

**Southern Grampians Shire Council
ANNUAL FINANCIAL REPORT**

For the Year Ended 30 June 2020

Southern Grampians Shire Council

Financial Report

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Certification of the Financial Statements

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

Belinda J Johnson, B Comm. CPA
Principal Accounting Officer

Date : <Date>
Hamilton

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

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

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

Cr Chris Sharples
Councillor
Date : <Date>
Hamilton

Cr Colin Dunkley
Councillor
Date : <Date>
Hamilton

Michael G Tudball
Chief Executive Officer
Date : 0
Hamilton

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Certification of the Financial Statements

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Comprehensive Income Statement

For the Year Ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Income			
Rates and charges	3.1	20,990	20,206
Statutory fees and fines	3.2	558	598
User fees	3.3	5,491	5,716
Grants - operating	3.4	13,437	11,745
Grants - capital	3.4	4,231	29,226
Contributions - monetary	3.5	155	-
Contributions - non monetary	3.5	265	-
Reversal of Impairment	6.2	-	13,483
Adjustment to Landfill Provision	5.5	802	(2,811)
Other income	3.7	1,611	1,682
Total income		47,540	79,845
Expenses			
Employee costs	4.1	(19,257)	(19,322)
Materials and services	4.2	(11,528)	(32,501)
Depreciation	4.3	(11,483)	(9,157)
Bad and doubtful debts	4.4	(20)	(110)
Borrowing costs	4.5	(112)	(138)
Waste Disposal Costs	4.6	(1,521)	(637)
Revaluation of Art Collection	6.2	-	(2,684)
Net gain (or loss) on disposal of property, infrastructure, plant and equipment	3.6	(704)	(153)
Fair value adjustments for investment property	6.4	-	(100)
Other expenses	4.7	(3,430)	(3,046)
Total expenses		(48,055)	(67,848)
Surplus/(deficit) for the year		(515)	11,997
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	6.2	34,893	(14,380)
Total comprehensive result		34,378	(2,383)

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

Southern Grampians Shire Council - Financial Report 2019/2020

Balance Sheet
As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1	7,318	11,558
Trade and other receivables	5.1	4,432	8,424
Other financial assets	5.1	15,200	10,567
Inventories	5.2	634	600
Non-current assets classified as held for sale	6.1	185	510
Other assets	5.2	382	959
Total current assets		28,151	32,618
Non-current assets			
Trade and other receivables	5.1	62	74
Property, infrastructure, plant and equipment	6.2	352,784	313,127
Investment property	6.4	2,300	2,720
Total non-current assets		355,146	315,921
Total assets		383,297	348,539
Liabilities			
Current liabilities			
Trade and other payables	5.3	2,565	3,554
Trust funds and deposits	5.3	781	639
Unearned Income	5.3	697	-
Provisions	5.5	7,704	6,100
Interest-bearing liabilities	5.4	573	376
Total current liabilities		12,320	10,669
Non-current liabilities			
Provisions	5.5	2,922	4,962
Interest-bearing liabilities	5.4	2,913	1,482
Total non-current liabilities		5,835	6,444
Total liabilities		18,155	17,113
Net assets		365,142	331,426
Equity			
Accumulated surplus		143,684	144,481
Reserves	9.1	221,458	186,945
Total Equity		365,142	331,426

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

Southern Grampians Shire Council - Financial Report 2019/2020

Statement of Changes in Equity

For the Year Ended 30 June 2020

2020	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		331,426	144,481	186,083	862
Impact of change in accounting policy - AASB 15 Revenue from Contracts with Customers	10	(662)	(662)	-	-
Adjusted Opening balance		330,764	143,819	186,083	862
Surplus/(deficit) for the year		(515)	(515)	-	-
Net asset revaluation increment/(decrement)	6.2	34,893	-	34,893	-
Transfers to other reserves	9.1	-	(70)	-	70
Transfers from other reserves	9.1	-	450	-	(450)
		34,378	(135)	34,893	(380)
Balance at end of the financial year		365,142	143,684	220,976	482

2019		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		333,809	132,567	200,463	779
Surplus/(deficit) for the year		11,997	11,997	-	-
Net asset revaluation increment/(decrement)	6.2	(14,380)	-	(14,380)	-
Transfers to other reserves	9.1	-	(83)	-	83
Transfers from other reserves	9.1	-	-	-	-
Balance at end of the financial year		331,426	144,481	186,083	862

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

Southern Grampians Shire Council - Financial Report 2019/2020

Statement of Cash Flows

For the Year Ended 30 June 2020

	Note	2020 Inflows/ (Outflows) \$'000	2019 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		20,763	20,242
Statutory fees and fines		572	598
User fees		5,770	5,738
Grants - operating		16,971	11,745
Grants - capital		4,231	29,226
Contributions - monetary		-	-
Interest received		426	627
Dividends received		-	-
Trust funds and deposits taken		335	842
Other receipts		805	1,056
Net GST refund/payment		225	(734)
Employee costs		(18,798)	(18,827)
Materials and services		(11,717)	(37,049)
Trust funds and deposits repaid		(193)	(556)
Other payments		(4,793)	(3,596)
Net cash provided by/(used in) operating activities		14,597	9,312
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment	6.2	(16,202)	(11,684)
Proceeds from sale of property, infrastructure, plant and equipment		483	565
Payments for investments		(4,634)	5,389
Proceeds from sale of investments		-	-
Loans and advances made		-	-
Payments of loans and advances		-	-
Net cash provided by/(used in) investing activities		(20,353)	(5,730)
Cash flows from financing activities			
Finance costs		(112)	(138)
Proceeds from borrowings		2,000	-
Repayment of borrowings		(372)	(404)
Net cash provided by/(used in) financing activities		1,516	(542)
Net increase (decrease) in cash and cash equivalents		(4,240)	3,040
Cash and cash equivalents at the beginning of the financial year		11,558	8,518
Cash and cash equivalents at the end of the financial year		7,318	11,558
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.

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Statement of Capital Works

For the Year Ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Property			
Land		-	104
Land improvements		2,525	-
Total land		2,525	104
Buildings		1,990	803
Heritage buildings		-	-
Building improvements		220	33
Leasehold improvements		-	-
Total buildings		2,210	836
Total property		4,735	940
Plant and equipment			
Heritage plant and equipment		-	-
Plant, machinery and equipment		1,767	1,504
Fixtures, fittings and furniture		75	26
Computers and telecommunications		83	298
Library books		72	70
Art Collection		5	10
Total plant and equipment		2,002	1,908
Infrastructure			
Roads		5,888	13,948
Bridges		1,505	6,477
Footpaths and cycleways		250	760
Drainage		-	148
Recreational, leisure and community facilities		576	1,077
Waste management		162	922
Parks, open space and streetscapes		272	896
Aerodromes		27	112
Off street car parks		1	-
Other infrastructure		784	1,270
Total infrastructure		9,465	25,610
Total capital works expenditure		16,202	28,458
Represented by:			
New asset expenditure		5,591	1,721
Asset renewal expenditure		10,090	26,646
Asset expansion expenditure		19	-
Asset upgrade expenditure		502	91
Total capital works expenditure		16,202	28,458

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

Southern Grampians Shire Council - Financial Report 2019/2020

Notes to the Financial Report

For the Year Ended 30 June 2020

OVERVIEW

Introduction

The Southern Grampians Shire Council was established by an Order of the Governor in Council on 23 September 1994 and is a body corporate. The Council's main office is located at 111 Brown St, Hamilton.

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 (except where transitional requirements of *AASB 15 Revenue from Contracts with Customers*, *AASB 16 Leases* and *AASB 1058 Income of Not-for-Profit Entities* do not require restatement of comparatives under the modified retrospective approach adopted by the Council), and disclosure has been made of any material changes to comparatives.

Council has considered the impact of the COVID-19 pandemic in all areas of estimates and judgements and provided specific notes where a significant impact is noted. In all other areas, the impact has been minor or negligible.

Southern Grampians Shire Council - Financial Report 2019/2020

Notes to the Financial Report

For the Year Ended 30 June 2020

Note 1 Performance against budget

The performance against budget notes compare Council's financial plan, expressed through its annual budget, with actual performance. The *Local Government (Planning and Reporting) Regulations 2014* requires explanation of any material variances. Council has adopted a materiality threshold of the lower of 10 percent or \$100k where further explanation is warranted. Explanations have not been provided for variations below the materiality threshold unless the variance is considered to be material because of its nature.

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

1.1 Income and expenditure

	Budget 2020 \$'000	Actual 2020 \$'000	Variance 2020 \$'000	Variance 2020 %	Ref
Income					
Rates and charges	20,716	20,990	274	1.32%	1
Statutory fees and fines	491	558	67	13.65%	
User fees	5,873	5,491	(382)	-6.50%	
Grants - operating	10,485	13,437	2,952	28.15%	2
Grants - capital	4,200	4,231	31	0.74%	
Contributions - monetary	-	155	155	100.00%	3
Contributions - non monetary	-	265	265	100.00%	4
Adjustment to Landfill Provision	-	802	802	100.00%	5
Other income	1,022	1,611	589	57.63%	6
Total income	42,787	47,540	4,753	11.11%	
Expenses					
Employee costs	17,090	19,257	2,167	12.68%	7
Materials and services	10,106	11,528	1,422	14.07%	8
Depreciation	10,072	11,483	1,411	14.01%	9
Net loss on disposal of property, infrastructure, plant & equipment	-	11	11	100.00%	
Bad and doubtful debts	-	20	20	100.00%	
Borrowing costs	323	112	(211)	-65.33%	10
Other expenses	4,435	5,644	1,209	27.26%	11
Total expenses	42,026	48,055	6,029	14.35%	
Surplus/(deficit) for the year	761	(515)	(1,276)		

Southern Grampians Shire Council - Financial Report 2019/2020

Notes to the Financial Report

For the Year Ended 30 June 2020

Variance Ref	Item	Explanation
1	Income - Rate & Charges	The Actuals include an amount for revenue in lieu of rates whereas this amount was included in other revenue in the budget.
2	Income - Grants - Operating	Additional grant funding was received for Fixing Country Roads \$1.35m, Working for Victoria \$1.3m, Dunkeld Dam restoration \$515k, Roads to Recovery \$398k, Try, Test & Learn \$260k, King/Gordon St Roundabout \$256k, Local Government Bushfire Recovery \$200k, Financial Assistance Grants \$134k and Hamilton Cricket Hub \$125k. This has been offset for grants not being acquired for the Lake Hamilton Dam Wall \$1.1m, Mt Sturgeon Loop Walk \$200k and Grampians Cricket nets \$100k. Grant funding for the Livestock exchange was also \$230k less than budgeted.
3	Income - Contributions - Non Monetary	This was \$155k for contribution to a joint works project with Moyne Shire Council.
4	Income - Contributions - Non Monetary	This is for works of art that have been gifted from various artists, galleries and benefactors \$108k and the recognition of the value of volunteer services at Visitor Information Centres \$109k and delivering Meals on Wheels \$48k.
5	Income - Adjustment to Landfill Provision	Each year the Net Present Value of future works required to rehabilitate landfills is reviewed. This results in an adjustment to future liabilities with the contra entry being to the income statement. The amount of provision required is estimated to be \$802k less than last financial year.
6	Income - Other	Increased revenue items include found assets (not previously recorded in Council's asset register) \$380k, Section 86 Revenues which are included but not held by Council \$86k and additional interest revenue of \$54k.
7	Expenses - Employee Costs	Wages and Salary savings occurred in the following service areas: Drangee \$259k, Community Planning & Support \$75k, Civic and Community Arts \$51k, however additional human resources were required in the following areas: Plant operations \$229k, Emergency management \$215k, Working for Victoria Program \$187k, Domestic Care \$180k, Road & Street Maintenance \$135, Art\$72k, Gallery \$129k, Infrastructure Management \$117, Human Resources Management \$105, Depot Operations \$72k, Business Development \$60, Landfill \$59k and Public Infrastructure \$53k. There were other variations to levels of service, many of which relate to COVID-19 - See Note 11. There was also \$242k of other oncosts which were budgeted in other expenses but are classified as employee expenses at year end.
8	Expenses - Materinals & Services	Council utilised contractors for an additional \$1.7m worth of work coupled with a further \$359 for consultants, \$140 for external vehicle repairs. This has been offset by reduced expenses for Power \$100k, Water \$120k and general materials \$496k.
9	Expenses - Depreciation	The difference in depreciation is due to two factors, one is that the 2019/20 budget is set before the end of the 2018/19 year is complete. The other variance is due to the revaluation and condition assessment of infrastructure assets. Of the \$1.4m variance, \$1.1m is in the roads category.
10	Expenses - Borrowing Costs	The budget documents incorrectly classified debt redemption together with debt servicing.
11	Expenses - Other	The majority of the difference is the write off of the residual value of infrastructure assets following renewal or reconstruction works \$587k. Other Significant items are disclosure of payments to EPA due to a change in accounting methods, \$152k, Stock adjustments/write offs \$136k and inclusion of Section 86 Committee expenses where are not included in budget calculations \$100k.

Southern Grampians Shire Council - Financial Report 2019/2020

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

1.2 Capital works

	Budget 2020 \$'000	Actual 2020 \$'000	Variance \$'000	Variance %	Ref
Property					
Land improvements	3,580	2,525	(1,055)	-29.47%	1
Total land	3,580	2,525	(1,055)	-29.47%	
Buildings	2,860	1,990	(870)	-30.42%	2
Building improvements	-	220	220	100.00%	2
Total buildings	2,860	2,210	(650)	-22.73%	
Total property	6,440	4,735	(1,705)	-26.48%	
Plant and equipment					
Plant, machinery and equipment	2,561	1,767	(794)	-31.00%	3
Fixtures, fittings and furniture	70	75	5	7.14%	
Computers and telecommunications	25	83	58	232.00%	
Art Collection	15	5	(10)	-66.67%	
Library books	70	72	2	2.86%	
Total plant and equipment	2,741	2,002	(739)	-26.96%	
Infrastructure					
Roads	5,537	5,888	351	6.34%	4
Bridges	610	1,505	895	146.72%	5
Footpaths and cycleways	550	250	(300)	-54.55%	6
Recreational, leisure and community facilities	960	576	(384)	-40.00%	7
Waste management	1,100	162	(938)	-85.27%	8
Parks, open space and streetscapes	3,805	272	(3,533)	-92.85%	9
Aerodromes	-	27	27	100.00%	
Other infrastructure	1,700	784	(916)	-53.88%	10
Total infrastructure	14,262	9,464	(4,798)	-33.64%	
Total capital works expenditure	23,443	16,201	(7,242)	-30.89%	
Represented by:					
New asset expenditure	6,735	5,591	(1,144)	-16.99%	
Asset renewal expenditure	12,408	10,090	(2,318)	-18.68%	
Asset expansion expenditure	1,100	19	(1,081)	-98.27%	
Asset upgrade expenditure	3,200	502	(2,698)	-84.31%	
Total capital works expenditure	23,443	16,202	(7,241)	-30.89%	

Southern Grampians Shire Council - Financial Report 2019/2020

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

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Land Improvements	The development of the industrial land has been delayed with the funding being rolled into the 2020/21 financial year.
2	Buildings & Building Improvements	All buildings & building improvements were budgeted under buildings. Three specific building projects did not proceed which makes up the majority of the difference - Melville Oval \$150k, Pendrina Park \$100k & Public conveniences \$200k.
3	Plant, Machinery & Equipment	Plant and machinery expenditure has been significantly impacted by the ability for machinery to be imported into Australia due to COVID-19 (see Note 11). These unspent funds are already committed and will carry forward into the 2020/21 financial year.
4	Roads	The King/Gordon Street Roundabout works were not budgeted in this year \$275. The remaining variance is due to various fluctuations in the 130+ individual projects undertaken by Council in this asset class.
5	Bridges	Council budgeted to carry out works on 7 bridges during the year however additional fund from fixing country roads allowed additional funds to be spend on a further 6 bridges.
6	Footpaths & Cycleways	The major variance was related to the Dunkeld loop walk where only \$126k was spent of the \$450 budget allocation. This was offset by additional expenditure on the Tarrington Road Walkway of \$45k
7	Recreational, leisure and community facilities	Rollout of the works relating to the Recreation & Leisure Strategy were delayed \$320k as were works at outdoor pools \$85k. Works completed from the previous year were the Mount Rouse Steps \$64k, Hamilton Botanic Gardens Bird Aviary \$87k. There was also some final expenses relating to Category C insurance works which were \$131k less than budgeted.
8	Waste management	Whilst the Stage 5 Capping of the Hamilton Landfill was delayed (\$1.1m budget), other projects have been completed such as the waste options implementation \$74k, Stage 3 & 4 Capping \$31k, drainage at the E-Waste facility \$18k, improvements to the southerh dam area \$10k and other minor works.
9	Parks, open space and streetscapes	Cox Street Redevelopment works were delayed \$3m, as well as CBD trees \$103k and the detailed design of Hamilton CBD \$390k.
10	Other infrastructure	Additional works were carried out at the Livestock Exchange \$311k and the Thompson Fountain \$25k. This is offset by the Lake Hamilton Dam works \$1.1m which did not receive funding so did not proceed and reduced expenditure at Lake Hamilton \$110k.

Note 2 Analysis of Council results by program

Council delivers its functions and activities grouped under the following themes.

- * Supporting the Community
- * Developing the regional economy and businesses
- * Planning for our built environment & infrastructure
- * Promoting our natural environment
- * Providing Governance and Leadership

2 (a) Results by Program

Supporting the Community

Service Objective: *To support our community to be vibrant, growing, healthy, inclusive and connected, we will continue to plan, deliver and improve high quality, cost effective, accessible and responsive services.*

Services include: community support services, community planning and engagement, children's services, sport and recreation planning and delivery, cultural services, parks and gardens, local laws and emergency management.

Developing the regional economy and businesses

Service Objective: *To develop our regional economy and businesses and achieve a strong, diversified local and regional economy.*

Services include: economic and business development, events support, tourism and visitor services, caravan parks, Land development, airport and livestock exchange operations and development.

Planning for our built environment & infrastructure

Service Objective: *To plan for our built environment and infrastructure that is accessible and meets the needs of the community.*

Services include: Statutory & strategic planning, building services, infrastructure management (roads, bridges, footpaths etc), Facilities and Property planning, maintenance and management, plant operations and public infrastructure (eg public toilets).

Promoting our natural environment

Service Objective: *To promote our natural environment and achieve a culture that sustains a clean, green and sustainable environment.*

Services include: waste and recycling collection and management, transfer station operations, environmental sustainability, fire prevention, natural asset management (nature reserves) stormwater drainage, quarry management and water source management.

Providing Governance and Leadership

Service Objective: *To provide good governance and strong leadership and to achieve effective service delivery.*

Services include: Executive and Councillor support, governance administration, support services such as finance, organisational development, customer services, business systems, risk management and corporate overheads such as rate revenue, General Purpose Grants and loan servicing.

Note: Council provides further details of each service in its report of operations.

Southern Grampians Shire Council - Financial Report 2019/20
Notes to the Financial Report
For the Year Ended 30 June 2020

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

	Income	Expenses	Surplus/(Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2020					
Supporting the Community	(6,235)	14,140	7,905	(3,306)	52,849
Developing the regional economy and businesses	(2,781)	4,475	1,694	(947)	5,715
Planning for our built environment & infrastructure	(5,371)	17,015	11,644	(3,700)	280,618
Promoting our natural environment	(2,289)	6,462	4,173	(676)	6,191
Providing Governance and Leadership	(30,864)	5,963	(24,901)	(9,040)	37,924
	(47,540)	48,055	515	(17,668)	383,297

	Income	Expenses	Surplus/(Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2019					
Supporting the Community	(32,039)	23,506	(8,533)	(28,721)	53,068
Planning and Development	(2,246)	4,047	1,801	(455)	6,211
Planning for our built environment & infrastructure	(17,290)	32,205	14,915	(3,233)	250,449
Promoting our natural environment	(2,134)	7,210	5,076	(703)	4,978
Providing Governance and Leadership	(29,129)	3,874	(25,255)	(7,858)	33,833
	(82,838)	70,841	(11,997)	(40,971)	348,539

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

Note 3	Funding for the delivery of our services	2020	2019
3.1	Rates and charges	\$'000	'000

Council uses Capital Improved Value as the basis of valuation of all properties within the municipal district. The Capital Improved Value means the sum which the land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge, might be expected to realise at the time of valuation, if offered for sale on any reasonable terms and conditions which a genuine seller might in ordinary circumstances be expected to require.

The valuation base used to calculate general rates for 2019/20 was \$4,182million (2018/19 \$3,573 million).

General rates	16,894	16,398
Municipal charge	1,883	1,828
Waste management charge	2,027	1,796
Special rates and charges	4	4
Revenue in lieu of rates	182	180
Total rates and charges	20,990	20,206

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

Town planning fees	188	166
Permits	186	257
Registrations	114	110
Infringements and costs	39	48
Land information certificates	25	17
Court recoveries	6	-
Total statutory fees and fines	558	598

payment is received, or when the penalty has been applied, whichever first occurs.

3.3 User fees

Livestock Exchange	1,615	1,521
Waste management services	1,213	1,235
Hamilton Indoor Leisure & Aquatic Centre	822	1,041
Home & Community Care Services	534	434
Property, Recreation & Infrastructure Facilities	187	-
Cinema Operations	228	299
Meals Services	223	209
Quarry Operations	209	184
Family Day Care	136	163
Parking	131	111
Performing Arts Centre	95	134
Other fees and charges	95	374
Old Hamilton Reservoir	3	11
Total user fees	5,491	5,716

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.

Southern Grampians Shire Council - Financial Report 2019/2020

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

	2020 \$'000	2019 \$'000
3.4 Funding from other levels of government		
Grants were received in respect of the following :		
Summary of grants		
Commonwealth funded grants	12,188	11,625
State funded grants	5,480	29,346
Total grants received	17,668	40,971
(a) Operating Grants		
<i>Recurrent - Commonwealth Government</i>		
Financial Assistance Grants	7,725	7,812
Family day care	372	357
General home care	998	987
Other	100	118
<i>Recurrent - State Government</i>		
Childrens Services	434	353
Aged care	335	445
Libraries	165	168
Art Gallery	110	113
Cultural Services	80	80
Community safety	60	54
Other	-	6
Total recurrent operating grants	10,379	10,493
<i>Non-recurrent - Commonwealth Government</i>		
Buildings	-	500
Local Infrastructure	260	80
Other	-	12
<i>Non-recurrent - State Government</i>		
Community health	1,349	9
Community Planning & Support	45	38
Environmental Management	302	107
Recreation	211	218
Cultural Services	7	80
Local Infrastructure	707	113
Other	54	95
Family and children	123	-
Total non-recurrent operating grants	3,058	1,252
Total operating grants	13,437	11,745

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

	2020 \$'000	2019 \$'000
(b) Capital Grants		
<i>Recurrent - Commonwealth Government</i>		
Roads to recovery	1,985	1,528
Total recurrent capital grants	1,985	1,528
<i>Non-recurrent - Commonwealth Government</i>		
Other Infrastructure	263	31
Livestock Exchange	484	200
<i>Non-recurrent - State Government</i>		
Flood Recovery	-	25,095
Buildings	-	1,100
Other Infrastructure	1,499	1,043
Recreation	-	144
Livestock Exchange	-	33
Art Gallery	-	32
Childrens Services	-	20
Total non-recurrent capital grants	2,246	27,698
Total capital grants	4,231	29,226

(c) Unspent grants received on condition that they be spent in a specific manner

<i>Operating</i>		
Balance at start of year	200	1,172
Received during the financial year and remained unspent at balance date	1,528	926
Received in prior years and spent during the financial year	(200)	(736)
Balance at year end	1,528	1,362
<i>Capital</i>		
Balance at start of year	1,161	-
Received during the financial year and remained unspent at balance date	-	-
Received in prior years and spent during the financial year	(499)	-
Balance at year end	662	-

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	155	-
Non-monetary	265	-
Total contributions	420	-

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

Art Gallery - Gifted works of Art	108	-
Meals on Wheels Service - Value of volunteer labour donated to Council	48	-
Visitor Information Centres - Value of volunteer labour donated to Council	109	-
Total non-monetary contributions	265	-

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	483	564
Written down value of assets disposed	(1,187)	(717)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	(704)	(153)

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

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

		2020	2019
		\$'000	\$'000
3.7	Other income		
	Interest	425	627
	Found Assets	380	-
	User Reimbursements	342	-
	Donations	202	-
	Insurance Reimbursements	30	550
	Vicroads	28	106
	Other	204	399
	Total other income	1,611	1,682

Interest is recognised as it is earned.

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

Note 4 The cost of delivering services

4.1 (a) Employee costs

Wages and salaries	14,242	13,592
Leave- Annual, Long Service & Sick	2,414	2,833
WorkCover	524	539
Superannuation	1,634	1,642
Travelling	167	177
Conferences & Training	171	432
Fringe benefits tax	100	102
Corporate Image	5	5
Total employee costs	19,257	19,322

(b) Superannuation

Council made contributions to the following funds:

Defined benefit fund

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	62	62
	62	62
Employer contributions payable at reporting date.	-	-

Accumulation funds

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	1,053	1,101
Employer contributions - other funds	519	479
	1,572	1,580
Employer contributions payable at reporting date.	117	-

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

4.2 Materials and services

Contract payments	5,755	27,034
General maintenance	1,962	2,431
Consultants	1,273	597
Utilities	856	940
Insurance	601	466
Information technology	499	394
Building maintenance	411	439
Office administration	171	200
Total materials and services	11,528	32,501

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

		2020	2019
		\$'000	\$'000
4.3	Depreciation		
	Property	1,196	1,202
	Plant and equipment	1,733	1,450
	Infrastructure	8,554	6,505
	Total depreciation	11,483	9,157

Refer to note 6.2 for a more detailed breakdown of depreciation and amortisation charges.

4.4	Bad and doubtful debts		
	Fire Prevention	12	2
	Infrastructure & Private Works	4	92
	Other debtors	4	16
	Total bad and doubtful debts	20	110

Movement in provisions for doubtful debts

Balance at the beginning of the year	106	-
New provisions recognised during the year	3	106
Amounts already provided for and written off as uncollectible	(98)	-
Amounts provided for but recovered during the year	(6)	-
Balance at end of year	5	106

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 - See Note 5.1

4.5	Borrowing costs		
	Interest - Borrowings	112	138
	Total borrowing costs	112	138

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

4.6	Waste Disposal Costs		
	Waste Disposal Costs	1,521	367
	Total Waste Disposal Costs	1,521	367

During the year, Council changed its practice of waste disposal from on-site to off-site

Southern Grampians Shire Council - Financial Report 2019/2020

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

	2020 \$'000	2019 \$'000
4.7 Other expenses		
Advertising	296	298
Auditors' remuneration - Internal	39	35
Auditors' remuneration - VAGO - audit of Statutory documents	43	43
Community Grants	492	861
Councillors' allowances	188	184
Discount on Rates	162	158
Food and Catering	107	156
Phone, Internet & Other Communication Charges	183	259
Software Licences	273	201
Stock Adjustments/Write Offs	30	67
Subscriptions, Memberships & Licences	120	100
Value of Volunteer service	157	-
Others	1,340	684
Total other expenses	3,430	3,046
Note 5 Our financial position		
5.1 Financial assets		
(a) Cash and cash equivalents		
Cash on hand	4	6
Cash at bank	7,314	11,552
Total cash and cash equivalents	7,318	11,558
(b) Other financial assets		
Term deposits - current	15,200	10,567
Total other financial assets	15,200	10,567
Total financial assets	22,518	22,125
Councils cash and cash equivalents are subject to external restrictions that limit amounts available for discretionary use. These		
- Trust funds and deposits (Note 5.3)	781	639
Total restricted funds	781	639
Total unrestricted cash and cash equivalents	6,537	10,919
Intended allocations		
Although not externally restricted the following amounts have been allocated for specific future purposes by Council:		
Cash held for specific Reserves & Trust Funds	1,263	895
Cash held for Sir Irving Benson Bequest	654	682
Cash held for unspent grants	1,528	1,361
Cash held for unexpended capital works	3,988	7,712
Total funds subject to intended allocations	7,433	10,650

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

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

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

Note 5	Our financial position cont'd	2020	2019
5.1	(c) Trade and other receivables	\$'000	\$'000
	Current		
	Rates debtors	1,896	1,667
	Net GST Receivable	225	163
	Infringement debtors	4	15
	<i>Non statutory receivables</i>		
	Loans and advances to community organisations	-	2
	Other debtors	2,312	6,683
	Provision for doubtful debts - other debtors	(5)	(106)
	Total current trade and other receivables	4,432	8,424
	Non-current		
	<i>Statutory receivables</i>		
	Special rate scheme	62	74
	Total non-current trade and other receivables	62	74
	Total trade and other receivables	4,494	8,498

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)	1,192	6,377
Past due by up to 30 days	1,052	102
Past due between 31 and 60 days	14	35
Past due between 61 and 90 days	12	8
Past due by more than 90 days	42	161
Total trade and other receivables	2,312	6,683

(e) Ageing of individually impaired Receivables

At balance date, other debtors representing financial assets with a nominal value of \$7 (2019: \$151) were impaired. The amount of the provision raised against these debtors was \$5 (2019: \$106). They individually have been impaired as a result of their doubtful collection. Many of the long outstanding past due amounts have been lodged with Council's debt collectors or are on payment arrangements.

The ageing of receivables that have been individually determined as impaired at reporting date was:

Current (not yet due)	1	6
Past due by up to 30 days	2	-
Past due between 31 and 180 days	-	-
Past due between 181 and 365 days	-	-
Past due by more than 1 year	4	145
Total trade & other receivables	7	151

30 June 2020	Current (not yet due)	Past due by up to 30 days	Past due between 31 & 90 days	Past due by more than 91 days	More than 1 year	Total
Debtors (\$'000)	1,192	1,052	14	12	42	2,312
Expected loss rate (%)	0.10%	0.20%	0.20%	0.50%	10%	
Loss allowance (\$'000)	1	2	0	0	4	7

30 June 2019	Current (not yet due)	Past due by up to 30 days	Past due between 31 & 90 days	Past due by more than 91 days	More than 1 year	Total
Debtors (\$'000)	6,377	102	35	8	161	6,683
Expected loss rate (%)	0.10%	0.20%	0.20%	0.50%	90%	
Loss allowance (\$'000)	6	0	0	0	145	151

Council is not anticipating a significant impact on the collection of receivables due to COVID-19 (See Note 11). Initial analysis and the implementation of Councils COVID-19 & General Hardship Policies which enable some financial relief accounted for at the time of granting coupled with deferral options, will not lead to the need for a higher write-off allowance.

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

5.2 Non-financial assets	2020	2019
(a) Inventories	\$'000	\$'000
Inventories held for distribution	499	465
Land held for Inventory	135	135
Total inventories	634	600

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

(b) Other assets

Prepayments	372	921
Accrued income	10	38
Total other assets	382	959

5.3 Payables

(a) Trade and other payables

Trade payables	1,030	2,139
Rate Revenue received in Advance	357	383
Employee Costs	550	455
Fire Services Levy	202	479
Accrued expenses	426	98
Total trade and other payables	2,565	3,554

(b) Trust funds and deposits

Refundable deposits	21	23
Retention amounts	760	616
Total trust funds and deposits	781	639

(c) Unearned income

Grants received in advance - capital	662	-
Other	35	-
Total unearned income	697	-

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

Purpose and nature of items

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

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

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

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

5.4 Interest-bearing liabilities	2020 \$'000	2019 \$'000
Current		
Borrowings - secured	573	376
	573	376
Non-current		
Borrowings - secured	2,913	1,482
	2,913	1,482
Total	3,486	1,858

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

Not later than one year	573	376
Later than one year and not later than five years	1,868	1,482
Later than five years	1,045	
	3,486	1,858

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 restoration	Other	Total
	\$ '000	\$ '000	\$ '000	\$ '000
2020				
Balance at beginning of the financial year	5,513	5,548	-	11,061
Additional provisions	1,752	-	-	1,752
Amounts used	(1,552)	-	-	(1,552)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	167	(802)	-	(635)
Balance at the end of the financial year	5,880	4,746	-	10,626

	Employee	Landfill restoration	Other	Total
2019				
Balance at beginning of the financial year	5,018	2,737	-	7,755
Additional provisions	1,673	2,811	-	4,484
Amounts used	(1,531)	-	-	(1,531)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	353	-	-	353
Balance at the end of the financial year	5,513	5,548	-	11,061

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

	2020 \$'000	2019 \$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12 months		
Annual leave	1,050	1,050
Long service leave	224	187
Time in Lieu	167	143
	1,441	1,380
Current provisions expected to be wholly settled after 12 months		
Annual leave	868	772
Long service leave	2,920	2,813
	3,788	3,585
Total current employee provisions	5,229	4,965
Non-current		
Long service leave	651	548
Total non-current employee provisions	651	548
Aggregate carrying amount of employee provisions:		
Current	5,229	4,965
Non-current	651	548
Total aggregate carrying amount of employee provisions	5,880	5,513

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:	2020	2019
- discount rate	0.240%	1.035%
- index rate	4.250%	4.313%

(b) Landfill restoration

Current	1,825	1,135
Non-current	2,922	4,414
	4,747	5,549

Council is obligated to restore Hamilton and Coleraine 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.

Key assumptions:	2020	2019
- discount rate	0.580%	1.035%
- index rate	2.000%	4.313%

Southern Grampians Shire Council - Financial Report 2019/2020

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

5.6 Financing arrangements

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

	2020	2019
Bank overdraft	1,000	1,000
Credit card facilities	250	250
Other facilities	3,486	1,847
Total facilities	4,736	3,097
Used facilities	(3,486)	(1,847)
Unused facilities	1,250	1,250

5.7 Commitments

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

2020	Not later than 1	Later than 1	Later than 2	Later than 5	Total
	year	year and not later than 2 years	years and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
Corporate Administration	169	57			226
Infrastructure	29				29
Meals for delivery	363	281			644
Recreation	402				402
Waste Management	1,848	1,386			3,234
Planning & Development	55				55
Total	2,866	1,724	-	-	4,590

2019	Not later than 1	Later than 1	Later than 2	Later than 5	Total
	year	year and not later than 2 years	years and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
Corporate Administration	225	20	-	-	245
Infrastructure	93	-	-	-	93
Meals for delivery	240	-	-	-	240
Planning	187	-	-	-	187
Recreation	402	-	-	-	402
Waste Management	882	927	1,403	-	3,212
Total	2,029	947	1,403	-	4,379
Capital					
Buildings	17	-	-	-	17
Roads	131	-	-	-	131
Drainage	491	-	-	-	491
Total	639	-	-	-	639
	2,668	947	1,403	-	5,018

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

5.8 Leases

Policy applicable before 1 July 2019

As a lessee, council classifies leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to council. Operating lease payments, including any contingent rentals, were recognised as an expense in the comprehensive income statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset was not recognised in the balance sheet. All incentives for the agreement of a new or renewed operating lease were recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. In the event that lease incentives were received to enter into operating leases, the aggregate cost of incentives were recognised as a reduction of rental expense over the lease term on a straight-line basis, unless another systematic basis was more representative of the time pattern in which economic benefits from the leased asset were consumed.

Policy applicable after 1 July 2019

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

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

At inception of a contract, all entities would assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To identify whether a contract conveys the right to control the use of an identified asset, it is necessary to assess whether:

- The contract involves the use of an identified asset;
- The customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The customer has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed, on or after 1 July 2019.

As a lessee, Council recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date less any lease incentives received; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, an appropriate incremental borrowing rate. Generally, Council uses an appropriate incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that Council is reasonably certain to exercise, lease payments in an optional renewal period if Council is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless Council is reasonably certain not to terminate early.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Council has elected to apply the temporary option available under *AASB 16 Leases* which allows not-for-profit entities to not measure right-of-use assets at initial recognition at fair value in respect of leases that have significantly below-market terms.

As at 30 June 2020, Southern Grampians Shire Council does not have any leases to disclose.

Note 6 Assets we manage

6.1 Non current assets classified as held for sale

	2020 \$'000	2019 \$'000
Land held for Sale	185	510
Total non current assets classified as held for sale	185	510

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.

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6.2 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2019 \$'000	Additions via Capital Works \$'000	Contributions, Gifted & Found \$'000	Revaluation \$'000	Depreciation \$'000	Disposal \$'000	Write-off \$'000	Transfers \$'000	At Fair Value 30 June 2020 \$'000
Property	57,232	620	-	-	(1,196)	-	-	108	56,764
Plant and equipment	25,204	1,930	108	-	(1,733)	(274)	-	580	25,815
Infrastructure	227,511	7,340	379	34,893	(8,554)	(521)	-	218	261,265
Work in progress	3,180	6,312	-	-	-	-	(66)	(486)	8,940
Total Non Current Property, Infrastructure, Plant & Equipment	313,127	16,202	487	34,893	(11,483)	(795)	(66)	420	352,784
Land held for resale	510	-	-	-	-	(325)	-	-	185
Total Current & Non Current Property, Infrastructure, Plant & Equipment	313,637	16,202	487	34,893	(11,483)	(1,120)	(66)	420	352,969

Summary of Work in Progress	Opening WIP \$'000	Additions \$'000	Write-off \$'000	Transfers \$'000	Closing WIP \$'000
Property	134	2,525	-	420	3,079
Infrastructure	3,046	3,787	(66)	(906)	5,861
Total	3,180	6,312	(66)	(486)	8,940

(a) Property

	Land - specialised \$'000	Land - non specialised \$'000	Land improvements \$'000	Total Land & Land Improvements \$'000	Buildings - specialised \$'000	Total Buildings \$'000	Work In Progress \$'000	Total Property \$'000
At fair value 1 July 2019	11,633	179	583	12,395	74,086	74,086	134	86,615
Accumulated depreciation at 1 July 2019	-	-	(138)	(138)	(29,110)	(29,110)	-	(29,248)
	11,633	179	445	12,257	44,976	44,976	134	57,367
Movements in fair value								
Additions	-	-	-	-	620	620	2,525	3,145
Transfers	-	-	-	-	108	108	420	528
	-	-	-	-	728	728	2,945	3,673
Movements in accumulated depreciation								
Depreciation and amortisation	-	-	(6)	(6)	(1,190)	(1,190)	-	(1,196)
	-	-	(6)	(6)	(1,190)	(1,190)	-	(1,196)
At fair value 30 June 2020	11,633	179	583	12,395	74,814	74,814	3,079	90,288
Accumulated depreciation at 30 June 2020	-	-	(144)	(144)	(30,300)	(30,300)	-	(30,444)
	11,633	179	439	12,251	44,514	44,514	3,079	59,844

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(b) Plant and Equipment

	Plant machinery and equipment \$'000	Fixtures fittings and furniture \$'000	Art Collection \$'000	Library books \$'000	Total plant and equipment \$'000
At fair value 1 July 2019	14,357	3,311	16,999	501	35,168
Accumulated depreciation at 1 July 2019	(7,662)	(2,302)	-	-	(9,964)
	6,695	1,009	16,999	501	25,204
Movements in fair value					
Additions	1,762	91	113	72	2,038
Disposal	(271)	-	-	(106)	(377)
Transfers	-	580	-	-	580
	1,491	671	113	(34)	2,241
Movements in accumulated depreciation					
Depreciation and amortisation	(1,259)	(474)	-	-	(1,733)
Accumulated depreciation of disposals	103	-	-	-	103
	(1,156)	(474)	-	-	(1,630)
At fair value 30 June 2020	15,848	3,982	17,112	467	37,409
Accumulated depreciation at 30 June 2020	(8,818)	(2,776)	-	-	(11,594)
	7,030	1,206	17,112	467	25,815

(c) Infrastructure

	Roads \$'000	Bridges \$'000	Footpaths and cycleways \$'000	Drainage \$'000	Aerodromes \$'000	Other Infrastructure \$'000	Work In Progress \$'000	Total Infrastructure \$'000
At fair value 1 July 2019	301,454	44,934	16,361	9,564	3,872	33,258	3,046	412,489
Accumulated depreciation at 1 July 2019	(132,627)	(18,347)	(7,076)	(5,123)	(1,809)	(16,953)	-	(181,935)
	168,827	26,587	9,285	4,441	2,063	16,305	3,046	230,554
Movements in fair value								
Additions	5,758	1,110	188	-	23	640	3,787	11,506
Revaluation	19,509	-	1,985	-	-	-	-	21,495
Disposal	-	(931)	-	-	-	(302)	-	(1,233)
Write-off	-	-	-	-	-	-	(66)	(66)
Transfers	18	-	50	54	(155)	(46)	(906)	(985)
	25,285	179	2,224	54	(132)	293	2,815	30,717
Movements in accumulated depreciation								
Depreciation and amortisation	(6,395)	(459)	(368)	(100)	(169)	(1,063)	-	(8,553)
Accumulated depreciation of disposals	-	502	-	-	-	209	-	711
Revaluation	11,757	-	1,641	-	-	-	-	13,398
Transfers	-	296	(12)	-	-	12	-	296
	5,362	339	1,261	(100)	(169)	(842)	-	5,852
At fair value 30 June 2020	326,739	45,113	18,585	9,618	3,740	33,551	5,861	443,206
Accumulated depreciation at 30 June 2020	(127,265)	(18,008)	(5,815)	(5,223)	(1,978)	(17,795)	-	(176,083)
	199,474	27,105	12,770	4,395	1,762	15,756	5,861	267,123

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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.

Asset recognition thresholds and depreciation periods	Depreciation Period	Threshold Limit
		\$'000
Land & land improvements		
Land improvements	100 years	10
Buildings		
Buildings	25-110 years	10
Plant and Equipment		
Plant, machinery and equipment	3-15 years	3
Fixtures, fittings & furniture	3-15 years	3
Computers & telecommunications	3-5 years	3
Infrastructure		
Road pavements & substructures - Urban	115 years	10
Road pavements & substructures - All Others	60 years	10
Seals - All Other	43 years	10
Seals - Asphalt	28 years	10
Road kerb, channel and minor culverts	97-100 years	10
Bridges deck	100 years	10
Bridges substructure	100 years	10
Footpaths and cycleways	10-70 years	10
Drainage	100 years	10

Land under roads

Council recognises land under roads it controls at fair value.

Depreciation and amortisation

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

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

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

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

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

Repairs and maintenance

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

Leasehold improvements

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

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Valuation of land and buildings

Valuation of land and buildings were undertaken by a qualified independent valuers, Opteon Property Group and APV Valuers & Asset Management respectively as at 1 January 2019. The valuation of land and buildings is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions the valuation is reduced to reflect this limitation. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the comprehensive income statement.

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

Any significant movements in the unobservable inputs for land and land under roads will have a significant impact on the fair value of these assets. The date of the current valuation is detailed in the following table.

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

	Level 1	Level2	Level 3	Date of Valuation
	\$'000	\$'000	\$'000	
Land	-	179	-	1-Jan-19
Specialised land	-	-	11,633	1-Jan-19
Land Improvements	-	-	445	1-Jan-19
Buildings	-	-	44,976	1-Jan-19
Total	-	179	57,054	

Council does not consider that the impact of COVID-19 on the Level 2 valuations is significant as at 30 June 2020, however will closely monitor valuations over the 2020/21 financial year to again assess the impact.

Valuation of infrastructure

Valuation of infrastructure assets has been determined in accordance with a valuation undertaken by Rohit Srivastava, Manager of Assets (Bachelor of Engineering, Post Graduate Diploma in Environment Engineering, Master of Engineering), with condition assesment conducted by independent expert Peter Moloney from Peter Moloney Asset Management

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

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

	Level 1	Level2	Level 3	Date of Valuation
	\$'000	\$'000	\$'000	
Roads	-	-	199,474	30-Sep-19
Bridges	-	-	27,105	30-Jun-15
Footpaths and cycleways	-	-	12,770	30-Sep-19
Drainage	-	-	4,395	30-Jun-15
Aerodromes	-	-	1,762	30-Jun-15
Other infrastructure	-	-	15,756	30-Jun-15
Total	-	-	261,262	

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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. The market value of land varies significantly depending on the location of the land and the current market conditions. Council does not recognise any Land under roads at this point in time.

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 are calculated on a square metre basis. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary. 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. 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.

Art Collection. The entire Collection was reviewed by a panel of various experts as at 1 January 2019 resulting in a value of \$17m.

	2020	2019
	\$'000	\$'000
Reconciliation of specialised land		
Land under roads	-	-
Parks and reserves	-	-
Community Services	708	708
Corporate & Governance	1,399	1,399
Infrastructure	3,649	3,649
Recreation & Open Space	5,877	5,877
Total specialised land	11,633	11,633

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	2020 \$'000	2019 \$'000
6.3 Investment property		
Balance at beginning of financial year	2,720	2,820
Additions	-	-
Transfer to Work in Progress	(420)	-
Fair value adjustments	-	(100)
Balance at end of financial year	<u>2,300</u>	<u>2,720</u>

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

Valuation of investment property

Valuation of investment property has been determined in accordance with an independent valuation by Opteon Property Group who has recent experience in the location and category of the property being valued. The valuation is at fair value, based on the current market value for the property.

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		2020 No.	2019 No.
Note 7 People and relationships			
7.1 Council and key management remuneration			
(a) Related Parties			
<i>Parent entity</i>			
Southern Grampians 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:			
		2020 No.	2019 No.
Councillors	Councillor C Sharples - Mayor		
	Councillor C Dunkley - Deputy Mayor		
	Councillor MA Brown		
	Councillor C Armstrong		
	Councillor A Calvano		
	Councillor G McAdam		
	Councillor K Rainsford	7	7
Chief Executive Officer and other Key Management Personnel	Chief Executive Officer - Michael G Tudball		
	Director Planning & Development - Andrew Goodsell		
	Director Shire Infrastructure - David J Moloney		
	Director Community & Corporate Services - Evelyn M Arnold		
	Director Shire Futures - Michael McCarthy (2019 only)	4	5
Total Number of Key Management Personnel		11	12
(c) Remuneration of Key Management Personnel			
		\$	\$
Total remuneration of key management personnel was as follows:			
	Short-term benefits	983	969
	Long-term benefits	18	14
	Post employment benefits	81	97
	Termination benefits	-	171
	Total	1,082	1,251
The numbers of key management personnel whose total remuneration from Council and any related entities, fall within the following bands:			
		No.	No.
	\$20,000 - \$29,999	5	6
	\$30,000 - \$39,999	1	-
	\$50,000 - \$59,999	1	-
	\$60,000 - \$69,999	-	1
	\$110,000 - \$119,999	-	1
	\$180,000 - \$189,999	1	-
	\$190,000 - \$199,999	-	1
	\$200,000 - \$209,999	2	1
	\$260,000 - \$269,999	-	1
	\$270,000 - \$279,999	-	1
	\$280,000 - \$289,999	1	-
		11	12

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(d) Senior Officer Remuneration

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

- a) has management responsibilities and reports directly to the Chief Executive; **or**
- b) whose total annual remuneration exceeds \$151,000 (2019:148,000)

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

	2020	2019
Income Range:	No.	No.
\$148,000 - \$149,999	-	1
\$150,000 - \$150,999	-	-
\$151,000 - \$159,999	6	3
\$160,000 - \$169,999	2	-
	8	4
Total Remuneration for the reporting year for Senior Officers included above, amounted to:	1,261	615

7.2 Related party disclosure

(a) Transactions with related parties

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

Nothing to Disclose

(b) Outstanding balances with related parties

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

Nothing to Disclose

(c) Loans to/from related parties

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

Nothing to Disclose

(d) Commitments to/from related parties

The aggregate amount of commitments in existence at balance date that have been made, guaranteed or secured by the council to a related party are as follows:

Nothing to Disclose

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

Note 8 Managing uncertainties

8.1 Contingent assets and liabilities

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

(a) Contingent assets

Operating lease receivables

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

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

	2020 \$'000	2019 \$'000
Not later than one year	465	425
Later than one year and not later than five years	1,007	1,244
Later than five years	121	113
	1,593	1,782

(b) Contingent liabilities

Superannuation

Council has obligations under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists.

Landfill

Council is responsible for two closed landfills (Hamilton and Coleraine). Council will have to carry out site rehabilitation works in the future. At balance date, Council estimated the financial implications of such works and made provision in its balance sheet. Each year this estimate is revised and any movement shown through the comprehensive income statement. Council also maintains a term deposit to the value of the non-current proportion of this provision.

Insurance claims

At balance date, there were no major insurance claims that could have a material impact on future operations.

September 2016 Flood & Storm Event

As a result of the floods in 2016, and damage incurred, Council received commitments from both the State and Federal Governments to fund approximately \$40m of repair/restoration works of damaged assets over the period to June 2019. This funding was contingent upon the Council completing appropriate claim forms for costs incurred. All eligible expenses have been claimed and paid by the Victorian Government.

During the process of restoration of the known impaired assets, some further assets have been identified that may require works into the future. Investigation continues into the ownership/responsibility of these assets and their condition status. These assets include, (but are not limited to) the Lake Hamilton Dam Wall and the Dunkeld Dam Wall/Arboretum Road.

Liability Mutual Insurance

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

MAV Workcare

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

Mount Napier Quarry

Council has identified a potential liability for the remediation of the Mount Napier Quarry. At balance date, the quarry lease was under negotiation and Council expects to quantify remediation obligations (if any) in 2020/21.

8.2 Change in accounting standards

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

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

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

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

Based on the Council's current assessment, there is expected to be no impact on the transactions and balances recognised in the financial statements as the Council is not a grantor in a service concession arrangement.

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

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

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

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

8.3 Financial instruments

(a) Objectives and policies

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

(b) Market risk

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

Interest rate risk

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

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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.

(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 + 0.25% and -0.25% in market interest rates (AUD) from year-end rates of 0.81%.

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.

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

8.4 Fair value measurement

Fair value hierarchy

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

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

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

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

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

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

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

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

Revaluation

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

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use of an asset result in changes to the permissible or practical highest and best use of the asset. In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis ranging from 4 to 10 years. The valuation is performed either by experienced council officers or independent experts.

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

Impairment of assets

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

8.5 Events occurring after balance date

No specific new matters have occurred after balance date that require disclosure in the financial report, however the impact of COVID19 is expected to continue to impact well in the 2020/21 financial year and possibly beyond - See Note 11

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Note 9 Other matters

9.1 Reserves	Balance at beginning of reporting period \$'000	Increment (decrement) \$'000	Balance at end of reporting period \$'000
(a) Asset revaluation reserves			
2020			
Property			
Land and land improvements	3,546	-	3,546
Plant & Equipment	474	-	474
Buildings	28,539	-	28,539
	32,559	-	32,559
Infrastructure			
Roads	119,515	31,267	150,782
Bridges	22,186	-	22,186
Footpaths and cycleways	7,318	3,626	10,944
Drainage	4,189	-	4,189
Other infrastructure	316	-	316
	153,524	34,893	188,417
Total asset revaluation reserves	186,083	34,893	220,976
2019			
Property			
Land and land improvements	4,929	(1,383)	3,546
Art Collection	2,976	(2,976)	-
Plant & Equipment	474	-	474
Buildings	38,560	(10,021)	28,539
	46,939	(14,380)	32,559
Infrastructure			
Roads	119,515	-	119,515
Bridges	22,186	-	22,186
Footpaths and cycleways	7,318	-	7,318
Drainage	4,189	-	4,189
Other infrastructure	316	-	316
	153,524	-	153,524
Total asset revaluation reserves	200,463	(14,380)	186,083

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

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

	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
(b) Other reserves				
2020				
Subdividers Contributions	274	13	-	287
Parking Development Reserve	98	-	-	98
Drainage Headworks Reserve	97	-	-	97
Waste Levy Reserve	393	57	(450)	-
Total Other reserves	862	70	(450)	482
2019				
Subdividers Contributions	233	41	-	274
Parking Development Reserve	98	-	-	98
Drainage Headworks Reserve	97	-	-	97
Waste Levy Reserve	351	42	-	393
Total Other reserves	779	83	-	862

Subdividers Contributions are in lieu of provision of recreational land within a subdivision. These funds are used to develop strategically located parks and reserves for the benefit of residents in the general area, as provided in the Subdivision Act 1988 and Planning and Environment Act 1987.

The Parking Development Reserve is in lieu of provision of off-site parking as part of a development. These funds are used for the purchase and development of public access parking in the general area.

The Drainage Headworks Reserve is in lieu of meeting the cost to develop, upgrade and/or renew drainage infrastructure downstream of any subdivision development, a charge is levied on subdivision developers.

The Waste Levy Reserve is in lieu of meeting the cost to develop, upgrade and/or renew waste infrastructure. A charge was levied on waste fees and transfer stations as waste is deposited in these facilities. This reserve was closed on 30 June 2020.

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

9.2	Reconciliation of cash flows from operating activities to surplus/(deficit)	2020	2019
		\$'000	\$'000
	Surplus/(deficit) for the year	(515)	11,997
	Depreciation/amortisation	11,482	9,157
	Asset write-offs	107	3,107
	Profit/(loss) on disposal of property, infrastructure, plant and equipment	11	(182)
	Reversal of Impairment losses	-	(13,483)
	Loss on Revaluation/Disposal of Infrastructure	587	-
	Fair value adjustments for investment property	-	100
	Contributions - Non-monetary assets	(108)	-
	Found Assets	(380)	-
	Other	140	159
	<i>Change in assets and liabilities:</i>		
	(Increase)/decrease in trade and other receivables	4,005	(4,678)
	(Increase)/decrease in prepayments	549	62
	Increase/(decrease) in trade and other payables	(954)	(516)
	(Decrease)/increase in other liabilities	143	286
	(Increase)/decrease in inventories	(34)	(4)
	Increase/(decrease) in provisions	(436)	3,307
	Net cash provided by/(used in) operating activities	14,597	9,312

9.3 Superannuation

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

Accumulation

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings. For the year ended 30 June 2020, this was 9.5% (9.5% in 2018/19) as required under Superannuation Guarantee legislation.

Defined Benefit

Southern Grampians 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 Southern Grampians Shire Council in the Fund cannot be measured as a percentage compared with other participating employers. Therefore, the Fund Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.

Funding arrangements

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

A triennial actuarial review is currently underway for the Defined Benefit category as at 30 June 2020 and is expected to be completed by 31 December 2020.

As at 30 June 2019, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which Southern Grampians Shire Council is a contributing employer was 107.1%. The financial assumptions used to calculate the VBIs were:

Net Investment returns	6.0% pa
Salary Information	3.5% pa
Price Inflation (CPI)	2.0% pa

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

The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2019 interim actuarial investigation determined that 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.

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

Employer contributions

Regular contributions

On the basis of the results of the 2017 full actuarial investigation conducted by the Fund Actuary, Southern Grampians Shire Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2020, this rate was 9.5% of members' salaries (9.5% in 2018/2019). This rate is expected to increase in line with any increases in the SG contribution rate and reviewed as part of the 30 June 2020 triennial valuation.

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

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 Southern Grampians Shire Council) are required to make an employer contribution to cover the shortfall.

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

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

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

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

The 2019 interim actuarial investigation surplus amounts

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

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

	2019 \$m	2018 \$m
- A VBI Surplus	\$151.3	\$69.8
- A total service liability surplus	\$233.4	\$193.5
- A discounted accrued benefits surplus	\$256.7	\$228.8

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2019.

The total service liability surplus means that the current value of the assets in the Fund's Defined Benefit category plus expected future contributions exceeds the value of expected future benefits and expenses as at 30 June 2019.

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 2019.

Council was notified of the 30 June 2019 VBI during August 2019 (2018: August 2018).

The 2020 triennial actuarial investigation

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

	2020 Triennial Investigation	2019 Triennial Investigation
Net Investment Return	5.6% pa	6.5% pa
Salary Inflation	2.5% pa for the first 2 years and 2.75% pa thereafter	3.5% pa
Price Inflation	2.0% pa	2.5% pa

10 Change in accounting policy

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

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

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

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

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

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

b) AASB 16 Leases

AASB 16 Leases requires right of use assets and related liabilities for all lease agreements to be recognised on the balance sheet. The Statement of Comprehensive Income is to separately recognise the amortisation of the right of use asset, and the finance costs relating to the lease.

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

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

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

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

d) Transition impacts

The following table summarises the impact of transition to the new standards on retained earnings at 1 July 2019.

	2019 \$'000
Retained earnings at 30 June 2019	144,481
Revenue adjustment - impact of <i>AASB 15 Revenue from Contracts with Customers</i>	(662)
Retained earnings at 1 July 2019	<u>143,819</u>

11 Exceptional Circumstances - COVID19

On 30 January 2020, COVID 19 was declared as a global pandemic by the World Health Organisation. Since then, various measures have been taken by all three levels of Government in Australia to reduce the spread of COVID-19. This crisis and measures taken to mitigate it has impacted council operations in the following areas (but not limited to) for the financial year ended 30 June 2020. It should be noted that some impacts are quite minor. Where the impact has been significant, specific notes have been added.

Operating revenue for some facilities/services has been impacted - for instance Hamilton Indoor Leisure and Aquatic facility - however the operating expenses have also reduced due to the closure of the facility. This is similar for other services such as the Performing Arts Centre, Cinema, Hamilton Art Gallery and Library.

There have been some reductions in casual employee costs due to the above sample of service closures, however Council was able to obtain State Government Funding for the Working for Victoria Program which has enabled the employment of several new staff into new areas of service such as (but not limited to) additional cleaning roles, open space maintenance and development, replacement of some volunteer services and assistance in the business support and economic development services.

There has not been a significant impact on Council's general receivables at 30 June 2020 with detailed analysis showing only very minor increases (after taking into consideration levels of operations) and no real increase in rate receivables. There were no new hardship requests prior to 30 June 2020 however it is anticipated that there will be in the 2020/21 financial year. Council has prepared a specific policy to address this matter.