



ANNUAL FINANCIAL REPORT

For the Year Ended 30 June 2020

Hepburn Shire Council

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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.



Bradley Thomas - Chartered Accountant
Principal Accounting Officer / Director Community and Corporate Services

Date: 22/9/20
Daylesford

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

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

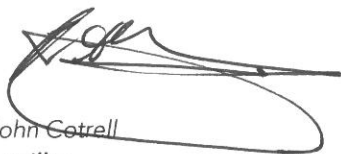
We have been authorised by the Council and by the *Local Government (Planning and Reporting) Regulations 2014* to certify the financial statements in their final form.



Mayor Cr Licia Kokocinski

Councillor

Date: 24/9/20
Daylesford



Cr John Cotrell

Councillor

Date: 24/9/20
Daylesford



Evan King

Chief Executive Officer

Date: 22/9/20
Daylesford

Independent Auditor's Report

To the Councillors of Hepburn Shire Council

Opinion	<p>I have audited the financial report of Hepburn Shire Council (the council) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2020 • comprehensive income statement for the year then ended • statement of changes in equity for the year then ended • statement of cash flows for the year then ended • statement of capital works for the year then ended • notes to the financial statements, including significant accounting policies • certification of the financial statements. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the council as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 6 of the <i>Local Government Act 1989</i> and applicable Australian Accounting Standards.</p>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Councillors's responsibilities for the financial report	<p>The Councillors of the council are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Local Government Act 1989</i>, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Councillors are responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>

Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Councillors
- conclude on the appropriateness of the Councillors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the council to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Councillors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE
7 October 2020



Sanchu Chummar

as delegate for the Auditor-General of Victoria

Comprehensive Income Statement For the Year Ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Income			
Rates and charges	3.1	21,176	20,595
Statutory fees and fines	3.2	834	895
User fees	3.3	970	1,089
Grants - operating	3.4	7,468	7,715
Grants - capital	3.4	2,816	2,227
Contributions - monetary	3.5	642	482
Net gain (or loss) on disposal of property, infrastructure, plant and equipment	3.6	(542)	53
Other income	3.7	1,264	1,937
Total income		34,628	34,994
Expenses			
Employee costs	4.1	13,921	12,498
Materials and services	4.2	10,845	10,068
Depreciation	4.3	6,774	6,833
Amortisation - intangible assets	4.4	120	101
Bad and doubtful debts	4.5	141	56
Borrowing costs	4.6	188	182
Other expenses	4.7	765	671
Total expenses		32,754	30,409
Surplus/(deficit) for the year		1,874	4,585
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment	6.2	24,234	13,094
Total comprehensive result		26,108	17,679

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

Balance Sheet As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1(a)	19,141	12,759
Trade and other receivables	5.1(c)	4,473	4,041
Other financial assets	5.1(b)	1,192	6,133
Inventories	5.2(a)	15	6
Non-current assets classified as held for sale	6.1	935	545
Other assets	5.2(b)	39	86
Total current assets		<u>25,795</u>	<u>23,570</u>
Non-current assets			
Property, infrastructure, plant and equipment	6.2	294,345	269,353
Intangible assets	5.2 (c)	417	429
Total non-current assets		<u>294,762</u>	<u>269,782</u>
Total assets		<u>320,557</u>	<u>293,352</u>
Liabilities			
Current liabilities			
Trade and other payables	5.3 (a)	3,830	2,704
Trust funds and deposits	5.3 (b)	1,194	950
Provisions	5.5	2,318	2,107
Interest-bearing liabilities	5.4	411	427
Other liabilities		18	-
Total current liabilities		<u>7,771</u>	<u>6,188</u>
Non-current liabilities			
Provisions	5.5	401	462
Interest-bearing liabilities	5.4	3,579	3,987
Other liabilities		45	63
Total non-current liabilities		<u>4,025</u>	<u>4,512</u>
Total liabilities		<u>11,796</u>	<u>10,700</u>
Net assets		<u>308,761</u>	<u>282,652</u>
Equity			
Accumulated surplus		163,156	162,101
Reserves	9.1	145,604	120,551
Total equity		<u>308,761</u>	<u>282,652</u>

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

Statement of Changes in Equity For the Year Ended 30 June 2020

	Note	Accumulated		Revaluation	Other
		Total	Surplus	Reserve	Reserves
2020		\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year		274,319	153,768	118,024	2,527
Found Assets		13,364	13,364	-	-
Written Off Assets		(5,030)	(5,030)	-	-
Adjusted balance at beginning of financial year		282,652	162,101	118,024	2,527
Surplus for the year		1,874	1,874	-	-
Net asset revaluation increment/(decrement)	6.2	24,234	-	24,234	-
Transfers to other reserves	9.1 (a)	-	214	-	(214)
Transfers from other reserves	9.1 (b)	-	(1,033)	-	1,033
Balance at end of the financial year		308,761	163,156	142,258	3,346

	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/(deficit) 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

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

Statement of Cash Flows For the Year Ended 30 June 2020

	Note	2020 Inflows/ (Outflows) \$'000	2019 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		20,435	20,294
Statutory fees and fines		814	851
User fees		1,134	853
Grants - operating		8,122	6,496
Grants - capital		3,376	2,941
Contributions - monetary		642	482
Interest received		326	518
Rent received		861	1,234
Trust funds and deposits taken		174	(99)
Other receipts		143	480
Employee costs		(13,750)	(12,275)
Materials and services		(10,857)	(9,933)
Other payments		(795)	(670)
Net cash provided by/(used in) operating activities	9.2	<u>10,624</u>	<u>11,172</u>
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment		(8,790)	(7,998)
Proceeds from sale of property, infrastructure, plant and equipment	3.6	218	73
Payments for investments		4,941	(200)
Net cash used in investing activities		<u>(3,631)</u>	<u>(8,125)</u>
Cash flows from financing activities			
Finance costs		(188)	(181)
Repayment of borrowings		(424)	(472)
Net cash used in financing activities		<u>(612)</u>	<u>(653)</u>
Net increase in cash and cash equivalents		6,381	2,394
Cash and cash equivalents at the beginning of the financial year		12,759	10,365
Cash and cash equivalents at the end of the financial year	5.1	<u>19,141</u>	<u>12,759</u>
Financing arrangements	5.6		
Restrictions on cash assets	5.1		

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

Statement of Capital Works For the Year Ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Property			
Land		-	-
Land improvements		132	17
Total land		<u>132</u>	<u>17</u>
Buildings		1,279	1,315
Total buildings		<u>1,279</u>	<u>1,315</u>
Total property		<u>1,411</u>	<u>1,332</u>
Plant and equipment			
Plant, machinery and equipment		1,136	652
Computers and telecommunications		332	178
Library Resources		59	86
Total plant and equipment		<u>1,527</u>	<u>916</u>
Infrastructure			
Roads		4,405	3,695
Bridges		341	182
Footpaths and cycleways		351	572
Drainage		193	419
Recreational, leisure and community facilities		419	313
Parks, open space and streetscapes		655	546
Other infrastructure		82	10
Total infrastructure		<u>6,446</u>	<u>5,737</u>
Total capital works expenditure		<u>9,385</u>	<u>7,985</u>
Represented by:			
New asset expenditure		907	1,097
Asset renewal expenditure		5,814	6,256
Asset upgrade expenditure		2,664	632
Total capital works expenditure		<u>9,385</u>	<u>7,985</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 2020

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)
- the determination of whether performance obligations are sufficiently specific so as to determine whether an arrangement is within the scope of AASB 15 Revenue from Contracts with Customers or AASB 1058 Income of Not-for-Profit Entities
- the determination, in accordance with AASB 16 Leases, of the lease term, the estimation of the discount rate when not implicit in the lease and whether an arrangement is in substance short-term or low value
- 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 2020

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 18th June 2019. 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 2020 \$'000	Actual 2020 \$'000	Variance 2020 \$'000	Variance %	Ref
Income					
Rates and charges	21,306	21,176	(130)	-0.6%	
Statutory fees and fines	890	834	(56)	-6.3%	
User fees	1,047	970	(77)	-7.4%	
Grants - operating	7,146	7,468	322	4.5%	
Grants - capital	2,712	2,816	104	3.8%	
Contributions - monetary	155	642	487	313.9%	1
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	11	(542)	(553)	-5025.7%	2
Other income	1,617	1,264	(353)	-21.8%	3
Total income	34,885	34,628	(257)	-0.7%	
Expenses					
Employee costs	12,936	13,921	(985)	-7.6%	4
Materials and services	10,731	10,845	(114)	-1.1%	
Depreciation	7,096	6,774	322	4.5%	
Amortisation - Intangible assets	94	120	(26)	-28.1%	
Bad and doubtful debts	18	141	(123)	-701.0%	5
Borrowing costs	187	188	(1)	-0.6%	
Other expenses	804	765	39	4.8%	
Total expenses	31,866	32,754	(888)	-2.8%	
Surplus for the year	3,019	1,874	632	20.9%	

Notes to the Financial Report
For the Year Ended 30 June 2020

Note 1 Performance against budget (continued)

1.1 Income and expenditure (continued)

(i) Explanation of material variations

Ref	Item / Explanation
1	Contributions (monetary) - Increased developer contributions received for capital and open spaces. These funds are difficult to estimate for the budget. Any funds received are transferred to the Open Space reserve to fund further projects.
2	Net Gain / Loss on Sale of Assets - Budget did not allow for the volume of assets disposed during the asset accounting process, where new assets have been created and the existing asset disposed of for accounting purposes, this is a non-cash transaction. Also, the number of plant and vehicle disposals were higher than anticipated.
3	Other Income - Interest income was negatively effected due to very low interest rates during the financial year. Rental income has also been negatively affected as a result of COVID-19 and reduction in income in particular for a number of Councils commercial tenants.
4	Employee benefits - Increased as a result of an organisational realignment to address current business requirements and also due to a number of services now being delivered in-house. These included cleaning, transfer station and pool staff who were previously employed through a 3rd party and as such were part of Councils contract spend.
5	Bad Debts - Due to the potential financial impact on Councils commercial tenants an increased provision for bad debts has been recorded during the financial year. Council will work with all tenants on payment plans and financial assistance during the pandemic.

Notes to the Financial Report
For the Year Ended 30 June 2020

Note 1 Performance against budget (cont'd)
1.2 Capital works

	Budget 2020 \$'000	Actual 2020 \$'000	Variance 2020 \$'000	Variance %	Ref
Property					
Land improvements	50	132	82	164.6%	
Total land	50	132	82	164.6%	
Buildings and Building Improvements	1,234	1,279	45	3.7%	
Total buildings	1,234	1,279	45	3.7%	
Total property	1,284	1,411	128	9.9%	
Plant and equipment					
Plant, machinery and equipment	719	1,136	417	57.9%	1
Computers and telecommunications	358	332	(26)	-7.3%	
Library books	60	59	(0)	-0.5%	
Total plant and equipment	1,137	1,527	390	34.3%	
Infrastructure					
Roads	4,736	4,405	(331)	-7.0%	
Bridges	250	341	91	36.3%	
Footpaths and cycleways	392	351	(41)	-10.5%	
Drainage	227	193	(33)	-14.8%	
Recreational, leisure and community facilities	536	419	(117)	-21.8%	2
Parks, open space and streetscapes	607	655	49	8.0%	
Other infrastructure	674	82	(592)	-87.9%	3
Total infrastructure	7,422	6,446	(975)	-13.1%	
Total capital works expenditure	9,842	9,385	(457)	-4.6%	
Represented by:					
New asset expenditure	866	907	41	4.7%	
Asset renewal expenditure	7,401	5,814	(1,587)	-21.4%	
Asset upgrade expenditure	1,575	2,664	1,089	69.2%	
Total capital works expenditure	9,842	9,385	(457)	-4.6%	

(i) Explanation of material variations

Ref	Item / Explanation
1	A number of plant and equipment purchases (such as heavy machinery) that were planned and budgeted for in 2018/2019 were delayed. As a result the funds were carry-forward and the expenditure occurred in 2019/20.
2	A number of Recreational and Community Facilities were delayed in the second half of the financial year. Community consultation is occurring on projects such as the Glenlyon, Doug Lindsay and Trentham Recreation Reserves currently and these will be finalised early in the 2020/21 financial year. A number of projects were also budgeted to only begin if Council was successful in obtaining grant funding, either grant funding was not received until late in the financial year or application for funding continues to be sought.
3	Relates to funding of the extension of the bio-digester trial (if successful). The pilot is currently subject to evaluation, and Council will reporting to the funding body (DELWP) in early 2020/21.

Notes to the Financial Report For the Year Ended 30 June 2020

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.

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, governance, risk, 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. 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 2020

Note 2.1 Analysis of Council results by program (cont.)
2.1 (b) Summary of revenues, expenses and grant income per program

	Income	Expenses	Surplus/ (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2020					
CEO	464	2,096	(1,632)	457	48
Infrastructure and Development Services	9,794	14,964	(5,170)	4,581	293,306
Corporate and Community Services	24,370	15,694	8,676	5,245	27,203
	\$ 34,628	\$ 32,754	\$ 1,874	10,284	320,557
	Income	Expenses	Surplus/ (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2019					
CEO	1	2,456	(2,455)	-	58
Infrastructure and Development Services	9,575	12,774	(3,199)	3,779	259,948
Corporate and Community Services	25,418	15,179	10,239	6,164	25,013
	34,994	30,409	4,585	9,943	285,019

Notes to the Financial Report
For the Year Ended 30 June 2020

Note 3 Funding for the delivery of our services	2020	2019
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 2019/20 was \$5,572,383 million (2018/19 \$4,825,612 million).

General rates	17,802	17,183
Municipal charge	1,462	1,408
Waste management charge	1,642	1,563
Special rates and charges	43	126
Supplementary rates and rate adjustments	93	148
Interest on rates and charges	127	151
Revenue in lieu of rates	6	16
Total rates and charges	21,176	20,595

The date of the latest general revaluation of land for rating purposes within the municipal district was 1/01/2020, and the valuation will be first applied in the rating year commencing 1/07/2020

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

3.2 Statutory fees and fines

Infringements and costs	54	95
Permits	80	89
Registration fees	204	235
Town planning fees	439	448
Other fees and fines	58	28
Total statutory fees and fines	834	895

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	223	271
Aquatic centre fees	10	57
Building Services	252	244
Waste management services	365	311
Other fees and charges	120	206
Total user fees	970	1,089

User fees by timing of revenue recognition

User fees recognised at a point in time	970	1,089
Total user fees	970	1,089

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

Notes to the Financial Report
For the Year Ended 30 June 2020

3.4 Funding from other levels of government	2020	2019
Grants were received in respect of the following :	\$'000	\$'000
Summary of grants		
Commonwealth funded grants	6,998	6,594
State funded grants	3,286	3,348
Total grants received	<u>10,284</u>	<u>9,942</u>
(a) Operating Grants		
<i>Recurrent - Commonwealth Government</i>		
Financial Assistance Grants - VGC	3,636	3,331
Local road funding	1,688	1,504
Aged care	703	909
Community health	3	12
<i>Recurrent - State Government</i>		
Aged care	77	115
Libraries	164	161
Maternal and child health	191	169
School crossing supervisors	31	30
Youth	25	18
Other	54	70
Total recurrent operating grants	<u>6,570</u>	<u>6,319</u>
<i>Non-recurrent - Commonwealth Government</i>		
National disaster financial assistance	-	129
<i>Non-recurrent - State Government</i>		
Commerce and tourism	-	818
Emergency management	120	120
Family and children	94	15
Recreation	15	62
Transport	27	44
Waste and environment	62	54
Working for Victoria	457	-
Other	122	154
Total non-recurrent operating grants	<u>897</u>	<u>1,396</u>
Total operating grants	<u>7,468</u>	<u>7,715</u>
(b) Capital Grants		
<i>Recurrent - Commonwealth Government</i>		
Roads to recovery	969	709
Total recurrent capital grants	<u>969</u>	<u>709</u>
<i>Non-recurrent - State Government</i>		
Buildings	154	50
Roads	1,498	726
Recreation, leisure and community facilities	34	669
Waste and Environment	101	53
Other	60	20
Total non-recurrent capital grants	<u>1,847</u>	<u>1,518</u>
Total capital grants	<u>2,816</u>	<u>2,227</u>

Notes to the Financial Report
For the Year Ended 30 June 2020

	2020	2019
(c) Unspent grants received on condition that they be spent in a specific manner	\$'000	\$'000
<i>Operating</i>		
Balance at start of year	3,034	2,532
Received during the financial year and remained unspent at balance date	619	3,034
Received in prior years and spent during the financial year	(1,818)	(2,532)
Balance at year end	<u>1,835</u>	<u>3,034</u>
<i>Capital</i>		
Balance at start of year	1,076	1,094
Received during the financial year and remained unspent at balance date	1,311	1,076
Received in prior years and spent during the financial year	(335)	(1,094)
Balance at year end	<u>2,052</u>	<u>1,076</u>

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

3.5 Contributions

Monetary	<u>642</u>	<u>482</u>
Total contributions	<u>642</u>	<u>482</u>

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

Proceeds of sale	218	73
Written down value of assets disposed	(73)	(20)
Written down value of infrastructure assets written off	(733)	-
Proceeds of sale - Assets Held for Sale	591	-
Written down value of assets disposed - Assets Held for Sale	(545)	-
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	<u>(542)</u>	<u>53</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	169	346
Reimbursements	23	303
Facilities Rental income	952	1,133
Sale of materials	98	120
Other	22	35
Total other income	<u>1,264</u>	<u>1,937</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.

Notes to the Financial Report
For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
Note 4 The cost of delivering services		
4.1 (a) Employee costs		
Wages and salaries	11,325	9,647
WorkCover	304	324
Superannuation	990	827
Fringe benefits tax	69	51
Agency Staff	1,234	1,649
Total employee costs	13,921	12,498
(b) Superannuation		
Council made contributions to the following funds:		
Defined benefit fund		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	49	48
	<u>49</u>	<u>48</u>
Employer contributions payable at reporting date.	-	-
Accumulation funds		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	468	410
Employer contributions - other funds	508	376
	<u>976</u>	<u>786</u>
Employer contributions payable at reporting date.	-	34
Refer to note 9.3 for further information relating to Council's superannuation obligations.		
4.2 Materials and services		
Building maintenance	351	269
Consultants	807	608
Contract payments		
Waste Service	2,600	2,370
Infrastructure Maintenance	638	1,445
General Contracts	1,753	977
	<u>4,991</u>	<u>4,792</u>
Information technology	603	492
Insurance	443	412
Materials and services	2,744	2,459
Office administration	308	329
Utilities	600	707
Total materials and services	10,845	10,068
4.3 Depreciation		
Property	1,230	1,131
Plant and equipment	797	819
Infrastructure	4,747	4,882
Total depreciation	6,774	6,833
4.4 Amortisation - Intangible assets		
Software	120	101
Total Amortisation - Intangible assets	120	101

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

Notes to the Financial Report
For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
4.5 Bad and doubtful debts		
Compliance Debtors	1	1
Other debtors	140	55
Total bad and doubtful debts	<u>141</u>	<u>56</u>
Movement in provisions for doubtful debts		
Balance at the beginning of the year	(50)	(1)
New provisions recognised during the year	(138)	(50)
Amounts already provided for and written off as uncollectible	50	1
Amounts provided for but recovered during the year	-	-
Balance at end of year	<u>(138)</u>	<u>(50)</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.

4.6 Borrowing costs		
Interest - Borrowings	188	182
Total borrowing costs	<u>188</u>	<u>182</u>

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.

4.7 Other expenses		
Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	45	56
Auditors' remuneration - Internal	54	20
Councillors' allowances	205	199
Community grants	321	263
Operating pension rebate	39	37
Tourism board membership	80	57
Others	21	39
Total other expenses	<u>765</u>	<u>671</u>

Notes to the Financial Report
For the Year Ended 30 June 2020

Note 5 Our financial position

5.1 Financial assets

(a) Cash and cash equivalents

Cash on hand	5	5
Cash at bank	19,093	8,653
Term deposits	43	4,102
Total cash and cash equivalents	19,141	12,759

(b) Other financial assets

Term deposits - current	1,192	6,133
Total other financial assets	1,192	6,133
Total financial assets	20,333	18,892

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

	2020	2019
	\$'000	\$'000
- Trust funds and deposits (Note 5.3)	1,194	950
- Statutory reserves (Note 9.1(b))	1,102	530
Total restricted funds	2,296	1,480
Total unrestricted cash and cash equivalents	16,844	11,280

Intended allocations

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

- cash held to fund carried forward works	10,320	7,670
- Unexpended grants received	4,157	4,011
- Discretionary reserves (Note 9.1(b))	2,244	1,997
Total funds subject to intended allocations	16,721	13,678

Total unrestricted cash, cash equivalents and other financial assets 1,316 3,735

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 2020

	2020 \$'000	2019 \$'000
5.1 (c) Trade and other receivables		
Current		
<i>Statutory receivables</i>		
Rates debtors	2,880	2,267
Special rate assessment	306	236
Infringement debtors	137	117
GST receivable	243	213
<i>Non statutory receivables</i>		
Other debtors - rental	181	6
Other debtors - government grants	565	789
Other debtors - miscellaneous	-	333
Provision for doubtful debts - other debtors	(138)	(50)
Other	299	130
Total current trade and other receivables	<u>4,473</u>	<u>4,041</u>

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)	531	851
Past due by up to 30 days	216	295
Past due between 31 and 180 days	163	41
Past due between 181 and 365 days	90	51
Past due by more than 1 year	44	20
Total trade and other receivables	<u>1,045</u>	<u>1,257</u>

(e) Ageing of individually impaired Receivables

At balance date, other debtors representing financial assets with a nominal value of \$236,120 were impaired. The amount of the provision raised against these debtors was \$138,451. They individually have been impaired as a result of their doubtful collection. Many of the long outstanding past due amounts have been lodged with Council's debt collectors or are on payment arrangements.

The ageing of receivables that have been individually determined as

Current (not yet due)	-	-
Past due by up to 30 days	-	-
Past due between 31 and 180 days	132	-
Past due between 181 and 365 days	6	-
Past due by more than 1 year	1	50
Total trade & other receivables	<u>138</u>	<u>50</u>

Notes to the Financial Report
For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
5.2 Non-financial assets		
(a) Inventories		
Inventories held for distribution	15	6
Total inventories	<u>15</u>	<u>6</u>
Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.		
(b) Other assets		
Prepayments	39	52
Accrued income	-	34
Total other assets	<u>39</u>	<u>86</u>
(c) Intangible assets		
Software	417	429
Total intangible assets	<u>417</u>	<u>429</u>
	Software	Total
	\$'000	\$'000
Gross carrying amount		
Balance at 1 July 2019	1,049	1,049
Other additions	39	39
WIP	69	69
Balance at 1 July 2020	<u>1,157</u>	<u>1,157</u>
Accumulated amortisation and impairment		
Balance at 1 July 2019	620	620
Amortisation expense	120	120
Balance at 1 July 2020	<u>740</u>	<u>740</u>
Net book value at 30 June 2019	<u>429</u>	<u>429</u>
Net book value at 30 June 2020	<u>417</u>	<u>417</u>

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.

	2020 \$'000	2019 \$'000
5.3 Payables		
(a) Trade and other payables		
Trade payables	1,735	1,364
Accrued expenses	442	812
Income in advance	1,653	528
Total trade and other payables	<u>3,830</u>	<u>2,704</u>
(b) Trust funds and deposits		
Refundable deposits	196	64
Fire services levy	306	237
Retention amounts	93	5
Other trust funds and deposits	599	644
Total trust funds and deposits	<u>1,194</u>	<u>950</u>

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 2020

5.3 Payables (continued)

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

	2020	2019
	\$'000	\$'000
Current		
Borrowings - secured	411	427
	<u>411</u>	<u>427</u>
Non-current		
Borrowings - secured	3,579	3,987
	<u>3,579</u>	<u>3,987</u>
Total	<u>3,991</u>	<u>4,414</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	411	427
Later than one year and not later than five years	2,882	2,917
Later than five years	697	1,070
	<u>3,991</u>	<u>4,414</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	Landfill	Total
	\$ '000	restoration \$ '000	\$ '000
2020			
Balance at beginning of the financial year	2,248	322	2,570
Additional provisions	1,117	-	1,117
Amounts used	(961)	(21)	(982)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	15	-	15
Balance at the end of the financial year	<u>2,418</u>	<u>301</u>	<u>2,719</u>
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>

Notes to the Financial Report
For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12 months		
Annual leave	739	659
Long service leave	287	250
Other	63	36
	<u>1,090</u>	<u>945</u>
Current provisions expected to be wholly settled after 12 months		
Annual leave	25	21
Long service leave	1,183	1,120
	<u>1,208</u>	<u>1,141</u>
Total current employee provisions	<u>2,298</u>	<u>2,086</u>
Non-current		
Long service leave	121	162
Total non-current employee provisions	<u>121</u>	<u>162</u>
Aggregate carrying amount of employee provisions:		
Current	2,298	2,086
Non-current	121	162
Total aggregate carrying amount of employee provisions	<u>2,418</u>	<u>2,248</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	0.87%	1.14%
- index rate	1.65%	1.65%
- inflation rate	4.25%	2.49%
- settlement rate	7 years	7 years

(b) Landfill restoration

Current	20	21
Non-current	280	301
	<u>301</u>	<u>322</u>

Key assumptions:

- Aftercare period	30 years	30 years
- discount rate	0.00%	0.00%
- index rate	0.00%	0.00%
- inflation rate	0.00%	0.00%

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.

5.6 Financing arrangements

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

Bank overdraft	2,443	1,000
Credit card facilities	50	50
Total facilities	<u>2,493</u>	<u>1,050</u>
Used facilities	10	10
Unused facilities	2,483	1,040

Notes to the Financial Report
For the Year Ended 30 June 2020

5.7 Commitments

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

2020	Not later	Later than 1	Later than 2	Later than 5	Total
	than 1 year	year and not later than 2 years	years and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
Waste and Recycling	1,863	-	-	-	1,863
Maternal and child health	365	365	487	-	1,217
Other	551	190	431	-	1,172
Total	2,779	555	918	-	4,252
Capital					
Infrastructure	3,075	700	700	-	4,475
Total	3,075	700	700	-	4,475

2019	Not later	Later than 1	Later than 2	Later than 5	Total
	than 1 year	year and not later than 2 years	years and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
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

	2020	2019
	\$'000	\$'000
Operating lease commitments		
At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities):		
Not later than one year	33	33
Later than one year and not later than five years	-	33
Later than five years	-	-
	<u>33</u>	<u>66</u>

The above lease falls into the category of short term and low value as identified in note 5.8. Council recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term

5.8 Leases

Policy applicable before 1 July 2019

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

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

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

Notes to the Financial Report
For the Year Ended 30 June 2020

5.8 Leases

Policy applicable before 1 July 2019

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

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

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

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

Policy applicable after 1 July 2019

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

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

Short-term and low value leases

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

	2020 \$'000
Expenses relating to:	
Short-term leases	33
Leases of low value assets	-
Total	33
Variable lease payments (not included in measurement of lease liabilities)	-

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

Payable:

Within one year	33
Later than one year but not later than five years	-
Total lease commitments	<u>33</u>

i. Leases classified as operating leases under AASB 117 Leases

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

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

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

ii. Leases previously classified as finance leases

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

Notes to the Financial Report
For the Year Ended 30 June 2020

5.8 Leases (continued)

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

Impact on financial statements

On transition to AASB 16 Leases, Council recognised an additional \$0 of right-of-use assets and \$0 of lease liabilities, recognising the difference in retained earnings.

	2020	2019
	\$'000	\$'000
Note 6 Assets we manage		
6.1 Non current assets classified as held for sale		
At Fair Value	935	545
Total non current assets classified as held for sale	<u>935</u>	<u>545</u>
Capitalisation rate used in the allocation of borrowing	Nil	Nil

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.

Notes to the Financial Report
For the Year Ended 30 June 2020

6.2 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2019	Additions	Contributions	Revaluation	Depreciation	Disposal	Write-off	Transfers from Work in Progress	Asset Class Transfers*	At Fair Value 30 June 2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property	106,166	-	-	9,145	(1,205)	-	-	894	(935)	114,064
Plant and equipment	3,171	-	-	-	(796)	(73)	(19)	1,302	(39)	3,547
Infrastructure	154,834	-	-	15,090	(4,772)	-	(714)	6,325	-	170,764
Work in progress	5,182	9,310	-	-	-	-	-	(8,521)	-	5,970
	<u>269,353</u>	<u>9,310</u>	<u>-</u>	<u>24,235</u>	<u>(6,773)</u>	<u>(73)</u>	<u>(732)</u>	<u>0</u>	<u>(974)</u>	<u>294,345</u>

Summary of Work in Progress

	Opening WIP	Additions	Write-off	Transfers	Closing WIP
	\$'000	\$'000	\$'000	\$'000	\$'000
Property	2,976	1,782	-	(894)	3,864
Plant and equipment	500	1,447	-	(1,302)	645
Infrastructure	1,705	6,080	-	(6,325)	1,460
Total	<u>5,182</u>	<u>9,310</u>	<u>-</u>	<u>(8,521)</u>	<u>5,970</u>

Notes to the Financial Report
For the Year Ended 30 June 2020

(a) Property

	Land - specialised	Land - non specialised	Land improvements	Total Land & Land Improvements	Buildings - specialised	Buildings - non specialised	Total Buildings	Total Property
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	21,755	16,940	12,475	51,170	107,707	17,432	125,139	176,309
Accumulated depreciation at 1 July 2019	-	-	(3,945)	(3,945)	(58,005)	(6,723)	(64,728)	(68,673)
Found Assets	-	-	-	-	868	-	868	868
Written Off Assets	-	(1,358)	-	(1,358)	(108)	(874)	(982)	(2,340)
Adjusted Opening Balance	21,755	16,940	8,530	47,225	49,702	10,710	60,411	106,166
Movements in fair value								
Additions	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-
Revaluation	1,835	2,316	-	4,151	9,084	875	9,959	14,110
Disposal	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-
Transfers from Work in Progress	-	-	156	156	-	738	738	894
Asset Class Transfers	-	(935)	-	(935)	-	-	-	(935)
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-
	1,835	1,381	156	3,372	9,084	1,613	10,697	14,069
Movements in accumulated depreciation								
Depreciation and amortisation	-	-	(474)	(474)	(625)	(106)	(731)	(1,205)
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	(4,092)	(873)	(4,965)	(4,965)
Transfers	-	-	-	-	-	-	-	-
	-	-	(474)	(474)	(4,718)	(979)	(5,696)	(6,170)
At fair value 30 June 2020	23,591	16,963	12,631	53,184	116,862	17,187	134,049	187,233
Accumulated depreciation at 30 June 2020	-	-	(4,419)	(4,419)	(62,034)	(6,717)	(68,751)	(73,169)
	23,591	16,963	8,212	48,766	54,828	10,470	65,298	114,064

Notes to the Financial Report
For the Year Ended 30 June 2020

(b) Plant and Equipment

	Plant machinery and equipment \$'000	Fixtures fittings and furniture \$'000	Computers and telecomms \$'000	Library books \$'000	Total plant and equipment \$'000
At fair value 1 July 2019	6,557	872	856	750	9,035
Accumulated depreciation at 1 July 2019	(4,129)	(765)	(356)	(614)	(5,863)
	2,428	107	500	136	3,171
Movements in fair value					
Additions	-	-	-	-	-
Contributions	-	-	-	-	-
Revaluation	-	-	-	-	-
Disposal	(717)	-	-	-	(717)
Write-off	(19)	-	-	-	(19)
Transfers from Work in Progress	981	-	262	59	1,302
Asset Class Transfers	-	-	(39)	-	(39)
Impairment losses recognised in operating result	-	-	-	-	-
	245	-	223	59	527
Movements in accumulated depreciation					
Depreciation and amortisation	(598)	(21)	(156)	(20)	(796)
Accumulated depreciation of disposals	644	-	-	-	644
Impairment losses recognised in operating result	-	-	-	-	-
Transfers	-	-	-	-	-
	46	(21)	(156)	(20)	(152)
At fair value 30 June 2020	6,802	872	1,079	809	9,562
Accumulated depreciation at 30 June 2020	(4,082)	(787)	(512)	(634)	(6,015)
	2,719	86	567	175	3,547

Notes to the Financial Report
For the Year Ended 30 June 2020

(c) Infrastructure

	Roads	Bridges	Footpaths and Cycleways	Drainage	Recreational, leisure and community	Parks open spaces and streetscapes	Off street car parks	Other Infrastructure	Total Infrastructure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	190,389	28,969	7,878	22,055	1,309	1,419	44	7,231	259,295
Accumulated depreciation at 1 July 2019	(84,382)	(14,255)	(3,746)	(9,301)	(632)	(31)	(11)	(1,908)	(114,265)
Found Assets	12,495	-	-	-	-	-	-	-	12,495
Written Off Assets	(909)	-	(7)	(1,775)	-	-	-	-	(2,691)
Adjusted Opening Balance	117,593	14,715	4,125	10,979	677	1,388	33	5,324	154,834
Movements in fair value									
Additions									-
Contributions		-	-	-	-	-	-	-	-
Revaluation	(437)	-	(919)	(817)	-	-	-	-	(2,173)
Disposal	(2,427)	-	(60)	(57)	(12)	-	-	-	(2,556)
Write-off	-	-	-	-	-	-	-	-	-
Transfers from Work in Progress	4,456	335	308	150	278	669	51	80	6,325
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-
	1,592	335	(671)	(724)	266	669	51	80	1,596
Movements in accumulated depreciation									
Depreciation and amortisation	(3,910)	(233)	(137)	(264)	(50)	(22)	(4)	(153)	(4,772)
Accumulated depreciation of disposals	1,754	-	52	33	4	-	-	-	1,843
Revaluation	18,740	-	(336)	(1,141)	-	-	-	-	17,263
Impairment losses recognised in operating result	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-
	16,583	(233)	(420)	(1,372)	(46)	(22)	(4)	(153)	14,334
At fair value 30 June 2020	206,537	29,304	7,192	17,689	1,575	2,088	95	7,311	271,790
Accumulated depreciation at 30 June 2020	(70,768)	(14,488)	(4,159)	(8,805)	(678)	(53)	(15)	(2,061)	(101,027)
	135,769	14,816	3,033	8,883	897	2,035	80	5,250	170,763

The infrastructure revaluation process identified further assets that were owned by Council but not previously recognised in the fixed asset register. The appointment of an Asset Specialist; improvement in information and interpretation led to found assets to the value of \$13.363 million being recognised. This has been adjusted through the opening balance.

The infrastructure revaluation process identified assets that were listed in the fixed asset register that were owned by Council but had been previously disposed or incorrectly recognised as a Council assets. This led to write-offs of \$5.030 million, this has been adjusted through the opening balance.. The remainder relate to sale of plant and machinery, buildings and assets disposed as part of the on-going asset creation and disposal process.

* Recognises transfers from Non-Current Assets to Assets Held for Sale and Intangible Assets, which are reported separately.

Notes to the Financial Report
For the Year Ended 30 June 2020

Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition 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	3 - 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 2020

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.

Valuation of land and buildings have been considered post balance date, given the potential impact of COVID-19. Management are satisfied the carrying value is materially correct.

Specialised land is valued at fair value using site values adjusted for englobo (undeveloped and/or un-serviced) 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 2020 are as follows:

	Level 1	Level 2	Level 3	Date of Valuation
	\$'000	\$'000	\$'000	
Land	-	16,963	-	Jun-20
Specialised land	-	-	23,591	Jun-20
Land improvements	-	-	8,212	Jun-20
Buildings	-	10,470	54,828	Jun-20
Total	-	27,433	86,630	

Valuation of infrastructure

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

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

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

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

Where no valuation date is provided, Council has deemed that the valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

	Level 1	Level 2	Level 3	Date of Valuation
	\$'000	\$'000	\$'000	
Roads	-	-	135,769	Jun-20
Bridges	-	-	14,816	Jan-18
Footpaths and cycleways	-	-	3,033	Jun-20
Drainage	-	-	8,883	Jun-20
Recreational, leisure and community facilities	-	-	897	-
Parks, open space and streetscapes	-	-	2,035	-
Off Street Car Parks	-	-	80	-
Other infrastructure	-	-	5,250	-
Total	-	-	170,763	

Notes to the Financial Report
For the Year Ended 30 June 2020

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 \$1,075 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 \$120 to \$15,000 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.

	2020	2019
	\$'000	\$'000
Reconciliation of specialised land		
Land under roads	86	86
Parks and reserves	23,505	21,669
Total specialised land	<u>23,591</u>	<u>21,755</u>

Notes to the Financial Report
For the Year Ended 30 June 2020

	2020	2019
	No.	No.
Note 7 People and relationships		
7.1 Council and key management remuneration		
(a) Related Parties		
Parent entity		
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 to 12/11/2019)		
Councillor Licia Kokocinski (Mayor from 13/11/2019)		
Councillor John Cottrell		
Councillor Fiona Robson		
Councillor Greg May		
Councillor Kate Redwood		
Councillor Neil Newitt		
Officers		
Chief Executive Officer - Evan King		
Director Infrastructure and Development Services - Bruce Lucas		
Director Community and Corporate Services - Bradley Thomas		
Total Number of Councillors	7	8
Total of Chief Executive Officer and other Key Management Personnel	3	5
Total Number of Key Management Personnel	<u>10</u>	<u>13</u>
(c) Remuneration of Key Management Personnel		
	2020	2019
	\$'000	\$'000
Total remuneration of key management personnel was as follows:		
Short-term benefits	780	881
Long-term benefit	14	11
Post-employment benefit	50	55
Termination benefits	-	-
Total	<u>844</u>	<u>947</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	5	4
\$30,000 - \$39,999	1	1
\$40,000 - \$49,999	-	1
\$50,000 - \$59,999	1	-
\$70,000 - \$79,999	-	-
\$80,000 - \$89,999	-	1
\$90,000 - \$99,999	-	-
\$100,000 - \$109,999	-	1
\$140,000 - \$149,999	-	1
\$160,000 - \$169,999	-	-
\$170,000 - \$179,999	-	1
\$180,000 - \$189,999	1	1
\$190,000 - \$199,999	1	-
\$260,000 - \$269,999	1	-
	<u>10</u>	<u>13</u>

Notes to the Financial Report
 For the Year Ended 30 June 2020

7.1 Council and key management remuneration (continued)

(d) Senior Officer Remuneration

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

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

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

	2020	2019
Income Range:	No.	No.
less than \$151,000	3	1
	<u>3</u>	<u>1</u>
Total Remuneration for the reporting year for Senior Officers included above, amounted to	\$ 137,190	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 2020

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.

(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 2021 are \$48,002

Liability Mutual Insurance

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

MAV Workcare

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

8.2 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:

	2020	2019
	\$'000	\$'000
Not later than one year	909	938
Later than one year and not later than five years	3,507	3,414
Later than five years	4,733	5,809
	<u>9,149</u>	<u>10,161</u>

8.3 Change in accounting standards

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

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

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

- recognise a service concession asset constructed, developed or acquired from a third party by the operator, including an upgrade to an existing asset of the grantor, when the grantor controls the asset;
- reclassify an existing asset (including recognising previously unrecognised identifiable intangible assets and land under roads) as a service concession asset when it meets the criteria for recognition as a service concession asset;

Notes to the Financial Report For the Year Ended 30 June 2020

8.3 Change in accounting standards (continued)

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

Based on the Council's current assessment, there is expected to be no material impact on the transactions and balances recognised in the financial statements.

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

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

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

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

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

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

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

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

Notes to the Financial Report
For the Year Ended 30 June 2020

8.4 Financial instruments (continued)

(c) Credit risk

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

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

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

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

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

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

Notes to the Financial Report
For the Year Ended 30 June 2020

8.4 Financial instruments (continued)

(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 months:

- A parallel shift of + 1% and -0% in market interest rates (AUD) from year-end rates of .25%.

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.

8.5 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 2020

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.

8.6 Events occurring after balance date

The COVID-19 pandemic has had a significant impact on the operations of Council. In line with government restrictions, Council closed a number of facilities and adjusted service delivery. The financial impacts of these have been reflected in the results for 2019/2020 and appropriate commentary appears throughout the financial report.

Council enacted the emergency clause of its hardship policy to provide support to the community, including deferral for rate payments and waiver of interest charges that will help sustain residents who are living in a new reality. We do not believe that these measures will have a material effect on Council's overall finances going forward.

During June the Government restrictions began to ease and our facilities returned to more normal service delivery. In July 2020 the government reported on a second wave and announced further restrictions. Those restrictions have again impacted on our service delivery.

Due to the significant uncertainty surrounding the COVID-19 second wave and the government's response to this, it is not possible to estimate the full impact on the Council's operations, financial position and cashflows at this point in time. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of the COVID-19 second wave at this time. Council will continue to monitor the non-financial and financial impacts of COVID-19 on its operations and has put in place various mitigation strategies to ensure we will remain an ongoing concern.

The financial statements have been prepared based upon conditions existing as at 30 June 2020, considering those events occurring subsequent to that date that provide evidence of conditions that existed at the end of the reporting period.

As the second wave of COVID-19 occurred after 30 June 2020 its impact is considered an event that is indicative of conditions that arose after the reporting period, and as such, no adjustments have been made to the financial statement balances as at 30 June 2020 for any further impacts.

Note 9 Other matters

9.1 Reserves

	Balance at beginning of reporting period \$'000	Increment (decrement) \$'000	Balance at end of reporting period \$'000
(a) Asset revaluation reserves			
2020			
Property			
Land and land improvements	29,176	4,151	33,327
Buildings	30,342	4,993	35,335
	59,518	9,145	68,662
Infrastructure			
Roads	48,449	15,090	63,539
Other infrastructure	10,057	-	10,057
	58,506	15,090	73,596
Total asset revaluation reserves	118,024	24,234	142,258
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

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

	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
(b) Other reserves				
2020				
Car parking reserve	-	-	-	-
Clunes caravan park reserve	7	-	-	7
Debt management reserve	1,392	200	-	1,592
Heritage advisory fund	20	-	-	20
Mineral springs financial reserve	577	246	-	824
Mt Beckworth pit reserve	28	-	-	28
Open Space Reserve *	530	587	(15)	1,102
Smeaton hill pit reserve	74	-	-	74
Waste management reserve	(101)	-	(199)	(300)
Total Other reserves	2,527	1,033	(214)	3,346
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
Open Space 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

* Indicates statutory reserve

Notes to the Financial Report
For the Year Ended 30 June 2020

	2020 \$'000	2019 \$'000
9.2 Reconciliation of cash flows from operating activities to surplus/(deficit)		
Surplus for the year	1,874	4,585
Depreciation/amortisation	6,894	6,934
Profit/(loss) on disposal of property, infrastructure and plant	542	(53)
Interest Expense	188	182
<i>Change in assets and liabilities:</i>		
Increase/(decrease) in trade and other receivables	(432)	(1,038)
(Increase)/decrease in prepayments	13	121
Increase/(decrease) in accrued income	34	22
Increase/(decrease) in trade and other payables	1,126	341
(Decrease)/increase in other liabilities	(0)	(18)
(Increase)/decrease in inventories	(9)	6
Increase/(decrease) in provisions	149	203
Increase/(decrease) in trust funds / deposits	244	(112)
Net cash provided by/(used in) operating activities	10,624	11,172

9.3 Superannuation

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

Accumulation

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

Defined Benefit

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

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

Funding arrangements

Council makes employer contributions to the Defined Benefit category of the Fund at rates determined by the Trustee on the advice of the Fund Actuary. A triennial actuarial review is currently underway for the Defined Benefit category as at 30 June 2020 and is expected to be completed by 31 December 2020. As at 30 June 2019, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which Hepburn Shire Council is a contributing employer was 107.1%. The financial assumptions used to calculate the VBIs were: Net investment returns 6.0% pa, Salary increases 3.5% pa and Price inflation (CPI) 2.0% pa.

Vision Super has advised that the estimated VBI at 30 June 2020 was 104.6%.

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

Notes to the Financial Report
For the Year Ended 30 June 2020

9.3 Superannuation (continued)

Employer contributions

Regular contributions

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

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

Funding calls

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

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including Council) are required to make an employer contribution to cover 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 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 If there is a surplus in the Fund, the surplus cannot be returned to the participating employers.

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

The 2019 interim actuarial investigation surplus amounts

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

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

	2019	2017
	\$m	\$m
A VBI surplus	\$151.30	\$69.80
A total service liability surplus	\$233.40	\$193.50
A discounted accrued benefits surplus	\$256.70	\$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 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 The discounted accrued benefit surplus means that the current value of the assets in the Fund's Defined Benefit category exceeds the value of benefits payable in the future but accrued in respect of service to 30 Council was notified of the 30 June 2020 VBI during August 2020 (2019: August 2019).

Notes to the Financial Report
For the Year Ended 30 June 2020

9.3 Superannuation (continued)

The 2020 actuarial investigation

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

	2020 Triennial investigation	2017 Triennial investigation
Net investment return	5.6% pa	6.5% pa
Salary inflation	2.50 %pa for the first two years and 2.75%pa thereafter	3.5% pa
Price inflation	2.0% pa	2.5% pa

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

Scheme	Type of Scheme	Rate	\$,000	\$,000
Vision super	Defined benefit	9.50%	49	48
Vision super	Accumulation fund	9.50%	468	410
Other Funds	Accumulation fund	9.50%	508	376

Council has not made any additional unfunded liability payments to Vision Super during the 2018/19 and 2019/20 years.

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

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2020 is \$49,086.

Notes to the Financial Report
For the Year Ended 30 June 2020

10 Change in accounting policy

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

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

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

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

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

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

b) AASB 16 Leases

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

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

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

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

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

d) Transition impacts

There were no impacts of transition to the new standards on retained earnings at 1 July 2019.