were not included in the original budget. Remaining variance due to capital wages reclassified to operating.
11	Materials and services	Lower materials and services is due to major projects, Leongatha Soccer Club Lights and Pitch Upgrade (\$102K) and Leongatha Gymnastics Extension (\$203K) carried forward to 2020-21, and Agnes Falls (\$426K) not continuing.
12	Depreciation	Increased depreciation compared to the original budget is due to additions and changes in valuation of fixed assets.
13	Amortisation - Right of use assets	Amortisation of Right of use assets is new in 2020 due to a new accounting standard. Amortisation of Right of use assets were not previously budgeted for.
14	Assets impaired	Impairment loss on land under roads was not budgeted for.
15	Bad and doubtful debts	Bad and doubtful debts were not budgeted for.
16	Borrowing costs	The original budget included interest and loan repayments on a loan for the Mirboo North Pool construction. As the majority of the works were carried forward to 2020-21, the loan has been deferred to 2020-21 as well.
17	Finance costs - Leases	Finance costs on leases were new in 2020 due to a new accounting standard. Finance costs on leases were not previously budgeted for.
18	Other expenses	The original budget included \$315K for Councillor allowances that were not paid and \$400K for projects for the West Gippsland Regional Library that were not spent of which half has been carried forward to 2020-21.

Notes to the Financial Report

For the Year Ended 30 June 2020

1.2 Capital works

	Budget 2020 \$'000	Actual 2020 \$'000	Variance \$'000	Variance %	Ref
Property					
Land	-	735	735	100%	1
Total land	-	735	735	100%	
Buildings	4,693	1,542	(3,151)	-67%	2
Total buildings	4,693	1,542	(3,151)	-67%	
Total property	4,693	2,277	(2,416)	-51%	
Plant and equipment					
Plant, machinery and equipment	3,615	2,140	(1,475)	-41%	3
Computers and telecommunications	1,999	404	(1,595)	-80%	4
Total plant and equipment	5,614	2,544	(3,070)	-55%	
Infrastructure					
Roads	6,809	6,429	(380)	-6%	5
Bridges	916	534	(382)	-42%	6
Major Culverts	95	46	(49)	-52%	7
Footpaths and cycleways	2,801	878	(1,923)	-69%	8
Drainage	100	152	52	52%	9
Land Stabilisation	-	1	1	100%	
Other infrastructure	11,421	3,208	(8,213)	-72%	10
Total infrastructure	22,142	11,248	(10,894)	-49%	
Total capital works expenditure	32,449	16,069	(16,380)	-50%	
Represented by:					
New asset expenditure	-	-	-	0%	
Asset renewal expenditure	27,889	13,890	(13,999)	-50%	
Asset expansion expenditure	796	1,887	1,091	137%	
Asset upgrade expenditure	3,764	292	(3,472)	-92%	
Total capital works expenditure	32,449	16,069	(16,380)	-50%	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Land	Land purchased relates to purchase of land in Foster for a future new depot site that was not in the original budget.
2	Buildings	Capital works on the Korumburra Community Hub (\$2.2M) and Renewal Program (\$435K) have been deferred and carried forward to 2020-21.
3	Plant, machinery and equipment	Purchases of a number of various plant items have been deferred to 2020-21.
4	Computers and telecommunications	Projects and purchases of various items have been deferred to 2020-21.
5	Roads	Capital works on the sealed rehabilitation program and reseals program overall were \$430K lower than budgeted and carried forward to 2020-21.
6	Bridges	Capital works on Timms Road Bridge (\$425K) and Bass Valley Road Bridge (\$101K) have been deferred and carried forward to 2020-21. This is offset by works on Standfields Bridge (\$111K) brought forward from 2020-21 and Ruby Arawata Road Bridge (\$70K) carried forward from 2018-19.
7	Major culverts	Capital works on Harding and Lawsons Road, Fish Creek (\$40) deferred and carried forward to 2020-21.
8	Footpaths and cycleways	Capital works on Jumbunna Road, Korumburra (\$593K) deferred and carried forward to 2020-21.
9	Drainage	Capital works on Sanders Lane, Korumburra were carried forward from 2018-19.
10	Other infrastructure	Capital works on Mirboo North Pool (\$4.5M), Leongatha Business Precinct Project (\$1.7M) and Great Southern Rail Trail (\$1.8M) deferred and carried forward to 2020-21.

Notes to the Financial Report

For the Year Ended 30 June 2020

Note 2 Analysis of Council results by program

Council delivers its functions and activities through the following programs.

2 (a) Corporate and Community Services Management

The Corporate and Community Services Directorate Management is accountable for ensuring that Council's objectives for the Directorate are achieved through the following Departments:

- Community Services;
- Finance, Risk & Procurement; and
- Innovation & Council Business.

Together these Departments provide strategic policy advice to Councillors/Administrators to inform their decisions, coordinate the preparation of the four year Council Plan, plan for long term financial sustainability, facilitate community strengthening programs, manage corporate technologies and systems and implement strategic directions relevant to the Directorate once set by Council. This department also contains Community Strengthening and Community Grants that connect and support community groups, volunteers, committees and other Council Departments, to provide services beyond those that Council, by itself, can deliver.

Community Services

The Community Services Department provide policy advice and program delivery for the following services:

- Aged & Disability Services, including Home and Community Care and Disability Service support;
- Children and Family Services; including Maternal and Child Health; Immunisation, Pre-school and Playgroup support;
- Libraries; and
- Create the Municipal Public Health and Wellbeing Plan.

Together these teams work towards creating a collaborative, self-supporting community.

Finance, Risk and Procurement

The Finance, Risk and Procurement Department deliver financial planning, budget management oversight, risk management coordination and procurement coordination for the organisation. The Department comprises:

- Accounting which includes strategic financial advice, accounting systems and services, management accounting support and financial reporting;
- Rates and Valuations which includes property valuations for rating purposes and administration of rate collection; and
- Risk and Procurement which includes contract and quotation management, risk and insurance management, internal audit and regulatory compliance and responds to Freedom of Information requests and Privacy enquiries.

Together the teams improve the financial sustainability of Council by pursuing continuous improvement in processes and procedures, pro-actively managing risks, sustainably managing finances and gaining efficiencies through procurements.

Innovation & Council Business

The Innovation and Council Business Department leads organisation wide planning and implementation of good governance, innovation, technology and corporate information management practices. The Department comprises:

- Corporate Planning and Council Business incorporating policy development and review, Council elections, Council meetings, briefings and public presentation coordination, corporate planning and reporting and community engagement to inform the Council Plan and annual initiatives for the Budget;
- Innovation incorporates information technology strategy, policy, planning, project development and delivery, systems management and on-going management of hardware and software; and
- Corporate Information Management incorporates strategy, policies, systems' coordination and operational support to capture, and manage and archive corporate records.

Development Services Management

The Development Services Management unit is accountable for ensuring that Council's objectives for the Development Services Directorate are achieved through the following Departments:

- Planning;
- Regulatory Services; and
- Economic Development and Tourism

Together these Departments provide strategic policy advice to Councillors/Administrators to inform their decisions, undertake regional advocacy to facilitate planned growth in the Shire, education and enforcement activities and implement the strategic directions set by Council relevant to the Directorate.

Notes to the Financial Report

For the Year Ended 30 June 2020

Economic Development and Tourism Management

The Economic Development and Tourism Department strategically plans for and facilitates economic expansion and investment within the Shire by actively promoting and supporting sustainable industry and business and tourism development. The Department manages Council's Coal Creek Community Park & Museum which aims to enhance the liveability of the Shire as the largest cultural heritage site in South Gippsland.

Planning

The Planning Department provides statutory, strategic and social planning services to the community to provide for development, land use and community policy. The Department actively supports planned growth across the municipality, protects and enhances the unique identity and liveability of local districts and advocates to other levels of government and stakeholders for developments that will prosper the Shire.

Regulatory Services

The Regulatory Services Department is responsible for administration, education and enforcement of varied Victorian legislation along with Council's General Local Laws. Services include

- animal management;
- building and planning enforcement;
- fire prevention;
- Local Law development and enforcement;
- Litter prevention;
- permits for places of public entertainment;
- parking control;
- registration of food, health and accommodation premises;
- report and consent applications for new building work;
- school crossings; and
- wastewater.

Executive Services

The Executive Office is accountable for ensuring that Council's objectives for the Council Plan are achieved through the allocation of appropriate resources, the provision of strategic policy and legal advice to Council and the establishment of good government practices to guide the management of the organisation.

Community Information

The Community Information Unit plays a pivotal role in raising community awareness of Council services and strategic directions. It creates a working interface between Council, Council Departments and the Community through customer services, media management, publishing material, social media, website management and internal liaison.

People & Culture

People & Culture ensures our people are developed and supported so they have the opportunity to deliver services to the best of their ability for the benefit of the community. The team's contribution to employee and organisation success is achieved through business partnership with Directorates using People & Culture processes and systems; developing employee work environment, mindset and culture; providing People & Culture expertise in role, work design, staffing, professional development, performance, remuneration, recognition, OHS, return to work, and wellbeing.

Infrastructure Management

The Infrastructure Directorate is accountable for ensuring that Council's objectives for the Directorate are achieved through the following Departments:

- Infrastructure Planning;
- Infrastructure Delivery; and
- Operations.

Together these Departments provide strategic policy advice to Councillors/Administrators to inform their decisions, prepare and deliver the Capital Works Program and Asset Management Plans, along with maintaining infrastructure, parks, gardens and public places.

Infrastructure Planning

The Infrastructure Planning Department assists Council in achieving the objectives of its strategies and plans by providing services that contribute to a closely connected and engaged community.

Services include managing Council's property portfolio (acquisition, disposal, leasing, and licensing of property), planning for and managing Council's building and recreational assets, managing waste disposal services, and promotion of a sustainable environment and solutions.

The teams support and partner with a strong volunteer base to deliver a variety of community projects and education programs for all age groups and abilities.

Notes to the Financial Report

For the Year Ended 30 June 2020

Infrastructure Delivery

The Infrastructure Delivery Department assists Council in achieving the objectives of its strategies and plans by planning for and providing integrated services and community infrastructure. Services include coordinating and delivering Council's civil works design program for community infrastructure, determining future capital / community infrastructure projects for inclusion in the 15 Year Capital Works Program, and delivery of the annual Capital Works Program including community infrastructure projects (Major Capital Projects). The department also delivers a range of services including contract management, preparing funding submissions for community projects, issuing engineering conditions for developments referred from Planning, and managing Council's infrastructure assets which incorporates the collection, management, and analysis of asset data.

Operations

The Operations Department assists Council in achieving the objectives of its strategies and plans by planning for and providing integrated services and infrastructure in order to meet current and future needs of the community. Services include delivering maintenance, construction, replacements and capital programs for roads, streets, drainage, culverts, bridges, parks, gardens, and playgrounds. The Department is also responsible for cleaning Council owned and managed public toilets and BBQ amenities, workshop operations, fleet and plant and the after-hours operations call out service. All services are to be in accordance with the Road Management Act, Road Management Plan, and associated Asset Management Plans.

Notes to the Financial Report

For the Year Ended 30 June 2020

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

	Income	Expenses	Surplus/(Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2020					
Corporate and Community Services Management	-	1,678	(1,678)	-	1,541
Community Services	1,526	3,438	(1,912)	1,433	-
Finance, Risk & Procurement	47,313	31,229	16,084	6,358	45,306
Innovation & Council Business	-	2,409	(2,409)	-	865
Development Services Management	-	159	(159)	-	-
Economic Development & Tourism Management	1,013	2,089	(1,076)	13	-
Planning	819	1,495	(676)	216	-
Regulatory Services	1,106	1,707	(601)	71	-
Executive Services	-	548	(548)	-	-
Community Information	-	795	(795)	-	-
People & Culture	216	1,168	(952)	-	-
Infrastructure Management	-	274	(274)	-	-
Infrastructure Planning	6,226	9,162	(2,936)	359	547,387
Infrastructure Delivery	6,549	4,250	2,299	6,244	-
Operations	6,029	13,158	(7,129)	5,321	7,777
	70,797	73,559	(2,762)	20,015	602,876

	Income	Expenses	Surplus/(Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2019					
Corporate and Community Services Management	-	1,710	(1,710)	-	1,358
Community Services	2,691	5,542	(2,851)	2,244	-
Finance, Risk & Procurement	47,229	18,261	28,968	6,448	41,436
Innovation & Council Business	-	2,351	(2,351)	-	1,238
Development Services Management	-	276	(276)	-	-
Economic Development & Tourism Management	1,225	2,323	(1,098)	73	-
Planning	942	1,530	(588)	117	-
Regulatory Services	1,112	1,763	(651)	79	-
Executive Services	-	1,106	(1,106)	-	-
Community Information	-	776	(776)	-	-
People & Culture	343	1,331	(988)	-	-
Infrastructure Management	-	262	(262)	-	-
Infrastructure Planning	6,349	10,284	(3,935)	367	548,497
Infrastructure Delivery	7,348	6,456	892	6,888	-
Operations	4,532	12,104	(7,572)	3,680	7,342
	71,771	66,075	5,696	19,896	599,871

Notes to the Financial Report

For the Year Ended 30 June 2020

Note 3 Funding for the delivery of our services

3.1 Rates and charges

2020
\$'000

2019
\$'000

Council uses Capital Improved Value (CIV) as the basis of valuation of all properties within the municipal district. The capital value of a property is the value that it could be reasonably expected to sell for on the open market.

The valuation base used to calculate general rates for 2019/20 was \$8,876 million (2018/19 \$8,080 million).

General rates	39,966	38,714
Waste management charge	3,261	3,159
Special rates and charges	7	5
Supplementary rates and rate adjustments	305	227
Interest on rates and charges	179	175
Revenue in lieu of rates	190	186
Total rates and charges	43,908	42,466

The date of the latest general revaluation of land for rating purposes within the municipal district was 1 January 2020, and the valuation will be first applied in the rating year commencing 1 July 2020.

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

3.2 Statutory fees and fines

Land information certificates	36	39
Local laws	109	107
Building services	177	183
Statutory planning	460	532
Supervision fees	72	82
Others	13	12
Total statutory fees and fines	867	955

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.

3.3 User fees

Aged and health services	306	617
Leisure centre and recreation	22	75
Local Laws	439	420
Waste management services	2,261	2,264
Caravan parks	826	918
Other fees and charges	117	164
Total user fees	3,971	4,458
User fees by timing of revenue recognition		
User fees recognised over time	826	918
User fees recognised at a point in time	3,145	3,540
Total user fees	3,971	4,458

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

3.4 Funding from other levels of government

Grants were received in respect of the following :

Summary of grants

Commonwealth funded grants	15,142	14,679
State funded grants	4,873	5,217
Total grants received	20,015	19,896

(a) Operating Grants

Recurrent - Commonwealth Government

Financial Assistance Grants	10,603	9,865
Immunisation	3	3
Home & Community Care	263	766

Recurrent - State Government

Valuation Services	165	198
Family and children	221	234
Home & Community Care	95	495
Youth Services	66	-
School crossing supervision	68	72
Community building	63	120
Community health	3	7
Immunisation	13	12
Maternal & child health	475	395
Other	4	33
Total recurrent operating grants	12,042	12,200

Notes to the Financial Report

For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
Non-recurrent - Commonwealth Government		
Local Roads & Infrastructure	972	1,943
Sustainability	-	85
Recreation & Leisure	7	60
Non-recurrent - State Government		
Families & Children	48	20
Home & Community Care	32	4
Youth Services	45	25
Maternal & child health	25	-
Fire Services Levy Administration	51	50
Sustainability	84	133
Community Building	42	54
Natural Disasters	1,214	-
Recreation & Leisure	545	559
Others	360	232
Total non-recurrent operating grants	3,425	3,165
Total operating grants	15,467	15,365
(b) Capital Grants		
Recurrent - Commonwealth Government		
Roads to recovery	2,385	1,657
Total recurrent capital grants	2,385	1,657
Non-recurrent - Commonwealth Government		
Roads	400	-
Bridges	309	300
Other Structures	200	-
Non-recurrent - State Government		
Roads	30	1,240
Building	449	375
Bridges	198	309
Footpaths	12	12
Other Structures	577	638
Total non-recurrent capital grants	2,163	2,874
Total capital grants	4,548	4,531
(c) Unspent grants received on condition that they be spent in a specific manner		
Operating		
Balance at start of year	890	772
Received during the financial year and remained unspent at balance date	102	642
Received in prior years and spent during the financial year	(682)	(524)
Balance at year end	310	890
Capital		
Balance at start of year	1,101	674
Received during the financial year and remained unspent at balance date	714	1,012
Received in prior years and spent during the financial year	(988)	(585)
Balance at year end	827	1,101

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

3.5 (a) Contributions	2020 \$'000	2019 \$'000
Monetary	205	609
Non-monetary	188	1,185
Total contributions	393	1,794
<i>Contributions of non monetary assets were received in relation to the following asset classes.</i>		
Roads	2	402
Drains	34	354
Kerb & channels	-	140
Footpaths	7	289
Waterway infrastructure	145	-
Total non-monetary contributions	188	1,185

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

(b) Found Assets

Found assets were recorded in the following asset classes.

Roads	-	104
Drains	-	2
Car Parks	-	99
Footpaths	-	1
Other	-	142
Total found assets	-	348

Found assets are recorded when discovered by Council during maintenance or capital works.

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

Proceeds of sale	480	803
Written down value of assets disposed	(548)	(791)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	(68)	12

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

Notes to the Financial Report

For the Year Ended 30 June 2020

3.7 Other income

	2020 \$'000	2019 \$'000
Interest	527	648
Investment property rental	198	210
Other rent	7	13
Fuel tax credits	139	112
Sales	109	146
Workcover reimbursements	216	340
Other reimbursements	235	267
External private works	17	8
Other	117	153
Total other income	1,565	1,897

Interest is recognised as it is earned.

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

Note 4 The cost of delivering services

4.1 (a) Employee costs

Wages and salaries	22,837	23,614
WorkCover	661	705
Superannuation	2,106	2,176
Fringe benefits tax	30	20
Total employee costs	25,634	26,515

	2020 \$'000	2019 \$'000
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(b) Superannuation

Council made contributions to the following funds:

Defined benefit fund

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	88	136
	88	136
Employer contributions payable at reporting date.	1	19

Accumulation funds

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	2,018	2,040
	2,018	2,040
Employer contributions payable at reporting date.	20	23

Refer to note 9.3 for further information relating to Council's superannuation obligations.

4.2 Materials and services

Waste Management	4,049	3,886
Leisure Centre Operations	1,012	890
Contractors General	4,430	6,511
Software Maintenance	963	1,031
Landfill Rehabilitation	(142)	1,267
Natural disasters	644	332
COVID-19	43	-
Materials General	4,967	4,691
Fuel & Oils	784	964
Advertising & Promotion Costs	197	246
Utilities	943	939
Subscriptions, affiliations and conferences	171	138
Leases & Rentals	73	201
Legal Fees	247	883
Consultancies and projects	493	565
Insurance Premiums	820	686
Plant & Equipment Registrations	133	126
Training expenses	291	301
State levies	886	902
Gippsland Group Training / Labour Hire	1	173
Total materials and services	21,005	24,732

4.3 Depreciation

Property	3,518	3,123
Plant and equipment	1,891	2,124
Infrastructure	6,587	5,798
Total depreciation	11,996	11,045

Refer to note 5.2(c), 5.8 and 6.1 for a more detailed breakdown of depreciation and amortisation charges and accounting policy.

4.4 Amortisation - Intangible assets

Landfill air space	240	236
Total Amortisation - Intangible assets	240	236

4.5 Amortisation - Right of use assets

Property	88	
Total Amortisation - Right of use assets	88	

Notes to the Financial Report

For the Year Ended 30 June 2020

4.6 Bad and doubtful debts

	2020 \$'000	2019 \$'000
General debtors provision	8	22
Total bad and doubtful debts	8	22

Movement in provisions for doubtful debts

Balance at the beginning of the year	160	158
New provisions recognised during the year	10	41
Amounts already provided for and written off as uncollectible	(3)	(19)
Amounts provided for but recovered during the year	(6)	(20)
Balance at end of year	161	160

Provision for doubtful debt is recognised based on an expected credit loss model. This model considers both historic and forward looking information in determining the level of impairment.

4.7 Borrowing costs

Interest - Borrowings	49	142
Total borrowing costs	49	142

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.

4.8 Finance Costs - Leases

Interest - Lease Liabilities	9	-
Total finance costs	9	-

4.9 Other expenses

Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	58	60
Auditors' remuneration - Internal	45	51
Councillors' allowances	-	294
Other allowances	3	1
Library contributions	1,410	1,409
Community & Sporting grants	840	974
Bank Fees & Charges	207	269
Infrastructure assets and work in progress written-off	548	325
Total other expenses	3,111	3,383

Note 5 Our financial position

5.1 Financial assets

(a) Cash and cash equivalents

Cash on hand	3	3
Cash at bank	4,069	3,000
Money market call accounts	3,441	3,997
Term deposits	279	-
Total cash and cash equivalents	7,792	7,000

(b) Other financial assets

Term deposits - current	30,000	28,273
Term deposits - non-current	1,000	-
Total other financial assets	31,000	28,273
Total financial assets	38,792	35,273

Councils cash and cash equivalents are subject to external restrictions that limit amounts available for discretionary use. These include:

- Trust funds and deposits (Note 5.3)	1,332	1,025
Total restricted funds	1,332	1,025
Total unrestricted cash and cash equivalents	6,460	5,975

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	18,059	11,865
- grants recognised as revenue and obtained on the condition that they be expended in a specified manner that had not occurred at balance date (Note 3.4c)	1,137	1,991
- reserve funds allocated for specific future purpose (Note 9.1b)	274	4,979
Total funds subject to intended allocations	19,470	18,835

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

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

Notes to the Financial Report

For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
(c) Trade and other receivables		
Current		
<i>Statutory receivables</i>		
Rates debtors	3,473	3,012
Special rate assessment	5	12
Net GST receivable	461	548
<i>Non statutory receivables</i>		
Grants receivable	42	-
Other debtors	1,856	2,106
Provision for doubtful debts - other debtors	(161)	(160)
Total current trade and other receivables	5,676	5,518
Total trade and other receivables	5,676	5,518

Short term receivables are carried at invoice amount. 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.

(d) Ageing of Receivables

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

Current (not yet due)	788	543
Past due by up to 30 days	257	1,219
Past due between 31 and 180 days	653	171
Past due between 181 and 365 days	45	18
Past due by more than 1 year	10	10
Total trade and other receivables	1,753	1,961

(e) Ageing of individually impaired Receivables

At balance date, other debtors representing financial assets with a nominal value of \$145K (2019: \$145K) were impaired. The amount of the provision raised against these debtors was \$161K (2019: \$160K). They individually have been impaired as a result of their doubtful collection. Many of the long outstanding past due amounts have been lodged with Council's debt collectors or are on payment arrangements.

The ageing of receivables that have been individually determined as impaired at reporting date was:

Current (not yet due)	-	-
Past due by up to 30 days	-	-
Past due between 31 and 180 days	-	-
Past due between 181 and 365 days	-	-
Past due by more than 1 year	145	145
Total trade & other receivables	145	145

Notes to the Financial Report

For the Year Ended 30 June 2020

5.2 Non-financial assets

(a) Inventories

	2020 \$'000	2019 \$'000
Inventories held for distribution	208	240
Total inventories	208	240

Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential. All other inventories, including land held for sale, are measured at the lower of cost and net realisable value. Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

(b) Other assets

Prepayments	218	58
Total other assets	218	58

(c) Intangible assets

Landfill air space	479	705
Total intangible assets	479	705

Landfill \$'000

Gross carrying amount

Balance at 1 July 2019	1,348
Additions from internal developments	-
Other additions	14
Balance at 1 July 2020	1,362

Accumulated amortisation and impairment

Balance at 1 July 2019	643
Amortisation expense	240
Balance at 1 July 2020	883

Net book value at 30 June 2019	705
Net book value at 30 June 2020	479

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

5.3 Payables

(a) Trade and other payables

	2020 \$'000	2019 \$'000
Trade payables	355	2,357
Accrued expenses	2,407	1,146
Total trade and other payables	2,762	3,503

(b) Trust funds and deposits

Refundable deposits	125	130
Fire services levy	616	349
Retention amounts	130	106
Other refundable deposits	461	440
Total trust funds and deposits	1,332	1,025

(c) Unearned income

Grants received in advance - operating	219	-
Grants received in advance - capital	2,272	-
Other	94	-
Total unearned income	2,585	-

Amounts received as deposits and retention amounts controlled by Council are recognised as trust funds until they are returned, transferred in accordance with the purpose of the receipt, or forfeited. Trust funds that are forfeited, resulting in council gaining control of the funds, are to be recognised as revenue at the date of forfeiture.

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 monthly 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.

Other refundable deposits - Other deposits held in trust.

Notes to the Financial Report

For the Year Ended 30 June 2020

5.4 Interest-bearing liabilities	2020	2019
a) Interest-bearing loans	\$'000	\$'000
Current		
Borrowings - secured	-	3,350
	-	3,350
Non-current		
Borrowings - secured	-	-
	-	-
Total	-	3,350

Borrowings are secured by the General Rates of the Council.

The maturity profile for Council's borrowings is:

Not later than one year	-	3,350
Later than one year and not later than five years	-	-
Later than five years	-	-
	-	3,350

b) Interest-bearing construction drawdown facility

Current		
Borrowings - secured	-	-
	-	-
Non-current		
Borrowings - secured	812	-
	812	-
Total	812	-

Council has a construction drawdown facility that is interest-only until the final drawdown has occurred. At the time of the final drawdown the facility will convert to a 10 year principal & interest loan.

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. Council determines the classification of its interest bearing liabilities at initial recognition.

5.5 Provisions

	Employee	Landfill restoration	Total
	\$ '000	\$ '000	\$ '000
2020			
Balance at beginning of the financial year	6,388	3,175	9,563
Additional provisions	3,158	43	3,201
Amounts used	(2,466)	(105)	(2,571)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	58	(58)	-
Balance at the end of the financial year	7,138	3,055	10,193
2019			
Balance at beginning of the financial year	6,714	2,868	9,582
Additional provisions	2,052	1,170	3,222
Amounts used	(2,458)	(842)	(3,300)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	80	(21)	59
Balance at the end of the financial year	6,388	3,175	9,563

Notes to the Financial Statements

For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12		
Annual leave	1,649	1,545
Purchased leave	230	-
Rostered days	378	212
Long service leave	348	1,533
	2,605	3,290
Current provisions expected to be wholly settled after 12		
Annual leave	640	625
Long service leave	2,594	1,876
	3,234	2,501
Total current employee provisions	5,839	5,791
Non-current		
Long service leave	1,299	597
Total non-current employee provisions	1,299	597
Aggregate carrying amount of employee provisions:		
Current	5,839	5,791
Non-current	1,299	597
Total aggregate carrying amount of employee provisions	7,138	6,388

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

Wages and salaries and annual leave

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

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

Long service leave

Liability for long service leave (LSL) is recognised in the provision for employee benefits. LSL is measured at present value. Unconditional LSL is disclosed as a current liability. Conditional LSL that has been accrued, where an employee is yet to reach a qualifying term of employment, is disclosed as a non - current liability.

Key assumptions:

- discount rate	0.293%	1.042%
- index rate	3.000%	4.313%

	2020 \$'000	2019 \$'000
(b) Landfill restoration		
Current	80	105
Non-current	2,975	3,070
	3,055	3,175

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

Key assumptions:

- discount rate	0.717%	1.263%
- index rate	1.470%	2.000%

5.6 Financing arrangements

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

Bank overdraft	500	500
Credit card facilities	350	350
Construction drawdown facility	3,600	-
Total facilities	4,450	850
Used facilities	(866)	(40)
Unused facilities	3,584	810

Notes to the Financial Statements

For the Year Ended 30 June 2020

5.7 Commitments

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

	Not later than 1 year \$'000	Later than 1 year and not later than 2 years \$'000	Later than 2 years and not later than 5 years \$'000	Later than 5 years \$'000	Total \$'000
2020					
Operating					
Transfer Stations	20	-	-	-	20
Kerbside Garbage	1,320	-	-	-	1,320
Libraries	1,472	-	-	-	1,472
General Materials & Services	1,013	233	475	22	1,743
Equipment Hire	8	-	-	-	8
Maintenance Contracts	1,304	-	-	-	1,304
Construction Contracts	111	-	-	-	111
Total	5,248	233	475	22	5,978
Capital					
Buildings	360	-	-	-	360
Plant, machinery and equipment	731	-	-	-	731
Computer and Telecommunications	114	-	-	-	114
Bridges	398	-	-	-	398
Roads	32	-	-	-	32
Footpaths	668	-	-	-	668
Other Structures	5,833	51	-	-	5,884
Total	8,136	51	-	-	8,187
	Not later than 1 year \$'000	Later than 1 year and not later than 2 years \$'000	Later than 2 years and not later than 5 years \$'000	Later than 5 years \$'000	Total \$'000
2019					
Operating					
Transfer Stations	86	-	-	-	86
Litter Bins	194	-	-	-	194
Kerbside Garbage	1,429	-	-	-	1,429
Libraries	1,443	-	-	-	1,443
General Materials & Services	548	136	81	29	794
Equipment Hire	7	-	-	-	7
Maintenance Contracts	21	-	-	-	21
Construction Contracts	339	-	-	-	339
Total	4,067	136	81	29	4,313
Capital					
Buildings	985	-	-	-	985
Plant, machinery and equipment	315	-	-	-	315
Computer and Telecommunications	27	-	-	-	27
Bridges	171	-	-	-	171
Roads	1,863	-	-	-	1,863
Footpaths	194	-	-	-	194
Drainage	33	-	-	-	33
Other Structures	175	-	-	-	175
Total	3,763	-	-	-	3,763

5.8 Leases

Policy applicable before 1 July 2019

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

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

Policy applicable after 1 July 2019

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

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

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

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

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

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

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

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

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

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

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

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

Council has elected to apply the temporary option available under *AASB 16 Leases* which allows not-for-profit entities to not measure right-of-use assets at initial recognition at fair value in respect of leases that have significantly below-market terms.

Right-of-Use Assets

	Property \$'000
Balance at 1 July 2019	254
Additions	13
Amortisation charge	(88)
Balance at 30 June 2020	<u>179</u>

Lease Liabilities

	2020 \$'000
Maturity analysis - contractual undiscounted cash flows	
Less than one year	89
One to five years	94
More than five years	-
Total undiscounted lease liabilities as at 30 June:	<u>183</u>

Lease liabilities included in the Balance Sheet at 30 June:

Current	89
Non-current	94
Total lease liabilities	<u>183</u>

Short-term and low value leases

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

	2020 \$'000
Expenses relating to:	
Short-term leases	10
Leases of low value assets	-
Total	<u>10</u>
Variable lease payments (not included in measurement of lease liabilities)	-

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2020

i. Leases classified as operating leases under AASB 117 Leases

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

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

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

ii. Leases previously classified as finance leases

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

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

Impact on financial statements

On transition to AASB 16 Leases , Council recognised an additional \$254K of right-of-use assets and \$254K of lease liabilities, recognising the difference in retained earnings.

When measuring lease liabilities, Council discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 4.24%.

	2019 \$'000
Operating lease commitment at 30 June 2019 as disclosed in Council's financial statements	280
Discounted using the incremental borrowing rate at 1 July 2019	(16)
Finance lease liability recognised as at 30 June 2019	<u>264</u>
 - Recognition exemption for:	
short-term leases	(10)
leases of low-value assets	-
- Extension and termination options reasonably certain to be exercised	-
- Residual value guarantees	-
- Lease liabilities recognised as at 1 July 2019	<u>254</u>

Notes to the Financial Statements

For the Year Ended 30 June 2020

Note 6 Assets we manage

6.1 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2019						Impairment losses recognised in operating result	Transfers	At Fair Value 30 June 2020
	\$'000	Additions \$'000	Contributions \$'000	Revaluation \$'000	Depreciation \$'000	Disposal \$'000	Write-off \$'000	\$'000	\$'000
Property	127,825	-	-	9,085	(3,518)	(93)	-	(11,419)	124,212
Plant and equipment	8,340	-	-	-	(1,891)	(455)	-	2,440	8,434
Infrastructure	416,520	-	188	(1,800)	(6,587)	-	(321)	6,717	414,717
Work in progress	3,447	16,069	-	-	-	-	(227)	(11,489)	7,800
	556,132	16,069	188	7,285	(11,996)	(548)	(548)	-	555,163

Summary of Work in Progress

	Opening WIP \$'000	Additions \$'000	Write-off \$'000	Transfers \$'000	Closing WIP \$'000
Property	873	2,277	-	(2,332)	818
Plant and equipment	90	2,544	(21)	(2,440)	173
Infrastructure	2,484	11,248	(206)	(6,717)	6,809
Total	3,447	16,069	(227)	(11,489)	7,800

Notes to the Financial Statements

For the Year Ended 30 June 2020

(a) Property

	Land - specialised	Land under roads	Land - non specialised	Total Land	Heritage buildings	Buildings - specialised	Buildings - non specialised	Total Buildings	Work In Progress	Total Property
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	43,465	35,153	4,690	83,308	5,169	126,001	8,123	139,293	873	223,474
Accumulated depreciation at 1 July 2019	-	-	-	-	(3,728)	(84,280)	(6,768)	(94,776)	-	(94,776)
	43,465	35,153	4,690	83,308	1,441	41,721	1,355	44,517	873	128,698
Movements in fair value										
Additions	-	-	-	-	-	-	-	-	2,277	2,277
Contributions	-	-	-	-	-	-	-	-	-	-
Revaluation	5,135	(7,109)	1,153	(821)	1,182	17,840	(699)	18,323	-	17,502
Disposal	(88)	-	(5)	(93)	-	-	-	-	-	(93)
Write-off	-	-	-	-	-	-	-	-	-	-
Transfers	735	-	53	788	-	1,544	-	1,544	(2,332)	-
Impairment losses recognised in operating result	-	(11,419)	-	(11,419)	-	-	-	-	-	(11,419)
	5,782	(18,528)	1,201	(11,545)	1,182	19,384	(699)	19,867	(55)	8,267
Movements in accumulated depreciation										
Depreciation and amortisation	-	-	-	-	(102)	(3,325)	(91)	(3,518)	-	(3,518)
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	(534)	(8,700)	817	(8,417)	-	(8,417)
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	(636)	(12,025)	726	(11,935)	-	(11,935)
At fair value 30 June 2020	49,247	16,625	5,891	71,763	6,351	145,385	7,424	159,160	818	231,741
Accumulated depreciation at 30 June 2020	-	-	-	-	(4,364)	(96,305)	(6,042)	(106,711)	-	(106,711)
	49,247	16,625	5,891	71,763	1,987	49,080	1,382	52,449	818	125,030

The method of calculation of fair value of Land under roads has been changed to better align with the guidance and other councils. The new method has resulted in a decrease in fair value of \$18.5M, and an impairment loss of \$11.4M that has been recognised in operating result.

Notes to the Financial Statements

For the Year Ended 30 June 2020

(b) Plant and Equipment

	Plant machinery and equipment	Fixtures fittings and furniture	Computers and telecomms	Work in Progress	Total plant and equipment
	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	14,169	200	3,388	90	17,847
Accumulated depreciation at 1 July 2019	(7,067)	(174)	(2,176)	-	(9,417)
	7,102	26	1,212	90	8,430
Movements in fair value					
Additions	-	-	-	2,544	2,544
Contributions	-	-	-	-	-
Revaluation	-	-	-	-	-
Disposal	(1,279)	-	-	-	(1,279)
Write-off	-	-	-	(21)	(21)
Transfers	2,142	4	294	(2,440)	-
Impairment losses recognised in operating result	-	-	-	-	-
	863	4	294	83	1,244
Movements in accumulated depreciation					
Depreciation and amortisation	(1,220)	(4)	(667)	-	(1,891)
Accumulated depreciation of disposals	824	-	-	-	824
Impairment losses recognised in operating result	-	-	-	-	-
Transfers	-	-	-	-	-
	(396)	(4)	(667)	-	(1,067)
At fair value 30 June 2020	15,032	204	3,682	173	19,091
Accumulated depreciation at 30 June 2020	(7,463)	(178)	(2,843)	-	(10,484)
	7,569	26	839	173	8,607

Notes to the Financial Statements

For the Year Ended 30 June 2020

	Roads	Bridges	Major culverts	Footpaths & cycleways	Kerb & channel	Off street car parks	Drainage	Waterway Infrastructure	Land Stabilisation	Waste Management	Other Infrastructure	Work In Progress	Total Infrastructure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
at fair value 1 July 2019	358,279	56,270	13,807	17,319	18,553	6,899	40,651	399	6,142	4,303	12,989	2,484	538,095
accumulated depreciation at 1 July 2019	(42,253)	(40,003)	(5,540)	(1,854)	(1,256)	(476)	(16,385)	-	(2,510)	(2,102)	(6,712)	-	(119,091)
	316,026	16,267	8,267	15,465	17,297	6,423	24,266	399	3,632	2,201	6,277	2,484	419,004
movements in fair value													
additions	-	-	-	-	-	-	-	-	-	-	-	11,248	11,248
contributions	2	-	-	7	-	-	34	707	-	-	-	-	750
evaluation	3,339	956	743	(753)	8,108	67	(290)	-	107	-	(1,077)	-	11,200
disposal	-	-	-	-	-	-	-	-	-	-	-	-	-
write-off	-	-	-	-	-	(22)	(21)	-	(189)	-	(330)	(206)	(768)
transfers	4,467	724	46	430	-	-	138	-	-	-	912	(6,717)	-
impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-	-	-
	7,808	1,680	789	(316)	8,108	45	(139)	707	(82)	-	(495)	4,325	22,430
movements in accumulated depreciation													
depreciation and amortisation	(3,338)	(401)	(122)	(241)	(222)	(445)	(338)	(12)	(121)	(466)	(881)	-	(6,587)
accumulated depreciation of disposals	-	-	-	-	-	2	9	-	76	-	154	-	241
contributions	-	-	-	-	-	-	-	(562)	-	-	-	-	(562)
evaluation	(823)	(699)	(3,873)	(271)	(3,458)	(3,291)	(2,527)	-	1,287	-	655	-	(13,000)
impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-	-	-
transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
	(4,161)	(1,100)	(3,995)	(512)	(3,680)	(3,734)	(2,856)	(574)	1,242	(466)	(72)	-	(19,908)
at fair value 30 June 2020	366,087	57,950	14,596	17,003	26,661	6,944	40,512	1,106	6,060	4,303	12,494	6,809	560,525
accumulated depreciation at 30 June 2020	(46,414)	(41,103)	(9,535)	(2,366)	(4,936)	(4,210)	(19,241)	(574)	(1,268)	(2,568)	(6,784)	-	(138,999)
	319,673	16,847	5,061	14,637	21,725	2,734	21,271	532	4,792	1,735	5,710	6,809	421,526

at fair value and accumulated depreciation as at 1 July 2019 have been restated from the previous reporting period in the roads, waterway infrastructure and land stabilisation infrastructure classes. Refer to Note 9.4 for further information about the restatement.

Notes to the Financial Statements

For the Year Ended 30 June 2020

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

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

	Depreciation Period	Threshold Limit
<i>Asset recognition thresholds and depreciation periods</i>		\$'000
Land & land improvements		
land	-	No Threshold
land improvements	-	10
Buildings		
heritage buildings	100 years	15
buildings	20 to 50 years	15
building and leasehold improvements	20 to 50 years	15
Plant and Equipment		
plant, machinery and equipment	1 to 20 years	No Threshold
fixtures, fittings and furniture	1 to 5 years	15
computers, software and telecommunications	1 to 5 years	15
Infrastructure		
roads - pavements and substructure	130 years	No Threshold
roads - seals	15 to 25 years	No Threshold
roads - formation and earthworks	-	No Threshold
roads - kerb and channel	120 years	15
bridges	150 years	15
major culverts	120 years	15
footpath and cycleways	90 years	15
off street car parks pavement	130 years	15
off street car parks seal	15 years	15
drainage	120 years	15
waterway infrastructure	60 years	15
land stabilisation	50 years	15
waste management	4 to 50 years	15
other structures	10 to 40 years	15
Intangible assets		
landfill air space	4 to 6 years	No Threshold
Right-of-use assets		
building	3 years	10

Land under roads

Council recognises land under roads it controls at fair value.

Depreciation and amortisation

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

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

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

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

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

Repairs and maintenance

Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold the cost is capitalised and depreciated. The carrying value of the replaced asset is expensed.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Valuation of land and buildings

Valuation of land and buildings were undertaken by a qualified valuer Joshua Kilgour, FAPI (council employee). The valuation of land and buildings is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions the valuation is reduced to reflect this limitation. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the comprehensive income statement.

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

Any significant movements in the unobservable inputs for land and land under roads will have a significant impact on the fair value of these assets. The market is being impacted by the uncertainty caused by the COVID-19 pandemic. This valuation is current at the date of valuation only. The value reported may change significantly and unexpectedly over a relatively short period of time including as a result of factors that the Valuer could not reasonably have been aware of as at the date of valuation.

The date of the current valuation is detailed in the following table.

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

	Level 1	Level 2	Level 3	Date of Valuation
Land	-	5,891	-	30/06/2020
Specialised land	-	-	65,872	30/06/2020
Heritage Buildings	-	-	1,987	30/06/2020
Buildings	-	1,382	-	30/06/2020
Specialised Buildings	-	-	49,080	30/06/2020
Total	-	7,273	116,939	

Valuation of infrastructure

Valuation of infrastructure assets has been determined in accordance with a valuation undertaken by Tony Peterson, BE Civil Engineering (Council). The date of the current valuation is detailed in the following table.

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

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

	Level 1	Level 2	Level 3	Date of Valuation
Roads	-	-	319,673	30/06/2020
Bridges	-	-	16,847	30/06/2020
Major culverts	-	-	5,061	30/06/2020
Footpaths & cycleways	-	-	14,637	30/06/2020
Kerb & channel	-	-	21,725	30/06/2020
Off street car parks	-	-	2,734	30/06/2020
Drainage	-	-	21,271	30/06/2020
Seawalls	-	-	532	30/06/2020
Land stabilisation	-	-	4,792	30/06/2020
Other infrastructure	-	-	5,710	30/06/2020
Total	-	-	412,982	

Description of significant unobservable inputs into level 3 valuations

Specialised land and land under roads is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 10% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$1 and \$524 per square metre.

Specialised buildings are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement costs are calculated on a square metre basis and ranges from \$2 to \$150,000 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 20 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.

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 4 years to 150 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

	2020 \$'000	2019 \$'000
Reconciliation of specialised land		
Land under roads	16,625	35,153
Parks and reserves	49,247	43,465
Total specialised land	65,872	78,618

Notes to the Financial Statements

For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
6.2 Investments in associates, joint arrangements and subsidiaries		
(a) Investments in associates		
- West Gippsland Regional Library Corporation	1,541	1,358
West Gippsland Regional Library Corporation		
<i>Background</i>		
Council has a 30.55% equity interest in the West Gippsland Regional Library Corporation in 2019/20 (30.55% in 2018/19). The equity interest is calculated based on the proportion it contributes to the operating costs of the services.		
Fair value of Council's investment in West Gippsland Regional Library Corporation	1,541	1,358
Council's share of accumulated surplus/(deficit)		
Council's share of accumulated surplus(deficit) at start of year	1,046	909
Reported surplus(deficit) for year	113	121
Transfers (to) from reserves	38	16
Council's share of accumulated surplus(deficit) at end of year	1,197	1,046
Council's share of reserves		
Council's share of reserves at start of year	312	328
Asset revaluation	70	-
Transfers (to) from reserves	(38)	(16)
Council's share of reserves at end of year	344	312
Movement in carrying value of specific investment		
Carrying value of investment at start of year	1,358	1,237
Share of surplus(deficit) for year	113	121
Share of asset revaluation	70	-
Carrying value of investment at end of year	1,541	1,358
Council's share of expenditure commitments		
Operating commitments	6	7
Council's share of expenditure commitments	6	7

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.

6.3 Investment property

Balance at beginning of financial year	587	763
Fair value adjustments	33	(176)
Balance at end of financial year	620	587

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.

Valuation of investment property

Valuation of investment property as at 30 June 2020 has been determined in accordance with a valuation by Andrew Begg, AAPI (Council Employee) who has recent experience in the location and category of the property being valued. The valuation is at fair value, based on the current market value for the property.

Notes to the Financial Statements

For the Year Ended 30 June 2020

		2020 No.	2019 No.
te 7 People and relationships			
7.1 Council and key management remuneration			
(a) Related Parties			
<i>Parent entity</i>			
South Gippsland Shire Council is the parent entity.			
<i>Subsidiaries and Associates</i>			
Interests in subsidiaries and associates are detailed in Note 6.2.			
(b) 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:			
Administrators	Julie Eisenbise (from 22 June 2019)	1	1
	Christian Zahra AM (from 24 July 2019)	1	
	Rick Brown (from 24 July 2019)	1	
Councillors	Councillor Lorraine Brunt (to 31 March 2019) (Mayor to 21 November 2018)		1
	Councillor Don Hill (to 21 June 2019) (Mayor from 21 November 2018)		1
	Councillor Aaron Brown (to 12 June 2019)		1
	Councillor Ray Argento (to 21 June 2019)		1
	Councillor Alyson Skinner (to 21 June 2019)		1
	Councillor Jeremy Rich (to 9 May 2019)		1
	Councillor Maxine Kiel (to 26 September 2018)		1
	Councillor Meg Edwards (to 30 October 2018)		1
	Councillor Andrew McEwen (to 21 June 2019)		1
	Councillor Rosemary Cousin (from 31 October 2018 to 21 June 2019)		1
	Councillor James Fawcett (from 13 November 2018 to 31 March 2019)		1
	Councillor Steve Finlay (from 10 April 2019 to 21 June 2019)		1
	Councillor Frank Hirst (from 10 April 2019 to 21 June 2019)		1
	Councillor Matt Sherry (from 5 June 2019 to 21 June 2019)		1
Chief Executive Officer and other Key Management Personnel	Chief Executive Officer - Tim Tamlin (to 24 May 2019)		1
	Chief Executive Officer - Kerry Ellis (from 10 March 2020)	1	
	Director - Corporate & Community - Faith Page (to 19 March 2020)	1	1
	Acting Director - Corporate & Community - Tracey Costello (from 27 March 2020)	1	
	Director - Infrastructure - Anthony Seabrook	1	1
	Director - Development Services (and Acting Chief Executive Officer from 24 May 2019 to 10 March 2020) - Bryan Sword	1	1
	Acting Director - Development Services - Paul Stampton (from 17 July 2019 to 10 March 2020)	1	
Total Number of Administrators		3	1
Total Number of Councillors		-	14
Total of Chief Executive Officer and other Key Management Personnel		6	4
Total Number of Key Management Personnel		9	19
(c) Remuneration of Key Management Personnel		2020	2019
		\$	\$
Total remuneration of key management personnel was as follows:			
Short-term benefits		1,204	1,195
Long-term benefits		17	34
Post employment benefits		116	82
Total		1,337	1,311
The numbers of key management personnel whose total remuneration from Council and any related entities, fall within the following bands:		2020	2019
		No.	No.
\$1 - \$9,999		-	6
\$10,000 - \$19,999		-	2
\$20,000 - \$29,999		-	5
\$40,000 - \$49,999		-	1
\$50,000 - \$59,999		1	-
\$60,000 - \$69,999		-	1
\$80,000 - \$89,999		2	-
\$100,000 - \$109,999		1	-
\$160,000 - \$169,999		3	-
\$210,000 - \$219,999		-	1
\$220,000 - \$229,999		-	1
\$230,000 - \$239,999		1	-
\$250,000 - \$259,999		-	1
\$290,000 - \$299,999		1	-
\$300,000 - \$309,999		-	1
		9	19

Notes to the Financial Statements

For the Year Ended 30 June 2020

(d) Senior Officer Remuneration

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

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

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

Income Range:	2020 No.	2019 No.
Below \$151,000	7	4
\$151,000 - \$159,999	2	4
\$160,000 - \$169,999	3	2
\$170,000 - \$179,999	-	1
\$180,000 - \$189,999	1	-
	13	11

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

1,513

1,486

7.2 Related party disclosure

(a) Transactions with related parties

During the period Council entered into the following transactions with related parties:

Council made contributions to West Gippsland Regional Library Corporation in 2020 of \$1.4M (2019 - \$1.4M).

Employee remuneration under normal employment terms of \$32K (2019 - \$29K).

Administrator Julie Eisenbise is a member of the Victorian Local Government Grants Commission. Council received \$10.6M in 2020 in Financial Assistance grants allocated by commission.

All transactions are in line with normal commercial practice.

(b) Outstanding balances with related parties

There were no balances outstanding at the end of the reporting period in relation to transactions with related parties.

(c) Loans to/from related parties

There were no loans in existence at balance date that have been made, guaranteed or secured by the council to a related party.

(d) Commitments to/from related parties

The aggregate amount of commitments in existence at balance date that have been made, guaranteed or secured by the council to a related party was \$1.5M (2019 - \$1.4M) in relation to the West Gippsland Regional Library Corporation.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Note 8 Managing uncertainties

8.1 Contingent assets and liabilities

(a) Contingent assets

Operating lease receivables

The Council has entered into commercial property leases on its investment and other properties. These properties consist of surplus land and building, including two caravan parks and a quarry. These properties held under operating leases have remaining non-cancellable lease terms of between 1 and 10 years. All leases include a CPI based revision of the rental charge annually.

Future undiscounted minimum rentals receivable under non-cancellable operating leases are as follows:

	2020 \$'000	2019 \$'000
Not later than one year	268	223
Later than one year and not later than five years	556	654
Later than five years	275	325
	<u>1,099</u>	<u>1,202</u>

As a result of COVID-19, Council has suspended rent on a month-to-month basis for a number of properties that is ongoing and will reduce the future minimum rentals actually received.

(b) Contingent liabilities

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

Superannuation

Council has obligations under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme, matters relating to this potential obligation are outlined below. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists.

Landfill

Council operates a landfill. Council will have to carry out site rehabilitation works in the future. At balance date, Council has made necessary provisions for rehabilitation of Landfills that are currently in operation. However, the estimates of provision required is dependent on the accuracy of the forecast, timing of work, work required and related costs.

Liability Mutual Insurance

Council is (was) a participant of the MAV Liability Mutual Insurance (LMI) Scheme. The LMI scheme provides public liability and professional indemnity insurance cover. The LMI scheme states that each participant will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the participant remains a participant in future insurance years.

MAV Workcare

Council is a participant of the MAV WorkCare Scheme. The MAV WorkCare scheme provides workers compensation insurance. The MAV WorkCare Scheme states that each participant will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the participant remains a participant in future insurance years.

(c) Guarantees

Council has the following bank guarantees with Commonwealth Bank of Australia for contract performance and security deposits.

Description	Favouree	Amount
Contract Performance Guarantee	Department of Energy and Minerals	\$15,000
Contract Performance Guarantee	Department of Natural Resources &	\$20,000
Security Deposit Guarantee	Environment Protection Authority	\$425,000
Security Deposit Guarantee	State of Victoria - Environment	\$451,296
Total		\$911,296

Guarantees are not recognised as a liability in the balance sheet unless the favouree has exercised their right to call on the guarantee or Council has other reasons to believe that it is probable that the right will be exercised.

Notes to the Financial Statements

For the Year Ended 30 June 2020

8.2 Change in accounting standards

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

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

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

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

Based on the Council's current assessment, there is expected to be no impact on the transactions and balances recognised in the financial statements as the Council is not a grantor in a service concession arrangement.

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

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

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

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

8.3 Financial instruments

(a) Objectives and policies

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

(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 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.

Notes to the Financial Statements

For the Year Ended 30 June 2020

(c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause Council to make a financial loss. Council have exposure to credit risk on some financial assets included in the balance sheet. Particularly significant areas of credit risk exist in relation to outstanding fees and fines as well as loans and receivables from sporting clubs and associations. To help manage this risk:

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

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

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

Council may also be subject to credit risk for transactions which are not included in the balance sheet, such as when council provide a guarantee for another party. Details of our contingent liabilities are disclosed in Note 8.1(b).

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

(d) Liquidity risk

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

To help reduce these risks Council:

- have 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; and
- monitor budget to actual performance on a regular basis;

The Council's maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed on the face of the balance sheet and the amounts related to financial guarantees disclosed in Note 8.1(c), and is deemed insignificant based on prior periods' data and current assessment of risk.

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

With the exception of borrowings, all financial liabilities are expected to be settled within normal terms of trade. Details of the maturity profile for borrowings are disclosed at Note 5.4.

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

(e) Sensitivity disclosure analysis

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

- A parallel shift of + 1% and -1% in market interest rates (AUD) from year-end rates of 1.41%.

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 Statements

For the Year Ended 30 June 2020

8.4 Fair value measurement

Fair value hierarchy

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

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

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

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

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

Revaluation

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

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use of an asset result in changes to the permissible or practical highest and best use of the asset. In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis every 2 years. The valuation is performed either by experienced council officers or independent experts.

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

Impairment of assets

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

8.5 Events occurring after balance date

Council approved a \$2M community support package for COVID-19 relief in the 2020-21 annual budget.

As a result of the ongoing COVID-19 crisis, the Caravan Parks and Coal Creek Historical Village have continued to remain closed and suspended rent payments for affected business have also continued. Due to regional Victoria returning to Stage 3 restrictions, leisure centres were closed again from 6 August 2020.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Note 9 Other matters

	Balance at beginning of reporting period \$'000	Increment (decrement) \$'000	Share of increment (decrement) on revaluation of Buildings by an associate \$'000	Balance at end of reporting period \$'000
9.1 Reserves				
(a) Asset revaluation reserves				
2020				
Property				
Land & land improvements	34,189	6,288	-	40,477
Land under roads	7,109	(7,109)	-	-
Investment in associates	194	-	-	194
Buildings	28,240	9,258	70	37,568
Heritage buildings	727	648	-	1,375
Plant & Equipment	386	-	-	386
	70,845	9,085	70	80,000
Infrastructure				
Roads	234,248	2,516	-	236,764
Bridges	2,983	257	-	3,240
Major Culverts	4,727	(3,130)	-	1,597
Drainage	10,957	(2,817)	-	8,140
Footpaths and cycleways	5,743	(1,024)	-	4,719
Kerb & Channel	12,339	4,650	-	16,989
Car parks	5,033	(3,224)	-	1,809
Land Stabilisation	685	1,394	-	2,079
Other infrastructure	2,233	(422)	-	1,811
	278,948	(1,800)	-	277,148
Total asset revaluation reserves	349,793	7,285	70	357,148
2019				
Property				
Land & land improvements	34,189	-	-	34,189
Land under roads	7,109	-	-	7,109
Investment in associates	194	-	-	194
Buildings	28,240	-	-	28,240
Heritage buildings	727	-	-	727
Plant & Equipment	386	-	-	386
	70,845	-	-	70,845
Infrastructure				
Roads	191,189	43,059	-	234,248
Bridges	13,012	(10,029)	-	2,983
Major Culverts	4,727	-	-	4,727
Drainage	10,957	-	-	10,957
Footpaths and cycleways	5,743	-	-	5,743
Kerb & Channel	12,339	-	-	12,339
Car parks	5,033	-	-	5,033
Land Stabilisation	-	685	-	685
Other infrastructure	2,233	-	-	2,233
	245,233	33,715	-	278,948
Total asset revaluation reserves	316,078	33,715	-	349,793

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

	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
(b) Other reserves				
2020				
Public Open Space	13	93	-	106
Caravan Parks Reserve	-	922	(922)	-
General Reserve	1,448	404	(1,852)	-
Corner Inlet Reserve	18	-	-	18
Loan Reserve	3,350	-	(3,350)	-
Venus Bay Surf Life Saving Club	150	-	-	150
Total Other reserves	4,979	1,419	(6,124)	274
2019				
Public Open Space	-	239	(226)	13
Caravan Parks Reserve	-	1,054	(1,054)	-
General Reserve	1,705	451	(708)	1,448
Corner Inlet Reserve	19	1	(2)	18
Loan Reserve	2,680	670	-	3,350
Venus Bay Surf Life Saving Club	-	150	-	150
Total Other reserves	4,404	2,565	(1,990)	4,979

Public Open Space

Statutory reserve to be used for the future development of land for public purposes.

Caravan Parks Reserve

Reserve created for future funding of Caravan Parks projects

General Reserve

Reserve to provide for likely defined benefit superannuation funding calls and unforeseen and unavoidable future costs.

Loan Reserve

Reserve created to repay outstanding Loan at the end of its term.

Corner Inlet Reserve

Reserve for maintenance of a seawall to protect private lands from flooding.

Venus Bay Surf Life Saving Club

Reserve to hold funds from a community capital works allocation to allow the club time to attract further funding from other agencies.

Notes to the Financial Statements

For the Year Ended 30 June 2020

9.2 Reconciliation of cash flows from operating activities to surplus/(deficit)	2020 \$'000	2019 \$'000
Surplus/(deficit) for the year	(2,762)	5,696
Depreciation/amortisation	12,324	11,281
Borrowing costs	58	142
Profit/(loss) on disposal of property, infrastructure, plant and equipment	68	(12)
Write-off on disposal of infrastructure assets and work in progress	548	325
Impairment losses	11,419	-
Investment in associates	(113)	(121)
Fair value adjustments for investment property	(33)	176
Contributions - Non-monetary assets	(188)	(1,185)
Found assets	-	(348)
<i>Change in assets and liabilities:</i>		
(Increase)/decrease in trade and other receivables	(126)	92
(Increase)/Decrease in prepayments	(160)	3
(Increase)/decrease in inventories	32	41
Increase/(decrease) in trust funds and deposits	307	114
Increase/(decrease) in trade and other payables	(722)	(380)
Increase/(decrease) in unearned income	539	-
Increase/(decrease) in employee entitlements	750	(326)
Increase/(decrease) in landfill provision	(134)	306
Net cash provided by/(used in) operating activities	21,807	15,804

9.3 Superannuation

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

Accumulation

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2020, this was 9.5% as required under Superannuation Guarantee (SG) legislation).

Defined Benefit

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

There is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of South Gippsland Shire 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.

A triennial actuarial review is currently underway for the Defined Benefit category as at 30 June 2020 and is expected to be completed by 31 December 2020.

As at 30 June 2019, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which South Gippsland Shire Council is a contributing employer was 107.1%. The financial assumptions used to calculate the VBIs were:

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

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

The VBI is used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2019 interim actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

Employer contributions

Regular contributions

On the basis of the results of the 2017 full actuarial investigation conducted by the Fund Actuary, Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2020, this rate was 9.5% of members' salaries (9.5% in 2018/2019). This rate will increase in line with any increases in the SG contribution rate and reviewed as part of the 30 June 2020 triennial valuation.

In addition, Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Funding calls

If the Defined Benefit category is in an unsatisfactory financial position at an actuarial investigation or the Defined Benefit In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including Council) are required to make an employer contribution to cover the shortfall.

Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's Defined Benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up.

If there is a surplus in the Fund, the surplus cannot be returned to the participating employers.

In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

The 2019 interim actuarial investigation surplus amounts

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

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

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

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2019.

The total service liability surplus means that the current value of the assets in the Fund's Defined Benefit category plus expected future contributions exceeds the value of expected future benefits and expenses as at 30 June 2019.

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

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

The 2020 triennial actuarial investigation

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

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

Contributions by Council (excluding any unfunded liability payments) to the above superannuation plans for the financial year ended 30 June 2020 are detailed below:

Scheme	Type of Scheme	Rate	2020 \$,000	2019 \$,000
Vision super	Defined benefit	9.50%	88	136
Vision super	Accumulation fund	9.50%	2,018	2,040

There were \$20K contributions outstanding and no loans issued from or to the above schemes as at 30 June 2020.

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2021 is \$105K.

Notes to the Financial Statements

For the Year Ended 30 June 2020

Funding calls

If the Defined Benefit category is in an unsatisfactory financial position at an actuarial investigation or the Defined Benefit In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including Council) are required to make an employer contribution to cover the shortfall.

Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's Defined Benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up.

If there is a surplus in the Fund, the surplus cannot be returned to the participating employers.

In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

The 2019 interim actuarial investigation surplus amounts

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

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Notes to the Financial Statements

For the Year Ended 30 June 2020

9.4 Correction of prior period error

During the year, Council identified that Guard Rails had been inadvertently excluded from the value of the Roads asset class. In addition, Council identified assets in two new asset classes, Waterway Infrastructure and Land Stabilisation, that were previously unreported as a result of inspections and a review of the asset management system.

Council has since adjusted the errors. The impact of the restatement in the financial statements is as follows:

	2019 as previously presented \$'000	Adjustment \$'000	2019 as restated \$'000	
Impact of change on the comprehensive income statement				
Other comprehensive income				
Items that will not be reclassified to surplus or deficit in future periods				
Net asset revaluation increment/(decrement)	32,070	1,645	33,715	
Total Comprehensive result	37,766	1,246	39,411	
Impact of change on the balance sheet				
Property, infrastructure, plant and equipment	551,540	4,592	556,132	
Total non-current assets	554,190	4,592	558,782	
Total assets	595,279	4,592	599,871	
Net Assets	577,838	4,592	582,430	
Equity				
Accumulated surplus	224,711	2,947	227,658	
Reserves	353,127	1,645	354,772	
Total Equity	546,967	4,592	551,559	
Impact of change on the statement of equity				
	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2019				
Balance at beginning of the financial year as previously presented	540,072	219,590	316,078	4,404
Adjustment	2,947	2,947	-	-
Balance at beginning of the financial year as restated	543,019	222,537	316,078	4,404
Surplus/(deficit) for the year	5,696	5,696	-	-
Net asset revaluation increment/(decrement) as previously presented	32,070	-	32,070	-
Adjustment	1,645		1,645	-
Net asset revaluation increment/(decrement) as restated	33,715	-	33,715	-
Transfers to other reserves	-	(2,565)	-	2,565
Transfers from other reserves	-	1,990	-	(1,990)
Balance at end of the financial year	582,430	227,658	349,793	4,979

Notes to the Financial Statements

For the Year Ended 30 June 2020

10 Change in accounting policy

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

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

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

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

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

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

b) AASB 16 Leases

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

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

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

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

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

d) Transition impacts

The following table summarises the impact of transition to the new standards on retained earnings at 1 July 2019.

	2019 \$'000
Retained earnings at 30 June 2019	227,658
Revenue adjustment - impact of <i>AASB 15 Revenue from Contracts with Customers</i>	(33)
Income Adjustment - impact of <i>AASB 1058 Income of Not-for-Profit Entities</i>	(1,981)
Retained earnings at 1 July 2019	225,644

Council adopted the practical expedient of deeming the lease asset to be equal in value to the lease liability at 1 July 2019. As such there was no impact on retained earnings on the adoption of *AASB 16*

The following table summarises the impacts of transition to the new standards on Council's balance sheet for the year ending 30 June 2019.

	As reported 30 June 2019 \$'000	Adjustments \$'000	Post adoption \$'000
Assets			
Right of use assets	-	254	254
Grants receivable	-	32	32
	-	286	286
Liabilities			
Unearned income - operating grants	-	1,531	1,531
Unearned income - capital grants	-	515	515
Lease liability - current	-	84	84
Lease liability - non-current	-	170	170
	-	2,300	2,300

Notes to the Financial Statements

For the Year Ended 30 June 2020

11 Impact of COVID 19 crisis on South Gippsland Shire Council operations and 2019-20 financial report

On 30 January 2020, COVID 19 was declared a global pandemic by the World Health Organisation. Since then, various measures have been taken by all three levels of Government in Australia to reduce the spread of COVID-19. This crisis and the measure taken to mitigate it has impacted Council operations in the following areas for the financial year ended 30 June 2020:

- In response to government directive amidst the COVID-19 outbreak, the leisure centre facilities, caravan parks and Coal Creek Historical Village were closed at the end of March 2020. These closures resulted in an estimated decrease in council user fee revenue by \$188K and also decreased associated expenses by \$83K based on 2018-19 results.

- Council suspended rent payments for rent agreements of impacted businesses from April 2020. This resulted in decreased rent revenue of \$26K.

- Financial impact from deferral of rates revenue/interest free period is \$2K. This has also resulted in the debtor balance as at 30 June 2020 to increase by \$86K compared to last year.



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South Gippsland Shire Council Meeting No. 449 - 23 September 2020