

SOUTH GIPPSLAND SHIRE COUNCIL

Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2021



*South Gippsland
Shire Council*

Contents

Financial Report	
Certification of the Financial Statements	5
Victorian Auditor-General's Audit Report	6
Financial Statements	
Comprehensive Income Statement	8
Balance Sheet	9
Statement of Changes in Equity	10
Statement of Cash Flow	11
Statement of Capital Works	12
Overview	13
Notes to the Financial Statements	13
Note 1 Performance against budget	14
1.1 Income and expenditure	14
1.2 Capital Works	16
Note 2 Analysis of Council results by program	17
Note 3 Funding for the delivery of our services	21
3.1 Rates and charges	21
3.2 Statutory fees and fines	21
3.3 User fees	21
3.4 Funding from other levels of government	21
3.5 Contributions	22
3.6 Net gain/(loss) on disposal of property, infrastructure, plant and equipment	22
3.7 Other income	23
Note 4 The cost of delivering services	23
4.1 Employee costs	23
4.2 Materials and services	23
4.3 Depreciation	23
4.4 Amortisation - Intangible Assets	23
4.5 Amortisation - Right of Use Assets	23
4.6 Bad and doubtful debts	24
4.7 Borrowing costs	24
4.8 Finance Costs - Leases	24
4.9 Other expenses	24

Contents

Note 5	Our financial position	24
5.1	Financial assets	24
5.2	Non-financial assets	26
5.3	Payables	26
5.4	Interest bearing liabilities	27
5.5	Provisions	27
5.6	Financing arrangements	28
5.7	Commitments	29
5.8	Leases	29
Note 6	Assets we manage	31
6.1	Property infrastructure plant and equipment	31
6.2	Investments in associates, joint arrangements and subsidiaries	38
6.3	Investment property	39
Note 7	People and relationships	40
7.1	Council and key management remuneration	40
7.2	Related party disclosure	41
Note 8	Managing uncertainties	42
8.1	Contingent assets and liabilities	42
8.2	Change in accounting standards	43
8.3	Financial instruments	43
8.4	Fair value measurement	45
8.5	Events occurring after balance date	46
Note 9	Other matters	47
9.1	Reserves	47
9.2	Reconciliation of cash flows from operating activities to surplus/(deficit)	48
9.3	Superannuation	48
Note 10	Change in accounting policy	50



9 Smith Street (Private Bag 4)

Leongatha VIC 3953

Phone: 5662 9200

Fax: 5662 3754

Email: council@southgippsland.vic.gov.au

Websites: www.southgippsland.vic.gov.au www.visitpromcountry.com.au

Facebook: www.facebook.com/southgippslandshirecouncil

Certification of the Financial Statements

For the Year Ended 30 June 2021

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.



Melissa Baker, CPA

Principal Accounting Officer

Date: 15 September 2021

Leongatha

In our opinion, the accompanying financial statements present fairly the financial transactions of South Gippsland Shire Council for the year ended 30 June 2021 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.

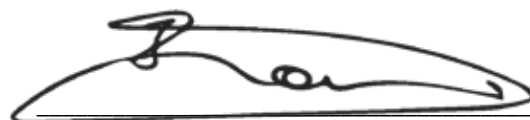


Julie Eisenbise

Administrator (Chair)

Date: 15 September 2021

Leongatha



Rick Brown

Administrator

Date: 15 September 2021

Leongatha



Kerry Ellis

Chief Executive Officer

Date: 15 September 2021

Leongatha

Certification of Financial Statements

For the Year Ended 30 June 2021

VAGO Certificate
Placeholder

Certification of Financial Statements

For the Year Ended 30 June 2021

VAGO Certificate
Placeholder

Comprehensive Income Statement

For the Year Ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Income			
Rates and charges	3.1	45,338	43,908
Statutory fees and fines	3.2	1,087	867
User fees	3.3	3,813	3,971
Grants - operating	3.4	14,408	15,467
Grants - capital	3.4	10,341	4,548
Contributions - monetary	3.5	1,416	205
Contributions - non monetary	3.5	3,598	188
Net gain (or loss) on disposal of property, infrastructure, plant and equipment	3.6	(1,164)	(68)
Fair value adjustments for investment property	6.3	(5)	33
Share of net profits (or loss) of associates and joint ventures	6.3	130	113
Other income	3.7	1,403	1,565
Total income		80,365	70,797
Expenses			
Employee costs	4.1	27,876	25,634
Materials and services	4.2	20,930	21,005
Depreciation	4.3	11,915	11,996
Amortisation - intangible assets	4.4	240	240
Amortisation - right of use assets	4.5	93	88
Assets impaired	6.1	-	11,419
Bad and doubtful debts	4.6	(4)	8
Borrowing costs	4.7	9	49
Finance costs - leases	4.8	6	9
Other expenses	4.9	3,279	3,111
Total expenses		64,344	73,559
Surplus/(deficit) for the year		16,021	(2,762)
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	6.1	14,016	7,285
Share of other comprehensive income of associates and joint ventures	6.2	18	70
Total comprehensive result		30,055	4,593

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

Balance Sheet

As at 30 June 2021

	Note	2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1	10,567	7,792
Trade and other receivables	5.1	5,885	5,676
Other financial assets	5.1	32,279	30,000
Inventories	5.2	210	208
Other assets	5.2	240	218
Total current assets		49,181	43,894
Non-current assets			
Other financial assets	5.1	-	1,000
Non-current assets held for sale	6.2	1,691	1,541
Property, infrastructure, plant and equipment	6.1	587,373	555,163
Right-of-use assets	5.8	86	179
Investment property	6.3	615	620
Intangible assets	5.2	294	479
Total non-current assets		590,059	558,982
Total assets		639,240	602,876
Liabilities			
Current liabilities			
Trade and other payables	5.3	2,944	2,762
Trust funds and deposits	5.3	1,527	1,332
Unearned income	5.3	4,951	2,585
Provisions	5.5	6,617	5,919
Interest-bearing liabilities	5.4	349	-
Lease liabilities	5.8	94	89
Total current liabilities		16,482	12,687
Non-current liabilities			
Provisions	5.5	4,645	4,274
Interest-bearing liabilities	5.4	3,049	812
Lease liabilities	5.8	-	94
Total non-current liabilities		7,694	5,180
Total liabilities		24,176	17,867
Net assets		615,064	585,009
Equity			
Accumulated surplus		243,339	227,587
Reserves	9.1	371,725	357,422
Total Equity		615,064	585,009

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

Statement of Changes in Equity

For the Year Ended 30 June 2021

	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2021					
Balance at beginning of the financial year		585,009	227,587	357,148	274
Impact of change in accounting policy - AASB 1059: Service concession arrangements: grantors	10	-	-	-	-
Adjusted Opening balance		585,009	227,587	357,148	274
Surplus/(deficit) for the year		16,021	16,021	-	-
Net asset revaluation increment/(decrement)	6.1/6,2	14,034	-	14,034	-
Transfers to other reserves	9.1	-	(1,161)	-	1,161
Transfers from other reserves	9.1	-	892	-	(892)
		615,064	243,339	371,182	543
Balance at end of the financial year		615,064	243,339	371,182	543

		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2020					
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		(33)	(33)	-	-
Impact of change in accounting policy - AASB 1058 Income of Not-for-Profit Entities		(1,981)	(1,981)	-	-
Impact of change in accounting policy - AASB 16 Leases		-	-	-	-
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

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 2021

	Note	2021 Inflows/ (Outflows) \$'000	2020 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		45,545	43,469
Statutory fees and fines		1,087	867
User fees		3,812	4,201
Grants - operating		14,212	15,173
Grants - capital		12,903	5,371
Contributions - monetary		1,416	205
Interest received		414	533
Trust funds and deposits taken		425	575
Other receipts		574	1,038
Net GST refund/payment		3,909	3,070
Employee costs		(26,905)	(24,678)
Materials and services		(23,624)	(24,949)
Short-term, low value and variable lease payments		-	(10)
Trust funds and deposits repaid		(276)	(268)
Other payments		(4,192)	(2,790)
Net cash provided by/(used in) operating activities	9.2	29,300	21,807
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment	6.1	(28,673)	(16,069)
Proceeds from sale of property, infrastructure, plant and equipment		980	480
Payments for investments		(1,279)	(2,727)
Net cash provided by/(used in) investing activities		(28,972)	(18,316)
Cash flows from financing activities			
Finance costs		(44)	(68)
Proceeds from borrowings		2,788	812
Repayment of borrowings		(202)	(3,350)
Interest paid - lease liability		(6)	(9)
Repayment of lease liabilities		(89)	(84)
Net cash provided by/(used in) financing activities		2,447	(2,699)
Net increase (decrease) in cash and cash equivalents		2,775	792
Cash and cash equivalents at the beginning of the financial year		7,792	7,000
Cash and cash equivalents at the end of the financial year		10,567	7,792
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 2021

	Note	2021 \$'000	2020 \$'000
Property			
Land		-	735
Total land		-	735
Buildings		1,286	1,542
Total buildings		1,286	1,542
Total property		1,286	2,277
Plant and equipment			
Plant, machinery and equipment		2,884	2,140
Computers and telecommunications		948	404
Total plant and equipment		3,832	2,544
Infrastructure			
Roads		10,225	6,429
Bridges		522	534
Major Culverts		503	46
Footpaths and cycleways		2,283	878
Drainage		36	152
Car Park		2	-
Land stabilisation		41	1
Waste management		20	-
Other infrastructure		9,923	3,208
Total infrastructure		23,555	11,248
Total capital works expenditure		28,673	16,069
Represented by:			
New asset expenditure		-	-
Asset renewal expenditure		25,939	13,890
Asset expansion expenditure		1,259	1,887
Asset upgrade expenditure		1,475	292
Total capital works expenditure		28,673	16,069

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 2021

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, and disclosure has been made of any material changes to comparatives.

(b) Impact of Covid-19

On 16 March 2020 a state of emergency was declared in Victoria due to the global pandemic COVID-19 virus, known as coronavirus. A state of disaster was subsequently declared on 2 August 2020. While the impacts of the pandemic have abated somewhat through the 2020/21 year, Council has noted the following significant impacts on its financial operations:

- - In response to government directive amidst the COVID-19 outbreak, the leisure centre facilities, Yanakie Caravan Park, LJ caravan parks and Coal Creek Historical Village were closed due to Covid-19 restriction in financial year 2020/21. These closures resulted in a decrease in council user fee revenue by \$452K and also decreased associated expenses by \$279K based on 2019/20 results.
- - Council suspended rent payments for rent agreements of impacted businesses from April 2020, including Korumburra Tourist Park and Waratah Bay Caravan Park. This resulted in decreased rent revenue of \$16K and \$75K based on 2019/20 results.
- - Council incurred additional cost of \$1.2 million to cover the cost of Covid-19, while the original budget of Covid-19 was \$2 million and forecast of Covid-19 was \$1.3 million. \$500K has been carried forward to 2021/22.
- - The Working for Victoria initiative is part of the Victorian Government's \$1.7 billion Economic Survival Package. The Working for Victoria Fund is designed to connect workers with new opportunities that will help our community and contribute to Victoria's ability to respond to the pandemic. Council received \$1.3 million in funding which provided for the employment of 43 full time equivalent staffs during the 2020/21 financial year.

Notes to the Financial Report

For the Year Ended 30 June 2021

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 5% 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 2021 \$'000	Actual 2021 \$'000	Variance 2021 \$'000	Variance 2021 %	Ref
Income					
Rates and charges	45,252	45,338	86	0%	
Statutory fees and fines	960	1,087	127	13%	1
User fees	4,387	3,813	(574)	-13%	2
Grants - operating	7,862	14,408	6,546	83%	3
Grants - capital	9,617	10,341	724	8%	4
Contributions - monetary	896	1,416	520	58%	5
Contributions - non monetary	404	3,598	3,194	791%	6
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	257	(1,164)	(1,421)	-553%	7
Fair value adjustments for investment property	-	(5)	(5)	100%	8
Share of net profits/(losses) of associates and joint ventures	-	130	130	100%	9
Other income	1,771	1,403	(368)	-21%	10
Total income	71,406	80,365	8,960	13%	
Expenses					
Employee costs	26,330	27,876	(1,546)	-6%	11
Materials and services	23,475	20,930	2,545	11%	12
Depreciation	11,917	11,915	2	0%	
Amortisation - Intangible assets	225	240	(15)	-7%	13
Amortisation - Right of use assets	87	93	(6)	-7%	14
Bad and doubtful debts	-	(4)	4	100%	
Borrowing costs	37	9	28	76%	15
Finance costs - Leases	-	6	(6)	100%	
Other expenses	2,864	3,279	(415)	-14%	16
Total expenses	64,935	64,344	591	1%	
Surplus/(deficit) for the year	6,471	16,021	9,551	148%	

(i) Explanation of material variations

1	Statutory fees and fines	Statutory fees were higher than original budget predominantly due to a higher increase in statutory planning activities than anticipated.
2	User fees	COVID-19 caused closures in the two Council run caravan parks causing lower than anticipated revenue at Yanakie (\$242K) and Long Jetty (\$20K). Also impacted by COVID-19 was the closure of Coal Creek Heritage Park (\$89K). Part of Council's response to the pandemic was to exempt some fees originally budgeted in Environmental Health (\$90K) and Local Laws (\$42K).
3	Grants - operating	The major contributor was receiving 50% of the 2021/22 Victorian Grants Commission allocation which was paid early in June (\$5.4M). In addition, a new, "Working for Victoria" program was established during the year which attracted grant funds of \$1.29M not originally budgeted.

Notes to the Financial Report

For the Year Ended 30 June 2021

4	Grants - capital	Grants received that were not budgeted for included: Bair Street Project (\$250K), Foster Indoor Stadium Redevelopment (\$2M), Clancey's Road (\$685K), Toora Jetty Pontoon (\$210K) and Transfer Station Upgrades (\$349K). These grants were largely offset by deferring unearned grant revenue (\$3.4M).
5	Contributions - monetary	Largely due to open space contributions being significantly above budget by \$325K. It is due to the increased number of subdivisions with public open space contributions.
6	Contributions - non-monetary	Value of assets recognised through completion of subdivision was greater than what was anticipated. Original budget was consistent with 2019/20 non-monetary contributions and no developments competed in that year. Developments are completed in 2020/21.
7	Net gain/(loss) on disposal of property, infrastructure, plant and equipment	The increase in net loss on disposal of property, infrastructure, plant and equipment was due to the disposal of infrastructure assets (\$1.4m), but it was offset by the gain from land sales (\$142K). The rest of gain/loss on disposal was due to the disposal of motor vehicles and plants.
8	Fair value adjustments for investment property	Fair value adjustments for investment property were not budgeted for.
9	Share of net profits/(losses) of associates and joint ventures	Council share of surplus or deficit were not budgeted for.
10	Other income	Other income relates to a range of items such as interest received, reimbursements, rental income, cost recoups and other miscellaneous income items. The lower other income was mainly due to the reduced interest received by \$260K due to lower than anticipated interest rates and impacts of COVID-19 closures to caravan parks and Coal Creek Heritage village.
11	Employee Costs	A new government incentive program, "Working for Victoria" employing up to 45 part time staff was not included in the original budget and cost \$955K. In addition, there were a number of new positions not originally budgeted for.
12	Materials and services	Council budgeted for a \$2 million Covid-19 relief package to assist the community and business against additional costs and loss of income. The actual Covid-19 cost incurred was \$1.2 million, which contributes to the favourable variance of \$800K. Other areas where actual materials and services were lower than budget included Gravel Roads - New Initiative (\$428K), Resheets (\$260K), Corporate Planning and Council Business (\$254K), Community Strengthening Coordination (\$237K) and swimming pools (233K).
13	Amortisation - Intangible assets	Amortisation of Intangible assets was not budgeted for.
14	Amortisation - Right of use assets	Amortisation of Right of use assets were not budgeted for.
15	Borrowing Costs	The borrowing costs are the interest payment of new construction drawdown to fund completion of the Mirboo North Pool project. The low borrowing costs are due to favourable loan rate from Treasury Corporation Victoria and an interest rate subsidy received by Council from Sport and Recreation Victoria (SRV).
16	Other expenses	Other expenses includes \$550K from Council's COVID-19 relief package which were budgeted in total under the materials and services line. Offsetting this was savings from a number of areas such as Executive Services Management (\$75K), Accounting (\$63K), Corporate Information Management (\$54K), Strategic Planning (\$53K), Recreation Facilities (\$50K), and Youth Development (\$33K).

Notes to the Financial Report

For the Year Ended 30 June 2021

1.2 Capital works

	Budget 2021 \$'000	Actual 2021 \$'000	Variance \$'000	Variance %	Ref
Property					
Buildings	7,031	1,286	(5,745)	-82%	1
Total buildings	7,031	1,286	(5,745)	-82%	
Total property	7,031	1,286	(5,745)	-82%	
Plant and equipment					
Plant, machinery and equipment	3,659	2,884	(775)	-21%	2
Fixtures, fittings and furniture	763	948	185	24%	3
Total plant and equipment	4,422	3,832	(590)	-13%	
Infrastructure					
Roads	10,325	10,225	(100)	-1%	4
Bridges	974	522	(452)	-46%	5
Major Culverts	686	503	(183)	-27%	6
Footpaths and cycleways	4,053	2,283	(1,770)	-44%	7
Drainage	86	36	(50)	-58%	8
Car Park	-	2	2	100%	9
Land stabilisation	-	41	41	100%	10
Waste management	-	20	20	100%	11
Other infrastructure	12,052	9,923	(2,129)	-18%	12
Total infrastructure	28,176	23,555	(4,621)	-16%	
Total capital works expenditure	39,629	28,673	(10,956)	-28%	
Represented by:					
New asset expenditure	-	-	-	-	
Asset renewal expenditure	33,543	25,939	(7,604)	-23%	
Asset expansion expenditure	5,159	1,259	(3,900)	-76%	
Asset upgrade expenditure	927	1,475	548	59%	
Total capital works expenditure	39,629	28,673	(10,956)	-28%	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Buildings	Expenditure on Community Hub - Korumburra (\$5.35M) and the Buildings Renewal Program (\$1.01M) have been deferred and carried forward to 2021/22.
2	Plant, machinery and equipment	Less purchases due to limited kms travelled by fleet, which increase the asset useful life and a number of planned purchases have been pushed out to future years. Plant purchases carried to next year total \$485K and fleet purchases
3	Fixtures, fittings and furniture	Projects and purchases of various items have been deferred to 2021/22..
4	Roads	Due to Roads - Sealed Rehabilitation Program was under budget by \$2.1M and the remaining fund have been requested to carry forward to 2021/22. However, the under budget was offset by the expenditure of Flood Event - August 2019 - Capital that was not budgeted for (\$2.7M).
5	Bridges	Works on Bass Valley Road (KB080) and (KB090), have been deferred and carried forward to 2021/22 - (\$414K).
6	Major culverts	Renewal program is delayed due to weather constraints and will be carried forward to 2021/22.
7	Footpaths and cycleways	Delayed works on the Great Southern Rail Trail Capital (\$1.772M) because of the delays to the removal of rail assets due to action by National Rail Safety
8	Drainage	Upgrade Works at the Walkerville Retarding Basin has been deferred and carried forward to 2021/22 (\$85K).
9	Car Park	Jones Street, Foster (\$2K) was not budgeted for.
10	Land stabilisation	Landslips 2020 (\$41K) was not budgeted for.
11	Waste management	Koonwarra Landfill Cells 1, 2 and 3 Cap - (\$19K) was not budgeted for.
12	Other infrastructure	Leongatha Business Precinct Project - Bair Street (\$521K) and Venus Bay Activity Centre Council Meeting No 463 - 15 September 2021 schedule and carried forward to 2021/22.

Notes to the Financial Report

For the Year Ended 30 June 2021

Note 2 Analysis of Council results by program

Council delivers its functions and activities through the following programs. During the 2020/21 financial year, there was a realignment of activities across various departments. Therefore, the program names used in the Note 2 (b) have changed from 2020.

2 (a) Performance & Innovation

The Performance & Innovation Directorate provides services including:

- Financial Services;
- Innovation & Technology;
- People & Culture;
- Governance Services; and
- Library Board representation

Financial Strategy

The Financial Strategy Department delivers financial planning, budget management, legislative compliance, rates and valuation services and internal support to departments, teams and individuals in relation to finance functions.

Innovation & Technology

The Innovation and Technology Department work across all areas of Council to provide cost-effective technology and services. It aims to deliver the best quality services to the Community and provide contemporary tools for staff to operate efficiently. The team consists of Information systems, Information Management, and Innovation.

People & Culture

The People & Culture Department strive for a safe, healthy and high performing workplace, in which our people can grow both personally and professionally. It manages recruitment, workplace relations and industrial relations, gender equity & diversity and inclusion, organisational learning & development, occupational health, safety & wellbeing, human resources & performance management, workers compensation and return to work management and payroll.

Governance

The Governance Department delivers services from the Risk, Procurement and Council Business teams to the community, Councillors and staff. It provides support for Council meetings, briefings and hearings, is responsible for contract management, risk and insurance, Freedom of Information and Privacy, internal audit, regulatory compliance, tendering, corporate planning, monitoring and reporting, including development of the Council Plan and Annual Report. It leads policy review and provides reform support including the Local Government Act.

Notes to the Financial Report

For the Year Ended 30 June 2021

Sustainable Infrastructure

The Infrastructure Services Development Directorate provides services including:

- Infrastructure Planning;
- Infrastructure Delivery;
- Infrastructure Maintenance; and
- Open Space & Environment

Infrastructure Planning

The Infrastructure Planning Department plans and manages Council's asset portfolio, including the development of sustainable and cost effective maintenance and capital programs. It delivers asset management services such as waste management, and sourcing external grant funding for major projects. It promotes a sustainable environment and solutions, including the delivery of projects through Council's Revolving Sustainability Fund.

Infrastructure Delivery

The Infrastructure Delivery Department delivers Council's civil and building capital works program, building maintenance programs, and community infrastructure works. This includes the delivery of associated services such as civil design, building maintenance, and oversight of engineering for developments in accordance with the service levels for development referrals.

Infrastructure Maintenance

The Infrastructure Maintenance Department provides a safe and trafficable road network by maintaining Council and associated gravel and sealed roads, and road infrastructure assets including roads, drainage, bridges, culverts, footpaths, and waterway assets. It delivers construction projects and provides a rapid response and afterhours call out service to maintain Council's roads and associated road infrastructure assets.

Open Space & Environment

The Open Space & Environment Department manages recreational and public areas in the form of open space, natural and foreshore bush reserves, and parks and gardens. It includes grass mowing, garden maintenance and planting, urban / rural tree maintenance, public amenities and BBQ cleaning, playground replacement, landscape structure maintenance, rural roadside vegetation maintenance, urban fire hazard slashing, Great Southern Rail Trail maintenance, and control of roadside weeds to improve biodiversity outcomes.

Notes to the Financial Report

For the Year Ended 30 June 2021

Economic & Community

The Economic & Community Development Directorate provides services including:

- Economy, Arts and Tourism;
- Planning Services;
- Community Safety; and
- Community Services

Economy, Arts & Tourism

The Economy, Arts and Tourism Department strategically leads, and responsively plans economic and cultural activities to support:

- investment and growth of key industries;
- tourism development and increased visitation;
- enhanced liveability;
- increased capacity and capabilities within the creative industries.

Planning Services

The Planning Services Department undertakes strategic planning to prepare long-term landuse planning policies and planning schemes, aligned to State Government requirements, to address a range of environments, economic and social matters. It supports community members to ensure their development needs align with these policies and planning schemes through their planning permits.

Community Safety

The Community Safety Department provides services to the community including animal management, building/planning enforcement, fire prevention, local laws development/ enforcement, litter prevention, permits for places of public entertainment, parking control, registration of food, health and accommodation premises, report and consent applications for new buildings, school crossings and wastewater.

Chief Executive Office

The Executive Office builds strong and productive relationships with government and key regional agencies to strengthen the performance of Council. It also provides services including:

- Community Information & Advocacy which encompasses
- Communications; and
- Customer Service

Community Information & Advocacy

The Customer Information and Advocacy Department services to the community include phone-based customer service, website maintenance, social media, front-desk customer service, media liaison, coordination of Council Noticeboard and the Administrators' Message, advocacy materials to support Council's key projects, maintenance of the online Community Directory, production and distribution of the e-newsletter 'In The Know', Australia Day Awards and ceremonies.

Community Services

The Community Services Department supports, connects, engages and advocates for communities, children, families and individuals in South Gippsland:

- Children and Family Services including Maternal & Child Health
- Community Strengthening
- Regional Assessment Service
- Social Planning

Notes to the Financial Report

For the Year Ended 30 June 2021

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

Council delivers its functions and activities through the following programs. Due to the realignment of activities across various departments, the program names used in the Note 2 (b) have changed in 2021.

	Income	Expenses	Surplus / (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2021					
Performance & Innovation	-	1,769	(1,769)	-	-
Financial Strategy	48,495	19,971	28,524	1,493	49,586
Innovation & Technology	99	2,921	(2,822)	4,069	1,172
People & Culture	1,545	1,717	(172)	99	-
Governance	2	2,408	(2,406)	-	-
Sustainable Infrastructure	-	290	(290)	437	-
Infrastructure Planning	6,571	8,885	(2,314)	-	577,836
Infrastructure Delivery	13,242	3,240	10,002	629	8,955
Infrastructure Maintenance	4,614	8,411	(3,797)	-	-
Open Space & Environment	189	3,648	(3,459)	21	-
Economic & Community Development	-	274	(274)	1,300	-
Economy, Arts & Tourism	1,149	2,357	(1,208)	-	-
Planning Services	1,068	1,412	(344)	305	-
Community Safety	1,677	2,683	(1,006)	12,268	-
Chief Executive Office	176	600	(424)	4,013	-
Community Information & Advocacy	21	887	(866)	116	-
Community Services	1,517	2,871	(1,354)	-	1,691
	80,365	64,344	16,021	24,750	639,240

	Income	Expenses	Surplus / (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2020					
Corporate and Community Services	-	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	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

Notes to the Financial Report

For the Year Ended 30 June 2021

Note 3 Funding for the delivery of our services

3.1 Rates and charges

2021
\$'000

2020
\$'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 2020/21 was \$9,469 million (2019/20 \$8,876 million).

General rates	41,421	39,966
Waste management charge	3,204	3,261
Special rates and charges	7	7
Supplementary rates and rate adjustments	289	305
Interest on rates and charges	224	179
Revenue in lieu of rates	193	190
Total rates and charges	45,338	43,908

The date of the latest general revaluation of land for rating purposes within the municipal district was 1 January 2021, and the valuation will be first applied in the rating year commencing 1 July 2021.

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	48	36
Local laws	61	109
Building services	272	177
Statutory planning	638	460
Supervision fees	57	72
Others	11	13
Total statutory fees and fines	1,087	867

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	210	306
Leisure centre and recreation	1	22
Local Laws	468	439
Waste management services	2,357	2,261
Caravan parks	695	826
Other fees and charges	82	117
Total user fees	3,813	3,971
User fees by timing of revenue recognition		
User fees recognised over time	695	826
User fees recognised at a point in time	3,118	3,145
Total user fees	3,813	3,971

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	16,822	15,142
State funded grants	7,928	4,873
Total grants received	24,750	20,015

(a) Operating Grants

Recurrent - Commonwealth Government

Financial Assistance Grants	10,016	10,603
Immunisation	2	3
Home & Community Care	264	263

Recurrent - State Government

Valuation Services	170	165
Family and children	243	221
Home & Community Care	96	95
Youth Services	-	66
School crossing supervision	66	68
Community building	-	63
Community health	8	3
Immunisation	10	13
Maternal & child health	536	475
Other	8	4

Total recurrent operating grants

11,419 12,042

Notes to the Financial Report

For the Year Ended 30 June 2021

	2021 \$'000	2020 \$'000
Non-recurrent - Commonwealth Government		
Local Roads & Infrastructure	-	972
Recreation & Leisure	-	7
Non-recurrent - State Government		
Families & Children	22	48
Home & Community Care	105	32
Youth Services	47	45
Maternal & child health	-	25
Fire Services Levy Administration	52	51
Sustainability	292	84
Community Building	49	42
Natural Disasters	347	1,214
Recreation & Leisure	269	545
Working for Victoria	1,300	-
Other	507	360
Total non-recurrent operating grants	2,990	3,425
Total operating grants	14,409	15,467
(b) Capital Grants		
Recurrent - Commonwealth Government		
Roads to recovery	2,385	2,385
Total recurrent capital grants	2,385	2,385
Non-recurrent - Commonwealth Government		
Roads	2,143	400
Bridges	-	309
Other Structures	2,012	200
Non-recurrent - State Government		
Roads	1,898	30
Building	626	449
Bridges	208	198
Other Structures	1,068	577
Total non-recurrent capital grants	7,957	2,163
Total capital grants	10,341	4,548
(c) Unspent grants received on condition that they be spent in a specific manner		
Operating		
Balance at start of year	310	890
Received during the financial year and remained unspent at balance date	552	102
Received in prior years and spent during the financial year	- 94	- 682
Balance at year end	768	310
Capital		
Balance at start of year	827	1,101
Received during the financial year and remained unspent at balance date	2,156	714
Received in prior years and spent during the financial year	- 451	- 988
Balance at year end	2,532	827

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

3.5 Contributions

Monetary	1,416	205
Non-monetary	3,598	188
Total contributions	5,014	393

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

Roads	1,325	2
Drains	1,349	34
Kerb & channels	369	-
Footpaths	555	7
Waterway infrastructure	-	145
Total non-monetary contributions	3,598	188

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

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

Proceeds of sale	980	480
Written down value of assets disposed	(2,144)	(548)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	(1,164)	(68)

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 2021

3.7 Other income

	2021 \$'000	2020 \$'000
Interest	290	527
Investment property rental	230	198
Other rent	46	7
Fuel tax credits	98	139
Sales	22	109
Workcover reimbursements	245	216
Other reimbursements	350	235
External private works	1	17
Other	121	117
Total other income	1,403	1,565

Interest is recognised as it is earned.

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

Note 4 The cost of delivering services

4.1 (a) Employee costs

Wages and salaries	24,704	22,837
WorkCover	759	661
Superannuation	2,393	2,106
Fringe benefits tax	20	30
Total employee costs	27,876	25,634

(b) Superannuation

Council made contributions to the following funds:

Defined benefit fund

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	87	88
	87	88
Employer contributions payable at reporting date.	3	1

Accumulation funds

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	2,306	2,018
	2,306	2,018
Employer contributions payable at reporting date.	93	20

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

4.2 Materials and services

Waste Management	4,056	4,049
Leisure Centre Operations	815	1,012
Contractors General	3,436	4,430
Software Maintenance	1,564	963
Landfill Rehabilitation	65	(142)
COVID-19 - Material	70	43
COVID-19 - Maintenance	25	-
Natural disasters	614	644
Materials General	4,555	4,967
Fuel & Oils	749	784
Advertising & Promotion Costs	391	197
Utilities	902	943
Subscriptions, affiliations and conferences	234	171
Leases & Rentals	64	73
Legal Fees	339	247
Consultancies and projects	861	493
Insurance Premiums	964	820
Plant & Equipment Registrations	113	133
Training expenses	233	291
State levies	876	886
Gippsland Group Training / Labour Hire	4	1
Total materials and services	20,930	21,005

4.3 Depreciation

Property	3,842	3,518
Plant and equipment	1,542	1,891
Infrastructure	6,531	6,587
Total depreciation	11,915	11,996

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	240
Total Amortisation - Intangible assets	240	240

4.5 Amortisation - Right of use assets

Property	93	88
Total Amortisation - Right of use assets	93	88

Notes to the Financial Report

For the Year Ended 30 June 2021

4.6 Bad and doubtful debts

	2021 \$'000	2020 \$'000
General debtors provision	(4)	8
Total bad and doubtful debts	(4)	8

Movement in provisions for doubtful debts

Balance at the beginning of the year	161	160
New provisions recognised during the year	8	10
Amounts already provided for and written off as uncollectible	-	(3)
Amounts provided for but recovered during the year	(11)	(6)
Balance at end of year	158	161

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	9	49
Total borrowing costs	9	49

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	6	9
Total finance costs	6	9

4.9 Other expenses

Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	59	58
Auditors' remuneration - Internal	38	45
Other allowances	-	3
Library contributions	1,472	1,410
Community & Sporting grants	1,324	840
Bank Fees & Charges	185	207
Infrastructure assets and work in progress written-off	-	548
Other	201	-
Total other expenses	3,279	3,111

Note 5 Our financial position

5.1 Financial assets

(a) Cash and cash equivalents

Cash on hand	3	3
Cash at bank	7,369	4,069
Money market call accounts	3,195	3,441
Term deposits	-	279
Total cash and cash equivalents	10,567	7,792

(b) Other financial assets

Term deposits - current	32,279	30,000
Term deposits - non-current	-	1,000
Total other financial assets	32,279	31,000
Total financial assets	42,846	38,792

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)	1,527	1,332
Total restricted funds	1,527	1,332
Total unrestricted cash and cash equivalents	9,040	6,460

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	23,546	18,059
- 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)	3,300	1,137
- reserve funds allocated for specific future purpose (Note 9.1b)	543	274
Total funds subject to intended allocations	27,389	19,470

Cash and cash equivalents include cash on hand, deposits at call, and other highly liquid investments with original maturities of three months 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 2021

	2021 \$'000	2020 \$'000
(c) Trade and other receivables		
Current		
Rates debtors	3,638	3,473
Special rate assessment	55	5
Net GST receivable	771	461
<i>Non statutory receivables</i>		
Grants receivable	-	42
Other debtors	1,579	1,856
Provision for doubtful debts - other debtors	(158)	(161)
Total current trade and other receivables	5,885	5,676

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)	569	788
Past due by up to 30 days	270	257
Past due between 31 and 180 days	41	653
Past due between 181 and 365 days	94	45
Past due by more than 1 year	185	10
Total trade and other receivables	1,159	1,753

(e) Ageing of individually impaired Receivables

At balance date, other debtors representing financial assets with a nominal value of \$148K (2020: \$145K) were impaired. The amount of the provision raised against these debtors was \$158K (2020: \$161K). 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	148	145
Total trade & other receivables	148	145

Notes to the Financial Report

For the Year Ended 30 June 2021

5.2 Non-financial assets

(a) Inventories

	2021 \$'000	2020 \$'000
Inventories held for distribution	210	208
Total inventories	210	208

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	240	218
Total other assets	240	218

(c) Intangible assets

Landfill air space	294	479
Total intangible assets	294	479

Landfill \$'000

Gross carrying amount

Balance at 1 July 2020	1,362
Other additions	55
Balance at 1 July 2021	1,417

Accumulated amortisation and impairment

Balance at 1 July 2020	883
Amortisation expense	240
Balance at 1 July 2021	1,123

Net book value at 30 June 2020	479
Net book value at 30 June 2021	294

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

5.3 Payables

(a) Trade and other payables

	2021 \$'000	2020 \$'000
Trade payables	2,214	355
Accrued expenses	730	2,407
Total trade and other payables	2,944	2,762

(b) Trust funds and deposits

Refundable deposits	203	125
Fire services levy	662	616
Retention amounts	258	130
Other refundable deposits	403	461
Total trust funds and deposits	1,527	1,332

(c) Unearned income

Grants received in advance - operating	117	219
Grants received in advance - capital	4,834	2,272
Other	-	94
Total unearned income	4,951	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 time of forfeit.

Purpose and nature of items

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

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

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

Other refundable deposits - Other deposits held in trust.

Notes to the Financial Report

For the Year Ended 30 June 2021

5.4 Interest-bearing liabilities

a) Interest-bearing loans

Current

Borrowings - secured

2021 \$'000	2020 \$'000
349	-
349	-

Non-current

Borrowings - secured

3,049	-
3,049	-

Total

3,398	-
--------------	----------

Borrowings are secured by the General Rates of the Council.

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

Not later than one year

349 -

Later than one year and not later than five years

1,454 -

Later than five years

1,595 -

3,398	-
--------------	----------

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

5.5 Provisions

	Employee \$ '000	Landfill restoration \$ '000	Total \$ '000
2021			
Balance at beginning of the financial year	7,138	3,055	10,193
Additional provisions	3,433	87	3,521
Amounts used	(2,453)	(100)	(2,553)
Change in the discounted amount arising because of time and the effect of any change in the discount	(11)	113	101
Balance at the end of the financial year	8,107	3,155	11,262

	Employee \$ '000	Landfill restoration \$ '000	Total \$ '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	58	(58)	-
Balance at the end of the financial year	7,138	3,055	10,193

Notes to the Financial Statements

For the Year Ended 30 June 2021

	2021 \$'000	2020 \$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12		
Annual leave	1,865	1,649
Purchased leave	275	230
Rostered days	409	378
Long service leave	362	348
	2,911	2,605
Current provisions expected to be wholly settled after 12		
Annual leave	917	640
Long service leave	2,707	2,594
	3,624	3,234
Total current employee provisions	6,534	5,839
Non-current		
Long service leave	1,573	1,299
Total non-current employee provisions	1,573	1,299
Aggregate carrying amount of employee provisions:		
Current	6,534	5,839
Non-current	1,573	1,299
Total aggregate carrying amount of employee provisions	8,107	7,138

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, 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 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

Key assumptions:

- discount rate	0.183%	0.293%
- index rate	2.950%	3.000%

	2021 \$'000	2020 \$'000
(b) Landfill restoration		
Current	83	80
Non-current	3,072	2,975
	3,155	3,055

Council is obligated to restore landfill 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	0.944%	0.717%
- index rate	2.383%	1.470%

5.6 Financing arrangements

The Council has the following funding arrangements in place as at 30 June 2021.

Bank overdraft	500	500
Credit card facilities	350	350
Other facilities	951	3,600
Total facilities	1,801	4,450
Used facilities	(1,226)	(866)
Unused facilities	575	3,584

Notes to the Financial Statements

For the Year Ended 30 June 2021

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	Later than 1 year and not later than 2 years	Later than 2 years and not later than 5 years	Later than 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2021					
Operating					
Transfer Stations	311	-	-	-	311
Litter Bins	13	-	-	-	13
Kerbside Garbage	1,337	-	-	-	1,337
Libraries	1,472	-	-	-	1,472
General Materials & Services	1,163	107	271	-	1,541
Maintenance Contracts	1,247	-	-	-	1,247
Construction Contracts	272	16	-	-	288
Total	5,815	123	271	-	6,209
Capital					
Roads	529	-	-	-	529
Computers and telecomms	133	-	-	-	133
Plant, machinery and equipment	573	-	-	-	573
Other Structures	1,307	-	-	-	1,307
Buildings	2,117	-	-	-	2,117
Footpaths	2,543	-	-	-	2,543
Major Culverts	399	-	-	-	399
Total	7,601	-	-	-	7,601
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
Drainage	-	-	-	-	-
Other Structures	5,833	51	-	-	5,884
Total	8,136	51	-	-	8,187

5.8 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

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.

Notes to the Financial Statements

For the Year Ended 30 June 2021

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>

Right-of-Use Assets

	Property \$'000
Balance at 1 July 2020	179
Additions	-
Amortisation charge	(93)
Balance at 30 June 2021	<u>86</u>

Lease Liabilities

	2021 \$'000	2020 \$'000
Maturity analysis - contractual undiscounted cash flows		
Less than one year	94	89
One to five years	-	94
Total undiscounted lease liabilities as at 30 June:	<u>94</u>	<u>183</u>

Lease liabilities included in the Balance Sheet at 30 June:

	2021 \$'000	2020 \$'000
Current	94	89
Non-current	-	94
Total lease liabilities	<u>94</u>	<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.

	2021 \$'000	2020 \$'000
Expenses relating to:		
Short-term leases	-	10
Leases of low value assets	-	-
Total	<u>-</u>	<u>10</u>

Variable lease payments (not included in measurement of lease liabilities)

Notes to the Financial Statements

For the Year Ended 30 June 2021

6.1 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2020 \$'000	Additions \$'000	Contributions \$'000	Found Assets	Revaluation \$'000	Depreciation \$'000	Disposal \$'000	Write-off \$'000	Transfers \$'000	At Fair Value 30 June 2021 \$'000
Property	124,212	49	-	-	13,770	(3,842)	-	-	-	134,189
Plant and equipment	8,434	-	-	-	-	(1,542)	(791)	-	3,816	9,917
Infrastructure	414,717	-	3,176	422	246	(6,531)	(1,370)	-	14,833	425,493
Work in progress	7,800	28,624	-	-	-	-	-	-	(18,649)	17,774
	555,163	28,673	3,176	422	14,016	(11,915)	(2,161)	-	-	587,373

Summary of Work in Progress

	Opening WIP \$'000	Additions \$'000	Write-off \$'000	Transfers \$'000	Closing WIP \$'000
Property	818	1,203	-	-	2,021
Plant and equipment	173	3,886	-	(3,816)	243
Infrastructure	6,809	23,535	-	(14,833)	15,511
Total	7,800	28,624	-	(18,649)	17,775

Notes to the Financial Statements

For the Year Ended 30 June 2021

(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 2020	49,247	16,625	5,891	71,763	6,351	145,385	7,424	159,160	818	231,741
Accumulated depreciation at 1 July 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
Movements in fair value										
Additions	-	-	-	-	-	49	-	49	1,203	1,252
Contributions	-	-	-	-	-	-	-	-	-	-
Revaluation	9,806	1,756	-	11,562	39	5,370	187	5,596	-	17,158
Disposal	-	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-
	9,806	1,756	-	11,562	39	5,419	187	5,645	1,203	18,410
Movements in accumulated depreciation										
Depreciation and amortisation	-	-	-	-	(102)	(3,588)	(152)	(3,842)	-	(3,842)
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	(27)	(3,282)	(79)	(3,388)	-	(3,388)
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	(129)	(6,870)	(231)	(7,230)	-	(7,230)
At fair value 30 June 2021	59,053	18,381	5,891	83,325	6,390	150,804	7,611	164,805	2,021	250,151
Accumulated depreciation at 30 June 2021	-	-	-	-	(4,493)	(103,175)	(6,273)	(113,941)	-	(113,941)
	59,053	18,381	5,891	83,325	1,897	47,629	1,338	50,864	2,021	136,210

Notes to the Financial Statements

For the Year Ended 30 June 2021

(b) Plant and Equipment

	Plant machinery and equipment \$'000	Fixtures fittings and furniture \$'000	Computers and telecomms \$'000	Work in Progress \$'000	Total plant and equipment \$'000
At fair value 1 July 2020	15,032	204	3,682	173	19,091
Accumulated depreciation at 1 July 2020	(7,463)	(178)	(2,843)	-	(10,484)
	7,569	26	839	173	8,607
Movements in fair value					
Additions	-	-	-	3,886	3,886
Contributions	-	-	-	-	-
Revaluation	-	-	-	-	-
Disposal	(1,907)	-	-	-	(1,907)
Write-off	-	-	-	-	-
Transfers	3,057	-	759	(3,816)	-
Prior period error	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-
	1,150	-	759	70	1,979
Movements in accumulated depreciation					
Depreciation and amortisation	(1,090)	(5)	(447)	-	(1,542)
Accumulated depreciation of disposals	1,116	-	-	-	1,116
Prior period error	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-
Transfers	-	-	-	-	-
	26	(5)	(447)	-	(426)
At fair value 30 June 2021	16,182	204	4,441	243	21,070
Accumulated depreciation at 30 June 2021	(7,437)	(183)	(3,290)	-	(10,910)
	8,745	21	1,151	243	10,160

Notes to the Financial Statements

For the Year Ended 30 June 2021

(c) Infrastructure

	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 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 1 July 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
Movements in fair value													
Additions	-	-	-	-	-	-	-	-	-	-	-	23,535	23,535
Contributions	1,031	-	-	511	331	-	1,303	-	-	-	-	-	3,176
Found Assets	294	-	-	44	38	-	46	-	-	-	-	-	422
Revaluation	-	-	-	246	-	-	-	-	-	-	-	-	246
Disposal	(2,026)	-	-	(13)	(152)	(13)	(40)	-	-	-	-	-	(2,244)
Write-off	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	5,352	711	158	1,213	219	3	67	-	42	-	7,068	(14,833)	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-	-	-
	4,651	711	158	2,001	436	(10)	1,376	-	42	-	7,068	8,702	25,135
Movements in accumulated depreciation													
Depreciation and amortisation	(3,337)	(407)	(122)	(247)	(212)	(442)	(349)	(18)	(121)	(465)	(811)	-	(6,531)
Accumulated depreciation of disposals	848	-	-	3	9	8	6	-	-	-	-	-	874
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
	(2,489)	(407)	(122)	(244)	(203)	(434)	(343)	(18)	(121)	(465)	(811)	-	(5,657)
At fair value 30 June 2021	370,738	58,661	14,754	19,004	27,097	6,934	41,888	1,106	6,102	4,303	19,562	15,511	585,660
Accumulated depreciation at 30 June 2021	(48,903)	(41,510)	(9,657)	(2,610)	(5,139)	(4,644)	(19,584)	(592)	(1,389)	(3,033)	(7,595)	-	(144,656)
	321,835	17,151	5,097	16,394	21,958	2,290	22,304	514	4,713	1,270	11,967	15,511	441,004

Notes to the Financial Statements

For the Year Ended 30 June 2021

Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the price that would be received to sell an asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date.

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

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

	Depreciation Period	Threshold Limit
		\$'000
<i>Asset recognition thresholds and depreciation periods</i>		
Land & land improvements		
land	-	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 2021

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 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 2021 are as follows:

	Level 1	Level2	Level 3	Date of Valuation
Land	-	5,891	-	30-Jun-21
Specialised land	-	-	77,434	30-Jun-21
Heritage buildings	-	-	1,897	30-Jun-21
Buildings - non specialised	-	1,338	-	30-Jun-21
Buildings - specialised	-	-	47,629	30-Jun-21
Total	-	7,229	126,960	

Valuation of infrastructure

Valuation of infrastructure assets has been determined in accordance with a valuation undertaken by Tony Peterson, BE Civil Engineering (Council employee).

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 2021 are as follows:

	Level 1	Level2	Level 3	Date of Valuation
Roads	-	-	321,835	30-Jun-21
Bridges	-	-	17,151	30-Jun-21
Major culverts	-	-	5,097	30-Jun-21
Footpaths and cycleways	-	-	16,394	30-Jun-21
Kerb & channel	-	-	21,958	30-Jun-21
Off street car parks	-	-	2,290	30-Jun-21
Drainage	-	-	22,304	30-Jun-21
Seawalls	-	-	514	30-Jun-21
Land stabilisation	-	-	4,713	30-Jun-21
Other infrastructure	-	-	11,967	30-Jun-21
Total	-	-	424,223	

Notes to the Financial Statements

For the Year Ended 30 June 2021

Description of significant unobservable inputs into level 3 valuations

Land: is valued using a market based direct comparison approach. Significant unobservable inputs include the extent and impact of restriction of use (CSO) and the market cost of land per square metre. CSO is an adjustment for the difference in value between unrestricted assets (e.g. freehold land) and assets held by the public sector, considering any legal, financial or physical restrictions imposed on the use or sale of the asset (e.g. restricted land due to a legal restraint). 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 \$648 per square metre prior to a CSO adjustment.

LAND UNDER ROADS: Valuation of Land under Roads (LUR) has been undertaken under the provisions of AASB 116 Property, Plant and Equipment (June 2014), AASB 1051 Land Under Roads (December 2013), FRD 103F Non-Financial assets (June 2015) and FRD 118C Land Under Declared Roads (June 2016).

The 'fair value' methodology applied requires application of the average statutory land value (100%) less adjustments for a reasonable englobo estimate (60%), access and carriageway rights (15%) and infrastructure assets (10%). The Average Site Value Rate is determined by dividing the total rateable Site Value for the relevant municipal district by the total land area of all rateable land.

Non-specialised buildings: Non-specialised properties are valued by reference to direct market evidence and general valuation principles apply. Eight (8) properties are classified as Category 2 improved and have been valued by direct comparison to comparable sales or capitalisation of the net rental.

Specialised buildings: are buildings designed for a specific limited purpose which may include schools, hospitals, courthouse and emergency services buildings, specialised buildings to house specialised infrastructure assets and some heritage and historic properties.

These special buildings have no or limited feasible alternative use because of a legal mandate to provide goods or services, or community obligations that the building permits. When there is no available market-based evidence, DRC would be regarded as the most appropriate method of valuation.

Specialised buildings are valued using a depreciated replacement cost approach. 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 \$1 to \$9,350 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.

	2021	2020
	\$'000	\$'000
Reconciliation of specialised land		
Land under roads	18,381	16,625
Parks and reserves	59,053	49,247
Total specialised land	77,434	65,872

Notes to the Financial Statements

For the Year Ended 30 June 2021

	2021 \$'000	2020 \$'000
6.2 Non-current assets held for sale		
(a) Investments in associates		
- West Gippsland Regional Library Corporation	1,691	1,541
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 2019/20). 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	1,691	1,541
Council's share of accumulated surplus/(deficit)		
Council's share of accumulated surplus(deficit) at start of year	1,197	1,046
Reported surplus(deficit) for year	130	113
Transfers (to) from reserves	124	38
Council's share of accumulated surplus(deficit) at end of year	1,452	1,197
Council's share of reserves		
Council's share of reserves at start of year	344	312
Asset revaluation	18	70
Transfers (to) from reserves	(124)	(38)
Council's share of reserves at end of year	238	344
Movement in carrying value of specific investment		
Carrying value of investment at start of year	1,541	1,358
Share of surplus(deficit) for year	130	113
Share of asset revaluation	18	70
Carrying value of investment at end of year	1,691	1,541
Council's share of expenditure commitments		
Operating commitments	38	6
Capital commitments	-	-
Council's share of expenditure commitments	38	6

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.

Plan to dispose of West Gippsland Regional Library: the original Library Agreement is taken to be terminated with effect at 11:59pm on 30 June 2022. Agreeing to the dissolution and winding up of West Gippsland Regional Library Corporation, with the Gift and Transfer Deed constituting the distribution of assets and liabilities in full and final satisfaction of dissolution and winding up clause, 13.2, of the Library Agreement. We refer note 8.5 Events occurring after balance date for further details of the transaction. Impacts of the events will be presented in the 2022 Financial Statements. In addition, the assets are reclassified as non-current assets as held for sale.

Notes to the Financial Statements

For the Year Ended 30 June 2021

6.3 Investment property

Balance at beginning of financial year	620	587
Fair value adjustments	(5)	33
Balance at end of financial year	<u>615</u>	<u>620</u>

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 has been determined in accordance with an independent valuation by Joshua Kilgour, FAPI (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 2021

Note 7 People and relationships

7.1 Council and key management remuneration

(a) Related Parties

Parent entity

South Gippsland Shire Council is the parent entity.

Subsidiaries and Associates

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:

	2021 No.	2020 No.
Administrators		
Julie Eisenbise	1	1
Christian Zahra AM	1	1
Rick Brown	1	1
Chief Executive Officer and other Key Management Personnel		
Chief Executive Officer - Kerry Ellis	1	1
Acting Director - Corporate & Community - Tracey Costello (1 July 2020 to 3 November 2020)	1	1
Director - Performance and Innovation - Allison Jones	1	
Director - Sustainability Infrastructure - Anthony Seabrook	1	1
Director - Economic and Community - Renae Littlejohn (from 12 April 2021)	1	
Director - Development Services - Bryan Sword (to 1 February 2021)	1	1

Total Number of Administrators	3	3
Total Number of Councillors		
Total of Chief Executive Officer and other Key Management Personnel	6	6
Total Number of Key Management Personnel	9	9

(c) Remuneration of Key Management Personnel

Total remuneration of key management personnel was as follows:

	2021 \$	2020 \$
Short-term benefits	1,242	1,204
Long-term benefits	27	17
Post employment benefits	179	116
Total	1,448	1,337

The numbers of key management personnel whose total remuneration from Council and any related entities, fall within the following bands:

	2021 No.	2020 No.
\$40,000 - \$49,999		
\$50,000 - \$59,999	1	1
\$60,000 - \$69,999		
\$70,000 - \$79,999	1	
\$80,000 - \$89,999	2	2
\$100,000 - \$109,999		1
\$150,000 - \$159,999		
\$160,000 - \$169,999	1	3
\$170,000 - \$179,999	1	
\$230,000 - \$239,999		1
\$240,000 - \$249,999	2	
\$290,000 - \$299,999		1
\$310,000 - \$319,999	1	
	9	9

(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:

	2021 No.	2020 No.
Income Range:		
Below \$151,000	10	7
\$151,000 - \$159,999	3	2
\$160,000 - \$169,999	2	3
\$170,000 - \$179,999		
\$180,000 - \$189,999	1	1
	16	13

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

South Gippsland Shire Council

Council Meeting No. 463 - 15 September 2021

1,781

1,513

Notes to the Financial Statements

For the Year Ended 30 June 2021

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 2021 of \$1.5M (2020 - \$1.4M).

Administrator Julie Eisenbise is a member of the Victorian Local Government Grants Commission. Council received \$10.0M in 2021 in Financial Assistance grants allocated by commission.

Chief Executive Officer - Kerryn Ellis is a member of Destination Gippsland Limited. As a shareholder member of this organisation, Council pays an annual subscription (\$38,267) plus other amounts on a fee for service basis when required.

Chief Executive Officer - Kerryn Ellis is a member of Local Government Professionals. Council pays an annual corporate membership fee (\$2,440), and various amounts for training and professional development on a fee for service basis.

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 (2020 - \$1.5M) in relation to the West Gippsland Regional Library Corporation.

Notes to the Financial Statements

For the Year Ended 30 June 2021

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 property, consisting of surplus freehold office complexes. 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:

	2021 \$'000	2020 \$'000
Not later than one year	225	268
Later than one year and not later than five years	394	556
Later than five years	267	275
	<u>886</u>	<u>1,099</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.

Council should disclose any potential contingents that may exist in relation to rectification works or other matters associated with building cladding that may have the potential to adversely impact on Council.

Liability Mutual Insurance

In November 2017, the Victorian WorkCover Authority (the Authority) granted the Municipal Association of Victoria (MAV) a three-year self-insurance licence allowing it to provide workers' compensation insurance to Victorian councils. When the MAV WorkCare Scheme commenced, there were 31 inaugural members, including the MAV.

In accordance with the Authority's decision not to renew the MAV's self-insurance licence, the MAV WorkCare Scheme ceased operation on 30 June 2021. The MAV is continuing to support the orderly transition of claims management responsibilities to the Authority.

South Gippsland Shire Council was a participant of the MAV WorkCare Scheme.

The MAV WorkCare Scheme participation agreement stated that each participant would 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 would continue whether or not the participant remained a participant in future insurance years.

The net financial impact on Council as a result of the cessation of the MAV WorkCare Scheme for the 2020-21 financial year is yet to be determined. Any obligation is dependent upon the Authority's initial actuarial assessment of the tail claims liabilities of the MAV WorkCare Scheme.

In accordance with the Workplace Injury Rehabilitation and Compensation Act 2013, there is a six year liability period following the cessation of the MAV WorkCare Scheme. During the liability period, adjustment payments may be required (or received) by Council. The determination of any adjustment payments is dependent upon revised actuarial assessments of the Scheme's tail claims liabilities as undertaken by the Authority.

Notes to the Financial Statements

For the Year Ended 30 June 2021

(c) Guarantees for loans to other entities

The amount disclosed for financial guarantee in this note is the nominal amount of the underlying loan that is guaranteed by the Council, not the fair value of the financial guarantee.

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

Description	Favouree	Amount
Security Deposit Guarantee	Environment Protection Authority	\$425,000
Security Deposit Guarantee	Environment Protection Authority	\$451,296
Total		\$876,296

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.

8.2 Change in accounting standards

Certain new Australian Accounting Standards and interpretations have been published that are not mandatory for the 30 June 2021 reporting period. Council assesses the impact of these new standards. As at 30 June 2021 there were no new accounting standards or interpretations issued by the AASB which are applicable for the year ending 30 June 2022 that are expected to impact Council.

8.3 Financial instruments

(a) Objectives and policies

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

(b) Market risk

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

Interest rate risk

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

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

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2021

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

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 0.7%.

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 2021

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.

Notes to the Financial Statements

For the Year Ended 30 June 2021

8.5 Events occurring after balance date

Asset Transferred to West Gippsland Regional Library Corporation

The change to the Local Government Act 2020 (VIC) has required that existing Regional Library Boards be wound up within 10 years from 1 July 2021. On 25th June 2021, it was recommended to the Council that they participate in the formation of a beneficial enterprise to be known as; and become a founding member of Myli – My Community Library Ltd being:

- i. a public company limited by guarantee;
- ii. a not-for-profit and charitable institution to be registered with the Australian Charities and Not-for-profits Commission;
- iii. a public library recognised by the Australian Taxation Office; and
- iv. on the terms of the Myli – My Community Library Ltd constitution.

The Member Councils will enter into a deed of novation and variation (Novation Deed) in relation to the existing West Gippsland Regional Library Corporation Agreement from 1 July 2022. The existing Library Agreement continues as an agreement between Bass Coast Shire Council, Baw Baw Shire Council, South Gippsland Shire Council and Myli – My Community Library Ltd on its current funding and commercial terms (Novated Library Agreement) and in the Novated Library Agreement.

The Member Councils will also enter into a gift and transfer deed between West Gippsland Regional Library Corporation and Myli – My Community Library Ltd (Gift and Transfer Deed) which provides in general terms, the restructure of West Gippsland Regional Library Corporation and replace it with Myli – My Community Library Ltd. Member Councils will gift their interests in West Gippsland Regional Library Corporation Ltd, and therefore their interests in West Gippsland Regional Library Corporation's business, assets and liabilities, to Myli – My Community Library Ltd. The transfer of West Gippsland Regional Library Corporation's business, assets and liabilities will occur in specie to Myli – My Community Library Ltd on 30 June 2022.

The Council on 21 July 2021, subject to giving full effect to the Novation Deed and the Gift and Transfer Deed, agreed that its intention is that the original Library Agreement is taken to be terminated with effect at 11:59pm on 30 June 2022. Therefore, agreed to the dissolution and winding up of West Gippsland Regional Library Corporation, with the Gift and Transfer Deed constituting the distribution of assets and liabilities in full and final satisfaction of dissolution and winding up clause, 13.2, of the Library Agreement.

Other Member Councils made their decisions to transition on the following dates:

- Bass Coast Council on 21 July 2021
- Baw Baw Shire Council on 28 July 2021

The Council does not consider that the decision to transition the operations, assets, and liabilities from West Gippsland Regional Library Corporation to Myli – My Community Library Ltd affects the measurement of the assets or liabilities of West Gippsland Regional Library Corporation at the end of the financial year.

As a result of the impending transition, all assets, liabilities and commitments have been classified as current on the basis that the transition will occur on 30 June 2022, being less than 12 months from the preparation of these financial statements.

Impact of lockdown 6 after year end

As Melbourne continues to record new Covid cases, Victoria has announced a statewide lockdown 6 from 5th August 2021. Council has received the grants revenue of Working for Victoria \$433,208 for the first quarter and budgeted the Covid-19 cost of \$500,000 to cope with the lockdown 6. As the caravan parks were closed down according to the restriction, the estimated revenue loss is approximately \$90,000.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Note 9 Other matters

9.1 Reserves

(a) Asset revaluation reserves

2021

Property

	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
Land & land improvements	40,477	9,806	-	50,283
Land under roads	-	1,756	-	1,756
Investment in associates	194	-	-	194
Buildings	37,568	2,196	18	39,782
Heritage buildings	1,375	12	-	1,387
Plant & Equipment	386	-	-	386
Total	80,000	13,770	18	93,788

Infrastructure

Roads	236,764	-	-	236,764
Bridges	3,240	-	-	3,240
Major Culverts	1,597	-	-	1,597
Drainage	8,140	-	-	8,140
Footpaths and cycleways	4,719	246	-	4,965
Kerb & Channel	16,989	-	-	16,989
Car parks	1,809	-	-	1,809
Land Stabilisation	2,079	-	-	2,079
Other infrastructure	1,811	-	-	1,811
Total	277,148	246	-	277,394

Total asset revaluation reserves

	357,148	14,016	18	371,182
--	---------	--------	----	---------

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
Total	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
Total	278,948	(1,800)	-	277,148

Total asset revaluation reserves

	349,793	7,285	70	357,148
--	---------	-------	----	---------

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

(b) Other reserves

2021

Public Open Space	106	384	(115)	375
Caravan Parks Reserve	-	777	(777)	-
Corner Inlet Reserve	18	-	-	18
Venus Bay Surf Life Saving Club	150	-	-	150
Total Other reserves	274	1,161	(892)	543

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

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 funding from other agencies.

Notes to the Financial Statements

For the Year Ended 30 June 2021

	2021 \$'000	2020 \$'000
9.2 Reconciliation of cash flows from operating activities to surplus/(deficit)		
Surplus/(deficit) for the year	16,021	(2,762)
Depreciation/amortisation	12,248	12,324
Borrowing costs	15	58
Profit/(loss) on disposal of property, infrastructure, plant and equipment	1,164	68
Write-off on disposal of infrastructure assets and work in progress	-	548
Impairment losses	-	11,419
Investment in associates	(130)	(113)
Fair value adjustments for investment property	5	(33)
Contributions - Non-monetary assets	(3,598)	(188)
<i>Change in assets and liabilities:</i>		
(Increase)/decrease in trade and other receivables	(332)	(126)
(Increase)/Decrease in prepayments	94	(160)
(Increase)/decrease in inventories	(2)	32
Increase/(decrease) in trust funds and deposits	148	307
Increase/(decrease) in trade and other payables	231	(722)
Increase/(decrease) in unearned income	2,366	539
Increase/(decrease) in employee entitlements	971	750
Increase/(decrease) in landfill provision	100	(134)
Net cash provided by/(used in) operating activities	29,300	21,807

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 the Comprehensive Operating Statement when they are made or due.

Accumulation

The Fund's accumulation category, 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 2021, 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 for the Defined Benefit category as at 30 June 2020 was conducted and completed by the due date of 31 December 2020. The vested benefit index (VBI) of the Defined Benefit category of which South Gippsland Shire Council is a contributing employer was 104.6%. The financial assumptions used to calculate the VBI were:

- Net investment returns 5.6% pa
- Salary information 2.5% pa for two years and 2.75% pa thereafter
- Price inflation (CPI) 2.0% pa.

As at 30 June 2021, an interim actuarial investigation is underway as the Fund provides lifetime pensions in the Defined Benefit category.

Vision Super has advised that the estimated VBI at 30 June was 109.7%.

The VBI is used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2020 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 2020 triennial 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 2021, this rate was 9.5% of members' salaries (9.5% in 2019/2020). This rate is expected to increase in line with any increases in the SG contribution rate and was 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 benefit.

Notes to the Financial Statements

For the Year Ended 30 June 2021

Funding calls

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

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including Council) are required to make an employer contribution to cover the shortfall.

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

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

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

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

The 2020 triennial actuarial investigation surplus amounts

An actuarial investigation is conducted annually for the Defined Benefit category of which Council is a contributing employer. Generally, a full actuarial investigation is conducted every three years and interim actuarial investigations are conducted for each intervening year. A full investigation was conducted as at 30 June 2020.

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

	2020 (Triennial) \$m	2019 (Interim) \$m
- A VBI Surplus	100.0	151.3
- A total service liability surplus	200.0	233.4
- A discounted accrued benefits surplus	217.8	256.7

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 2020.

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 2020.

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 2020.

Council was notified of the 30 June 2021 VBI during August 2021 (2020: August 2020).

The 2021 interim actuarial investigation

An interim actuarial investigation is being conducted for the Fund's position as at 30 June 2021 as the Fund provides lifetime pensions in the Defined Benefit category. It is anticipated that this actuarial investigation will be completed by October 2021.

Superannuation contributions

Contributions by Council (excluding any unfunded liability payments) to the above superannuation plans for the financial year ended 30 June 2021 are detailed below:

Scheme	Type of Scheme	Rate	2021 \$'000	2020 \$'000
Vision super	Defined benefit	9.50%	87	88
Vision super	Accumulation fund	9.50%	2,306	2,018

There were \$115K contributions outstanding and no loans issued from or to the above schemes as at 30 June 2021.

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2022 is \$58K.

Notes to the Financial Statements

For the Year Ended 30 June 2021

10 Change in accounting policy

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

Council has adopted AASB 1059 Service Concession Arrangements: Grantors, from 1 July 2019. This has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

a) AASB 1059 Service Concession Arrangements: Grantors (AASB 1059) (applies 2020/21 for LG Sector) - Impact of adoption

AASB 1059 Service Concession Arrangements: Grantors (AASB 1059) applies to public sector agencies that are grantors in a service concession arrangement. AASB 1059 defines a service concession as an arrangement that involves an operator:

- Providing public services related to a service concession asset on behalf of the grantor; and
- Managing at least some of those public services at its (i.e. the operator's) own discretion, rather than at the direction of the grantor.

AASB 1059 sets out how to account for service concession arrangements where the service concession asset (or assets) is (or are) controlled by the grantor, and not by the operator.

Council applies AASB 1059 retrospectively to each prior period presented in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. Retrospective application requires the derecognition or adjustment of any service concession assets and liabilities recognised under previous accounting policies or the initial recognition of service concession assets and liabilities. To the extent that the existing values are similar to those that would need to be recognised under AASB 1059, only a reclassification adjustment will be required. The effect of this is that it has been applied as if it has always been in effect. Where applicable, comparatives have been restated and retained earnings adjusted at 1 July 2020 to reflect the impact of the standard.

Any net adjustment on initial application of AASB 1059 is recognised as an adjustment to the opening balance of accumulated surplus (deficiency). When the grantor applies the revaluation model in AASB 116 as its accounting policy, the net adjustment is included in accumulated surplus (deficiency) and not revaluation surplus.

b) Transition impacts

The service concession agreements are contracts between a grantor and an operator in which:

- a. the operator has the right of access to the service concession asset to provide public services on behalf of the grantor for a specified period of time;
- b. the operator is responsible for at least some of the management of the public services provided through the asset and does not act merely as an agent on behalf of the grantor; and
- c. the operator is compensated for its services over the period of the service concession arrangement.

The Council has reviewed all of its arrangements to assess whether AASB 1059 applies and determined that none of these are within the scope of AASB 1059. Hence, it is not expected that these standards will have any significant impact on council in current financial year.

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.



Sandy Point

