



ANNUAL FINANCIAL REPORT

PERFORMANCE STATEMENT

For the Year Ended 30 June 2019

Hepburn Shire Council

Financial Report

Table of Contents

FINANCIAL REPORT		Page
Certification of the Financial Statements		1
Victorian Auditor-General's Office Audit Report		2
 Financial Statements		
Comprehensive Income Statement		4
Balance Sheet		5
Statement of Changes in Equity		6
Statement of Cash Flows		7
Statement of Capital Works		8
 Overview		 9
 Notes to Financial Statements		
Note 1	Performance against budget	10
	1.1. Income and expenditure	10
	1.2. Capital works	11
Note 2.1	Analysis of Council results by program	12
Note 3	Funding for the delivery of our services	14
	3.1. Rates and charges	14
	3.2. Statutory fees and fines	14
	3.3. User fees	14
	3.4. Funding from other levels of government	15
	3.5. Contributions	16
	3.6. Net gain/(loss) on disposal of property, infrastructure, plant and equipment	16
	3.7. Other income	16
Note 4	The cost of delivering services	16
	4.1. Employee costs	16
	4.2. Materials and services	17
	4.3. Depreciation and amortisation	17
	4.4. Bad and doubtful debts	17
	4.5. Borrowing costs	18
	4.6. Other expenses	18
Note 5	Our financial position	18
	5.1. Financial assets	18
	5.2. Non-financial assets	20
	5.3. Payables	20
	5.4. Interest-bearing liabilities	21
	5.5. Provisions	21
	5.6. Financing arrangements	23
	5.7. Commitments	23
Note 6	Assets we manage	24
	6.1. Non current assets classified as held for sale	24
	6.2. Property, infrastructure plant and equipment	25
Note 7	People and relationships	32
	7.1. Council and key management remuneration	32
	7.2. Related party disclosure	33
Note 8	Managing uncertainties	34
	8.1. Contingent assets and liabilities	34
	8.2. Change in accounting standards	34
	8.3. Financial instruments	35
	8.4. Fair value measurement	36
	8.5. Events occurring after balance date	37
Note 9	Other matters	37
	9.1. Reserves	37
	9.2. Reconciliation of cash flows from operating activities to surplus/(deficit)	39
	9.3. Superannuation	39

Certification of the Financial Statements

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

Danielle How CPA
Principal Accounting Officer

Date : 17th September 2019
Daylesford

In our opinion the accompanying financial statements present fairly the financial transactions of Hepburn Shire Council for the year ended 30 June 2019 and the financial position of the Council as at that date.

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

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

Mayor Cr Don Henderson
Councillor

Date : 17th September 2019
Daylesford

Cr John Cottrell
Councillor

Date : 17th September 2019
Daylesford

Evan King
Chief Executive Officer

Date : 17th September 2019
Daylesford

Comprehensive Income Statement For the Year Ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Income			
Rates and charges	3.1	20,595	19,415
Statutory fees and fines	3.2	895	883
User fees	3.3	1,089	1,011
Grants - operating	3.4	6,212	5,874
Grants - capital	3.4	3,731	3,474
Contributions - monetary	3.5	482	199
Contributions - non monetary	3.5	-	100
Net gain (or loss) on disposal of property, infrastructure, plant and equipment	3.6	53	40
Other income	3.7	1,937	1,826
Total income		34,994	32,821
Expenses			
Employee costs	4.1	12,498	12,037
Materials and services	4.2	10,068	9,609
Depreciation and amortisation	4.3	6,934	7,034
Bad and doubtful debts	4.4	56	7
Borrowing costs	4.5	182	246
Other expenses	4.6	671	765
Total expenses		30,409	29,698
Surplus/(deficit) for the year		4,585	3,123
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment	6.2	13,094	13,682
Total comprehensive result		17,679	16,805

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

Balance Sheet As at 30 June 2019

	Note	2019 \$'000	2018 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1(a)	12,759	10,365
Trade and other receivables	5.1(c)	4,041	3,003
Other financial assets	5.1(b)	6,133	5,933
Inventories	5.2(a)	6	12
Non-current assets classified as held for sale	6.1	545	545
Other assets	5.2(b)	86	228
Total current assets		23,570	20,086
Non-current assets			
Property, infrastructure, plant and equipment	6.2	261,020	246,838
Intangible assets	5.2 (c)	429	473
Total non-current assets		261,449	247,311
Total assets		285,019	267,397
Liabilities			
Current liabilities			
Trade and other payables	5.3 (a)	2,704	2,363
Trust funds and deposits	5.3 (b)	950	1,061
Provisions	5.5	2,107	1,922
Interest-bearing liabilities	5.4	427	596
Total current liabilities		6,188	5,943
Non-current liabilities			
Provisions	5.5	462	444
Interest-bearing liabilities	5.4	3,987	4,290
Other liabilities		63	80
Total non-current liabilities		4,512	4,815
Total liabilities		10,700	10,758
Net assets		274,319	256,639
Equity			
Accumulated surplus		153,768	149,759
Reserves	9.1	120,551	106,880
Total equity		274,319	256,639

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

Statement of Changes in Equity For the Year Ended 30 June 2019

	Note	Accumulated		Revaluation	Other
		Total	Surplus	Reserve	Reserves
2019		\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year		256,639	149,759	104,930	1,950
Surplus for the year		4,585	4,585	-	-
Net asset revaluation increment/(decrement)	6.2	13,094	-	13,094	-
Transfers to other reserves	9.1 (a)	-	450	-	(450)
Transfers from other reserves	9.1 (b)	-	(1,027)	-	1,027
Balance at end of the financial year		274,319	153,768	118,024	2,527

	Note	Accumulated		Revaluation	Other
		Total	Surplus	Reserve	Reserves
2018		\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year		239,834	146,227	91,248	2,360
Surplus/(deficit) for the year		3,123	3,123	-	-
Net asset revaluation increment/(decrement)	6.2	13,682	-	13,682	-
Transfers to other reserves	9.1 (a)	-	794	-	(794)
Transfers from other reserves	9.1 (b)	-	(385)	-	385
Balance at end of the financial year		256,639	149,759	104,930	1,950

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 2019

	2019	2018
	Inflows/ (Outflows)	Inflows/ (Outflows)
Note	\$'000	\$'000
Cash flows from operating activities		
Rates and charges	20,294	18,732
Statutory fees and fines	851	889
User fees	63	1,152
Grants - operating	6,258	11,333
Grants - capital	3,731	3,474
Contributions - monetary	482	199
Interest received	518	383
Rent received	1,472	1,369
Trust funds and deposits taken	(99)	(34)
Other receipts	480	496
Employee costs	(12,275)	(12,027)
Materials and services	(9,933)	(10,212)
Other payments	(670)	(765)
Net cash provided by/(used in) operating activities	9.2 11,172	14,988
Cash flows from investing activities		
Payments for property, infrastructure, plant and equipment	6.2 (7,998)	(7,797)
Proceeds from sale of property, infrastructure, plant and equipment	3.6 73	78
Payments for investments	(200)	(1,779)
Net cash used in investing activities	(8,125)	(9,498)
Cash flows from financing activities		
Finance costs	(181)	(246)
Repayment of borrowings	(472)	(743)
Net cash used in financing activities	(653)	(989)
Net increase in cash and cash equivalents	2,394	4,502
Cash and cash equivalents at the beginning of the financial year	10,365	5,864
Cash and cash equivalents at the end of the financial year	5.1 12,759	10,365
Financing arrangements	5.6	
Restrictions on cash assets	5.1	

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

Statement of Capital Works
For the Year Ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Property			
Land		-	-
Land improvements		17	31
Total land		<u>17</u>	<u>31</u>
Buildings		930	1,234
Building improvements		385	459
Total buildings		<u>1,315</u>	<u>1,693</u>
Total property		<u>1,332</u>	<u>1,724</u>
Plant and equipment			
Plant, machinery and equipment		652	646
Computers and telecommunications		178	378
Library Resources		86	47
Total plant and equipment		<u>916</u>	<u>1,071</u>
Infrastructure			
Roads		3,695	3,188
Bridges		182	341
Footpaths and cycleways		572	283
Drainage		419	253
Recreational, leisure and community facilities		313	297
Parks, open space and streetscapes		546	658
Other infrastructure		10	66
Total infrastructure		<u>5,737</u>	<u>5,087</u>
Total capital works expenditure		<u>7,985</u>	<u>7,882</u>
Represented by:			
New asset expenditure		1,097	1,655
Asset renewal expenditure		6,256	5,399
Asset upgrade expenditure		632	828
Total capital works expenditure		<u>7,985</u>	<u>7,882</u>

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

Notes to the Financial Report For the Year Ended 30 June 2019

OVERVIEW

Introduction

The Hepburn Shire Council was established by an Order of the Governor in Council on 19 January 1995 and is a body corporate.

The Council's main office is located at 76 Vincent Street, Daylesford 3460

Statement of compliance

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

Significant accounting policies

(a) Basis of accounting

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

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

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

- the fair value of land, buildings, infrastructure, plant and equipment (refer to Note 6.2)
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to Note 6.2)
- the determination of employee provisions (refer to Note 5.5)
- the determination of landfill provisions (refer to Note 5.5)
- other areas requiring judgements

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

Notes to the Financial Report For the Year Ended 30 June 2019

Note 1 Performance against budget

The performance against budget 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 ten percent and \$100,000 where further explanation is warranted. Explanations have not been provided for variations below the materiality threshold unless the variance is considered to be material because of its nature.

The budget figures detailed below are those adopted by Council on 19th June 2018. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for income and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

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

1.1 Income and expenditure

	Budget 2019 \$'000	Actual 2019 \$'000	Variance 2019 \$'000	Variance %	Ref
Income					
Rates and charges	20,462	20,595	133	0.6%	
Statutory fees and fines	799	895	96	12.0%	
User fees	1,037	1,089	52	5.0%	
Grants - operating	6,621	6,212	(409)	-6.2%	
Grants - capital	3,064	3,731	667	21.8%	1
Contributions - monetary	200	482	282	140.9%	2
Contributions - non monetary	-	-	-		
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	178	53	(125)	-70.1%	3
Other income	1,494	1,937	443	29.7%	4
Total income	33,855	34,994	1,139	3.4%	
Expenses					
Employee costs	12,062	12,498	(436)	-3.6%	
Materials and services	10,140	10,068	72	0.7%	
Depreciation and amortisation	7,028	6,934	94	1.3%	
Bad and doubtful debts	18	56	(38)	-213.3%	
Borrowing costs	225	182	43	19.2%	
Other expenses	781	671	110	14.0%	5
Total expenses	30,254	30,409	(155)	-0.5%	
Surplus for the year	3,601	4,585	1,294	35.9%	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Grants - capital	Receipt of \$230K grant for Daylesford Skate Park budgeted for 2019-20 received in June in addition to increased road funding
2	Contributions - monetary	Increased developers contributions for capital and open spaces
3	Net gain/(loss) on disposal of property, infrastructure, plant and equipment	Assets were not disposed of at the rate budgeted and the sales proceeds were not as high as expected
4	Other income	Deposits from developers for subdivisions to rectify roads from prior years were recognised as income, in addition to increased interest income due to higher cash holdings
5	Other expenses	Contract payments have a favourable variance as a result of operational projects not being at the budgeted stage by 30 June 2019. These project funds will be carried forward to 2019-20 to enable the related projects to be delivered in 2019-20

Notes to the Financial Report
For the Year Ended 30 June 2019

Note 1 Performance against budget (cont'd)

1.2 Capital works

	Budget 2019 \$'000	Actual 2019 \$'000	Variance 2019 \$'000	Variance 2019 %	Ref
Property					
Land improvements	-	17	17		
Total land	-	17	17		
Buildings	520	930	410	78.8%	1
Building improvements	1,461	385	(1,076)	-73.6%	2
Total buildings	1,981	1,315	(666)	-33.6%	
Total property	1,981	1,332	(649)	-32.8%	
Plant and equipment					
Plant, machinery and equipment	3,130	652	(2,478)	-79.2%	3
Computers and telecommunications	97	178	81	83.5%	
Library books	57	86	29	50.9%	
Total plant and equipment	3,284	916	(2,368)	-72.1%	
Infrastructure					
Roads	3,270	3,695	425	13.0%	4
Bridges	278	182	(96)	-34.5%	
Footpaths and cycleways	571	572	1	0.2%	
Drainage	287	419	132	46.0%	5
Recreational, leisure and community facilities	375	313	(62)	-16.5%	
Parks, open space and streetscapes	190	546	356	187.4%	6
Other infrastructure	160	10	(150)	-93.8%	7
Total infrastructure	5,131	5,737	606	11.8%	
Total capital works expenditure	10,396	7,985	(2,411)	-23.2%	
Represented by:					
New asset expenditure	2,811	1,097	(1,714)	-61.0%	
Asset renewal expenditure	6,905	6,256	(649)	-9.4%	
Asset upgrade expenditure	680	632	(48)	-7.1%	
Total capital works expenditure	10,396	7,985	(2,411)	-23.2%	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Buildings	Original Budget of \$1.98m was adjusted at mid year by \$4.963m to reflect an increase in the building works to be completed in 2018-19. Projects budgeted in 2017-18 and carried forward for completion such as the Hepburn Netball Change Rooms and the Trentham Child Care Centre and purchase of three units at Daylesford Holiday park
2	Building Improvements	The Hepburn Hub project during 2018-19 was placed on hold so that all permit and planning issues could be addressed prior to continuing redevelopment.
3	Plant and Machinery	Garbage truck purchases originally budgeted (\$1.2m) did not proceed per Council's decision. \$550k of fleet replacements are ordered however not delivered at 30 June 2019 and Bioenergy facility is in testing phase with \$700k of stage two budgeted works to be completed in 2019-20
4	Roads	Additional grants were received during the 2018-19 year for road construction which has meant a greater number of roads were completed in the 2018-19 financial year
5	Drainage	A number of major drainage projects from 2017-2018 were rolled over for completion during the 2018-19 year
6	Parks and Open Spaces	2017-18 streetscape and Mineral Springs improvement projects from 2017-18 not included in the original budget, were carried forward and constructed during the 2018-19
7	Other Infrastructure	Doug Lindsay car park project has not been started as budgeted within 2018-19 and will be carried forward and completed in the 2019-20 year

Notes to the Financial Report For the Year Ended 30 June 2019

Note 2.1 Analysis of Council results by program

2.1 (a) Council delivers its functions and activities through the following programs.

CEO

The Chief Executive Office (CEO) provides the strategic direction across council to enable the efficient, effective delivery of policy commitments, council vision and mission. The provision of these services includes governance and risk, procurement, strategy, as well as people and culture. People and Culture is responsible for organisation development and provides efficient and effective services to meet the growing needs of the community. Governance and risk provide effective governance oversight and support to the organisation to ensure councils customer focus includes communication and community engagement processes. Service areas include governance and risk and information management.

Infrastructure and Development Services

Infrastructure and Development Services is responsible for constructing new infrastructure and maintaining existing infrastructure across a very diverse range of assets that underpin the wellbeing of the community. These assets include capital works engineering services, environment and waste, parks and gardens, emergency management and municipal resources, including the delivery of major projects.

Infrastructure also incorporates planning services and includes the assessment of shire development, health and local laws, planning strategy and urban growth.

Corporate and Community Services

Corporate and Community Services provides high quality community focused programs, service delivery and communication to residents. Community Services is comprised of community care, connected communities, family services, health communities, leisure and recreational services and social planning and investment. Corporate Services also provides efficient, effective and proactive support services across council to enable the delivery of all council services. The provision of these services includes finance services, digital information and technology.

Community Services is underpinned by both customer commitments and customer service strategies. Community and economic development are responsible for business improvement and customer service. Customer service is dedicated to the health, safety and amenity of the community and supports festivals and local events. Community and economic development also advocate on behalf of the community for major events, arts, culture, economic development and cultural opportunities including the delivery of a reconciliation action plan with the traditional owners of the land of the Dja Dja Wurrung.

Notes to the Financial Report
 For the Year Ended 30 June 2019

Note 2. Analysis of Council results by program (cont.)

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

	Income	Expenses	Surplus/ (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2019					
CEO	1	2,456	(2,455)	-	58
Infrastructure	9,575	12,774	(3,199)	3,779	259,948
Corporate and Community Services	25,418	15,179	10,239	6,164	25,013
	<u>34,994</u>	<u>30,409</u>	<u>4,585</u>	<u>9,943</u>	<u>285,019</u>
	Income	Expenses	Surplus/ (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2018					
CEO	-	2,122	(2,122)	-	70
Infrastructure	9,611	12,703	(3,092)	4,220	245,827
Corporate and Community Services	23,210	14,873	8,337	5,128	21,500
	<u>32,821</u>	<u>29,698</u>	<u>3,123</u>	<u>9,348</u>	<u>267,397</u>

Notes to the Financial Report
For the Year Ended 30 June 2019

Note 3 Funding for the delivery of our services **2019** **2018**
3.1 Rates and charges **\$'000** **\$'000**

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

The valuation base used to calculate general rates for 2018/19 was \$4,825.612 million (2017/18 \$4,136.961 million).

General rates	17,183	16,576
Municipal charge	1,408	1,264
Waste management charge	1,563	1,269
Special rates and charges	126	-
Supplementary rates and rate adjustments	148	137
Interest on rates and charges	151	153
Revenue in lieu of rates	16	16
Total rates and charges	<u>20,595</u>	<u>19,415</u>

The date of the latest general revaluation of land for rating purposes within the municipal district was 1/01/2019, and the valuation will be first applied in the rating year commencing 1/07/2019

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

3.2 Statutory fees and fines

Infringements and costs	95	117
Permits	89	86
Registration fees	235	223
Town planning fees	448	446
Other fees and fines	28	11
Total statutory fees and fines	<u>895</u>	<u>883</u>

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

3.3 User fees

Aged and health services	271	308
Aquatic centre fees	57	62
Building Services	244	218
Facility hire	19	22
Waste management services	311	293
Other fees and charges	187	108
Total user fees	<u>1,089</u>	<u>1,011</u>

User fees are recognised as revenue when the service has been provided or council has otherwise earned the income.

Notes to the Financial Report
For the Year Ended 30 June 2019

3.4 Funding from other levels of government	2019	2018
Grants were received in respect of the following :	\$'000	\$'000
Summary of grants		
Commonwealth funded grants	6,594	7,130
State funded grants	3,349	2,218
Total grants received	<u>9,943</u>	<u>9,348</u>
(a) Operating Grants		
<i>Recurrent - Commonwealth Government</i>		
Financial Assistance Grants - VGC	3,331	3,181
Aged care	909	1,067
Community health	12	29
<i>Recurrent - State Government</i>		
Aged care	115	170
Libraries	161	158
Maternal and child health	169	143
School crossing supervisors	30	30
Youth	18	12
Other	70	61
Total recurrent operating grants	<u>4,815</u>	<u>4,851</u>
<i>Non-recurrent - Commonwealth Government</i>		
National disaster financial assistance	129	355
<i>Non-recurrent - State Government</i>		
Commerce and tourism	818	440
Emergency management	120	120
Family and children	15	-
Recreation	62	6
Transport	44	29
Waste and environment	54	44
Other	155	30
Total non-recurrent operating grants	<u>1,397</u>	<u>1,023</u>
Total operating grants	<u>6,212</u>	<u>5,874</u>
(b) Capital Grants		
<i>Recurrent - Commonwealth Government</i>		
Local road funding	1,504	1,455
Roads to recovery	709	1,398
Total recurrent capital grants	<u>2,213</u>	<u>2,853</u>
<i>Non-recurrent - Commonwealth Government</i>		
Roads	-	-
<i>Non-recurrent - State Government</i>		
Buildings	50	155
Roads	726	280
Recreation, leisure and community facilities	669	186
Waste and Environment	53	-
Other	20	-
Total non-recurrent capital grants	<u>1,518</u>	<u>621</u>
Total capital grants	<u>3,731</u>	<u>3,474</u>

Notes to the Financial Report
For the Year Ended 30 June 2019

	2019 \$'000	2018 \$'000
(c) Unspent grants received on condition that they be spent in a specific manner		
Balance at start of year	3,626	3,397
Received during the financial year and remained unspent at balance date	4,011	2,900
Received in prior years and spent during the financial year	(3,626)	(2,671)
Balance at year end	<u>4,011</u>	<u>3,626</u>

Grant income is recognised when Council obtains control of the contribution. Control is normally obtained upon receipt (or acquittal).

3.5 Contributions

Monetary	482	199
Non-monetary	-	100
Total contributions	<u>482</u>	<u>299</u>

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

Roads	-	100
Total non-monetary contributions	<u>-</u>	<u>100</u>

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

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

Proceeds of sale	73	78
Written down value of assets disposed	(20)	(39)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	<u>53</u>	<u>40</u>

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

3.7 Other income

Interest	346	270
Reimbursements	303	179
Facilities Rental income	1,133	1,282
Sale of materials	120	65
Other	35	30
Total other income	<u>1,937</u>	<u>1,826</u>

Interest is recognised as it is earned.

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

Note 4 The cost of delivering services

4.1 (a) Employee costs

Wages and salaries	9,647	9,392
WorkCover	324	282
Superannuation	827	854
Fringe benefits tax	51	73
Agency Staff	1,649	1,437
Total employee costs	<u>12,498</u>	<u>12,037</u>

Notes to the Financial Report
For the Year Ended 30 June 2019

Note 4.1 Continued	2019 \$'000	2018 \$'000
(b) Superannuation		
Council made contributions to the following funds:		
Defined benefit fund		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	48	49
	<u>48</u>	<u>49</u>
Employer contributions payable at reporting date.	-	-
Accumulation funds		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	410	459
Employer contributions - other funds	376	346
	<u>786</u>	<u>805</u>
Employer contributions payable at reporting date.	-	-

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

4.2 Materials and services

Building maintenance	269	249
Consultants	608	820
Contract payments		
Waste Service	2,370	2,249
Project Management	43	12
Infrastructure Maintenance	1,445	1,152
IT Maintenance	73	67
General Contracts	861	831
	<u>4,792</u>	<u>4,312</u>
Information technology	492	256
Insurance	412	386
Materials and services	2,459	2,599
Office administration	329	357
Utilities	707	632
Total materials and services	<u>10,068</u>	<u>9,609</u>

4.3 Depreciation and amortisation

Property	1,131	1,440
Plant and equipment	819	789
Infrastructure	4,882	4,711
Total depreciation	<u>6,833</u>	<u>6,940</u>
Intangible assets	101	94
Total depreciation and amortisation	<u>6,934</u>	<u>7,034</u>

Refer to note 5.2(c) and 6.2 for a more detailed breakdown of depreciation and amortisation charges and accounting policy.

4.4 Bad and doubtful debts

Compliance Debtors	1	5
Other debtors	55	1
Total bad and doubtful debts	<u>56</u>	<u>7</u>

Movement in provisions for doubtful debts

Balance at the beginning of the year	(1)	(52)
New provisions recognised during the year	(50)	(1)
Amounts already provided for and written off as uncollectible	1	45
Amounts provided for but recovered during the year	-	7
Balance at end of year	<u>(50)</u>	<u>(1)</u>

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

Notes to the Financial Report
For the Year Ended 30 June 2019

	2019 \$'000	2018 \$'000
4.5 Borrowing costs		
Interest - Borrowings	182	246
Total borrowing costs	182	246

Borrowing costs are recognised as an expense in the period in which they are incurred, except where they are capitalised as part of a qualifying asset constructed by Council.

4.6 Other expenses

Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	56	49
Auditors' remuneration - Internal	20	25
Councillors' allowances	199	204
Community grants	263	333
Operating pension rebate	37	38
Tourism board membership	57	80
Others	39	35
Total other expenses	671	765

Note 5 Our financial position

5.1 Financial assets

(a) Cash and cash equivalents

Cash on hand	5	5
Cash at bank	8,653	5,217
Term deposits	4,102	5,143
Total cash and cash equivalents	12,759	10,365

(b) Other financial assets

Term deposits - current	6,133	5,933
Total other financial assets	6,133	5,933
Total financial assets	18,892	16,298

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

- Trust funds and deposits (Note 5.3)	950	1,061
- Statutory reserves (Note 9.1 (a))	1,107	893
Total restricted funds	2,057	1,954
Total unrestricted cash and cash equivalents	10,702	8,411

Intended allocations

Although not externally restricted the following amounts have been allocated for specific future purposes by

- cash held to fund carried forward works	7,670	4,613
- Unexpended grants received	4,011	4,083
- Discretionary reserves (Note 9.1(b))	1,420	1,057
Total funds subject to intended allocations	13,101	9,753

Total unrestricted cash, cash equivalents and other financial assets **3,735** **4,590**

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

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

In addition to cash and cash equivalents, other financial assets are available to meet Council's liabilities and intended allocations as and when required due to their scheduled maturity dates.

Notes to the Financial Report
For the Year Ended 30 June 2019

5.1 (c) Trade and other receivables	2019 \$'000	2018 \$'000
Current		
<i>Statutory receivables</i>		
Rates debtors	2,267	2,117
Special rate assessment	236	249
Infringement debtors	117	75
Provision for doubtful debts - infringements	-	-
GST receivable	213	235
<i>Non statutory receivables</i>		
Other debtors - rental	6	11
Other debtors - government grants	789	189
Other debtors - miscellaneous	333	123
Provision for doubtful debts - other debtors	(50)	(1)
Other	130	5
Total current trade and other receivables	4,041	3,003
Non-current		
Total non-current trade and other receivables	-	-
Total trade and other receivables	4,041	3,003

Short term receivables are carried at invoice amount. A provision for doubtful debts is recognised when there is objective evidence that an impairment has occurred. Long term receivables are carried at amortised cost using the effective interest rate method.

(d) Ageing of Receivables

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

Current (not yet due)	851	192
Past due by up to 30 days	295	6
Past due between 31 and 180 days	41	29
Past due between 181 and 365 days	17	62
Past due by more than 1 year	3	37
Total trade and other receivables	1,207	327

Notes to the Financial Report
For the Year Ended 30 June 2019

5.2 Non-financial assets	2019	2018
(a) Inventories	\$'000	\$'000
Inventories held for distribution	6	12
Total inventories	6	12
Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.		
(b) Other assets		
Prepayments	52	172
Accrued income	34	56
Total other assets	86	228
(c) Intangible assets		
Software	429	473
Total intangible assets	429	473
	Software	Total
	\$'000	\$'000
Gross carrying amount		
Balance at 1 July 2018	992	992
Other additions	57	57
Balance at 1 July 2019	1,049	1,049
Accumulated amortisation and impairment		
Balance at 1 July 2018	519	519
Amortisation expense	101	101
Balance at 1 July 2019	620	620
Net book value at 30 June 2018	473	473
Net book value at 30 June 2019	429	429

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

5.3 Payables	2019	2018
(a) Trade and other payables	\$'000	\$'000
Trade payables	1,364	1,203
Accrued expenses	812	945
Income in advance	528	216
Total trade and other payables	2,704	2,363
(b) Trust funds and deposits		
Refundable deposits	64	64
Fire services levy	237	252
Retention amounts	5	4
Other trust funds and deposits	644	741
Total trust funds and deposits	950	1,061

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

Notes to the Financial Report
For the Year Ended 30 June 2019

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.

5.4 Interest-bearing liabilities	2019 \$'000	2018 \$'000
Current		
Borrowings - secured	427	596
	<u>427</u>	<u>596</u>
Non-current		
Borrowings - secured	3,987	4,290
	<u>3,987</u>	<u>4,290</u>
Total	<u>4,414</u>	<u>4,886</u>

Borrowings are secured by a deed of charge over council rates

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

Not later than one year	427	596
Later than one year and not later than five years	2,917	2,853
Later than five years	1,070	1,437
	<u>4,414</u>	<u>4,887</u>

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

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

5.5 Provisions	Employee \$ '000	Landfill restoration \$ '000	Total \$ '000
2019			
Balance at beginning of the financial year	2,025	342	2,367
Additional provisions	1,115	-	1,115
Amounts used	(875)	(20)	(895)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	(17)	-	(17)
Balance at the end of the financial year	<u>2,248</u>	<u>322</u>	<u>2,570</u>
2018			
Balance at beginning of the financial year	2,015	984	2,999
Additional provisions	880	-	880
Amounts used	(866)	(642)	(1,508)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	(4)	-	(4)
Balance at the end of the financial year	<u>2,025</u>	<u>342</u>	<u>2,367</u>

Notes to the Financial Report
For the Year Ended 30 June 2019

	2019	2018
	\$'000	\$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12 months		
Annual leave	659	676
Long service leave	250	157
Other	36	34
	<u>945</u>	<u>868</u>
Current provisions expected to be wholly settled after 12 months		
Annual leave	21	9
Long service leave	1,120	1,025
	<u>1,141</u>	<u>1,034</u>
Total current employee provisions	<u>2,086</u>	<u>1,901</u>
Non-current		
Long service leave	162	124
Total non-current employee provisions	<u>162</u>	<u>124</u>
Aggregate carrying amount of employee provisions:		
Current	2,086	1,901
Non-current	162	124
Total aggregate carrying amount of employee provisions	<u>2,248</u>	<u>2,025</u>

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

Wages and salaries and annual leave

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

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

Long service leave

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

Key assumptions:

- discount rate	1.14%
- index rate	1.65%
- inflation rate	2.49%
- settlement rate	7 years

	2019	2018
	\$'000	\$'000
(b) Landfill restoration		
Current	21	21
Non-current	301	321
	<u>322</u>	<u>342</u>

Key assumptions:

- discount rate	1.14%
- index rate	1.65%
- inflation rate	2.49%

Council is obligated to restore landfill sites 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.

Notes to the Financial Report
For the Year Ended 30 June 2019

5.6 Financing arrangements

	2019 \$'000	2018 \$'000
The Council has the following funding arrangements in place as at 30 June 2019.		
Bank overdraft	1,000	1,000
Credit card facilities	50	50
Total facilities	1,050	1,050
Used facilities	10	11
Unused facilities	1,040	1,039

5.7 Commitments

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

	Not later than 1 year \$'000	Later than 1 year and not later than 2 years \$'000	Later than 2 years and not later than 5 years \$'000	Later than 5 years \$'000	Total \$'000
2019					
Operating					
Waste and Recycling	1,202	-	-	-	1,202
Maternal and child health	365	365	852	-	1,582
Other	214	170	9	-	393
Total	1,781	535	861	-	3,177
Capital					
Plant and Equipment	166	-	-	-	166
Infrastructure	1,247	-	-	-	1,247
Total	1,413	-	-	-	1,413
2018					
Operating					
Waste and Recycling	1,003	-	-	-	1,003
Transfer station	379	-	-	-	379
Maternal and child health	122	-	-	-	122
Library services	170	-	-	-	170
Cleaning contracts for council buildings	225	-	-	-	225
Swimming pools	165	-	-	-	165
Other	208	54	6	-	268
Total	2,272	54	6	-	2,332
Capital					
Buildings	571	-	-	-	571
Plant and Equipment	153	-	-	-	153
Infrastructure	2,014	880	-	-	2,894
Total	2,739	880	-	-	3,619

Notes to the Financial Report
For the Year Ended 30 June 2019

<i>Operating lease commitments</i>	2019 \$'000	2018 \$'000
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At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities):

Not later than one year	33	-
Later than one year and not later than five years	33	-
Later than five years	-	-
	<u>66</u>	<u>-</u>

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.

Note 6 Assets we manage

6.1 Non current assets classified as held for sale

Cost at Valuation	545	545
Total non current assets classified as held for sale	<u>545</u>	<u>545</u>

Capitalisation rate used in the allocation of borrowing	Nil	Nil
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Non-current assets classified as held for sale (including disposal groups) are measured at the lower of its carrying amount and fair value less costs of disposal, and are not subject to depreciation. Non-current assets, disposal groups and related liabilities and assets are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale (or disposal group sale) is expected to be completed within 12 months from the date of classification. The asset has a settlement date of 20th August 2019.

Notes to the Financial Report
For the Year Ended 30 June 2019

6.2 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2018	Additions	Contributions	Revaluation	Depreciation	Disposal	Write-off	Transfers	At Fair Value 30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property	108,359	-	-	-	(1,131)	-	-	410	107,637
Plant and equipment	3,447	-	-	-	(819)	(14)	-	558	3,172
Infrastructure	132,185	-	-	13,094	(4,882)	(6)	-	4,638	145,029
Work in progress	2,847	7,971	-	-	-	-	(30)	(5,606)	5,182
	246,838	7,971	-	13,094	(6,832)	(20)	(30)	-	261,020

Summary of Work in Progress

	Opening WIP	Additions	Write-off	Transfers	Closing WIP
	\$'000	\$'000	\$'000	\$'000	\$'000
Property	1,897	1,519	(30)	(410)	2,976
Plant and equipment	131	927	-	(558)	500
Infrastructure	819	5,524	-	(4,638)	1,705
Total	2,847	7,970	(30)	(5,606)	5,182

Notes to the Financial Report
For the Year Ended 30 June 2019

(a) Property

	Land - specialised \$'000	Land - non specialised \$'000	Land improvements \$'000	Total Land & Land Improvements \$'000	Buildings - specialised \$'000	Buildings - non specialised \$'000	Total Buildings \$'000	Work In Progress \$'000	Total Property \$'000
At fair value 1 July 2018	21,755	16,940	12,464	51,159	107,707	17,034	124,741	1,897	177,797
Accumulated depreciation at 1 July 2018	-	-	(3,477)	(3,477)	(57,421)	(6,644)	(64,065)	-	(67,541)
	21,755	16,940	8,987	47,682	50,286	10,390	60,676	1,897	110,255
Movements in fair value									
Additions	-	-	11	11	-	398	398	1,519	1,928
Contributions	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	(30)	(30)
Transfers	-	-	-	-	-	-	-	(410)	(410)
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-
	-	-	11	11	-	398	398	1,079	1,489
Movements in accumulated depreciation									
Depreciation and amortisation	-	-	(535)	(535)	(584)	(79)	(663)	-	(1,198)
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-
Transfers	-	-	67	67	-	-	-	-	67
	-	-	(468)	(468)	(584)	(79)	(663)	-	(1,131)
At fair value 30 June 2019	21,755	16,940	12,475	51,170	107,707	17,432	125,139	2,976	179,285
Accumulated depreciation at 30 June 2019	-	-	(3,945)	(3,945)	(58,005)	(6,723)	(64,728)	-	(68,673)
	21,755	16,940	8,530	47,225	49,702	10,710	60,411	2,976	110,613

Notes to the Financial Report
For the Year Ended 30 June 2019

(b) Plant and Equipment

	Plant machinery and equipment	Fixtures fittings and furniture	Computers and telecomms	Library books	Work In Progress	Total plant and equipment
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2018	6,465	828	738	664	131	8,826
Accumulated depreciation at 1 July 2018	(3,723)	(738)	(239)	(548)	-	(5,247)
	2,742	90	499	116	131	3,579
Movements in fair value						
Additions	309	44	118	86	927	1,484
Contributions	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal	(217)	-	-	-	-	(217)
Write-off	-	-	-	-	-	-
Transfers	-	-	-	-	(558)	(558)
Impairment losses recognised in operating result	-	-	-	-	-	-
	92	44	118	86	369	709
Movements in accumulated depreciation						
Depreciation and amortisation	(609)	(27)	(117)	(66)	-	(819)
Accumulated depreciation of disposals	203	-	-	-	-	203
Impairment losses recognised in operating result	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
	(406)	(27)	(117)	(66)	-	(616)
At fair value 30 June 2019	6,557	872	856	750	501	9,535
Accumulated depreciation at 30 June 2019	(4,129)	(765)	(356)	(614)	-	(5,863)
	2,428	107	500	136	501	3,672

Notes to the Financial Report
For the Year Ended 30 June 2019

(c) Infrastructure

	Roads	Bridges	Footpaths and Cycleways	Drainage	Recreational, leisure and community	Parks open spaces and streetscapes	Off street car parks	Other Infrastructure	Work In Progress	Total Infrastructure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2018	164,290	28,777	7,288	21,624	1,221	1,387	44	7,231	819	232,681
Accumulated depreciation at 1 July 2018	(70,316)	(14,151)	(3,607)	(9,063)	(630)	-	-	(1,910)	-	(99,677)
	93,974	14,626	3,681	12,561	591	1,387	44	5,321	819	133,004
Movements in fair value										
Additions	3,189	308	590	431	88	32	-	-	5,524	10,161
Contributions	-	-	-	-	-	-	-	-	-	-
Revaluation	22,910	-	-	-	-	-	-	-	-	22,910
Disposal	-	(116)	-	-	-	-	-	-	-	(116)
Write-off	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	(4,638)	(4,638)
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-
	26,099	192	590	431	88	32	-	-	886	28,318
Movements in accumulated depreciation										
Depreciation and amortisation	(4,262)	(214)	(139)	(229)	47	(18)	(2)	3	-	(4,814)
Accumulated depreciation of disposals	-	110	-	-	-	-	-	-	-	110
Revaluation	(9,817)	-	-	-	-	-	-	-	-	(9,817)
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-	-
Transfers	13	-	-	(8)	(50)	(13)	(9)	-	-	(67)
	(14,066)	(104)	(139)	(238)	(2)	(31)	(11)	3	-	(14,588)
At fair value 30 June 2019	190,389	28,969	7,878	22,055	1,309	1,419	44	7,231	1,705	260,999
Accumulated depreciation at 30 June 2019	(84,382)	(14,255)	(3,746)	(9,301)	(632)	(31)	(11)	(1,908)	-	(114,265)
	106,007	14,715	4,132	12,754	677	1,388	33	5,324	1,705	146,734

Notes to the Financial Report
For the Year Ended 30 June 2019

Acquisition

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

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

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

<i>Asset recognition thresholds and depreciation periods</i>	Depreciation Period	Threshold Limit \$'000
Land & land improvements		
land	-	1,000
land improvements	20 - 100 years	1,000
Buildings		
buildings	25 - 150 years	1,000
building and leasehold improvements	25 - 150 years	1,000
Plant and Equipment		
plant, machinery and equipment	3 - 10 years	1,000
others	3 - 10 years	1,000
Infrastructure		
roads - pavements, substructure, formation and earthworks	10 - 80 years	1,000
roads - kerb, channel and minor culverts and other	10 - 65 years	1,000
bridges - deck and substructure	50 - 100 years	1,000
others	5 - 80 years	1,000
Intangible assets	10 years	1,000

Land under roads

Council recognises land under roads acquired after 30 June 2008 at fair value. Council does not recognise land under roads that it controlled prior to that period in this financial report.

Depreciation and amortisation

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

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

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

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

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

Repairs and maintenance

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

Notes to the Financial Report
For the Year Ended 30 June 2019

Valuation of land and buildings

Valuation of land and buildings were undertaken by a qualified independent valuer Vincent John Bourke, AAPI, of Rating Valuation Services. The valuation of land and buildings is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions the valuation is reduced to reflect this limitation. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the comprehensive income statement.

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

Any significant movements in the unobservable inputs for land and land under roads will have a significant impact on the fair value of these assets.

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

Details of the Council's land and buildings and information about the fair value hierarchy as at 30 June 2019 are as follows:

	Level 1	Level2	Level 3	Date of Valuation
	\$'000	\$'000	\$'000	
Land	-	16,940	-	Jun-18
Specialised land	-	-	21,755	Jun-18
Land improvements	-	-	8,530	Jun-18
Buildings	-	10,710	49,702	Jun-18
Total	-	27,650	79,987	

Notes to the Financial Report
For the Year Ended 30 June 2019

Valuation of infrastructure

Valuation of infrastructure assets has been determined in accordance with an in-house valuation undertaken by Mahmud Kaiser, Asset Coordinator of Hepburn of Shire Council.

The date of the current valuation is detailed in the following table, a full revaluation of these assets will be conducted in 2019/20.

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

Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2019 are as follows:

	Level 1	Level2	Level 3	Date of Valuation
	\$'000	\$'000	\$'000	
Roads	-	-	106,007	Jun-19
Bridges	-	-	14,715	Jan-18
Footpaths and cycleways	-	-	4,132	Jun-17
Drainage	-	-	12,754	Jun-17
Recreational, leisure and community facilities	-	-	677	-
Parks, open space and streetscapes	-	-	1,388	-
Off Street Car Parks	-	-	33	-
Other infrastructure	-	-	5,324	-
Total	-	-	145,029	

Description of significant unobservable inputs into level 3 valuations

Specialised land and land under roads is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 5% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$1 and \$1029 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 \$10 to \$13,500 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 15 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 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 5 years to 100 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

	2019	2018
	\$'000	\$'000
Reconciliation of specialised land		
Land under roads	86	86
Parks and reserves	21,669	21,669
Total specialised land	21,755	21,755

Notes to the Financial Report
For the Year Ended 30 June 2019

	2019	2018
	No.	No.
Note 7 People and relationships		
7.1 Council and key management remuneration		
(a) Related Parties		
<i>Parent entity</i>		
Hepburn Shire Council is the parent entity.		
(b) Key Management Personnel		
Details of persons holding the position of Councillor or other members of key management personnel at any time during the year are:		
Councillors		
Councillor Don Henderson (Mayor from 05/11/2018)		
Councillor John Cottrell (Mayor to 04/11/2018)		
Councillor Sebastian Klein (to 05/04/2019)		
Councillor Fiona Robson		
Councillor Greg May		
Councillor Kate Redwood		
Councillor Neil Newitt		
Councillor Licia Kokocinski (from 09/04/2019)		
Officers		
Chief Executive Officer - Evan King		
Director - Infrastructure - Bruce Lucas		
Director - Corporate and Community Services - Steve Millard (to 04/01/2019)		
Director - Corporate and Community Services - Bradley Thomas (from 07/01/2019)		
General Manager of Corporate and Community Services - Grant Schuster (to 30/09/2018)		
Total Number of Councillors	8	7
Total of Chief Executive Officer and other Key Management Personnel	5	4
Total Number of Key Management Personnel	<u>13</u>	<u>11</u>
(c) Remuneration of Key Management Personnel		
Total remuneration of key management personnel was as follows:		
Short-term benefits	881,385	813,475
Post-employment benefit	55,457	53,355
Other long-term benefit	10,509	
Total	<u>947,351</u>	<u>866,830</u>
The numbers of key management personnel whose total remuneration from Council and any related entities, fall within the following bands:		
\$1 - \$9,999	1	-
\$10,000 - \$19,999	1	-
\$20,000 - \$29,999	4	5
\$30,000 - \$39,999	1	1
\$40,000 - \$49,999	1	-
\$50,000 - \$59,999	-	1
\$80,000 - \$89,999	1	-
\$90,000 - \$99,999	-	1
\$100,000 - \$109,999	1	-
\$140,000 - \$149,999	1	-
\$160,000 - \$169,999	-	2
\$170,000 - \$179,999	1	
\$230,000 - \$239,999	1	
\$240,000 - \$249,999	-	1
	<u>13</u>	<u>11</u>

Notes to the Financial Report
For the Year Ended 30 June 2019

(d) Senior Officer Remuneration

A Senior Officer is an officer of Council, other than Key Management
a) has management responsibilities and reports directly to the Chief Executive; or
b) whose total annual remuneration exceeds \$148,000

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

	2019	2018
	No.	No.
Income Range:		
less than \$148,000	1	-
	<u>1</u>	<u>-</u>
Total Remuneration for the reporting year for Senior Officers included above, amounted to	\$ 131,800	

7.2 Related party disclosure

(a) Transactions with related parties

During the period Council had no reportable transactions with related parties.

(b) Outstanding balances with related parties

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

(c) Loans to/from related parties

Council does not make loans to or receive loans from related parties , no guarantees have been provided

(d) Commitments to/from related parties

Council has no outstanding commitments to or from related parties

Notes to the Financial Report
For the Year Ended 30 June 2019

Note 8 Managing uncertainties

8.1 Contingent assets and liabilities

(a) Contingent assets

Contingent assets and 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.

Operating lease receivables

The Council has entered into commercial property leases on its unutilised property, consisting of surplus freehold office complexes. These properties held under operating leases have remaining non-cancellable lease terms of between 1 and 10 years. All leases include a CPI based revision of the rental charge annually.

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

	2019 \$'000	2018 \$'000
Not later than one year	938	1,113
Later than one year and not later than five years	3,414	4,316
Later than five years	5,809	7,788
	10,161	13,217

(b) Contingent liabilities

Legal Matters

From time to time Council is involved in legal matters which are conducted through Council's solicitors. As these matters may yet be finalised, or the financial outcomes are unable to be reliably estimated, no allowance has for these contingencies has been made in the financial report.

Superannuation

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

Future superannuation contributions

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2020 are \$49,686

8.2 Change in accounting standards

The following new AAS's have been issued that are not mandatory for the 30 June 2019 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 for LG sector)

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, however not expected to be

Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities (AASB 2016-7) (applies 2019/20)

This Standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019.

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.

Notes to the Financial Report For the Year Ended 30 June 2019

Council has elected to adopt the modified retrospective approach to the transition to the new lease standard. This will mean that only existing operating leases for non low value assets, with remaining terms greater than 12 months, will be recognised on transition (1 July 2019). Based on our current lease commitments and an assumption of a continuation of the current leasing arrangements Council expects that the transition to the new standard will not impact the financial position.

Income of Not-for-Profit Entities (AASB 1058) (applies 2019/20)

This standard is expected to apply to certain transactions currently accounted for under AASB 1004 Contributions and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable a not-for-profit entity to further its objectives. The impact of this standard is not expected to be material.

8.3 Financial instruments

(a) Objectives and policies

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

(b) Market risk

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

Interest rate risk

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

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

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

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

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

(c) Credit risk

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

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

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

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

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

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

Notes to the Financial Report For the Year Ended 30 June 2019

(d) Liquidity risk

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

To help reduce these risks Council:

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

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

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

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

(e) Sensitivity disclosure analysis

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

- A parallel shift of +2% and -0.50% in market interest rates (AUD) from year-end rates of 1.50%

These movements will not have a material impact on the valuation of Council's financial assets and liabilities, nor will they have a material impact on the results of Council's operations.

8.4 Fair value measurement

Fair value hierarchy

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

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

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.

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.

Notes to the Financial Report
For the Year Ended 30 June 2019

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

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

Impairment of assets

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

8.5 Events occurring after balance date

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

Note 9 Other matters

	Balance at beginning of reporting period	Increment (decrement)	Balance at end of reporting period
	\$'000	\$'000	\$'000
9.1 Reserves			
(a) Asset revaluation reserves			
2019			
Property			
Land and land improvements	29,176	-	29,176
Buildings	30,342	-	30,342
	59,518	-	59,518
Infrastructure			
Roads	35,355	13,094	48,449
Other infrastructure	10,057	-	10,057
	45,412	13,094	58,506
Total asset revaluation reserves	104,930	13,094	118,024
2018			
Property			
Land and land improvements	21,855	7,321	29,176
Buildings	25,976	4,367	30,343
	47,831	11,687	59,518
Infrastructure			
Roads	35,355	-	35,355
Other infrastructure	8,062	1,995	10,057
	43,417	1,995	45,412
Total asset revaluation reserves	91,248	13,682	104,930

The asset revaluation reserve is used to record the movement in fair value of Council's assets over time.

Notes to the Financial Report
For the Year Ended 30 June 2019

	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
(b) Other reserves				
2019				
Car parking reserve *	21	-	(21)	-
Clunes caravan park reserve	7	-	-	7
Debt management reserve	1,192	200	-	1,392
Heritage advisory fund	20	-	-	20
Mineral springs financial reserve *	239	338	-	577
Mt Beckworth pit reserve	28	-	-	28
Resort and recreation reserve *	633	289	(392)	530
Smeaton hill pit reserve	74	-	-	74
Waste management reserve	(264)	200	(37)	(101)
Total Other reserves	1,950	1,027	(450)	2,527
2018				
Car parking reserve *	21	-	-	21
Clunes caravan park reserve	7	-	-	7
Debt management reserve	992	200	-	1,192
Heritage advisory fund	20	-	-	20
Mineral springs financial reserve *	225	15	-	239
Mt Beckworth pit reserve	28	-	-	28
Resort and recreation reserve *	585	171	(123)	633
Smeaton hill pit reserve	74	-	-	74
Waste management reserve	408	-	(671)	(264)
Total Other reserves	2,359	385	(794)	1,950

* Indicates discretionary reserve

Notes to the Financial Report
For the Year Ended 30 June 2019

	2019	2018
9.2 Reconciliation of cash flows from operating activities to surplus/(deficit)	\$'000	\$'000
Surplus for the year	4,585	3,123
Depreciation/amortisation	6,934	7,034
Profit/(loss) on disposal of property, infrastructure, plant	(53)	(40)
Interest Expense	182	246
Contributions - Non-monetary assets	-	(100)
<i>Change in assets and liabilities:</i>		
Increase/(decrease) in trade and other receivables	(1,038)	5,257
(Increase)/decrease in prepayments	121	(67)
Increase/(decrease) in accrued income	22	(39)
Increase/(decrease) in trade and other payables	341	99
(Decrease)/increase in other liabilities	(18)	87
(Increase)/decrease in inventories	6	8
Increase/(decrease) in provisions	203	(632)
Increase/(decrease) in trust funds / deposits	(112)	12
Net cash provided by/(used in) operating activities	11,172	14,988

9.3 Superannuation

The amount charged to the Comprehensive Operating Statement in respect of superannuation represents contributions made or due by Hepburn Shire Council to the relevant superannuation plans in respect to the services of Hepburn Shire Council's staff (both past and present). Superannuation contributions are made to the plans based on the relevant rules of each plan and any relevant compulsory superannuation requirements that Hepburn Shire Council is required to comply with.

Hepburn Shire Council makes many of its employer superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund (the Fund). The Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently. The Defined Benefit category provides lump sum benefits based on years of service and final average salary. In certain circumstances a defined benefit member may be eligible to purchase a lifetime pension with up to 50% of their lump sum benefit. The accumulation category receives fixed contributions from Hepburn Shire Council and the Hepburn Shire Council's legal or constructive obligation is limited to these contributions. Obligations for contributions to the Fund are recognised as an expense in Comprehensive Operating Statement when they are made or due.

Accumulation

The Fund's accumulation category, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings. For the year ended 30 June 2019, this was 9.5% (9.5% in 2017/18) as required under Superannuation Guarantee legislation. Our commitment to accumulation plans is limited to making contributions in accordance with our minimum statutory requirements. No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund. The Superannuation Guarantee (SG) rate will remain at 9.5% for the next 2 years, increasing to 10% from 1 July 2021, and eventually to 12% from 1 July 2025.

Defined Benefit

As provided under Paragraph 34 of AASB 119 of AASB 119 – Employee Benefits, Hepburn Shire 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 multi-employer sponsored plan.

As a multi-employer sponsored plan, the Fund was established as a mutual scheme to allow for the mobility of the workforce between the participating employers without attaching a specific liability to particular employees and their current employer. Therefore, 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 Hepburn Shire Council in the Fund cannot be measured as a percentage compared with other participating employers. While there is an agreed methodology to allocate any shortfalls identified by the Fund Actuary for funding purposes, there is no agreed methodology to allocate benefit liabilities, assets and costs between the participating employers for accounting purposes. Therefore, the Fund Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119 because of the pooled nature of the Fund's Defined Benefit category.

Notes to the Financial Report For the Year Ended 30 June 2019

Funding arrangements

Hepburn Shire 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 2018, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. It was determined that the Vested Benefit Indexed (VBI) of the Defined Benefit category of which Hepburn Shire Council is a contributing employer was 106.0% (103.1.0% at 30 June 2017). The financial assumptions used to calculate the VBIs were as follows:

	30/06/2018	30/06/2017
Net investment returns	6.0% pa	6.5% pa
Salary information	3.5% pa	3.5% pa
Price inflation (CPI)	2.0% pa	2.5% pa

The Australian Prudential Regulation Authority (APRA) superannuation prudential standard (SPS 160) - Defined Benefit Matters determines the funding requirements of a defined benefit (DB) arrangement. Under this standard:

- The VBI is the measure to determine whether there is an unfunded liability, and
- Any unfunded liability that arises must be paid within three years.

Under SPS 160, the VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2018 interim actuarial investigation showed that the Defined Benefit category was in a satisfactory financial position under SPS 160. As a result, the Fund Actuary determined that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

The Fund's employer funding arrangements comprise of three components as follows:

1. Regular contributions - which are ongoing contributions needed to fund the balance of benefits for current members and pensioners;
2. Funding calls - which are contributions in respect of each participating employer's share of any funding shortfalls that arise; and
3. Retrenchment increments - which are additional contributions to cover the increase in liability arising from retrenchments.

Hepburn Shire Council is also required to make additional contributions to cover the contributions tax payable on components 2 and 3 referred to above.

Employees are also required to make member contributions to the Fund. As such, assets accumulate in the Fund to meet member benefits, as defined in the Trust Deed, as they accrue.

Employer contributions

Regular contributions

On the basis of the results of the 2018 interim actuarial investigation conducted by the Fund Actuary, Hepburn Shire 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 2019, this rate was 9.5% of members' salaries (9.5% in 2017/2018). This rate will increase in line with the SG increases.

In addition, Hepburn Shire Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the VBI multiplied by the benefit).

Funding calls

The Fund is required to comply with the superannuation prudential standards. Under the superannuation prudential standard SPS 160, the Fund is required to target full funding of its vested benefits. There may be circumstances where:

- A fund is in an unsatisfactory financial position at an actuarial investigation (i.e. its vested benefit index (VBI) is less than 100% at the date of the actuarial investigation); or
- A fund's VBI is below its shortfall limit at any time other than at the date of the actuarial investigations.

If either of the above occur, the fund 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. There may be circumstances where APRA may approve a period longer than three years.

The Fund monitors its VBI on a quarterly basis and the Fund has set the Defined Benefit category's 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 Hepburn Shire Council) are required to make an employer contribution to cover the shortfall. The methodology used to allocate the shortfall was agreed in 1997 to fairly and reasonably apportion the shortfall between the participating employers.

Notes to the Financial Report
For the Year Ended 30 June 2019

9.3 Superannuation
Funding calls

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.

The pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund are based on:

- The service periods of all active members split between the active members pre-1 July 1993 and post-30 June 1993 service period, and
- The pensioner (including fixed term pension) liabilities which are allocated to the pre-1993 period.

The pre-1 July 1993 component of the shortfall is apportioned between the participating employers based on the employer's share of the total participating employer payroll at 30 June 1993.

The post-30 June 1993 component of the shortfall is apportioned between the participating employers based on the employer's share of the total participating employer payroll 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. In the unlikely event that the Fund is wound up and there is a surplus in the Fund, the surplus cannot be applied for the benefit of the defined benefit employers where there are on-going defined benefit obligations. The surplus would be transferred to the fund accepting those defined benefit obligations (including the lifetime pension obligations) of the Fund.

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 2018 interim actuarial investigation surplus

An actuarial investigation is conducted annually for the Defined Benefit category of which Hepburn Shire Council is a contributing employer. Generally, a full actuarial investigation is conducted every three years and interim actuarial investigations are conducted for each intervening year. An interim investigation was conducted as at 30 June 2018 and a full actuarial investigation was conducted as at 30 June 2017. The Fund's actuarial investigations identified the following for the Defined Benefit category of which Hepburn Shire Council is a contributing employer:

	2018	2017
	\$m	\$m
A VBI surplus	\$131.90	\$69.80
A total service liability surplus	\$218.30	\$193.50
A discounted accrued benefits surplus	\$249.10	\$228.80

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 2018.

**Notes to the Financial Report
For the Year Ended 30 June 2019**

The total service liability surplus means that the current value of the assets in the Fund's Defined Benefit category plus expected future contributions exceeds the value of expected future benefits and expenses as at 30 June 2018.

The discounted accrued benefit surplus means that the current value of the assets in the Fund's Defined Benefit category plus expected future contributions exceeds the value of expected future benefits and expenses as at 30 June 2018.

Hepburn Shire Council was notified of the 30 June 2018 VBI during August 2018 (2017: August 2017).

The 2019 interim actuarial

An interim actuarial investigation is being conducted for the Fund's position as at 30 June 2019 as the Fund provides lifetime pensions in the Defined Benefit category. It is anticipated that this actuarial investigation will be completed by October 2019.

Accrued benefits

The Fund's liability for accrued benefits was determined in accordance with the Australian Accounting Standards. For the year ended 30 June 2017, the relevant accounting standard was AASB 1056 - Superannuation entities (2016: AAS 25 - Financial reporting by Superannuation Plans).

	30 June 2018 (interim) \$m	30 June 2017 (full) \$m
Net Market Value of Assets	2,337.6	2,330.1
Accrued Benefits	2,088.5	2,101.3
Difference between Assets and Vested Benefits (Minimum sum which must be paid to members when they leave the fund)	249.1	228.8
	2,205.7	2,260.3

The financial assumptions used to calculate the Accrued Benefits for the Defined Benefit category of the Fund were:

	30 June 2018	30 June 2017
Net Investment Return	6.0% pa.	6.5% pa.
Salary Inflation	3.5% pa.	3.5% pa.
Price Inflation	2.0% pa.	2.5% pa.

Other information

There were no contributions outstanding and no loans issued from or to the above schemes as at 30 June 2019.

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2020 is \$49,686



PERFORMANCE STATEMENT
For the Year Ended 30 June 2019



Description of Municipality

Hepburn Shire was created in January 1995 by the amalgamation of the former Shires of Creswick, Daylesford and Glenlyon, the Clunes portion of the Shire of Talbot and Clunes and the Trentham portion of the Shire of Kyneton.

Hepburn Shire is located in the Central Highlands region of Victoria, about 110 kilometres north-west of Melbourne. It is bounded by Central Goldfields and Mount Alexander Shires in the north, Macedon Ranges Shire in the east, Moorabool Shire in the south, and the City of Ballarat and Pyrenees Shire in the west

Hepburn Shire is a predominantly rural area, with many townships, villages and rural-residential areas. The main townships are Daylesford, Hepburn Springs, Creswick, Clunes and Trentham. The shire encompasses a total land area of about 1,470 square kilometres. rural land is used largely for agriculture (particularly sheep and cattle grazing and potato and crop growing) and forestry, with some viticulture. Tourism is important to the region, with the Shire containing 80% of Australia's mineral spring reserves.

Hepburn is named after Captain John Hepburn, an overlander and pastoralist who founded the rural town of Smeaton and also established the Smeaton Hill Run on 15 April 1838.

The original inhabitants of the Hepburn area were the Jaara (Dja Dja Wurrung) Aboriginal people. European settlement dates from the late 1830's, with land used mainly for grazing and crop growing. Gold was first discovered in the area in 1851, prompting the establishment of many townships and rapid growth. When gold supplies waned and many mines were closed, some population loss was experienced in the region. land was then used mainly for timber milling and grazing. The townships of Daylesford and Hepburn Springs benefited from tourism during the late 1800s and early 1900's', due to the mineral springs and spa resorts.

PERFORMANCE STATEMENT

Sustainable Capacity Indicators

<i>Indicator/measure</i>		Results 2016	Results 2017	Results 2018	Results 2019	Material Variations and Comments
Population						
C1	<i>Expenses per head of municipal population</i> [Total expenses / Municipal population]	\$1,842.00	\$2,517.85	\$1,895.46	\$1,923.10	Minor increase of 1.46% which reflects increased operating cost of Council, however increases have remained financially responsible.
C2	<i>Infrastructure per head of municipal population</i> [Value of infrastructure / Municipal population]	\$12,237.00	\$12,304.96	\$12,716.21	\$13,520.24	No significant change.
C3	<i>Population density per length of road</i> [Municipal population / Kilometres of local roads]	10.50	11.04	10.42	10.52	No significant change.
Own-source revenue						
C4	<i>Own-source revenue per head of municipal population</i> [Own-source revenue / Municipal population]	\$1,438.00	\$1,424.94	\$1,479.10	\$1,553.82	Increase of 5.05% reflects increases in revenue streams to deliver services and capital works.
Recurrent grants						
C5	<i>Recurrent grants per head of municipal population</i> [Recurrent grants / Municipal population]	\$407.00	\$621.24	\$466.14	\$444.47	No significant change.
Disadvantage						
C6	<i>Relative Socio-Economic Disadvantage</i> [Index of Relative Socio-Economic Disadvantage by decile]	4.00	4.00	6.00	6.00	No change.

Service Performance Indicators						
Service/indicator/measure	Results 2016	Results 2017	Results 2018	Results 2019		Material Variations and Comments
Aquatic Facilities Utilisation AF6 <i>Utilisation of aquatic facilities</i> [Number of visits to aquatic facilities / Municipal population]	1.30	0.91	1.01	0.73		Reduction in the use of pools, as a result of a range of factors. Attendees decreased from over 15,000 in the 2017/18 season to 11,574 in the 2018/19 year. Two facilities however do not have attendance figures recorded (Creswick Splash park and Calambeen toddlers pool). Council has increased funding in 2019/2020 to encourage greater use of the facilities.
Animal Management Health and safety AM4 <i>Animal management prosecutions</i> [Number of successful animal management prosecutions]	0.00	0.00	0.00	0.00		There were no animal management prosecutions.
Food Safety Health and safety FS4 <i>Critical and major non-compliance outcome notifications</i> [Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises followed up / Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises] x100	50.00%	60.00%	100.00%	75.00%		Of the four major non compliance notifications, three required follow up visits by council which were completed. One did not require a follow up visit by Council as it was being followed up by the Department of Health.
Governance Satisfaction G5 <i>Satisfaction with council decisions</i> [Community satisfaction rating out of 100 with how council has performed in making decisions in the interest of the community]	48.00	45.00	49.00	52.00		Results of findings from the independent Community Satisfaction Survey have increased due to Councils increased focus on Community Engagement.
Home and Community Care (HACC) Participation HC6 <i>Participation in HACC service</i> [Number of people that received a HACC service / Municipal target population for HACC services] x100 Participation HC7 <i>Participation in HACC service by CALD people</i> [Number of CALD people who receive a HACC service / Municipal target population in relation to CALD people for HACC services] x100	25.00%	Reporting Ceased 1 July 2016	Reporting Ceased 1 July 2016	Reporting Ceased 1 July 2016		Reporting on HACC ceased on 1 July 2016 due to the introduction of the Commonwealth Government's NDIS and CHSP programs Reporting on HACC ceased on 1 July 2016 due to the introduction of the Commonwealth Government's NDIS and CHSP programs

Service Performance Indicators							
Service/indicator/measure	Results 2016	Results 2017	Results 2018	Results 2019		Material Variations and Comments	
Libraries Participation							
LB4	Active library members [Number of active library members / Municipal population] x100	22.00%	21.11%	20.59%	19.49%		Membership has slightly decreased due to the reduction in the collection pending the move to the Hepburn Hub. There was a significant collection renewal in July and more scheduled at the time of opening the new facility.
Maternal and Child Health (MCH) Participation							
MC4	Participation in the MCH service [Number of children who attend the MCH service at least once (in the year) / Number of children enrolled in the MCH service] x100	79.00%	82.27%	80.69%	77.16%		Minor changes year to year.
MC5	Participation in the MCH service by Aboriginal children [Number of Aboriginal children who attend the MCH service at least once (in the year) / Number of Aboriginal children enrolled in the MCH service] x100	69.00%	83.87%	83.33%	88.24%		No significant change. Hepburn Shire has a small Aboriginal community and individual family movements can impact this indicator.
Roads Satisfaction							
R5	Satisfaction with sealed local roads [Community satisfaction rating out of 100 with how council has performed on the condition of sealed local roads]	43.00	37.00	46.00	50.00		Results of Community Satisfaction Survey, and reflects continued focus for scheduled maintenance and delivery of capital works.
Statutory Planning							
SP4	Council planning decisions upheld at VCAT [Number of VCAT decisions that did not set aside council's decision in relation to a planning application / Number of VCAT decisions in relation to planning applications] x100	40.00%	100.00%	33.33%	50.00%		Small number of decisions referred to VCAT impacts on the percentage results. Of the four decisions referred to VCAT two decisions were upheld and two were set aside during the financial year.
Waste Collection Waste diversion							
WCS5	Kerbside collection waste diverted from landfill [Weight of recyclables and green organics collected from kerbside bins / Weight of garbage, recyclables and green organics collected from kerbside bins] x100	41.00%	42.95%	42.50%	37.08%		The tonnage collected from kerbside collections decreased in the 2018-19 year, as did the recycling by a greater percentage, which is reflected in the overall reduction of waste diverted from landfill.

Financial Performance Indicators									
Dimension/ <i>indicator/measure</i>	Results 2016	Results 2017	Results 2018	Results 2019	2020	Forecasts		2023	Material Variations and Comments
						2021	2022		
Efficiency Revenue level									
E1 <i>Average residential rate per residential property assessment</i> [Residential rate revenue / Number of residential property assessments]	\$1,651.00	\$1,668.11	\$1,753.09	\$1,838.86	\$1,867.23	\$1,901.90	\$1,956.58	\$2,008.35	Rate increases have been capped in line with the Victorian Government's Fair Go Rates System.
Expenditure level									
E2 <i>Expenses per property assessment</i> [Total expenses / Number of property assessments]	\$2,491.00	\$3,532.07	\$2,677.44	\$2,718.89	\$2,799.97	\$2,814.10	\$2,855.54	\$2,902.00	Very minor increase of 1.55% which reflects increased operating cost of Council, however increases have remained financially responsible and been minimised where possible, while the number of rateable properties increase.
Workforce turnover									
E3 <i>Resignations and terminations compared to average staff</i> [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100	15.00%	14.74%	17.94%	21.83%	15.44%	14.65%	14.65%	14.65%	An organisational realignment during the 2018/19 resulted in an increase in the number of resignations in comparison to the previous financial year
Liquidity Working capital									
L1 <i>Current assets compared to current liabilities</i> [Current assets / Current liabilities] x100	320.00%	295.83%	337.99%	380.90%	224.70%	184.68%	196.81%	142.87%	Council has maintained a strong liquidity ratio. The increase in 2018/2019 reflects the Commonwealth Governments decision to pre-pay 50% of grant funding from the 2019/20 financial year into June 2019. The lower forecast figures reflects full delivery of the capital works projects.
Unrestricted cash									
L2 <i>Unrestricted cash compared to current liabilities</i> [Unrestricted cash / Current liabilities] x100	159.00%	27.10%	96.56%	60.36%	109.18%	82.87%	88.49%	32.39%	Reduction in 2018/19 reflects early payment of 2019/20 grant funding. Forecast ratios are impacted by the timing of capital works and the repayment of borrowings.
Obligations Asset renewal									
O1 <i>Asset renewal compared to depreciation</i> [Asset renewal expense / Asset depreciation] x100	103.00%	74.00%	77.79%	91.56%	105.31%	102.00%	117.25%	120.31%	Council continues to invest in asset upgrade and expansion works in addition to asset renewal.

Loans and borrowings										
O2	<i>Loans and borrowings compared to rates</i> [Interest bearing loans and borrowings / Rate revenue] x100	15.00%	30.16%	25.17%	21.43%	18.68%	16.43%	8.03%	6.28%	Loans and borrowings are expected to decrease in accordance with repayment schedules.
O3	<i>Loans and borrowings repayments compared to rates</i> [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100	3.00%	3.53%	5.09%	3.17%	3.67%	2.65%	8.52%	1.81%	
Indebtedness										
O4	<i>Non-current liabilities compared to own source revenue</i> [Non-current liabilities / Own source revenue] x100	14.00%	24.92%	20.78%	18.36%	16.37%	8.86%	7.17%	5.52%	No significant change. The forecast reductions reflects the schedule repayment of a \$1.4M interest only loan
Operating position										
Adjusted underlying result										
OP1	<i>Adjusted underlying surplus (or deficit)</i> [Adjusted underlying surplus (deficit)/ Adjusted underlying revenue] x100	3.00%	7.64%	7.43%	8.37%	7.51%	3.68%	3.58%	4.26%	Results remain within target areas.
Stability										
Rates concentration										
S1	<i>Rates compared to adjusted underlying revenue</i> [Rate revenue / Adjusted underlying revenue] x100	63.00%	44.01%	60.52%	62.06%	61.84%	64.68%	65.34%	65.67%	Results remain within target areas.
Rates effort										
S2	<i>Rates compared to property values</i> [Rate revenue / Capital improved value of rateable properties in the municipality] x100	0.47%	0.44%	0.46%	0.43%	0.38%	0.38%	0.37%	0.37%	The reduction reflects increasing property values, however as rates are capped per the State Government Rate cap the percentage of rates per valuation is decreasing.

Other Information

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.

The Victorian Government developed the new performance reporting framework to ensure that all councils are measuring and reporting on their performance in a consistent way. The framework became mandatory from 1 July 2014 and all councils will need to report results as part of their annual report. This is the fifth year for reporting in this manner and as such there is three years' data to compare to. The previous years results will be used to compare and also highlight any material variations.

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 on 18 June 2019 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 can be obtained by contacting Council.

Performance Statement
For the Year Ended 30 June 2019

Certification of the performance statement

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

Danielle How CPA
Principal Accounting Officer
Date : 17 September 2019

In our opinion, the accompanying performance statement of Hepburn Shire Council for the year ended 30 June 2019 presents fairly the results of council's performance in accordance with the Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014.

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

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

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

Mayor Cr Don Henderson
Councillor
Date : 17 September 2019

Cr John Cottrell
Councillor
Date : 17 September 2019

Evan King
Chief Executive Officer
Date : 17 September 2019