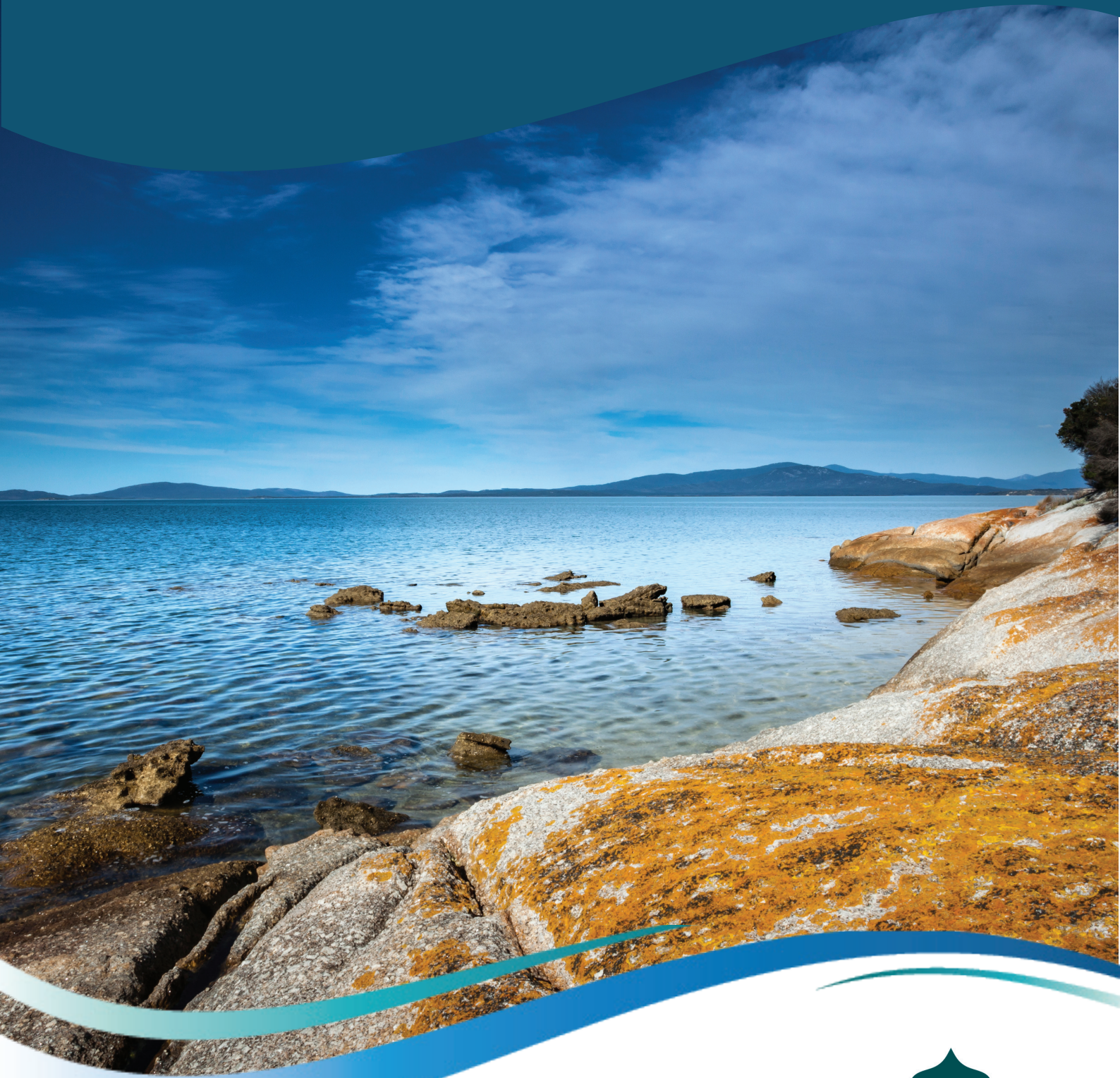


SOUTH GIPPSLAND SHIRE COUNCIL

Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2017



South Gippsland
Shire Council

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Comprehensive Income Statement

For the Year Ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Income			
Rates and charges	3	40,004	38,765
Statutory fees and fines	4	769	518
User fees	5	4,134	4,155
Grants - Operating	6	17,473	8,299
Grants - Capital	6	7,805	7,711
Contributions - monetary	7	509	281
Contributions - non monetary	7	403	629
Fair value adjustment for investment property	23	-	13
Share of net profits/(losses) of associates	16	131	119
Other Income	9	2,138	2,691
Total income		73,366	63,181
Expenses			
Employee costs	10	23,832	23,135
Materials and services	11	21,920	21,955
Bad and doubtful debts	12	43	104
Depreciation	13	11,651	10,616
Net loss on disposal of property, infrastructure plant and equipment	8	18	57
Borrowing costs	14	142	142
Other expenses	15	2,900	2,938
Total expenses		60,506	58,947
Surplus for the year		12,860	4,234
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment	28 (a)	-	29,435
Share of other comprehensive income of associates	16	-	120
Total Comprehensive result		12,860	33,789

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

Balance Sheet

As at 30 June 2017

	Note	2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash and cash equivalents	17	9,701	2,931
Trade and other receivables	19	4,449	4,203
Other financial assets	18	16,581	15,316
Inventories	20	304	195
Other assets	21	42	227
Total current assets		31,077	22,872
Non-current assets			
Investments in associates and joint ventures	16	1,122	991
Property, infrastructure, plant and equipment	22	530,083	523,042
Investment property	23	729	729
Total non-current assets		531,934	524,762
Total assets		563,011	547,634
Liabilities			
Current liabilities			
Trade and other payables	24	4,012	2,978
Trust funds and deposits	25	899	873
Provisions	26	6,110	5,676
Total current liabilities		11,021	9,527
Non-current liabilities			
Provisions	26	2,604	1,581
Interest-bearing loans and borrowings	27	3,350	3,350
Total non-current liabilities		5,954	4,931
Total liabilities		16,975	14,458
Net Assets		546,036	533,176
Equity			
Accumulated surplus		213,187	201,398
Asset revaluation reserve	28 (a)	329,540	329,540
Other reserves	28 (b)	3,309	2,238
Total Equity		546,036	533,176

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

Statement of Changes in Equity

For the Year Ended 30 June 2017

	Note	Total \$'000	Accumulated Surplus \$'000	Asset Revaluation Reserve \$'000	Other Reserves \$'000
2017					
Balance at beginning of the financial year		533,176	201,398	329,540	2,238
Surplus for the year		12,860	12,860	-	-
Net Asset revaluation increment/(decrement)	28 (a)	-	-	-	-
Transfers to other reserves	28 (b)	-	(2,046)	-	2,046
Transfers from other reserves	28 (b)	-	975	-	(975)
Balance at end of the financial year		546,036	213,187	329,540	3,309

	Note	Total \$'000	Accumulated Surplus \$'000	Asset Revaluation Reserve \$'000	Other Reserves \$'000
2016					
Balance at beginning of the financial year		499,387	198,371	299,985	1,031
Surplus for the year		4,234	4,234	-	-
Net Asset revaluation increment/(decrement)	28 (a)	29,555	-	29,555	-
Transfers to other reserves	28 (b)	-	(2,332)	-	2,332
Transfers from other reserves	28 (b)	-	1,125	-	(1,125)
Balance at end of the financial year		533,176	201,398	329,540	2,238

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

Statement of Cash Flows

For the Year Ended 30 June 2017

	Note	2017 Inflows/ (Outflows) \$'000	2016 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		39,598	38,545
Statutory fees and fines		769	518
User fees		4,467	4,188
Grants - operating		17,473	8,299
Grants - capital		7,805	7,711
Contributions - monetary		510	281
Interest received		592	531
Trust funds and deposits taken		165	21
Other receipts		2,036	2,236
Net GST refund		3,143	2,849
Employee costs		(23,445)	(22,569)
Materials and services		(24,649)	(24,572)
Trust funds and deposits repaid		(139)	(213)
Other payments		(2,881)	(2,937)
Net cash provided by operating activities	29	25,444	14,888
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment		(18,772)	(16,662)
Proceeds from sale of property, infrastructure, plant and equipment		1,505	432
Payments for investments		(1,265)	(4,004)
Net Cash used in investing activities		(18,532)	(20,234)
Cash flows from financing activities			
Finance costs		(142)	(142)
Net cash provided used in financing activities		(142)	(142)
Net (decrease) / increase in cash and cash equivalents		6,770	(5,488)
Cash and cash equivalents at the beginning of the financial year		2,931	8,419
Cash and cash equivalents at the end of the financial year	17	9,701	2,931
Financing arrangements	30		
Restrictions on cash assets	17		

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

Statement of Capital Works

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Property		
Land	408	247
Total land	408	247
Buildings	2,826	3,042
Total buildings	2,826	3,042
Total property	3,234	3,289
Plant and equipment		
Plant, machinery and equipment	1,952	1,601
Fixtures, fittings and furniture	-	-
Computers and telecommunications	983	605
Total plant and equipment	2,935	2,206
Infrastructure		
Roads	10,139	8,322
Bridges	272	190
Major Culverts	9	66
Footpaths and cycleways	675	572
Kerb and Channel	-	1
Drainage	158	172
Waste management #	1,366	1,691
Off street car parks	494	4
Other infrastructure	531	252
Total infrastructure	13,644	11,270
Total capital works expenditure	19,813	16,765
Represented by:		
New asset expenditure	1,459	25
Asset renewal expenditure	12,971	10,705
Asset expansion expenditure	1,667	3,664
Asset upgrade expenditure #	3,716	2,371
Total capital works expenditure	19,813	16,765
# Includes Landfill Rehabilitation Provision	1,041	122

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

Introduction

South Gippsland Shire Council was established by an order of the Governor in Council on 2nd December 1994 and is a body corporate. 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 Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the *Local Government Act 1989*, and the *Local Government (Planning and Reporting) Regulations 2014*.

Note 1 Significant accounting policies

(a) Basis of accounting

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

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

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

- the fair value of land, buildings, infrastructure, plant and equipment (refer to note 1 (k))
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to note 1 (l))
- the determination of employee provisions (refer to note 1 (r))
- the determination of landfill provisions (refer to note 1 (s))

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

(b) Changes in accounting policies

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

(c) Committees of management

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

(d) Accounting for investments in associates

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

e) Revenue Recognition

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

Rates and Charges

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 1 Significant accounting policies (cont.)

e) Revenue Recognition (cont.)

Statutory fees and fines

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

User fees

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

Grants

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

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

Contributions

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

Sale of property, infrastructure, plant and equipment

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

Interest

Interest is recognised as it is earned.

Dividends

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

Other Income

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

(f) Fair value measurement

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

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

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

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

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

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

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

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

(g) Cash and cash equivalents

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 1 Significant accounting policies (cont.)

(h) Trade and other receivables

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

(i) Other financial assets

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

(j) Inventories

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

(k) Recognition and measurement of property, infrastructure plant and equipment

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 the asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date.

Where assets are constructed by Council, cost includes all materials used in construction, direct labour, borrowing costs incurred during construction, and an appropriate share of directly attributable variable and fixed overheads. In accordance with Council's policy, the threshold limits detailed in Note 1 (l) have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

Revaluation

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

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

In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis 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.

Land under roads

Council recognises land under roads it controls at fair value since 30 June 2008.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 1 Significant accounting policies (cont.)

(l) Depreciation of property, infrastructure, plant and equipment

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

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

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

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

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

Asset recognition thresholds and depreciation periods	Depreciation Period	Threshold Limit \$'000
<u>Property</u>		
land	-	No Threshold
land improvements	-	10
<u>Buildings</u>		
heritage buildings	100 years	15
buildings	20 to 50 years	15
building improvements	20 to 50 years	15
<u>Plant and Equipment</u>		
major 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
<u>Infrastructure</u>		
road pavements	130 years	No Threshold
road seals	15 years	No Threshold
road formation and earthworks	-	No Threshold
road kerbs & channel	120 years	15
bridges	150 Years	15
major culverts	120 years	15
footpaths 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
waste management	4 to 50 years	15
other structures	10 to 40 Years	15

(m) Repairs and maintenance

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

(n) Investment property

Investment property is held to generate long-term rental yields. Investment property is measured initially at cost, including transaction costs. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefit in excess of the originally assessed performance of the asset will flow to the Council. Subsequent to initial recognition at cost, investment property is carried at fair value, determined annually by independent valuers. Changes to fair value are recorded in the comprehensive income statement in the period that they arise. Rental income from the leasing of investment properties is recognised in the comprehensive income statement on a straight line basis over the lease term.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 1 Significant accounting policies (cont.)

(o) Impairment of assets

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

(p) Trust funds and deposits

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

(q) Borrowings

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

Borrowing costs

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

Borrowing costs include interest on bank overdrafts and interest on borrowings.

(r) Employee costs and benefits

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

Wages and salaries and annual leave

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

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

Long service leave

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

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

The components of this current liability are measured at :

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

Classification of employee costs

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 1 Significant accounting policies (cont.)

(s) Landfill restoration provision

Council is obligated to restore its Koonwarra 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.

(t) Leases

Operating leases

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

Leasehold improvements

Leasehold improvements are recognised at cost and are amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

(u) Goods and Services Tax (GST)

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

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

(v) Financial guarantees

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

(w) Contingent assets and contingent liabilities and commitments

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

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

(x) Pending accounting standards

Certain new AAS's have been issued that are not mandatory for the 30 June 2017 reporting period. Council has assessed these pending standards and has identified the following potential impacts will flow from the application of these standards in future reporting periods.

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

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

Leases (AASB 16) (applies 2019/20)

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

Council does not have significant operating leases that will be impacted as a result of this change.

(y) Rounding

Unless otherwise stated, amounts in the financial report have been rounded to the nearest thousand dollars.

Figures in the financial statement may not equate due to rounding.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 2 Budget comparison

The budget comparison notes compare Council's financial plan, expressed through its annual budget, with actual performance. The Local Government (Planning and Reporting) Regulations 2014 requires explanation of any material variances. Council has adopted a materiality threshold of the lower of 5 percent or \$100K where further explanation is warranted. Explanations have not been provided for variations below the materiality threshold unless the variance is considered to be material because of its nature.

The budget figures detailed below are those adopted by Council on 22 June 2016. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for revenue and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

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

a) Income and Expenditure	Budget 2017 \$'000	Actual 2017 \$'000	Variance 2017 \$'000	Ref
Income				
Rates and charges	39,962	40,004	42	
Statutory fees and fines	606	769	163	1
User fees	4,015	4,134	119	2
Grants - Operating	13,106	17,473	4,367	3
Grants - Capital	7,661	7,805	144	4
Contributions - monetary	218	509	291	5
Contributions - non monetary	379	403	24	6
Net gain on disposal of property, infrastructure plant and equipment	81	-	(81)	7
Share of net profits / (losses) of associates and joint ventures	-	131	131	8
Other Income	2,309	2,138	(171)	9
Total income	68,337	73,366	5,029	
Expenses				
Employee costs	23,837	23,832	5	
Materials and services	23,797	21,920	1,877	10
Bad and doubtful debts	1	43	(42)	11
Depreciation	11,797	11,651	146	12
Net loss on disposal of property, infrastructure plant and equipment	-	18	(18)	7
Borrowing costs	142	142	-	
Other expenses	3,102	2,900	202	13
Total expenses	62,676	60,506	2,170	
Surplus for the year	5,661	12,860	7,199	

(i) Explanation of material variations

Variance Ref.	Item	Explanation
1	Statutory fees and fines	New and amendment applications received for statutory planning fees was higher than expected.
2	User fees	User fees were marginally higher than budget by \$116K. This was mainly due to more than expected revenue from Caravan Parks.
3	Grants - Operating	50% of Grants commission allocation (\$4.5M) relating to 2017-18 was received in advance.
4	Grants - Capital	Favourable variance mainly due to receipt of additional funding from Department of Infrastructure and Regional Development towards Roads to Recovery Projects.
5	Contributions - monetary	Contributions to Capital (\$199K) was classified as Grants Capital in the Budget .
6	Contributions - non monetary	Developer contributed infrastructure assets were marginally higher than estimate by \$24K.
7	Net gain on disposal of property, infrastructure plant and equipment	Plant & Fleet sales were expected to return a net profit but resulted in a loss of \$54K for the year. Land sales resulted in a marginal profit of \$36K. The net result was a loss of \$18K.
8	Share of net profits / (losses) of associates and joint ventures	Council share of \$133K surplus from Library was unexpected and not budgeted for.
9	Other Income	Interest on rates and charges (\$190K), reclassified as Rates and charges but goes under other income in the budget.
10	Materials and services	Some of the major projects that were budgeted in 2016-17 were not carried out during the year. Significant among them are Long Jetty Restoration (\$1M), Dredging Toora Channel (\$602K), Korumburra Showgrounds (\$593K), Black Spur Investigation (\$344K). Additional expenses included \$590K on storm events for which natural disaster claims will be made.
11	Bad and doubtful debts	New Provision for doubtful debts is based on current status of Caravan park debtors.
12	Depreciation	Depreciation expense was marginally lower than budget by \$146K due to timing difference of Capital expenditure.
13	Other expenses	Community grants which were budgeted for payment in 2016-17 were either reduced or carried forward to 2017-18.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 2 Budget comparison (cont.)

b) Capital Works

	Budget 2017 \$'000	Actual 2017 \$'000	Variance 2017 \$'000	Ref
Property				
Land	572	408	164	1
Total land	572	408	164	
Buildings	3,640	2,826	814	2
Total buildings	3,640	2,826	814	
Total property	4,212	3,234	978	
Plant and equipment				
Plant, machinery and equipment	2,304	1,952	352	3
Computers and telecommunications	826	983	(157)	4
Total plant and equipment	3,130	2,935	195	
Infrastructure				
Roads	10,401	10,139	262	5
Bridges	210	272	(62)	6
Major Culverts	42	9	33	7
Footpaths and cycleways	598	675	(77)	8
Drainage	111	158	(47)	9
Waste management #	412	1,366	(954)	10
Off street car parks	490	494	(4)	
Other infrastructure	1,210	531	679	11
Total infrastructure	13,474	13,644	(170)	
Total capital works expenditure	20,816	19,813	1,003	
Represented by:				
New asset expenditure	15	1,459	(1,444)	
Asset renewal expenditure	14,145	12,971	1,174	
Asset expansion expenditure	4,625	1,667	2,958	
Asset upgrade expenditure #	2,031	3,716	(1,685)	
Total capital works expenditure	20,816	19,813	1,003	

(i) Explanation of material variations

Variance Ref.	Item	Explanation
1	Land	Land acquisitions during 2016-17 were Jupiter Boulevard Venus Bay (\$303K) and Sheens Road, Mirboo North (\$95K). Total additions were below budget by \$164K as some of the acquisitions could not be completed and were carried forward.
2	Buildings	Variance is due to carry forward of some projects to 2017-18 due to revised projects plans. Projects carried forward include Caravan Park Toilet Block (\$377K) and Building renewal program (\$229K)
3	Plant, machinery and equipment	Variance is due to carry forward of some projects to 2017-18.
4	Computers and telecommunications	Expenditure on some of the projects were above original budgets. The budgets were revised and approved during the year.
5	Roads	Various projects such as Anderson Street Town entrance (\$1080K), Hudsons Road(\$1039K) and Roads Reseals (\$423K) were carried forward to 2017-18 due to revised project plans. Federal Blackspot program (\$2.3M) which is fully grant funded was not part of the original budget
6	Bridges	Bridges rehabilitation program was above budget by \$32K. Expenditure on a few new projects also commenced during the year.
7	Major Culverts	Major Culverts renewal program has been partly carried forward to 2017-18.
8	Footpaths and cycleways	Expenditure on some of the footpath projects were above original budgets. The budgets were revised and approved during the year.
9	Drainage	Expenditure on Drainage rehabilitation program was above original budget. The budget was revised and approved during the year.
10	Waste management #	Capital expenditure includes provision of \$1041K for Landfill rehabilitation of Cell 4. Additional expenditure on Cell construction of \$269K was approved in the revised budget. The Leachate Evaporation system budget of \$432K was carried forward to 2017-18
11	Other infrastructure	Projects carried forward to future years due to changes to project plans include Pools refurbishment \$191K, Pools renewal program \$232K, Splash Pool \$70K and Community Infrastructure projects \$182K

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
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Note 3 Rates and charges

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 2016/17 was \$7,574 million (2015/16 \$7,083 million)

General Rates	21,676	20,785
Industrial Rates	1,379	1,197
Commercial Rates	1,471	1,381
Farm Rates	9,991	9,709
Rural Residential Rates	71	87
Vacant Land Rates	2,321	2,366
Cultural & Recreational Land Rates	22	23
Supplementary Rates & Rate Adjustments	147	598
Interest on rates and charges	190	181
Garbage Charges	2,736	2,438
Total rates and charges	40,004	38,765

The date of the latest general revaluation of land for rating purposes within the municipal district was 1 January 2016, and the valuation first applies to the rating year commencing 1 July 2016.

Note 4 Statutory fees and fines

Land Information Certificates	37	31
Local Laws	162	173
Building Services	93	87
Statutory Planning	406	211
Supervision Fees	26	9
Others	45	7
Total statutory fees and fines	769	518

Note 5 User fees

Aged and health services	792	701
Leisure centre and recreation	80	100
Local Laws	423	403
Waste management services	1,956	1,874
Caravan Parks	779	934
Other fees and charges	104	143
Total user fees	4,134	4,155

Note 6 Grants

Grants were received in respect of the following:-

Summary of grants

Commonwealth funded grants	20,957	11,131
State funded grants	4,321	4,879
Total grants received	25,278	16,010

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Note 6 Grants (cont.)		
Operating Grants		
<i>Recurrent - Commonwealth Government</i>		
Victoria Grants Commission	13,324	4,496
Immunisation	1	1
Aged care	945	-
<i>Recurrent - State Government</i>		
Valuation Services	272	10
Community Safety	30	34
Family and children	184	185
Aged care	596	1,445
School crossing supervision	34	34
Community building	110	106
Community health	40	28
Maternal & child health	329	283
Other	60	68
Total recurrent operating grants	15,925	6,690
<i>Non-recurrent - State Government</i>		
Victoria Grants Commission	35	-
Community Safety	55	60
Families & Children	-	24
Youth Services	70	76
Fire Services Levy Administration	47	46
Economic Development	-	12
Sustainability	143	84
Community Building	15	51
Local Roads & Infrastructure	70	571
Natural Disasters	100	467
Recreation & Leisure	917	175
Others	96	43
Total non-recurrent operating grants	1,548	1,609
Total operating grants	17,473	8,299
Capital Grants		
<i>Recurrent - Commonwealth Government</i>		
Roads to Recovery - Capital	3,860	4,776
Total recurrent capital grants	3,860	4,776
<i>Non-recurrent - Commonwealth Government</i>		
Roads	2,347	667
Building	480	960
Waste	-	54
Bridges	-	177
<i>Non-recurrent - State Government</i>		
Roads	200	-
Building	720	800
Bridges	120	-
Other Structures	78	258
Plant, machinery and equipment	-	19
Total non-recurrent capital grants	3,945	2,935
Total capital grants	7,805	7,711
Unspent grants received on condition that they be spent in a specific manner		
Balance at start of year	1,664	1,902
Received during the financial year and remained unspent at balance date	830	1,161
Received in prior years and spent during the financial year	(1,174)	(1,399)
Balance at year end	1,320	1,664

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Note 7 Contributions		
Monetary	509	281
Non-monetary	403	629
Total contributions	<u>912</u>	<u>910</u>
<i>Contributions of non monetary assets were received in relation to the following asset classes:</i>		
Roads & Streets	199	242
Drains	133	220
Kerbs & Channel	42	85
Footpaths	29	82
Total non-monetary contributions	<u>403</u>	<u>629</u>
Note 8 Net Loss on Disposal of property, infrastructure, plant and equipment		
Proceeds of Sales		
Proceeds from Land & Building Sales	648	105
Proceeds from Plant & Equipment Sales	857	327
Total Proceeds from Sale of Assets	<u>1,505</u>	<u>432</u>
Written Down Value of Items sold		
Carrying Amount of Land & Building Sold	612	122
Carrying Amount of Plant & Equipment Sold	911	367
Total Written Down Value of Assets sold	<u>1,523</u>	<u>489</u>
Total net loss on disposal of non-current assets	<u><u>(18)</u></u>	<u><u>(57)</u></u>
Note 9 Other income		
Other Interest	416	440
Other rent	159	166
Investment property rent	69	62
Quarries	14	17
Private Works	283	835
Families & Children	19	30
Coal Creek	125	172
Rate Recovery Proceedings	81	134
Insurances	83	58
Fuel Tax Credits	139	138
Work cover	338	181
Vehicle contribution	196	212
Sundry Income	216	246
Total other income	<u>2,138</u>	<u>2,691</u>
Note 10 (a) Employee costs		
Wages & Salaries	19,401	18,625
Casual Staff	897	698
Annual and Long Service Leave	2,313	2,530
Superannuation	2,021	1,915
Work cover	411	319
Fringe benefits tax	47	44
	<u>25,090</u>	<u>24,131</u>
Less Capitalised	(1,258)	(996)
Total employee cost	<u>23,832</u>	<u>23,135</u>

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
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Note 10 (b) Superannuation

Council made contributions to the following funds:

Defined benefit fund

Employer contributions to Local Authorities Superannuation Fund (Vision Super)

144	142
144	142
5	9

Employer contributions payable at reporting date.

Accumulation fund

Employer contributions - Vision Super/Others

1,876	1,773
1,876	1,773

No Employer contributions was payable at reporting date.

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

Note 11 Materials and services

Waste Management	3,076	2,811
Leisure Centre Operations	846	809
Contractors General	4,412	5,566
Software Maintenance	1,052	805
Landfill Rehabilitation	-	18
Great Southern Rail Trail	362	78
Natural disasters	831	146
Materials General	5,192	5,691
Fuel & Oils	781	746
Advertising & Promotion Costs	260	239
Utilities	876	928
Subscriptions, affiliations and conferences	154	143
Leases	245	249
Legal Fees	432	560
Consultancies and projects	413	704
Insurance Premiums	602	576
Plant & Equipment Registrations	135	126
Training expenses	298	359
State levies	989	732
Gippsland Group Training / Labour Hire	964	669
Total materials and services	21,920	21,955

Note 12 Bad and doubtful debts

General debtors provision	43	88
Other debtors	-	16
Total bad and doubtful debts	43	104

Note 13 Depreciation

Property	2,410	2,377
Plant and equipment	1,848	1,800
Infrastructure	7,393	6,439
Total depreciation	11,651	10,616

Refer to note 22 for a more detailed breakdown of depreciation

Note 14 Borrowing costs

Interest - Borrowings	142	142
Total borrowing costs	142	142

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Note 15 Other expenses		
Library Contributions	1,354	1,310
Community & Sporting Grants	992	979
Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	54	59
Auditors' remuneration - Internal	34	39
Councillors' allowances	282	295
Bank Fees & Charges	184	256
Total other expenses	2,900	2,938

Note 16 Investments in associates

Investment in West Gippsland Regional Library Corporation is accounted for using the equity method.

Background

Council has a 30.55% equity interest in the West Gippsland Regional Library Corporation in 2016/17 (30.55% in 2015/16).

The equity interest is calculated on the basis of the proportion it contributes to the operating costs of the services.

Council's share of accumulated surplus/(deficit)

Council's share of accumulated surplus/(deficit) at start of year	797	678
Reported surplus/(deficit) for year	131	119
Council's share of accumulated surplus/(deficit) at end of year	928	797

Council's share of reserves

Council's share of reserves at start of year	194	74
Revaluation reserve increment	-	120
Council's share of reserves at end of year	194	194

Movement in carrying value of specific investment

Carrying value of investment at start of year	991	752
Transfers to asset revaluation reserve	-	120
Share of surplus/(deficit) for year	131	119
Carrying value of investment at end of year	1,122	991

Council's share of expenditure commitments	-	-
Operating leases and rentals	-	-
	-	-

West Gippsland Regional Library Corporation has not disclosed any contingent liabilities other than obligations under defined benefits superannuation scheme and contingent assets for the financial years 2016/17 and 2015/16.

Note 17 Cash and cash equivalents

Cash on Hand	2	2
Cash at Bank	2,963	1,646
Money Market Call Account	3,236	1,283
Term Deposits	3,500	-
Total cash and cash equivalents	9,701	2,931

Council's cash and cash equivalents are subject to a number of internal and external restrictions that limit amounts available for discretionary or future use. These include:

- 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 6)
- Trust funds and deposits (Note 25)
- Reserve funds allocated for specific future purposes (Note 28(b))

Total restricted funds	5,528	4,775
Total unrestricted cash and cash equivalents	4,173	(1,844)

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Note 17 Cash and cash equivalents (cont.)		
Intended allocations		
Although not externally restricted the following amounts have been allocated for specific future purposes by Council:		
General Reserve	1,280	879
Corner Inlet Seawall Reserve	19	19
Loan Reserve	2,010	1,340
	3,309	2,238

Refer also to Note 18 for details of other financial assets held by Council.

Note 18 Other financial assets

Term Deposits	16,581	15,316
Total other financial assets	16,581	15,316

Note 19 Trade and other receivables

Current

<i>Statutory receivables</i>		
Rates Debtors	2,934	2,665
Special rate assessment	18	22
<i>Non statutory receivables</i>		
Other debtors	1,489	1,233
Net GST Receivable	135	424
Provision for doubtful debts - other debtors	(127)	(141)
Total trade and other receivables	4,449	4,203

a) Ageing of Receivables

At balance date other debtors representing financial assets were past due but not impaired. The ageing of Council's Trade and Other Receivables (excluding statutory receivables) was:

Current (not yet due)	803	218
Past due by up to 30 Days	158	555
Past due between 31 and 180 days	239	218
Past due between 181 and 365 days	152	126
Past due by more than 1 year	137	116
Total Trade & Other Receivables	1,489	1,233

b) Movement in provisions for doubtful debts

Balance at the beginning of the year	141	53
New provisions recognised during the year	49	88
Amount already provided for and written off as uncollectable	(33)	-
Amounts provided for but recovered during the year	(30)	-
Balance at the end of the year	127	141

c) Ageing of individually impaired Trade and Other Receivables

At balance date other debtors representing financial assets with a nominal value of \$126,833 (2015/16 - \$ 140,468) were impaired. The amount of provision raised against these debtors was \$126,833 (2015/16 \$ 140,468). The individually impaired debtors relate to general and sundry debtors and 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:

Past due between 31 and 180 days	17	14
Past due between 181 and 365 days	60	58
Past due by more than 1 year	50	69
Total trade & other receivables	127	141

Note 20 Inventories

Raw Materials and Stores	304	195
Total inventories	304	195

Note 21 Other assets

Prepayments	42	227
Total other assets	42	227

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 22 Property, Infrastructure, Plant and Equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2016	Acquisitions	Contributions	Depreciation	Disposals	Transfers	At Fair Value 30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land	78,582	-	-	-	(612)	398	78,368
Buildings	42,989	-	-	(2,410)	-	5,846	46,425
Plant and Equipment	9,541	-	-	(1,848)	(911)	2,718	9,500
Infrastructure	381,499	-	402	(7,393)	-	18,687	393,195
Work in progress	10,431	19,813	-	-	-	(27,649)	2,595
	523,042	19,813	402	(11,651)	(1,523)	-	530,083

Summary of Work in Progress

	Opening WIP	Additions	Transfers	Closing WIP
	\$'000	\$'000	\$'000	\$'000
Land	11	408	(398)	21
Buildings	3,143	2,826	(5,846)	123
Plant and Equipment	501	2,935	(2,718)	718
Infrastructure	6,776	13,644	(18,687)	1,733
Total	10,431	19,813	(27,649)	2,595

	Land - specialised \$'000	Land - Under Roads \$'000	Total Land \$'000	Heritage Buildings \$'000	Buildings - specialised \$'000	Total Buildings \$'000	Work In Progress \$'000	Total Property \$'000
Land and Buildings								
At fair value 1 July 2016	45,616	32,966	78,582	5,750	112,778	118,528	3,154	200,264
Accumulated depreciation at 1 July 2016	-	-	-	4,399	71,140	75,539	-	75,539
	45,616	32,966	78,582	1,351	41,638	42,989	3,154	124,725
Movements in fair value								
Acquisition of assets at fair value	-	-	-	-	-	-	3,234	3,234
Fair value of assets disposed	(612)	-	(612)	-	-	-	-	(612)
Transfers	398	-	398	-	5,846	5,846	(6,244)	-
	(214)	-	(214)	-	5,846	5,846	(3,010)	2,622
Movements in accumulated depreciation								
Depreciation and amortisation	-	-	-	58	2,352	2,410	-	2,410
	-	-	-	58	2,352	2,410	-	2,410
At fair value 30 June 2017	45,402	32,966	78,368	5,750	118,624	124,374	144	202,886
Accumulated depreciation at 30 June 2017	-	-	-	4,457	73,492	77,949	-	77,949
	45,402	32,966	78,368	1,293	45,132	46,425	144	124,937

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 22 Property, Infrastructure, Plant and Equipment (cont.)

	Plant machinery and equipment	Fixtures fittings and furniture	Computers and telecomms	Work In Progress	Total plant and equipment
	\$'000	\$'000	\$'000	\$'000	\$'000
Plant and Equipment					
At fair value 1 July 2016	14,343	200	4,911	501	19,955
Accumulated depreciation at 1 July 2016	5,674	162	4,077	-	9,913
	8,669	38	834	501	10,042
Movements in fair value					
Acquisition of assets at fair value	-	-	-	2,935	2,935
Fair value of assets disposed	(2,048)	-	-	-	(2,048)
Transfers	1,984	-	734	(2,718)	-
	(64)	-	734	217	887
Movements in accumulated depreciation					
Depreciation and amortisation	1,444	6	398	-	1,848
Accumulated depreciation of disposals	(1,137)	-	-	-	(1,137)
	307	6	398	-	711
At fair value 30 June 2017	14,279	200	5,645	718	20,842
Accumulated depreciation at 30 June 2017	5,981	168	4,475	-	10,624
	8,298	32	1,170	718	10,218

	Roads	Bridges	Major Culverts	Footpaths and cycleways	Kerb & Channel	Off street car parks	Drainage	Waste Management	Other Infrastructure	Work In Progress	Total Infrastructure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Infrastructure											
At fair value 1 July 2016	323,499	52,835	13,263	19,326	21,435	6,464	38,550	4,161	7,686	6,776	493,995
Accumulated depreciation at 1 July 2016	56,270	15,415	4,675	3,102	4,040	2,854	13,204	3,001	3,159	-	105,720
	267,229	37,420	8,588	16,224	17,395	3,610	25,346	1,160	4,527	6,776	388,275
Movements in fair value											
Acquisition of assets at fair value	-	-	-	-	-	-	-	-	-	13,644	13,644
Contributed Assets	198	-	-	29	42	-	133	-	-	-	402
Transfers	13,350	265	-	801	-	498	158	3,416	199	(18,687)	-
	13,548	265	-	830	42	498	291	3,416	199	(5,043)	14,046
Movements in accumulated depreciation											
Depreciation and amortisation	5,316	352	111	216	178	60	322	421	417	-	7,393
	5,316	352	111	216	178	60	322	421	417	-	7,393
At fair value 30 June 2017	337,047	53,100	13,263	20,156	21,477	6,962	38,841	7,577	7,885	1,733	508,041
Accumulated depreciation at 30 June 2017	61,586	15,767	4,786	3,318	4,218	2,914	13,526	3,422	3,576	-	113,113
	275,461	37,333	8,477	16,838	17,259	4,048	25,315	4,155	4,309	1,733	394,928

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 22 Property, Infrastructure Plant and Equipment (cont.)

Valuation of land and buildings

Valuation of Land and buildings were undertaken by Andrew Begg, AAPI (Council Employee). The basis of valuation 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 movement 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. No revaluation was conducted in the current year, however assets have been reviewed and no abnormal changes in values were observed.

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

	Level 1	Level 2	Level 3	Date of Valuation
Land Specialised	-	-	45,402	01-January-2016
Land under roads	-	-	32,966	01-January-2016
Heritage buildings	-	-	1,293	01-January-2016
Building specialised	-	-	45,132	01-January-2016
Total	-	-	124,793	

Valuation of infrastructure

Valuation of Council's, infrastructure assets was performed by John Moylan, BE Civil Engineering, MBA (Tech Mgt) (Council employee). The valuation is at fair value based on replacement cost less accumulated depreciation as at the date of valuation.

The date of the current valuation is detailed in the following table. No revaluation was conducted in the current year, however assets have been reviewed and no abnormal changes in values were observed.

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

	Level 1	Level 2	Level 3	Date of Valuation
Roads	-	-	275,461	30-June-2016
Bridges	-	-	37,333	30-June-2016
Major Culverts	-	-	8,477	30-June-2016
Footpaths and cycleways	-	-	16,838	30-June-2016
Kerb & Channel	-	-	17,259	30-June-2016
Off-street car parks	-	-	4,048	30-June-2016
Drainage	-	-	25,315	30-June-2016
Waste Management	-	-	4,155	30-June-2016
Other infrastructure	-	-	4,309	30-June-2016
Total	-	-	393,195	

Description of significant unobservable inputs into level 3 valuation

Specialised land and land under roads is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 5% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$1 and \$826 per square metre.

Specialised buildings are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement costs is calculated on a square metre basis and ranges from \$500 to \$5000 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 50 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.

Reconciliation of specialised land

	2017	2016
Specialised land	45,402	45,616
Land under roads	32,966	32,966
Total specialised land	78,368	78,582

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Note 23 Investment Property		
Balance at the beginning of the year	729	716
Fair value adjustment	-	13
Balance at end of financial year	729	729

Valuation of investment property

Valuation of investment property has been determined in accordance with a valuation by Marc Babos , AAPI (Council employee) who has recent experience in the location and category of the property being valued. The valuation is at fair value, based on the current market value for the property.

Note 24 Trade and other payables

Payables	2,038	1,504
Accrued expenses	1,974	1,474
Total trade and other payables	4,012	2,978

Note 25 Trust funds and deposits

Refundable deposits	121	201
Fire Services levy	418	365
Retention amounts	36	25
Other Deposits held in Trust	324	282
Total trust funds and deposits	899	873

Purpose and nature of items

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

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 26 Provisions

2017

Balance at beginning of the financial year
Additional provisions
Amounts used
Increase in the discounted amount arising because of time and the effect of any changes in the discount rate.

Balance at the end of the financial year

Landfills Restoration \$'000	Employee Benefits \$'000	Total \$'000
820	6,437	7,257
1,041	2,709	3,750
-	(2,269)	(2,269)
-	(24)	(24)
1,861	6,853	8,714

2016

Balance at beginning of the financial year
Additional provisions
Amounts used
Increase in the discounted amount arising because of time and the effect of any changes in the discount rate.

Balance at the end of the financial year

698	5,658	6,356
122	3,170	3,292
-	(2,427)	(2,427)
-	36	36
820	6,437	7,257

a) Employee provisions

Current provisions expected to be wholly settled within 12 months

Annual Leave
Rostered Days
Long Service Leave

2017 \$'000	2016 \$'000
1,755	1,691
234	199
1,455	1,341
3,444	3,231

Current provisions expected to be wholly settled after 12 months

Annual Leave
Long Service Leave

853	765
1,813	1,680
2,666	2,445
6,110	5,676

Total Current Provisions

Non-current

Long Service Leave

Total Non-Current Provisions

Aggregate carrying amount of employee provisions:

Current
Non-current
Total aggregate carrying amount of employee provisions

743	761
743	761
6,110	5,676
743	761
6,853	6,437

(b) Landfill restoration

Non-current

1,861	820
1,861	820

Note 27 Interest-bearing loans and borrowings

Non-Current

Borrowings - Secured *

3,350	3,350
3,350	3,350
3,350	3,350

Total interest-bearing loans and borrowings

* The loans are secured over the general rates of the Council.

The maturity profile for Council's borrowings is:
Later than one year and not later than five years

Total

3,350	3,350
3,350	3,350

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 28 Reserves

	Balance at beginning of reporting period	Increment (decrement)	Share of increment/ (decrement) on revaluation by an associate	Balance at end of reporting period
	\$'000's	\$'000's	\$'000's	\$'000's
(a) Asset revaluation reserves				
2017				
Property				
Land	31,087	-	-	31,087
Land under Roads	4,922	-	-	4,922
Investments in associates (Note 16)	194	-	-	194
Buildings	25,922	-	-	25,922
Heritage buildings	470	-	-	470
Plant & Equipment	386	-	-	386
	62,981	-	-	62,981
Infrastructure				
Roads and Streets	200,532	-	-	200,532
Bridges	24,520	-	-	24,520
Major Culverts	5,069	-	-	5,069
Drainage	12,225	-	-	12,225
Footpaths	8,292	-	-	8,292
Kerb & Channel	12,302	-	-	12,302
Car parks	2,944	-	-	2,944
Other Structures	675	-	-	675
	266,559	-	-	266,559
Total asset revaluation reserves	329,540	-	-	329,540
2016				
Property				
Land	28,840	2,247	-	31,087
Land under Roads	4,370	552	-	4,922
Investments in associates (Note 16)	74	120	-	194
Buildings	27,190	(1,268)	-	25,922
Heritage buildings	523	(53)	-	470
Plant & Equipment	386	-	-	386
	61,383	1,598	-	62,981
Infrastructure				
Roads and Streets	200,130	402	-	200,532
Bridges	5,606	18,914	-	24,520
Major Culverts	3,506	1,563	-	5,069
Drainage	10,247	1,978	-	12,225
Footpaths	5,463	2,829	-	8,292
Kerb & Channel	9,573	2,729	-	12,302
Car parks	2,641	303	-	2,944
Other Structures	1,436	(761)	-	675
	238,602	27,957	-	266,559
Total asset revaluation reserves	299,985	29,555	-	329,540

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

	Balance at beginning of reporting period \$'000's	Transfer from accumulated surplus \$'000's	Transfer to accumulated surplus \$'000's	Balance at end of reporting period \$'000's
Note 28 Reserves (cont.)				

(b) Other reserves

2017

Public Open Space	-	61	(61)	-
Caravan Parks Reserve	-	913	(913)	-
General Reserve	879	401	-	1,280
Corner Inlet Seawall Reserve	19	1	(1)	19
Loan Reserve	1,340	670	-	2,010
Total other reserves	2,238	2,046	(975)	3,309

2016

Public Open Space	-	45	(45)	-
Caravan Parks Reserve	-	1,076	(1,076)	-
General Reserve	339	540	-	879
Corner Inlet Seawall Reserve	22	1	(4)	19
Loan Reserve	670	670	-	1,340
Total other reserves	1,031	2,332	(1,125)	2,238

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.

Corner Inlet Seawall Reserve

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

Loan Reserve

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Note 29 Reconciliation of cash flows from operating activities to surplus		
Surplus for the year	12,860	4,234
Depreciation	11,651	10,616
Borrowing costs	142	142
Loss on disposal of Property, Plant and Equipment and Infrastructure	18	57
Contributions - non - monetary assets	(403)	(629)
Investment in associates (note 16)	(131)	(119)
Fair value adjustment for investment property	-	(13)
<i>Change in assets and liabilities:</i>		
(Increase)/Decrease in Trade and other receivables	(246)	(388)
(Increase)/Decrease in prepayments	185	76
(Increase)/Decrease in Inventories	(109)	97
Increase/(Decrease) in Trust funds and deposits	26	(192)
Increase/(Decrease) in Payables	1,035	468
Increase/(Decrease) in Employee entitlements	416	539
Net cash provided by operating activities	25,444	14,888
Note 30 Financing arrangements		
Bank Overdraft	500	500
Credit card facilities	350	350
Total facilities	850	850
Used facilities	36	36
Unused facilities	814	814

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 31 Commitments

The Council has entered into the following commitments

2017	Not Later Than 1 Year \$'000	Later than 1 year and not later than 2 Years \$'000	Later than 2 year and not later than 5 Years \$'000	Later than 5 years \$'000	Total \$'000
<i>Operating</i>					
Transfer Stations	636	318	-	-	954
Litter Bins	189	189	-	-	378
Kerbside Garbage	2,143	2,143	1,429	-	5,715
Libraries	1,382	-	-	-	1,382
General Materials & Services	1,559	-	-	-	1,559
Equipment Hire	45	-	-	-	45
Maintenance Contracts	223	-	-	-	223
Construction Contracts	39	-	-	-	39
<i>Capital</i>					
Building	65	-	-	-	65
Computers and telecoms	44	-	-	-	44
Bridges	14	-	-	-	14
Roads	1,426	-	-	-	1,426
Drainage	2	-	-	-	2
Footpaths	2	-	-	-	2
Other Structures	21	-	-	-	21
Total	7,790	2,650	1,429	-	11,869

2016	Not Later Than 1 Year \$'000	Later than 1 year and not later than 2 Years \$'000	Later than 2 year and not later than 5 Years \$'000	Later than 5 years \$'000	Total \$'000
<i>Operating</i>					
Transfer Stations	846	846	426	-	2,118
Litter Bins	189	189	189	-	567
Hall Operations	11	-	-	-	11
Libraries	1,355	-	-	-	1,355
General Materials & Services	2,177	-	-	-	2,177
Equipment Hire	12	-	-	-	12
Maintenance Contracts	761	-	-	-	761
Construction Contracts	101	-	-	-	101
<i>Capital</i>					
Building	1,996	-	-	-	1,996
Computers and telecoms	425	-	-	-	425
Plant machinery & equipment	247	-	-	-	247
Roads	306	-	-	-	306
Drainage	27	-	-	-	27
Footpaths	30	-	-	-	30
Waste Management	234	-	-	-	234
Total	8,717	1,035	615	-	10,367

Notes to the Financial Statements

For the Year Ended 30 June 2017

	2017 \$'000	2016 \$'000
Note 32 Operating Leases		
(a) Operating lease commitments		
At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of plant and equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities).		
Not later than one year	186	197
Later than one year and not later than five years	196	345
Later than five years	-	1
Total operating lease commitments	382	543

(b) Operating lease receivables

The Council has entered into commercial property leases on its investment property, consisting of surplus freehold office complexes and a quarry site. 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 minimum rentals receivable under non-cancellable operating leases are as follows:

Not later than one year	200	139
Later than one year and not later than five years	206	296
Later than five years	390	408
Total operating lease receivables	796	843

Note 33 Superannuation

Council makes 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 Income Statement when they are made or due.

Accumulation

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

Defined Benefit

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 33 Superannuation (cont.)

Funding arrangements

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

As at 30 June 2016, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which Council is a contributing employer was 102%. To determine the VBI, the fund Actuary used the following long-term assumptions:

Net investment returns 7.0% pa

Salary information 4.25% pa

Price inflation (CPI) 2.5% pa.

Vision Super has advised that the estimated VBI at quarter ended 30 June 2017 was 103.1 %. The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2016 interim actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

Employer contributions

Regular contributions

On the basis of the results of the 2016 interim actuarial investigation conducted by the Fund Actuary, Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2017, this rate was 9.5% of members' salaries (9.5% in 2015/2016). This rate will increase in line with any increase to the SG contribution rate. In addition, Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

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

A VBI surplus of \$40.3 million; and

A total service liability surplus of \$156 million.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 33 Superannuation (cont.)

2016 Interim actuarial investigation surplus amounts

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

2017 Full triennial actuarial investigation

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

Superannuation contributions

Contributions by South Gippsland Shire (excluding any unfunded liability payments) to the above superannuation plans for the financial year ended 30 June 2017 are detailed below:

Scheme	Type of Scheme	Rate	2007	2007
			\$000	\$000
Vision Super	Defined benefits	9.50%	144	142
Vision Super/Others	Accumulation	9.50%	1876	1773

In addition to the disclosed contributions, South Gippsland Shire Council has paid unfunded liability payments to Vision Super totalling \$ Nil during 2016/17 (2015/16 \$ Nil). There were \$4865 contributions outstanding and [\$Nil] loans issued from or to the above schemes as at 30 June 2017. The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2018 is \$ 148,000.

Note 34 Contingent liabilities and contingent assets

Contingent liabilities

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 in Note 33. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists. At this point in time it is not known if additional contributions will be required, their timing or potential amount.

Landfills

Under requirement of the Environmental Protection Authority (EPA), Council has a present obligation to perform site rehabilitation works for landfills that it operates on a progressive basis. At balance date Council has made necessary provisions for rehabilitation of Landfills that are currently in operation (Refer note 26 (b)). However the estimates of provision required is dependent on the accuracy of the forecast, timing of the work, work required, and related costs.

Guarantees

Council has taken out Bank Guarantees with Commonwealth Bank of Australia as per details below:

Description	Favouree	Amount
Contract Performance Guarantee	South Gippsland Regional Water Board	\$ 40,000
Contract Performance Guarantee	Department of Energy and Minerals	\$ 15,000
Contract Performance Guarantee	Department of Natural Resources & Minerals	\$ 20,000
Security Deposit Guarantee	Environment Protection Authority	\$ 425,000
Security Deposit Guarantee	State of Victoria - Environment Protection Authority	\$ 451,296
Total contingent liability as at 30 June 2017		\$ 951,296

Contingent assets

Developer contributions to be received by Council in respect of estates currently under development total \$379K (2016 \$413K).

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 35 Financial instruments

(a) Objectives and policies

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. The Council's exposures 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. Our interest rate liability risk arises primarily from long term loans and borrowings at fixed rates which exposes us 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 rate.

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

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

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

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

(c) Credit risk

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

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

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

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

(d) Liquidity risk

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

To help reduce these risks Council:

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

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

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 35 Financial instruments (cont.)

(d) Liquidity risk (cont.)

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

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

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

e) Fair value

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

Fair value hierarchy

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

(f) Sensitivity disclosure analysis

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

- A parallel shift of + 1% and -1% in market interest rates (AUD) from year-end rates of 2.64%.

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.

Note 36 Related party disclosures

(i) Related Parties

Parent Entity

South Gippsland Shire Council

Subsidiaries and Associates

Interest in subsidiaries and associates are detailed in note 16.

(ii) Key Management Personnel

Details of persons holding the position of Councillor or other members of key management personnel at any time during the year are:

Councillors	2017 No.	2016 No.
Aaron Brown (9 Nov 2016 to 30 June 2017)	1	-
Ray Argento (Mayor from 16 November 2016 to 30 June 2017)	1	-
Alyson Skinner (9 Nov 2016 to 30 June 2017)	1	-
Jeremy Rich (9 Nov 2016 to 30 June 2017)	1	-
Maxine Kiel (9 Nov 2016 to 30 June 2017)	1	-
Meg Edwards (9 Nov 2016 to 30 June 2017)	1	-
Don Hill	1	1
Andrew McEwen	1	1
Lorraine Brunt	1	1
Robert Newton (Mayor from 1 July 2016 to 22 October 2016)	1	1
Kieran Kennedy (1 July 2016 to 22 October 2016)	1	1
Mohya Davies (1 July 2016 to 22 October 2016)	1	1
Jeanette Harding (1 July 2016 to 22 October 2016)	1	1
Nigel Hutchinson Brooks (1 July 2016 to 22 October 2016)	1	1
James Fawcett (1 July 2016 to 22 October 2016)	1	1
Total Number of Councillors	15	9
Chief Executive Officer and other Key Management Personnel		
Tim Tamlin		
Jan Martin	1	1
Anthony Seabrook	1	1
Bryan Sword	1	1
Faith Page	1	-
John Moylan	1	1
Danny McDonald	1	1
Chris Van Der Ark	1	1
Vanessa Adams	1	1
Chief Executive Officer and other Key Management Personnel	9	8
Total Key Management Personnel	24	17

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 36 Related party disclosures (cont.)

(iii) Remuneration of Key Management Personnel

Total remuneration of key management personnel was as follows:

	2017	2016
	\$'000	\$'000
Short-term benefits	1,515	1,511
Post-employment benefits	119	109
Other long-term benefits	16	-
Termination benefits	56	-
Total	1,706	1,620

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

	2017 No.	2016 No.
\$0 - \$9,999	5	-
\$10,000 - \$19,999	5	-
\$20,000 - \$29,999	4	7
\$30,000 - \$39,999	1	-
\$40,000 - \$49,999	-	1
\$50,000 - \$59,999	1	-
\$60,000 - \$69,999	-	1
\$80,000 - \$89,999	1	1
\$110,000 - \$119,999	-	1
\$130,000 - \$139,999	-	1
\$140,000 - \$149,999	2	1
\$150,000 - \$159,999	1	-
\$160,000 - \$169,999	1	1
\$180,000 - \$189,999	-	1
\$190,000 - \$199,999	-	1
\$200,000 - \$209,999	1	-
\$210,000 - \$219,999	1	-
\$280,000 - \$289,999	1	-
\$290,000 - \$299,999	-	1
TOTAL	24	17

(iv) Transactions with related parties

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

Key Management Personnel (KMP) name	Position Held (Including related parties of KMP)	Supplier / entity	Nature of Transactions (on normal commercial terms)	Transaction Amount \$
Payments				
Mohya Davies	Ex Councillor	Warrawee Holiday Units	Payment for goods & services	3,780
John Moylan	Manager Engineering & Assets	Sentinel Times	Payment for goods & services	61,466
John Moylan	Manager Engineering & Assets	The Great Southern Star	Payment for goods & services	52,846
Jan Martin	Ex Director Corporate and Community Service	West Gippsland Regional Library Corporation	Grants & Contributions	1,701,731
Jan Martin	Ex Director Corporate and Community Service	Gippsland Southern Health Service	Payment for goods & services	166,107
Receipts				
James Fawcett	Ex Councillor	Leongatha Recreation Reserve Committee of Management	Contributions received	172,000
Jan Martin	Ex Director Corporate and Community Service	Gippsland Southern Health Service	Receipts for goods & services	6,659

All transactions are in line with normal commercial practice.

Notes to the Financial Statements

For the Year Ended 30 June 2017

Note 36 Related party disclosures (cont.)

(v) Outstanding balances with related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties

Key Management Personnel	Position Held (Including related parties of KMP)	Supplier / entity	Nature of Transactions (on normal commercial terms)	Outstanding Amount \$
John Moylan	Manager Engineering & Assets	Sentinel Times	Payment for goods & services	8823
John Moylan	Manager Engineering & Assets	The Great Southern Star	Payment for goods & services	3159
Jan Martin	Ex Director Corporate and Community Service	West Gippsland Regional Library Corporation	Grants & Contributions	715
Jan Martin	Ex Director Corporate and Community Service	Gippsland Southern Health Service	Payment for goods & services	73

All transactions are in line with normal commercial practice.

(vi) Loans to/from related parties

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

(vii) 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 \$1.38M. All transactions are in line with normal commercial practice.

vii) Senior Officer Remuneration

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

- a) has management responsibilities and reports directly to the Chief Executive; or
- b) whose total annual remuneration exceeds \$142,000

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

Income Range	2017 No.	2016 No.
below \$142,000	1	1
\$140,000 - \$149,999	1	3
\$150,000 - \$159,999	2	1
\$160,000 - \$169,999	2	-
	6	5
	\$'000	\$'000

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

Some of the Council staff classified as Senior Officers in previous year have been re-classified as Key Management Personnel in 2016-17

900 718

Note 37 Events occurring after balance date

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

Certification of Financials Statements

For the Year Ended 30 June 2017

**South Gippsland Shire Council
Certification of Financial Statements
For the Year Ended 30 June 2017**

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

Acting Finance Manager : Stuart Smith, CPA

Location : Leongatha

Dated : 27 / 09 / 2017

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

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

We have been authorised by the Council on 27 September 2017 to certify the financial statements in their final form.

Councillor : Ray Argento

Location : Leongatha

Dated : 27 / 09 / 2017

Councillor : Lorraine Brunt

Location : Leongatha

Dated : 27 / 09 / 2017

Chief Executive Officer : Tim Tamlin

Location : Leongatha

Dated : 27 / 09 / 2017

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DELIBERATELY LEFT BLANK FOR SIGNED AUDIT REPORT



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SECTION four PERFORMANCE

4.1 PERFORMANCE STATEMENT

DESCRIPTION OF MUNICIPALITY

South Gippsland Shire was formed in 1994 from the amalgamation of four municipalities. Located 90 minutes south east of Melbourne, the Shire has an expanding population of 28,936 (*ABS estimated resident population 2016*).

The Council covers an area of 3,300 square kilometres with substantial coastal frontage. South Gippsland Shire is a spectacular region, with communities nestled among the rolling green hills, and along the coast, linking the mountains to the sea.

The Shire's major centres are Leongatha, Korumburra, Mirboo North and Foster, and other significant townships include Nyora, Toora, Venus Bay, Sandy Point, Poowong, Port Welshpool, Loch, Dumbalk, Welshpool, Meeniyan, Fish Creek, Port Franklin, Koonwarra, Kongwak and Tarwin Lower.

Key industry sectors by employment in the South Gippsland Shire at the last census in 2011 were Agriculture, Forestry and Fishing, Health Care and Social Assistance, Retail Trade, and Construction.



SUSTAINABLE CAPACITY INDICATORS

for the year ended 30 June 2017

Service	Results 2015	Results 2016	Results 2017	Material Variation
Population	\$2,013	\$2,128	\$2,091	
<i>Expenses per head of municipal population</i> [Total expenses / Municipal population]				
<i>Infrastructure per head of municipal population</i> [Value of infrastructure / Municipal population]	\$14,743	\$16,042	\$15,611	
<i>Population density per length of road</i> [Municipal population / Kilometres of local roads]	13	13	24	
Own-source revenue				
<i>Own-source revenue per head of municipal population</i> [Own-source revenue / Municipal population]	\$1,522	\$1,670	\$1,630	
Recurrent grants				
<i>Recurrent grants per head of municipal population</i> [Recurrent grants / Municipal population]	\$607	\$414	\$684	Receipt of \$4.5M of Grants Commission allocation in advance in 2016/17 while \$4.3M of allocation related to 2015/16 was received in advance in 2014/15.
Disadvantage				
<i>Relative socio-economic disadvantage</i> [Index of Relative Socio-economic Disadvantage by decile]	6	6	6	

Definitions

"Adjusted underlying revenue" means total income other than:

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

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

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

"Population" means the resident population estimated by Council

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

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

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

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

Service	Results 2015	Results 2016	Results 2017	Material Variation
Aquatic Facilities				
Utilisation				
Utilisation of aquatic facilities	6	6	6	
[Number of visits to aquatic facilities / Municipal population]				
Animal management				
Health and safety				
Animal management prosecutions	20	23	9	Serious dog attacks form the majority of these figures. There has been a substantial decrease in reported serious dog attacks during this financial year.
[Number of successful animal management prosecutions]				
Food safety				
Health and safety				
Critical and major non-compliance notifications	94%	95%	100%	From 1 July 2016, 'Critical and major non-compliance outcome notifications' will be reported by calendar year. Previously this indicator was reported by financial year. This has been implemented to better align reporting with the Department of Health and Human Services. This may result in some variances year on year.
[Number of critical non-compliance notifications and major non-compliance notifications about a food premises followed up / Number of critical non-compliance notifications and major non-compliance notifications about food premises] x 100				
Governance				
Satisfaction				
Satisfaction with Council decisions	44	47	45	
[Community satisfaction rating out of 100 with how Council has performed in making decisions in the interest of the community]				
Home and Community Care (HACC)				
Participation				
Participation in HACC service	26%	26%	N/A	Reporting on HACC ceased on 1 July 2016 due to the introduction of the Commonwealth Government's NDIS and CHSP programs.
[Number of people that received a HACC service / Municipal target population for HACC services] x 100				
Participation				
Participation in HACC service by CALD people	23%	22%	N/A	Reporting on HACC ceased on 1 July 2016 due to the introduction of the Commonwealth Government's NDIS and CHSP programs.
[Number of CALD people who receive a HACC service / Municipal target population in relation to CALD people for HACC services] x 100				

Service	Results 2015	Results 2016	Results 2017	Material Variation
Libraries				
Participation				
Active library members	25%	23%	21%	
[Number of active library members / Municipal population] x 100				
Maternal and Child Health (MCH)				
Participation				
Participation in the MCH service	79%	75%	76%	
[Number of children who attend the MCH service at least once (in the year) / Number of children enrolled in the MCH service] x 100				
Participation				
Participation in the MCH service by Aboriginal children	76%	62%	67%	
[Number of Aboriginal children who attend the MCH service at least once (in the year) / Number of Aboriginal children enrolled in the MCH service] x 100				
Roads				
Satisfaction				
Satisfaction with sealed local roads	27	30	36	More roads have been rehabilitated and/or resealed leading to an increased satisfaction result.
[Community satisfaction rating out of 100 with how Council has performed on the condition of sealed local roads]				
Statutory Planning				
Decision making				
Council planning decisions upheld at VCAT	0%	71%	50%	Council had one less VCAT decision overall and two more decisions set aside by VCAT compared to 2015/16, which has impacted the overall variance. The overall volume of applications that are appealed to VCAT is exceptionally low at South Gippsland so even one application difference can create a significant percentage variance.
[Number of VCAT decisions that did not set aside Council's decision in relation to a planning application / Number of VCAT decisions in relation to planning applications] x 100				
Waste Collection				
Waste diversion				
Kerbside collection waste diverted from landfill	33%	50%	51%	
[Weight of recyclables and green organics collected from kerbside bins / Weight of garbage, recyclables and green organics collected from kerbside bins] x 100				

Definitions

"Aboriginal child" means a child who is an Aboriginal person

"Aboriginal person" has the same meaning as in the Aboriginal Heritage Act 2006

"Active library member" means a member of a library who has borrowed a book from the library

"Annual report" means an annual report prepared by a Council under Sections 131, 132 and 133 of the Act

"CALD" means culturally and linguistically diverse and refers to persons born outside Australia in a country whose national language is not English

"Class 1 food premises" means food premises, within the meaning of the *Food Act 1984*, that have been declared as class 1 food premises under section 19C of that Act

"Class 2 food premises" means food premises, within the meaning of the *Food Act 1984*, that have been declared as class 2 food premises under section 19C of that Act

"Community Care Common Standards" means the Community Care Common Standards for the delivery of HACC services, published from time to time by the Commonwealth

"Critical non-compliance outcome notification" means a notification received by Council under section 19N(3) or (4) of the *Food Act 1984*, or advice given to Council by an authorised officer under that Act, of a deficiency that poses an immediate serious threat to public health

"Food premises" has the same meaning as in the *Food Act 1984*

"HACC program" means the Home and Community Care program established under the Agreement entered into for the purpose of the *Home and Community Care Act 1985* of the Commonwealth

"HACC service" means home help, personal care or community respite provided under the HACC program

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

"Major non-compliance outcome notification" means a notification received by a Council under section 19N(3) or (4) of the *Food Act 1984*, or advice given to Council by an authorised officer under that Act, of a deficiency that does not pose an immediate serious threat to public health but may do so if no remedial action is taken

"MCH" means the Maternal and Child Health Service provided by a Council to support the health and development of children within the municipality from birth until school age

"Population" means the resident population estimated by Council

"Target population" has the same meaning as in the Agreement entered into for the purposes of the *Home and Community Care Act 1985* of the Commonwealth

"WorkSafe reportable aquatic facility safety incident" means an incident relating to a Council aquatic facility that is required to be notified to the Victorian WorkCover Authority under Part 5 of the *Occupational Health and Safety Act 2004*.

Dimension/Indicator/ measure	Results 2015	Results 2016	Results 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Material Variation
Efficiency								
Revenue level								
<i>Average residential rate per residential property assessment</i>	\$1,607	\$1,752	\$1,789	\$1,847	\$1,865	\$1,883	\$1,902	
[Residential rate revenue / Number of residential property assessments]								
Expenditure Level								
<i>Expenses per property assessment</i>	\$2,913	\$3,038	\$3,105	\$3,297	\$3,061	\$3,195	\$3,191	
[Total expenses / Number of property assessments]								
Workforce turnover								
<i>Resignation and terminations compared to average staff</i>	9.29%	13.13%	11.19%	10.81%	10.81%	10.81%	10.81%	
[Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x 100								
Liquidity								
Working capital								
<i>Current assets compared to current liabilities</i>	270.40%	240.08%	281.98%	215.52%	156.78%	196.51%	143.03%	\$4.5M Victorian Grants Commission allocation was received in advance in 2016/17. This had a positive impact on the 2016/17 ratio.
[Current assets / Current liabilities] x 100								

Dimension/Indicator/ measure	Results 2015	Results 2016	Results 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Material Variation
Unrestricted cash								
<i>Unrestricted cash compared to current liabilities</i>	107.46%	-46.01%	-16.11%	25.83%	10.16%	27.89%	-34.18%	The reclassification of \$16.5M of highly liquid 'cash and cash equivalent assets' to 'other financial assets' which have a maturity date of greater than 90 days has reduced the amount of Cash and Cash equivalents. This does not present as a strategic concern.
[Unrestricted cash / Current liabilities] x 100								
Obligations								
Asset renewal								
<i>Asset renewal compared to depreciation</i>	84.41%	100.84%	111.33%	101.74%	122.26%	98.04%	121.78%	The nature of capital renewal expenditure is expected to fluctuate over the years.
[Asset renewal expenses / Asset depreciation] x 100								
Loans and borrowings								
<i>Loans and borrowings compared to rates</i>	9.40%	8.68%	8.37%	8.17%	7.96%	0.00%	0.00%	
[Interest bearing loans and borrowings / Rate revenue] x 100								
Loans and borrowings								
<i>Loans and borrowings repayments compared to rates</i>	0.36%	0.37%	0.35%	0.35%	0.34%	7.89%	0.00%	
[Interest and principal repayments on interest bearing loans and borrowings / rate revenue] x 100								
Indebtedness								
<i>Non-current liabilities compared to own source revenue</i>	10.85%	10.67%	12.62%	11.75%	3.23%	3.27%	3.31%	Increase in Non-current Liabilities is due to provision of \$1M for Landfill rehabilitation.
[Non-current liabilities / Own source revenue] x 100								

Dimension/Indicator/ measure	Results 2015	Results 2016	Results 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Material Variation
Operating position								
Adjusted underlying result	12.36%	0.99%	12.11%	-6.94%	4.97%	3.76%	4.27%	The steep increase in operating surplus in 2016/17 compared to 2015/16 is due to receipt of \$4.5M of Grants Commission allocation in advance. Further \$4.3M of allocation related to 2015/16 was received in 2014/15.
<i>Adjusted underlying surplus (or deficit)</i>								
[Adjusted underlying surplus (deficit) / Adjusted underlying revenue] x 100								
Stability								
Rates concentration								\$4.5M Victorian Grants Commission allocation was received in advance in 2016/17. This had a negative impact on the 2016/17 ratio.
<i>Rates compared to adjusted underlying revenue</i>	55.55%	64.87%	58.11%	68.24%	66.56%	65.82%	66.80%	
[Rate revenue / Adjusted underlying revenue] x 100								
Rates effort								
<i>Rates compared to property values</i>	0.50%	0.54%	0.53%	0.54%	0.54%	0.55%	0.55%	
[Rate revenue / Capital improved value of rateable properties in the municipality] x 100								

Definitions

"Adjusted underlying revenue" means total income other than:

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

other than those referred to above

"Adjusted underlying surplus (or deficit)" means adjusted underlying revenue less total expenditure

"Asset renewal expenditure" means expenditure on an existing asset or on replacing an existing asset that returns the service capability of the asset to its original capability

"Current assets" has the same meaning as in the AAS

"Current liabilities" has the same meaning as in the AAS

"Non-current assets" means all assets other than current assets

"Non-current liabilities" means all liabilities other than current liabilities

"Non-recurrent grant" means a grant obtained on the condition that it be expended in a specified manner and is not expected to be received again during the period covered by a Council's Strategic Resource Plan

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

"Population" means the resident population estimated by Council

"Rate revenue" means revenue from general rates, municipal charges, service rates and service charges

"Recurrent grant" means a grant other than a non-recurrent grant

"Residential rates" means revenue from general rates, municipal charges, service rates and service charges levied on residential properties

"Restricted cash" means cash and cash equivalents, within the meaning of the AAS, that are not available for use other than for a purpose for which it is restricted, and includes cash to be used to fund capital works expenditure from the previous financial year

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

OTHER INFORMATION

for the year ended 30 June 2017

1. Basis of preparation

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

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

The performance statement presents the actual results for the current year and for the prescribed financial performance indicators and measures, the results forecast by the Council's Strategic Resource Plan. The Local Government (Planning and Reporting) Regulations 2014 requires explanation of any material variations in the results contained in the performance statement. Council has adopted materiality thresholds relevant to each indicator and measure and explanations have not been provided for variations below the materiality thresholds unless the variance is considered to be material because of its nature.

The forecast figures included in the performance statement are those adopted by Council in its Strategic Resource Plan annually and which forms part of the Council Plan. The Strategic Resource Plan includes estimates based on key assumptions about the future that were relevant at the time of adoption and aimed at achieving sustainability over the long term. Detailed information on the actual financial results is contained in the General Purpose Financial Statements. The Strategic Resource Plan 2015–2018 can be obtained by contacting Council.



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

Stuart Smith, CPA

Principal Accounting Officer

Dated: 27 September 2017

In our opinion, the accompanying performance statement of the South Gippsland Shire Council for the year ended 30 June 2017 presents fairly the results of Council's performance in accordance with the *Local Government Act 1989* and the Local Government (Planning and Reporting) Regulations 2014.

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

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

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

Ray Argento

Mayor

Dated: 27 September 2017

Lorraine Brunt

Councillor (Audit Committee Member)

Dated: 27 September 2017

Tim Tamlin

Chief Executive Officer

Dated: 27 September 2017