



ANNUAL FINANCIAL REPORT

For the Year Ended 30 June 2021

Hepburn Shire Council

Financial Report - Table of Contents

	Page
FINANCIAL REPORT	
Certification of the Financial Statements	1
Victorian Auditor-General's Office Audit Report	2
Financial Statements	
Comprehensive Income Statement	4
Balance Sheet	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Statement of Capital Works	8
Overview	9
Notes to Financial Statements	
Note 1 Performance against budget	11
1.1. Income and expenditure	11
1.2. Capital works	13
Note 2.1 Analysis of Council results by program	15
Note 3 Funding for the delivery of our services	17
3.1. Rates and charges	17
3.2. Statutory fees and fines	17
3.3. User fees	17
3.4. Funding from other levels of government	18
3.5. Contributions	19
3.6. Net gain/(loss) on disposal of property, infrastructure, plant and equipment	19
3.7. Other income	19
Note 4 The cost of delivering services	20
4.1. Employee costs	20
4.2. Materials and services	20
4.3. Depreciation	20
4.4. Amortisation - intangible assets	20
4.5. Bad and doubtful debts	21
4.6. Borrowing costs	21
4.7. Other expenses	21
Note 5 Our financial position	22
5.1. Financial assets	22
5.2. Non-financial assets	24
5.3. Payables	24
5.4. Interest-bearing liabilities	25
5.5. Provisions	25
5.6. Financing arrangements	27
5.7. Commitments	27
5.8. Leases	28
Note 6 Assets we manage	28
6.1. Non current assets classified as held for sale	28
6.2. Property, infrastructure plant and equipment	29
Note 7 People and relationships	36
7.1. Council and key management remuneration	36
7.2. Related party disclosure	37
Note 8 Managing uncertainties	38
8.1. Contingent assets and liabilities	38
8.2. Change in accounting standards	38
8.3. Financial instruments	39
8.4. Fair value measurement	40
8.5. Events occurring after balance date	41
Note 9 Other matters	42
9.1. Reserves	42
9.2. Reconciliation of cash flows from operating activities to surplus/(deficit)	43
9.3. Superannuation	43
Note 10 Changes in accounting policy	46

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

Date : 11 October 2021

Daylesford

In our opinion the accompanying financial statements present fairly the financial transactions of Hepburn Shire Council for the year ended 30 June 2021 and the financial position of the Council as at that date.

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

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

Mayor Cr Lesley Hewitt
Councillor



Date : 11 October 2021

Daylesford

Deputy Mayor Cr Brian Hood
Councillor



Date : 11 October 2021

Daylesford

Bradley Thomas
Chief Executive Officer



Date : 11 October 2021

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 2021• 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 2021 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 <i>APES 110 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' 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
24 October 2021



Sanchu Chummar

as delegate for the Auditor-General of Victoria

Comprehensive Income Statement For the Year Ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Income			
Rates and charges	3.1	22,027	21,176
Statutory fees and fines	3.2	1,040	834
User fees	3.3	1,091	970
Grants - operating	3.4	8,278	7,468
Grants - capital	3.4	3,279	2,816
Contributions - monetary	3.5	582	642
Contributions - non monetary	3.5	147	-
Other income	3.7	1,151	1,264
Total income		37,595	35,170
Expenses			
Employee costs	4.1	15,647	13,921
Materials and services	4.2	12,408	10,845
Depreciation	4.3	6,593	6,774
Amortisation - intangible assets	4.4	133	120
Bad and doubtful debts	4.5	247	141
Borrowing costs	4.6	165	188
Net loss on disposal of property, infrastructure, plant and equipment	3.6	3,931	542
Other expenses	4.7	766	765
Total expenses		39,890	33,296
Surplus/(deficit) for the year		(2,295)	1,874
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment	6.2	32,826	24,234
Total comprehensive result		30,531	26,109

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

Balance Sheet As at 30 June 2021

	Note	2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1(a)	8,839	19,141
Trade and other receivables	5.1(c)	4,542	4,473
Other financial assets	5.1(b)	18,202	1,192
Inventories	5.2(a)	19	15
Non-current assets classified as held for sale	6.1	-	935
Prepayments	5.2(b)	130	39
Total current assets		31,732	25,794
Non-current assets			
Property, infrastructure, plant and equipment	6.2	326,340	294,345
Intangible assets	5.2 (c)	408	417
Total non-current assets		326,748	294,763
Total assets		358,480	320,557
Liabilities			
Current liabilities			
Trade and other payables	5.3 (a)	8,430	3,830
Trust funds and deposits	5.3 (b)	1,205	1,194
Provisions	5.5	2,482	2,318
Interest-bearing liabilities	5.4	2,065	411
Other liabilities		-	18
Total current liabilities		14,182	7,771
Non-current liabilities			
Provisions	5.5	455	401
Interest-bearing liabilities	5.4	4,526	3,579
Other liabilities		26	45
Total non-current liabilities		5,007	4,025
Total liabilities		19,189	11,796
Net assets		339,291	308,761
Equity			
Accumulated surplus		160,265	163,155
Reserves	9.1	179,026	145,605
Total equity		339,291	308,761

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

Statement of Changes in Equity For the Year Ended 30 June 2021

	Note	Accumulated		Revaluation	Other
		Total	Surplus	Reserve	Reserves
2021		\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year		308,760	163,155	142,258	3,347
Surplus/(deficit) for the year		(2,296)	(2,296)	-	-
Net asset revaluation increment/(decrement)	6.2	32,826	-	32,826	-
Transfers to other reserves	9.1 (b)	-	293	-	(293)
Transfers from other reserves	9.1 (b)	-	(888)	-	888
Balance at end of the financial year		339,290	160,264	175,084	3,942

		Accumulated		Revaluation	Other
		Total	Surplus	Reserve	Reserves
2020		\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year		274,318	153,767	118,024	2,527
Found Assets		13,364	13,364	-	-
Written Off Assets		(5,030)	(5,030)	-	-
Adjusted Opening balance		282,652	162,101	118,024	2,527
Surplus/(deficit) 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		308,760	163,155	142,258	3,346

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

Statement of Cash Flows For the Year Ended 30 June 2021

	Note	2021 Inflows/ (Outflows) \$'000	2020 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		21,768	20,435
Statutory fees and fines		1,007	814
User fees		915	1,134
Grants - operating		9,316	8,122
Grants - capital		8,510	3,376
Contributions - monetary		582	642
Interest received		97	326
Rent received		720	861
Trust funds and deposits taken		-	174
Other receipts		122	143
Net GST refund		1,502	-
Employee costs		(15,492)	(13,750)
Materials and services		(15,194)	(10,857)
Trust funds and deposits repaid		(2)	-
Other payments		(843)	(795)
Net cash provided by/(used in) operating activities	9.2	<u>13,008</u>	<u>10,624</u>
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment		(9,364)	(8,790)
Payments for intangible assets		(125)	-
Proceeds from sale of property, infrastructure, plant and equipment	3.6	41	218
Proceeds from sale of assets held for sale	3.6	712	-
Payments for investments		(17,010)	4,941
Net cash used in investing activities		<u>(25,746)</u>	<u>(3,631)</u>
Cash flows from financing activities			
Finance costs		(165)	(188)
Repayment of borrowings		(412)	(424)
Proceeds of borrowings		3,012	-
Net cash provided by/(used in) financing activities		<u>2,435</u>	<u>(612)</u>
Net increase/(decrease) in cash and cash equivalents		(10,303)	6,381
Cash and cash equivalents at the beginning of the financial year		19,141	12,759
Cash and cash equivalents at the end of the financial year	5.1	<u>8,838</u>	<u>19,141</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 2021

	Note	2021 \$'000	2020 \$'000
Property			
Land improvements		-	132
Buildings		2,838	1,279
Total property		2,838	1,411
Plant and equipment			
Plant, machinery and equipment		496	1,136
Computers and telecommunications		208	332
Library Resources		68	59
Total plant and equipment		772	1,527
Infrastructure			
Roads		3,695	4,405
Bridges		201	341
Footpaths and cycleways		947	351
Drainage		38	193
Recreational, leisure and community facilities		276	419
Parks, open space and streetscapes		497	655
Other infrastructure		100	82
Total infrastructure		5,754	6,446
Total capital works expenditure		9,364	9,385
Represented by:			
New asset expenditure		749	907
Asset renewal expenditure		4,841	5,814
Asset upgrade expenditure		3,774	2,664
Total capital works expenditure		9,364	9,385

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

Notes to the Financial Report For the Year Ended 30 June 2021

OVERVIEW

Introduction

The 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* (refer to Note 3)
- the determination, in accordance with *AASB 16 Leases*, of the lease term, the estimation of the discount rate when not implicit in the lease and whether an arrangement is in substance short-term or low value (refer to Note 5.8)
- other areas requiring judgements

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

**Notes to the Financial Report
For the Year Ended 30 June 2021**

(b) Impact of Covid-19

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

	2021
	\$'000
Financial impact of COVID-19	
<u>Additional revenue including:</u>	
• Community Activation and Social Isolation (CASI) initiative grant \$164,000	164
• Outdoor dining grant \$265,000	265
• Visit Victoria event funding grant \$60,000	60
• Information and communication technology infrastructure grant \$100,000	100
• Working for Victoria grant \$860,000	860
<u>Revenue reductions including:</u>	
• Community care user charges \$143,000 below budget	(143)
• Commercial property rental \$115,000 below budget	(115)
<u>Revenue foregone including:</u>	
• Interest on overdue rates \$127,000	(127)
Net impact on revenue	1,064
 <u>Additional costs including:</u>	
• Property rental provision for doubtful debts \$163,000	(163)
• Community Activation and Social Isolation (CASI) initiative \$164,000	(164)
• Outdoor dining projects \$265,000	(265)
• Visit Victoria event funding \$60,000	(60)
• Information and communication technology infrastructure \$100,000	(100)
• Working for Victoria program	(860)
Net impact on expenditure	(1,612)
Net financial impact of COVID-19	(548)

(c) Impact of Storm Event

On the 9th and 10th June 2021 a severe weather event impacted many parts of Victoria, and caused significant damage in Hepburn Shire, particularly in Trentham and surrounding townships. Significant clean up works will be required, estimated to be in the vicinity of \$10 million. The majority of these costs will be incurred during 2021/22 and reimbursed through insurance and natural disaster funding from the State and Federal Government. In the 2020/21 financial year \$78,154 was incurred as expenditure.

Notes to the Financial Report For the Year Ended 30 June 2021

Note 1 Performance against budget

The performance against budget notes compare Council's financial plan, expressed through its annual budget, with actual performance. The *Local Government (Planning and Reporting) Regulations 2014* requires explanation of any material variances. Council has adopted a materiality threshold of 10 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 21 July 2020. 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 2021 \$'000	Actual 2021 \$'000	Variance 2021 \$'000	Variance %	Ref
Income					
Rates and charges	22,266	22,027	(239)	-1.1%	
Statutory fees and fines	915	1,040	125	13.7%	1
User fees	964	1,091	127	13.2%	2
Grants - operating	8,741	8,278	(463)	-5.3%	
Grants - capital	2,355	3,279	924	39.2%	3
Contributions - monetary	370	582	212	57.3%	4
Contributions - non monetary	-	147	147	100.0%	5
Other income	1,485	1,151	(334)	-22.5%	6
Total income	37,096	37,595	499	1.3%	
Expenses					
Employee costs	15,518	15,647	(129)	-0.8%	
Materials and services	11,424	12,408	(984)	-8.6%	
Depreciation	7,168	6,593	575	8.0%	
Amortisation - Intangible assets	101	133	(32)	-31.7%	
Bad and doubtful debts	18	247	(229)	-1272.2%	7
Borrowing costs	206	165	41	19.9%	
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	20	3,931	(3,911)	-19555.0%	8
Other expenses	794	766	28	3.5%	
Total expenses	35,249	39,890	(4,641)	-13.2%	
Surplus (deficit) for the year	1,847	(2,295)	(4,142)	-224.3%	

**Notes to the Financial Report
For the Year Ended 30 June 2021**

Note 1 Performance against budget (continued)

1.1 Income and expenditure (continued)

(i) Explanation of material variations

Ref	Item / Explanation
1	Statutory fees and fines - The increase in actual statutory fees and fines was predominantly due to an additional \$143,000 received in relation to planning applications and permits as a result of increased development activity across the shire.
2	User fees - There was an increase in user fees predominately to additional fees received in Waste Management (\$112k) due to additional usage of transfer stations which has been seen across the sector with change of habits due to COVID lockdowns, Caravan Parks (\$93k) with Council operating the Creswick Holiday Park during the year where it was previously leased out and Building Services (\$88k) as a result of increased development activity across the shire offset by reduced fees received in Community Care (\$143k) with less hours of services provided due to COVID restrictions and staff shortages.
3	Grants - capital - The increase in Capital Grants received is predominantly due to the timing of funding in relation to priority projects and COVID stimulus projects to be constructed.
4	Contributions (monetary) - The increase to budget of monetary contributions is due to an additional \$182,000 of Open Space Contributions which are paid in relation to developments undertaken across the shire. Open Space contributions are transferred to a cash-backed reserve to assist in funding of future infrastructure works.
5	Contributions - non monetary - During the process of revaluing infrastructure assets, road assets of \$53,000 and drainage assets of \$95,000 were found and brought to account for the first time.
6	Other income - Other income was less than budget predominately due to receiving \$148k less in interest due to significantly lower interest rates during the financial year and receiving \$115k less in commercial rental due to offering discounts in lease payments due to the COVID impacts as required by State Government.
7	Bad and doubtful debts - Increase bad and doubtful debts relates predominately to an additional \$94k of debts written off due to offering discounts in lease payments due to the COVID impacts as required by State Government, and \$61k in relation to offering Health and Hospitality licences at a discount to assist businesses respond to COVID.
8	Net gain/(loss) on disposal of property, infrastructure, plant and equipment - The increase compared to budget relates to the written down value of disposed infrastructure (roads, footpaths etc) as a result of capital works undertaken. Given the value of infrastructure disposed is difficult to assume and the fact that it is non-cash it is not budgeted.

Notes to the Financial Report
For the Year Ended 30 June 2021

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

	Budget 2021 \$'000	Actual 2021 \$'000	Variance 2021 \$'000	Variance %	Ref
Property					
Land improvements	88	-	(88)	-100.0%	
Buildings and Building Improvements	5,318	2,838	(2,480)	-46.6%	1
Total property	5,406	2,838	(2,568)	-47.5%	
Plant and equipment					
Plant, machinery and equipment	866	496	(370)	-42.7%	2
Computers and telecommunications	602	208	(394)	-65.5%	3
Library books	60	68	8	13.5%	
Total plant and equipment	1,528	772	(756)	-49.5%	
Infrastructure					
Roads	2,886	3,695	809	28.0%	4
Bridges	275	201	(74)	-26.9%	
Footpaths and cycleways	549	947	398	72.5%	5
Drainage	299	38	(261)	-87.3%	6
Recreational, leisure and community facilities	1,679	276	(1,403)	-83.6%	7
Parks, open space and streetscapes	207	497	290	140.1%	8
Other infrastructure	165	101	(64)	-39.0%	
Total infrastructure	6,060	5,754	(306)	-5.0%	
Total capital works expenditure	12,993	9,364	(3,629)	-27.9%	
Represented by:					
New asset expenditure	3,404	749	(2,655)	-78.0%	
Asset renewal expenditure	7,750	4,841	(2,909)	-37.5%	
Asset upgrade expenditure	1,839	3,774	1,935	105.2%	
Total capital works expenditure	12,993	9,364	(3,629)	-27.9%	

(i) Explanation of material variations

Ref	Item / Explanation
1	Buildings and Building Improvements - A number of construction project did not proceed as much as had been expected during the financial year, especially the Hepburn Hub at the Rex Project. The project was delayed due to a contractual dispute with the builder and will be retendered in late August 2021. This accounted for an underspend of \$2.4M of which funding is carry-forward to 2021/22.
2	Plant, machinery and equipment - A number of plant and fleet purchases occurred during the year, with orders place, but the items have been delayed for delivery due to manufacturing delays as a result of COVID. Funding is carry-forward to 2021/22.
3	Computers and telecommunications - A number of ICT projects were delayed during the year as the ICT teams focus was in relation to COVID response and allowing staff the ability to work from home due to State Government restrictions in place, funding is carry-forward to 2021/22.
4	Roads - Additional stimulus funding in response to the COVID pandemic was received from State and Federal Government and therefore a number of additional projects were brought forward.
5	Footpaths and cycleways - Additional stimulus funding in response to the COVID pandemic was received from State and Federal Government and therefore a number of additional projects were brought forward, including the Daylesford-Coomoora Trail Construction stage 2 works and Clunes Railway Station to Township - Connecting Footpath.

**Notes to the Financial Report
For the Year Ended 30 June 2021**

Note 1 Performance against budget (cont'd)

1.2 Capital works

(i) Explanation of material variations (continued)

Ref	Item / Explanation
6	Drainage - The major drainage project budgeted for is kerb and channel works at Pearman Street, Creswick. Design works were delayed to provide additional information to authorities, the construction will commence in more favourable weather conditions in September 2021.
7	Recreational, leisure and community facilities - A number of construction projects did not proceed as much as had been expected during the financial year. The major project impacting recreational assets was Councils decision to not proceed with the upgrade to the Daylesford Pool and creation of a Civic Plaza (\$1m budgeted in 2020/21). Funding was returned to State Government and project cancelled as Council is undertaking an Aquatics Strategy.
8	Parks, open space and streetscapes - A number of projects had not been completed in the 2019/20 financial year and therefore carried forward and were completed in the current financial year (2020/21) including the Trentham Streetscape project of \$176k and works at Lake Jubilee

Notes to the Financial Report For the Year Ended 30 June 2021

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 people and culture, which is responsible for organisation development and provides efficient and effective services to meet the growing needs of the community.

Infrastructure and Development Services

Infrastructure 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.

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

Corporate and Community Services

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.

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.

Corporate Services 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.

**Notes to the Financial Report
For the Year Ended 30 June 2021**

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
2021					
CEO	846	3,363	(2,517)	860	62
Infrastructure and Development Services	13,382	17,028	(3,646)	3,473	296,791
Corporate and Community Services	23,367	19,499	3,868	7,224	61,627
	37,595	39,890	(2,295)	11,557	358,480
	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	267,095
Corporate and Community Services	24,912	16,236	8,676	5,245	53,415
	35,170	33,296	1,874	10,284	320,557

Notes to the Financial Report
For the Year Ended 30 June 2021

Note 3 Funding for the delivery of our services	2021	2020
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 an approximation of its market value.

The valuation base used to calculate general rates for 2020/2021 was \$6,087,346 million (2019/20 \$5,572,383 million).

General rates	18,272	17,802
Garbage and Recycling Charges	1,673	1,462
Waste management charge	1,911	1,642
Special rates and charges	57	43
Supplementary rates and rate adjustments	107	93
Interest on rates and charges	-	127
Revenue in lieu of rates	6	6
Total rates and charges	22,027	21,176

The date of the latest general revaluation of land for rating purposes within the municipal district was 01/01/2020, 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	79	54
Permits	77	80
Registration fees	226	204
Town planning fees	594	439
Other fees and fines	64	58
Total statutory fees and fines	1,040	834

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	107	223
Building Services	328	252
Waste management services	428	365
Other fees and charges	227	130
Total user fees	1,091	970

User fees by timing of revenue recognition

User fees recognised at a point in time	1,091	970
Total user fees	1,091	970

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 2021

3.4 Funding from other levels of government	2021	2020
Grants were received in respect of the following :	\$'000	\$'000
Summary of grants		
Commonwealth funded grants	6,495	6,998
State funded grants	5,062	3,286
Total grants received	11,557	10,284
(a) Operating Grants		
Recurrent - Commonwealth Government		
Financial Assistance Grants - VGC	3,386	3,636
Local road funding	1,605	1,688
Aged care	349	703
Community health	23	3
Recurrent - State Government		
Aged care	115	77
Libraries	168	164
Maternal and child health	204	191
School crossing supervisors	36	31
Youth	25	25
Other	53	54
Total recurrent operating grants	5,963	6,570
Non-recurrent - Commonwealth Government		
Aged care	164	0
Non-recurrent - State Government		
Commerce and tourism	766	-
Emergency management	222	120
Family and children	-	94
Recreation	97	15
Transport	18	27
Waste and environment	65	62
Working for Victoria	860	457
Other	122	122
Total non-recurrent operating grants	2,315	897
Total operating grants	8,278	7,468
(b) Capital Grants		
Recurrent - Commonwealth Government		
Roads to recovery	969	969
Total recurrent capital grants	969	969
Non-recurrent - State Government		
Buildings	904	154
Roads	589	1,498
Recreation, leisure and community facilities	545	34
Waste and Environment	4	101
Other	267	60
Total non-recurrent capital grants	2,310	1,847
Total capital grants	3,279	2,816

Notes to the Financial Report
For the Year Ended 30 June 2021

	2021	2020
(c) Unspent grants received on condition that they be spent in a specific manner	\$'000	\$'000
Operating		
Balance at start of year	2,053	1,077
Received during the financial year and remained unspent at balance date	976	1,311
Received in prior years and spent during the financial year	(1,459)	(335)
Balance at year end	<u>1,570</u>	<u>2,053</u>
Capital		
Balance at start of year	1,835	3,034
Received during the financial year and remained unspent at balance date	4,716	619
Received in prior years and spent during the financial year	(1,735)	(1,818)
Balance at year end	<u>4,816</u>	<u>1,835</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	582	642
Non-monetary	147	-
Total contributions	<u>729</u>	<u>642</u>

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

Roads	53	-
Other Infrastructure	95	-
Total non-monetary contributions	<u>147</u>	<u>-</u>

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

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

Proceeds of sale	41	218
Written down value of assets disposed	(11)	(73)
Written down value of infrastructure assets renewed	(3,738)	(733)
Proceeds of sale - Assets Held for Sale	712	591
Written down value of assets disposed - Assets Held for Sale	(935)	(545)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	<u>(3,931)</u>	<u>(542)</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	97	169
Reimbursements	33	23
Facilities rental income	933	952
Sale of materials	84	98
Other	6	22
Total other income	<u>1,151</u>	<u>1,264</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 2021

	2021 \$'000	2020 \$'000
Note 4 The cost of delivering services		
4.1 (a) Employee costs		
Wages and salaries	13,109	11,325
WorkCover	406	304
Superannuation	1,194	990
Fringe benefits tax	80	69
Agency Staff	858	1,234
Total employee costs	15,647	13,921
(b) Superannuation		
Council made contributions to the following funds:		
Defined benefit fund		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	50	49
	50	49
Employer contributions payable at reporting date.	-	-
Accumulation funds		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	501	468
Employer contributions - other funds	643	473
	1,144	941
Employer contributions payable at reporting date.	-	-
Refer to note 9.3 for further information relating to Council's superannuation obligations.		
4.2 Materials and services		
Building maintenance	89	351
Consultants	1,354	807
Contract payments		
Waste Service	3,332	2,600
Infrastructure Maintenance	504	638
General Contracts	2,101	1,753
	5,938	4,991
Information technology	637	603
Insurance	500	443
Materials and services	2,774	2,744
Office administration	455	308
Utilities	662	600
Total materials and services	12,408	10,845
4.3 Depreciation		
Property	1,220	1,230
Plant and equipment	796	797
Infrastructure	4,577	4,747
Total depreciation	6,593	6,774
4.4 Amortisation - Intangible assets		
Software	133	120
Total Amortisation - Intangible assets	133	120

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 2021

	2021	2020
	\$'000	\$'000
4.5 Bad and doubtful debts		
Compliance Debtors	-	1
Rental Debtors	163	-
Other debtors	84	140
Total bad and doubtful debts	<u>247</u>	<u>141</u>

Movement in provisions for doubtful debts

Balance at the beginning of the year	(138)	(50)
New provisions recognised during the year	(79)	(138)
Amounts already provided for and written off as uncollectible	138	50
Amounts provided for but recovered during the year	-	-
Balance at end of year	<u>(79)</u>	<u>(138)</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	165	188
Total borrowing costs	<u>165</u>	<u>188</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	58	45
Auditors' remuneration - Internal	27	54
Councillors' allowances	192	205
Community grants	326	321
Operating pension rebate	38	39
Tourism board membership	80	80
Others	45	21
Total other expenses	<u>766</u>	<u>765</u>

Notes to the Financial Report
For the Year Ended 30 June 2021

Note 5 Our financial position

	2021	2020
	\$'000	\$'000
5.1 Financial assets		
(a) Cash and cash equivalents		
Cash on hand	5	5
Cash at bank	8,791	19,093
Term deposits	43	43
Total cash and cash equivalents	<u>8,839</u>	<u>19,141</u>
(b) Other financial assets		
Term deposits - current	18,202	1,192
Total other financial assets	<u>18,202</u>	<u>1,192</u>
Total financial assets	<u>27,041</u>	<u>20,333</u>
Council's cash and cash equivalents are subject to external restrictions that limit amounts available for discretionary use. These include:		
- Trust funds and deposits (Note 5.3)	1,205	1,194
- Statutory reserves (Note 9.1(b))	1,526	1,102
Total restricted funds	<u>2,731</u>	<u>2,296</u>
Total unrestricted cash and cash equivalents	<u>6,108</u>	<u>16,844</u>
Intended allocations		
Although not externally restricted the following amounts have been allocated for specific future purposes by Council:		
- Cash held to fund carried forward works	12,125	10,320
- Unexpended grants received (Note 3.4(c))	6,386	4,157
- Discretionary reserves (Note 9.1(b))	2,416	2,244
Total funds subject to intended allocations	<u>20,927</u>	<u>16,721</u>
Total unrestricted and unallocated cash, cash equivalents and other financial assets	3,383	1,316

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

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

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 2021

	2021 \$'000	2020 \$'000
5.1 (c) Trade and other receivables		
Current		
<i>Statutory receivables</i>		
Rates debtors	3,138	2,880
Special rate assessment	320	306
Infringement debtors	171	137
GST receivable	277	243
<i>Non statutory receivables</i>		
Other debtors - rental	194	181
Other debtors - government grants	110	565
Other debtors - miscellaneous	412	299
Provision for doubtful debts - other debtors	(79)	(138)
Total current trade and other receivables	4,542	4,473

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)	97	531
Past due by up to 30 days	167	216
Past due between 31 and 180 days	310	163
Past due between 181 and 365 days	31	90
Past due by more than 1 year	32	44
Total trade and other receivables	637	1,045

(e) Ageing of individually impaired Receivables

At balance date, other debtors representing financial assets with a nominal value of \$79,000 were impaired. The amount of the provision raised against these debtors was \$79,000. 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	31	132
Past due between 181 and 365 days	6	6
Past due by more than 1 year	42	1
Total trade & other receivables	79	138

**Notes to the Financial Report
For the Year Ended 30 June 2021**

	2021	2020
	\$'000	\$'000
5.2 Non-financial assets		
(a) Inventories		
Inventories held for distribution	19	15
Total inventories	19	15
Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential.		
(b) Other assets		
Prepayments	130	39
Total other assets	130	39
(c) Intangible assets		
Software	408	417
Total intangible assets	408	417
Gross carrying amount		
Balance at 1 July	1,157	1,049
Additions	-	39
WIP	125	69
Balance at 30 June	1,282	1,157
Accumulated amortisation and impairment		
Balance at 1 July	741	620
Amortisation expense	133	120
Balance at 30 June	874	740
Net book value at 30 June	408	417

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.

	2021	2020
	\$'000	\$'000
5.3 Payables		
(a) Trade and other payables		
Trade payables	993	1,735
Accrued expenses	553	442
Income in advance	6,884	1,653
Total trade and other payables	8,430	3,830
(b) Trust funds and deposits		
Refundable deposits	197	196
Fire services levy	320	306
Retention amounts	87	93
Other trust funds and deposits	601	599
Total trust funds and deposits	1,205	1,194

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 2021**

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	2021	2020
Current	\$'000	\$'000
Borrowings - secured	2,065	412
Non-current		
Borrowings - secured	4,526	3,579
Total	6,591	3,991

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	2,065	412
Later than one year and not later than five years	2,629	2,882
Later than five years	1,897	697
	6,591	3,991

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
2021			
Balance at beginning of the financial year	2,418	301	2,719
Additional provisions	1,222	23	1,244
Amounts used	(1,026)	-	(1,026)
Balance at the end of the financial year	2,614	323	2,937
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	2,418	301	2,719

**Notes to the Financial Report
For the Year Ended 30 June 2021**

5.5 Provisions (continued)

	2021	2020
	\$'000	\$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12 months		
Annual leave	876	739
Long service leave	214	287
Other	62	63
	<u>1,153</u>	<u>1,090</u>
Current provisions expected to be wholly settled after 12 months		
Annual leave	51	25
Long service leave	1,254	1,183
	<u>1,304</u>	<u>1,208</u>
Total current employee provisions	<u>2,457</u>	<u>2,298</u>
Non-current		
Long service leave	157	121
Total non-current employee provisions	<u>157</u>	<u>121</u>
Aggregate carrying amount of employee provisions:		
Current	2,457	2,298
Non-current	157	121
Total aggregate carrying amount of employee provisions	<u>2,614</u>	<u>2,418</u>

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

Wages and salaries and annual leave

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

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

Long service leave

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

- discount rate	1.49%	0.87%
- index rate	1.80%	1.65%
- inflation rate	2.95%	4.25%
- settlement rate	7 years	7 years

(b) Landfill restoration

Current	25	20
Non-current	298	280
	<u>323</u>	<u>301</u>

Key assumptions:

- Aftercare period	30 years	30 years
- discount rate	1.12%	0.00%
- index rate	2.50%	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.

**Notes to the Financial Report
For the Year Ended 30 June 2021**

5.6 Financing arrangements

	2021	2020
	\$'000	\$'000
The Council has the following funding arrangements in place as at 30 June		
Bank overdraft	-	2,443
Credit card facilities	50	50
Total facilities	50	2,493
Used facilities	15	10
Unused facilities	35	2,483

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.

2021	Not later than 1 year	Later than 1 year and not later than 2 years	Later than 2 years and not later than 5 years	Later than 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
Transfer station	519	500	-	-	1,019
Maternal and child health	365	365	122	-	852
Library services	143	144	287	-	574
Swimming pools	6	-	-	-	6
Other	108	37	-	-	145
Total	1,141	1,046	409	-	2,596
Capital					
Buildings (see Note 8.5)	4,760	-	-	-	4,760
Infrastructure	12	-	-	-	12
Total	4,772	-	-	-	4,772

2020	Not later than 1 year	Later than 1 year and not later than 2 years	Later than 2 years and not later than 5 years	Later than 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
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					
Plant and Equipment	-	-	-	-	-
Infrastructure	3,075	700	700	-	4,475
Total	3,075	700	700	-	4,475

	2021	2020
	\$'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
Later than one year and not later than five years	-	-
Later than five years	-	-
	-	33

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

**Notes to the Financial Report
For the Year Ended 30 June 2021**

5.8 Leases

At balance date Council did not have any leases.

Lease Liabilities	2021	2020
	\$'000	\$'000
Maturity analysis - contractual undiscounted cash flows		
Less than one year	-	33
One to five years	-	-
More than five years	-	-
Total undiscounted lease liabilities as at 30 June:	<u>-</u>	<u>33</u>

Lease liabilities included in the Balance Sheet at 30 June:

Current	-	33
Non-current	-	-
Total lease liabilities	<u>-</u>	<u>33</u>

Short-term and low value leases

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

Expenses relating to:	2021	2020
	\$'000	\$'000
Short-term leases	33	33
Leases of low value assets	-	-
Total	<u>33</u>	<u>33</u>
Variable lease payments (not included in measurement of lease liabilities)	0%	0%

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>-</u>	<u>33</u>

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.

Note 6 Assets we manage

6.1 Non current assets classified as held for sale

	2021	2020
	\$'000	\$'000
At Fair Value	-	935
Total non current assets classified as held for sale	<u>-</u>	<u>935</u>

At 30 June 2020 Council owned a block of level 2 non-specialized land zoned R1Z which was classified as a non-current asset held for sale. During 2020/21 this asset was sold via an option to sell agreement.

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 2021

6.2 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2020	Additions	Found Assets	Revaluation	Depreciation	Disposal	Write-off	Asset Class Transfers	At Fair Value 30 June 2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property	114,063		-	5,167	(1,220)	-	-	980	118,990
Plant and equipment	3,547		-	-	(796)	(11)	-	521	3,261
Infrastructure	170,764		147	27,659	(4,577)	(3,738)	-	5,965	196,221
Work in progress	5,970	9,364	-	-	-	-	-	(7,466)	7,868
Total	294,345	9,364	147	32,826	(6,593)	(3,749)	-	-	326,340

Summary of Work in Progress

	Opening WIP	Additions	Write-off	Transfers	Closing WIP
	\$'000	\$'000	\$'000	\$'000	\$'000
Property	3,547	2,838		(980)	5,405
Plant and equipment	646	772		(521)	897
Infrastructure	1,778	5,754		(5,965)	1,567
Total	5,970	9,364	-	(7,466)	7,868

Notes to the Financial Report
For the Year Ended 30 June 2021

6.2 Property, infrastructure, plant and equipment (continued)

(a) Property

	Land - specialised \$'000	Land - non specialised \$'000	Land improvements \$'000	Total Land & Land Improvements \$'000	Buildings - specialised \$'000	Buildings - non specialised \$'000	Total Buildings \$'000	Work in Progress \$'000	Total Property \$'000
At fair value 1 July 2020	23,591	16,963	12,631	53,184	116,862	17,188	134,049	3,547	190,780
Accumulated depreciation at 1 July 2020	-	-	(4,419)	(4,419)	(62,033)	(6,718)	(68,752)	-	(73,170)
Adjusted Opening Balance	23,591	16,963	8,212	48,766	54,828	10,470	65,298	3,547	117,610
Movements in fair value									
Additions	-	-	-	-	-	-	-	2,838	2,838
Revaluation	2,524	1,815	1,351	5,691	-	-	-	-	5,691
Transfers from Work in Progress	-	-	-	-	-	980	980	(980)	-
	2,524	1,815	1,351	5,691	-	980	980	1,858	8,529
Movements in accumulated depreciation									
Depreciation and amortisation	-	-	(478)	(478)	(613)	(129)	(742)	-	(1,220)
Revaluation	-	-	(524)	(524)	-	-	-	-	(524)
	-	-	(1,002)	(1,002)	(613)	(129)	(742)	-	(1,744)
At fair value 30 June 2021	26,115	18,778	13,982	58,875	116,862	18,168	135,030	5,405	199,309
Accumulated depreciation at 30 June 2021	-	-	(5,421)	(5,421)	(62,647)	(6,847)	(69,494)	-	(74,915)
	26,115	18,778	8,561	53,454	54,215	11,321	65,535	5,405	124,395

Notes to the Financial Report
For the Year Ended 30 June 2021

6.2 Property, infrastructure, plant and equipment (continued)
(b) Plant and Equipment

	Plant machinery and equipment \$'000	Fixtures fittings and furniture \$'000	Computers and telecomms \$'000	Library books \$'000	Work In Progress \$'000	Total plant and equipment \$'000
At fair value 1 July 2020	6,824	873	1,080	809	646	10,231
Accumulated depreciation at 1 July 2020	(4,105)	(787)	(512)	(635)	-	(6,039)
	2,719	86	568	174	646	4,193
Movements in fair value						
Additions	-	-	-	-	772	772
Disposal	(85)	-	-	-	-	(85)
Transfers from Work in Progress	245	-	208	68	(521)	-
	161	-	208	68	251	436
Movements in accumulated depreciation						
Depreciation and amortisation	(602)	(16)	(159)	(19)	-	(796)
Accumulated depreciation of disposals	74	-	-	-	-	74
	(528)	(16)	(159)	(19)	-	(722)
At fair value 30 June 2021	6,984	873	1,287	877	897	10,919
Accumulated depreciation at 30 June 2021	(4,633)	(802)	(671)	(654)	-	(6,760)
	2,352	70	616	223	897	4,159

Notes to the Financial Report
For the Year Ended 30 June 2021

6.2 Property, infrastructure, plant and equipment (continued)
(c) Infrastructure

	Roads	Bridges	Footpaths and Cycleways	Drainage	Recreational, leisure and community	Parks open spaces and streetscapes	Off street car parks	Other Infrastructure	Work In Progress	Total Infrastructure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2020	206,537	29,304	7,192	17,689	1,575	2,088	95	7,311	1,778	273,569
Accumulated depreciation at 1 July 2020	(70,768)	(14,487)	(4,159)	(8,805)	(678)	(53)	(15)	(2,061)	-	(101,027)
Adjusted Opening Balance	135,769	14,817	3,034	8,883	897	2,035	80	5,250	1,778	172,542
Movements in fair value										
Additions	-	-	-	-	-	-	-	-	5,754	5,754
Found Assets	53	-	-	95	-	-	-	-	-	147
Revaluation	31,113	-	(76)	398	-	-	-	-	-	31,435
Disposal	(4,793)	(2)	(184)	-	-	-	-	-	-	(4,979)
Transfers from Work in Progress	4,133	62	974	24	101	670	-	-	(5,965)	-
	30,506	60	714	518	101	670	-	-	(211)	32,357
Movements in accumulated depreciation										
Depreciation and amortisation	(3,758)	(225)	(95)	(247)	(68)	(27)	(5)	(152)	-	(4,577)
Accumulated depreciation of disposals	1,162	2	77	-	-	-	-	-	-	1,240
Revaluation	(4,864)	-	866	223	-	-	-	-	-	(3,776)
	(7,460)	(223)	848	(25)	(68)	(27)	(5)	(152)	-	(7,112)
At fair value 30 June 2021	237,043	29,364	7,906	18,206	1,676	2,758	95	7,311	1,567	305,926
Accumulated depreciation at 30 June 2021	(78,228)	(14,711)	(3,311)	(8,830)	(747)	(80)	(20)	(2,213)	-	(108,139)
	158,815	14,653	4,595	9,376	929	2,678	75	5,098	1,567	197,787

**Notes to the Financial Report
For the Year Ended 30 June 2021**

6.2 Property, infrastructure, plant and equipment (continued)

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 \$
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 - 200 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 2021

6.2 Property, infrastructure, plant and equipment (continued)

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 2021 are as follows:

	Level 1	Level2	Level 3	Date of Valuation
	\$'000	\$'000	\$'000	
Land	-	18,778	-	Jun-20
Specialised land	-	-	26,115	Jun-20
Land improvements	-	-	8,561	Jun-20
Buildings	-	11,321	54,215	Jun-20
Total	-	30,099	88,891	

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 and by Moloney Asset Management Systems.

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

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

Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2021 are as follows:

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	-	-	158,815	Jun-21
Bridges	-	-	14,653	Jan-18
Footpaths and cycleways	-	-	4,595	Jun-20
Drainage	-	-	3,584	Jun-20
Kerb and channel	-	-	5,792	Jun-21
Recreational, leisure and community facilities	-	-	929	-
Parks, open space and streetscapes	-	-	2,678	-
Off Street Car Parks	-	-	75	-
Other infrastructure	-	-	5,098	-
Total	-	-	196,221	

**Notes to the Financial Report
For the Year Ended 30 June 2021**

6.2 Property, infrastructure, plant and equipment (continued)

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 25 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 200 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

	2021	2020
	\$'000	\$'000
Reconciliation of specialised land		
Land under roads	96	86
Parks and reserves	26,019	23,505
Total specialised land	26,115	23,591

Notes to the Financial Report
For the Year Ended 30 June 2021

	2021	2020
	No.	No.
Note 7 People and relationships		
7.1 Council and key management remuneration		
(a) Related Parties		
<i>Parent entity</i>		
Hepburn Shire Council is the parent entity.		
(b) Key Management Personnel		
Details of persons holding the position of Councillor or other members of key management personnel at any time during the year are:		
Councillors		
Councillor Don Henderson		
Councillor Licia Kokocinski (Mayor to 18/11/2020)	Councillor Lesley Hewitt (Mayor from 19/11/2020)	
Councillor John Cottrell (to 18/11/2020)	Councillor Jennifer Bray (from 19/11/2020)	
Councillor Fiona Robson (to 18/11/2020)	Councillor Timothy Drylie (from 19/11/2020)	
Councillor Greg May (to 18/11/2020)	Councillor Brian Hood (from 19/11/2020)	
Councillor Kate Redwood (to 18/11/2020)	Councillor Tessa Halliday (from 19/11/2020)	
Councillor Neil Newitt (to 18/11/2020)	Councillor Juliet Simpson (from 19/11/2020)	
Officers		
Chief Executive Officer - Evan King (to 24/02/2021)		
Acting Chief Executive Officer - Bradley Thomas (from 29/01/2021 to 11/05/2021)		
Chief Executive Officer - Bradley Thomas (from 12/05/2021)		
Director Community and Corporate Services - Bradley Thomas (to 31/01/2021)		
Acting Director Community and Corporate Services - Andrew Burgess (from 01/02/2021)		
Director Infrastructure and Development Services - Bruce Lucas		
Total Number of Councillors	13	7
Total of Chief Executive Officer and other Key Management Personnel	4	3
Total Number of Key Management Personnel	17	10
(c) Remuneration of Key Management Personnel		
	2021	2021
	\$	\$
Total remuneration of key management personnel was as follows:		
Short-term benefits	870,298	779,625
Long-term benefit	45,445	13,865
Post-employment benefit	52,190	50,073
Termination benefits	-	-
Total	967,933	843,563
The numbers of key management personnel whose total remuneration from Council and any related		
\$1 - \$9,999	10	-
\$10,000 - \$19,999	1	-
\$20,000 - \$29,999	2	5
\$30,000 - \$39,999	-	1
\$50,000 - \$59,999	-	1
\$70,000 - \$79,999	1	-
\$160,000 - \$169,999	1	-
\$180,000 - \$189,999	-	1
\$190,000 - \$199,999	-	1
\$220,000 - \$229,999	1	-
\$260,000 - \$269,999	-	1
\$290,000 - \$299,999	1	-
	17	10

**Notes to the Financial Report
For the Year Ended 30 June 2021**

7.1 Council and key management remuneration (continued)

(d) Senior Officer Remuneration

A Senior Officer is an officer of Council, other than

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:

	2021	2020
	No.	No.
Income Range:		
less than \$151,000	3	3
	<u>3</u>	<u>3</u>

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

332,810	137,190
---------	---------

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 2021

Note 8 Managing uncertainties

8.1 Contingent assets and liabilities

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.

(a) Contingent assets

Council did not have any contingent assets as at balance date.

(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

In addition to the disclosed contributions, Council has paid unfunded liability payments to Vision Super totalling \$0 (2019/20 \$0). There were no contributions outstanding and no loans issued from or to the above schemes as at 30 June 2021. The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2022 are \$54,000.

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

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

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

Council was a participant of the MAV WorkCare Scheme.

The MAV WorkCare Scheme participation agreement stated that each participant would remain liable to make further contributions to the Scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability would continue whether or not the participant remained a participant in future insurance years.

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

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

8.2 Change in accounting standards

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

Notes to the Financial Report For the Year Ended 30 June 2021

8.3 Financial instruments

(a) Objectives and policies

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

(b) Market risk

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

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Council's interest rate liability risk arises primarily from long term loans and borrowings at fixed rates which exposes council to fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Council has minimal exposure to cash flow interest rate risk through its cash and deposits that are at floating rates.

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

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

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

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

(c) Credit risk

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

- council have a policy for establishing credit limits for the entities council deal with;
- council may require collateral where appropriate; and
- council only invest surplus funds with financial institutions which have a recognised credit rating specified in council's 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 2021

8.3 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 RBA cash rates of 0.10%.

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

8.4 Fair value measurement

Fair value hierarchy

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

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

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 2021

8.4 Fair value measurement (continued)

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

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

Impairment of assets

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

8.5 Events occurring after balance date

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 2020/2021 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.

The financial statements have been prepared based upon conditions existing as at 30 June 2021, considering those events occurring subsequent to that date that provide evidence of conditions that existed at the end of the reporting period.

As another wave of COVID-19 lockdowns occurred after 30 June 2021 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 2021 for any further impacts. Two lockdowns occurred between balance date and the date of signing these statements. These lockdowns involved closing Council's customer service centre, tip shops and libraries. Due to the significant uncertainty surrounding the current lockdown, it is not possible to estimate the full impact on council's operations, financial position and cashflows at this point in time.

In July 2021 Council terminated the \$4.7 million contract with the builder of the Hepburn Hub at the Rex project prior to the builder commencing work on the project. Council does not believe that the cancellation of this contract has or will create any financial liability.

Notes to the Financial Report
For the Year Ended 30 June 2021

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			
2021			
Property			
Land and land improvements	33,327	5,167	38,494
Buildings	35,335	-	35,335
	68,662	5,167	73,829
Infrastructure			
Roads	63,539	26,249	89,788
Other infrastructure	10,057	1,410	11,467
	73,596	27,659	101,255
Total asset revaluation reserves	142,258	32,826	175,084
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

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 to accumulated surplus \$'000	Transfer from accumulated surplus \$'000	Balance at end of reporting period \$'000
(b) Other reserves				
2021				
Clunes caravan park reserve	7	-	-	7
Debt management reserve	1,592	200	-	1,792
Heritage advisory fund	20	-	-	20
Mineral springs financial reserve	824	236	-	1,060
Mt Beckworth pit reserve	28	-	-	28
Open Space Reserve *	1,102	452	(28)	1,526
Smeaton hill pit reserve	74	-	-	74
Waste management reserve	(300)	-	(265)	(565)
Total Other reserves	3,347	888	(293)	3,942
2020				
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

* Indicates statutory reserve

Notes to the Financial Report
For the Year Ended 30 June 2021

	2021 \$'000	2020 \$'000
9.2 Reconciliation of cash flows from operating activities to surplus/(deficit)		
Surplus/(deficit) for the year	(2,295)	1,874
Depreciation/amortisation	6,726	6,894
Loss on disposal of property, infrastructure and plant	3,931	542
Contributions - non monetary	(147)	-
Interest expense	165	188
<i>Change in assets and liabilities:</i>	-	
Increase/(decrease) in trade and other receivables	(69)	(432)
(Increase)/decrease in prepayments	(91)	13
Increase/(decrease) in accrued income	-	34
Increase/(decrease) in trade and other payables	4,600	1,126
(Decrease)/increase in other liabilities	(36)	-
(Increase)/decrease in inventories	(4)	(9)
Increase/(decrease) in provisions	218	149
Increase/(decrease) in trust funds / deposits	11	244
Net cash provided by/(used in) operating activities	13,009	10,624

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

Council makes both employer and employee contributions to The Fund's accumulation category, Vision MySuper/Vision Super Saver, on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2021, this was 9.5% as required under Superannuation Guarantee (SG) legislation).

Defined Benefit

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

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

Funding arrangements

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

A triennial actuarial review for the Defined Benefit category as at 30 June 2020 was conducted and completed by the due date of 31 December 2020. The vested benefit index (VBI) of the Defined Benefit category of which Council is a contributing employer was 104.6%. The financial assumptions used to calculate the VBI were:

Net investment returns 5.6% pa

Salary information 2.5% pa for two years and 2.75% pa thereafter

Price inflation (CPI) 2.0% pa.

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

Vision Super has advised that the estimated VBI at 30 June 2021 was 109.7%.

The VBI is used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2020 actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

**Notes to the Financial Report
For the Year Ended 30 June 2021**

9.3 Superannuation (continued)

Employer contributions

Regular contributions

On the basis of the results of the 2020 triennial actuarial investigation conducted by the Fund Actuary, Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2021, this rate was 9.5% of members' salaries (9.5% in 2019/2020). This rate is expected to increase in line with any increases in the SG contribution rate and was reviewed as part of the 30 June 2020 triennial valuation.

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

Funding calls

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

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

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

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be If there is a surplus in the Fund, the surplus cannot be returned to the participating employers.

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

The 2020 triennial actuarial investigation surplus amounts

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

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

	2020 (Triennial) \$m	2019 (Interim) \$m
A VBI surplus	\$100.00	\$151.30
A total service liability surplus	\$200.00	\$233.40
A discounted accrued benefits surplus	\$217.80	\$256.70

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2020.

The total service liability surplus means that the current value of the assets in the Fund's Defined Benefit category plus expected future contributions exceeds the value of expected future benefits and expenses as at 30 June 2020.

The discounted accrued benefit surplus means that the current value of the assets in the Fund's Defined Benefit category exceeds the value of benefits payable in the future but accrued in respect of service to 30 June 2020.

Council was notified of the 30 June 2020 VBI during August 2020 (2019: August 2019).

**Notes to the Financial Report
For the Year Ended 30 June 2021**

9.3 Superannuation (continued)

The 2021 interim actuarial investigation

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

Superannuation contributions

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

Scheme	Type of Scheme	Rate	2021 \$'000	2020 \$'000
Vision super	Defined benefit	9.5%	50	49
Vision super	Accumulation fund	9.5%	501	468
Other funds	Accumulation fund	9.5%	643	473

Council has not paid any unfunded liability payments to Vision Super during the 2019/20 and 2020/21 years.

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

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2022 is \$54,000.

**Notes to the Financial Report
For the Year Ended 30 June 2021**

10 Change in accounting policy

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

Council has adopted AASB 1059 Service Concession Arrangements: Grantors, from 1 July 2020. This has resulted in no changes in accounting policies and adjustments to any amounts recognised in the financial statements. Council does not consider it has any assets which are subject to Service Concession arrangements.

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

Council has adopted AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material, from 1 July 2020. All information has been disclosed where material in nature, amount and impact to ensure primary users of the general purpose financial statements are informed and can make decisions on the basis of the information disclosed regarding the entity.

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

Council has adopted AASB 2019-1 Amendments to Australian Accounting Standards - References to the Conceptual Framework from 1 July 2020. These financial statements present fairly the financial position, financial performance and cash flows of Council. There is a fair presentation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for financial reporting.

It is not expected that these standards will have any significant impact on Council.