



MEETING OF SPECIAL COUNCIL

# AGENDA

WEDNESDAY 12 SEPTEMBER 2018

AT 5PM

COPACC



## COLAC OTWAY SHIRE COUNCIL SPECIAL MEETING

12 SEPTEMBER 2018

### TABLE OF CONTENTS

OPENING PRAYER.....	3
PRESENT.....	3
APOLOGIES.....	3
WELCOME AND ACKNOWLEDGEMENT OF COUNTRY .....	3
QUESTION TIME .....	4
DECLARATIONS OF INTEREST.....	4

### OFFICER REPORTS

SC181209-1	2017-18 FINANCIAL & PERFORMANCE STATEMENTS.....	5
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## COLAC OTWAY SHIRE COUNCIL SPECIAL MEETING

NOTICE is hereby given that the next **SPECIAL MEETING OF THE COLAC OTWAY SHIRE COUNCIL** will be held at COPACC on 12 September 2018 at 5pm.

### AGENDA

#### 1. I DECLARE THIS MEETING OPEN

##### **OPENING PRAYER**

*Almighty God, we seek your blessing and guidance in our deliberations on behalf of the people of the Colac Otway Shire. Enable this Council's decisions to be those that contribute to the true welfare and betterment of our community.*

**AMEN**

#### 2. PRESENT

#### 3. APOLOGIES

#### 4. WELCOME AND ACKNOWLEDGEMENT OF COUNTRY

Colac Otway Shire acknowledges the original custodians and law makers of this land, their elders past and present and welcomes any descendants here today.

I ask that we all show respect to each other and respect for the office of an elected representative.

All Council and Committee meetings are audio recorded, with the exception of matters identified as confidential items in the Agenda. This includes the public participation sections of the meetings.

Audio recordings of meetings are taken to facilitate the preparation of the minutes of open Council and Committee meetings and to ensure their accuracy.

In some circumstances a recording will be disclosed to a third party. Those circumstances include, but are not limited to, circumstances, such as where Council is compelled to disclose an audio recording because it is required by law, such as the Freedom of Information Act 1982, or by court order, warrant, or subpoena or to assist in an investigation undertaken by the Ombudsman or the Independent Broad-based Anti-corruption Commission.

Council will not use or disclose the recordings for any other purpose. It is an offence to make an unauthorised recording of the meeting.

The sole purpose of the Special Meeting is to consider the 2017 – 2018 Financial and Performance Reporting Statements.

**5. QUESTION TIME**

At every Special Meeting, a public question time not exceeding 30 minutes will be held to enable any member of the public to question Council but only on items included in the Agenda of that Special Meeting.

Please remember, you must ask a question. If you do not ask a question you will be asked to sit down and the next person will be invited to ask a question.

1. Questions received in writing prior to the meeting (subject to attendance and time).
2. Questions from the floor.

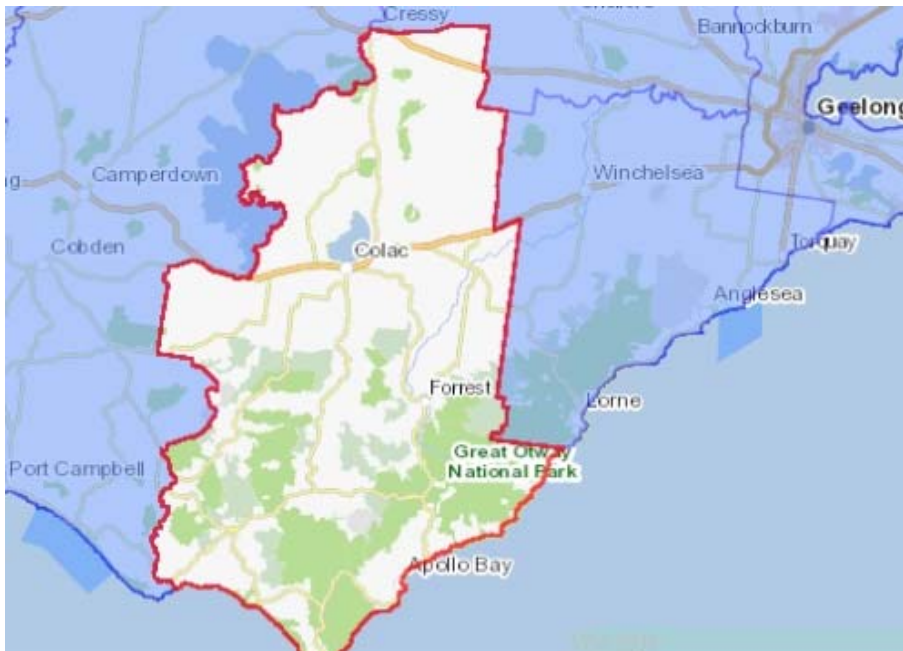
**6. DECLARATIONS OF INTEREST**

SPECIAL COUNCIL MEETING  
**2017-18 FINANCIAL & PERFORMANCE  
 STATEMENTS**

SC181209-1

<b>LOCATION / ADDRESS</b>	Whole of municipality	<b>GENERAL MANAGER</b>	Errol Lawrence
<b>OFFICER</b>	Lynne Stevenson	<b>DIVISION</b>	Corporate Services
<b>TRIM FILE</b>	F18/7487	<b>CONFIDENTIAL</b>	No
<b>ATTACHMENTS</b>	<ol style="list-style-type: none"> <li>1. 2017-2018 Colac Otway Shire Financial Statements</li> <li>2. 2017-2018 Performance Statement</li> <li>3. 2017-2018 Port of Apollo Bay Financial Statements</li> <li>4. Accounting Policy Position Paper</li> </ol>		
<b>PURPOSE</b>	To present the 2017-18 Financial and Performance Statements for approval and signing for submission to the Victorian Auditor-General's Office.		

### 1. LOCATION PLAN / AERIAL PHOTO



## 2. EXECUTIVE SUMMARY

This report presents the 2017-18 Financial Statements (Attachment 1) and 2017-18 Performance Statement (Attachment 2) to enable Council, subject to audit clearance being received from the Victorian Auditor-General's Office, to adopt and sign the 2017-18 Financial and Performance Statements 'in principle' in accordance with Section 132 of the Local Government Act 1989.

This report also considers the accounting treatment of the Port of Apollo Bay transactions in preparation of the 2017-18 Colac Otway Shire Council Financial and Performance Statements and separately presents the 2017-18 Port of Apollo Bay Financial Statements (Attachment 3) for approval and signing for submission to the Victorian Auditor-General's Office. The Port of Apollo Bay Financial Statements is a special purpose financial report that will meet the reporting requirements under the Port of Apollo Bay Management Agreement.

Background information has been provided regarding a review by Council officers of financial reporting issues identified in the preparation of the 2017-18 financial reports and includes management's response. These issues reflect an assessment by Council officers of the accounting treatment of the Port of Apollo Bay transactions in 2015-16 and 2016-17 during the preparation of the financial reports. Council officers reviewed a number of complex accounting issues with the Victorian Auditor-General's agent, McLaren Hunt, and the Audit Committee at its meeting held on 29 August 2018.

The Audit Committee recommended that Council engage a person sufficiently experienced in the Australian Accounting Standards to review the reporting of the Port of Apollo Bay financial transactions and report these findings to the Audit Committee during the 2018-2019 year.

In light of the complexity of the accounting issues considered, management has proactively engaged the professional services of Mr John Gavens, Partner-Audit and Assurance, Crowe Horwath, to undertake a high level review and provide Council with certainty regarding the appropriate accounting treatment of the Port of Apollo Bay transactions to apply to the 2017-18 Colac Otway Shire Council Financial Statements and Performance Statement. This action is consistent with the Audit Committee recommendation to Council to seek independent professional advice.

Given the late timing of receipt of the professional opinion of Mr Gavens, Council officers have not been able to consider the advice in preparation of the attached draft financial and performance statements. A summary of the professional opinion has been provided to Councillors at the Council Briefing Session held on 5 September 2018 and a copy of the opinion will be distributed to Councillors prior to consideration of this report at the Special Meeting on 12 September 2018.

Consistent with the professional opinion of Mr Gavens and in consultation with McLaren Hunt, Council officers recommend the following outcomes:

1. Presentation for Council approval of the attached 2017-18 Colac Otway Shire Council Financial Statements (Attachment 1) and 2017-18 Performance Statement (Attachment 2) 'in principle', subject to amendments to be made to exclude the Port of Apollo Bay 'fixed and floating assets' managed on behalf of Transport for Victoria, and
2. Presentation for Council approval of the 2017-18 Port of Apollo Bay Financial Statements, a special purpose financial report, as presented in Attachment 3.

The Council officer recommendations in this report are consistent with the independent professional opinion and the intent of the recommendations of the Audit Committee.

### 3. RECOMMENDATION

#### Recommendation 1

*That Council:*

1. *Notes the recommendations of the Audit Committee at its meeting held on 29 August 2018;*
2. *Notes the engagement of Mr John Gavens, Crowe Horwath, a person sufficiently experienced in the Australian Accounting Standards to review all relevant documentation since the 2012 Port of Apollo Bay Management Agreement, including subsequent correspondence from the Victorian Auditor-General's Office, pertaining to the reporting of the Port of Apollo Bay financial transactions and report these findings to the next Audit Committee meeting;*
3. *Receives the professional opinion of Mr John Gavens on the matters referred to in Point 2.*
4. *Approves, in principle, the 2017-2018 Colac Otway Shire Council Financial Statements, subject to:*
  - 4.1. *amendments to exclude the Port of Apollo Bay 'fixed and floating assets' managed on behalf of Transport for Victoria; and*
  - 4.2. *any changes that are recommended or agreed by the auditor in accordance with Section 132(2) of the Local Government Act 1989;*
5. *Approves, in principle, the 2017-2018 Colac Otway Shire Council Performance Statement, subject to:*
  - 5.1. *amendments to exclude the Port of Apollo Bay 'fixed and floating assets' managed on behalf of Transport for Victoria; and*
  - 5.2. *any changes that are recommended or agreed by the auditor in accordance with Section 132(2) of the Local Government Act 1989;*
6. *Makes provision for the 2017-18 Colac Otway Shire Council Financial Statements and Performance Statement to be referred back to the Audit Committee for information, if there is any significant change recommended or agreed by the auditor in accordance with Section 132(2) of the Local Government Act 1989 prior to certification; and*
7. *Approves, in principle, the 2017-18 Port of Apollo Bay Financial Statements, subject to any changes that are recommended or agreed by the auditor to be used to meet the reporting requirements of the Port of Apollo Bay Management Agreement.*

#### Recommendation 2

*That Council authorises Crs Joe McCracken and Jason Schram to:*

- 1.1. *certify the final 2017-18 Colac Otway Shire Council Financial Statements and Performance Statement in accordance with Section 132(5)(a) of the Local Government Act 1989; and*
- 1.2. *certify the final 2017-18 Port of Apollo Bay Financial Statements to meet the reporting requirements of the Port of Apollo Bay Management Agreement.*

## 4. BACKGROUND / KEY INFORMATION

### BACKGROUND

Council's Financial Statements and Performance Statement for 2017-2018 were audited independently by McLaren Hunt as the contract agent on behalf of the Victorian Auditor-General's Office.

Representatives of McLaren Hunt conducted the final audit for 2017-2018 in the week commencing 6 August 2018.

As a result of changes in staffing during 2017-18, Brett Exelby and Lynne Stevenson were engaged in July 2018 to both manage the operational aspects of Council's finances and to assist Council's Finance team regarding the preparation of the 2017-18 Colac Otway Shire Council 2017-18 Financial & Performance Statements.

In preparing the financial report, Ms Stevenson and Mr Exelby raised concerns about the treatment of the Port of Apollo Bay transactions. Following an in depth review of the practices adopted in 2016 and consideration of the current Accounting Standards, a professional view was taken that Council has erred in making changes to the treatment of the Port of Apollo Bay transactions in 2016. Council officers prepared the financial reports based on the view that all assets, liabilities, income and expenses relating to the Port of Apollo Bay operating activities, including the fixed assets, need to be accounted for in order to correctly state the financial position of Council. This professional view was accepted by the auditor, McLaren Hunt and the Victorian Auditor-General's Office and presented to Council's Audit Committee at its meeting held on 29 August 2018. The views of McLaren Hunt and the Victorian Auditor-General's Office were made available to Council's Audit Committee at its Meeting held on 29 August 2018.

### KEY INFORMATION

#### Port of Apollo Bay Financial Statements

Council changed the treatment of the Port of Apollo Bay transactions in the Colac Otway Shire Council Annual Financial Statements and Performance Statements in 2016. This change was implemented after a view was taken by Council officers and put to the Victorian Auditor-General's agent and the Audit Committee in 2016 that:

- a) Council does not control the Port of Apollo Bay fixed assets; and
- b) *AASB 10 Consolidated Statements* did not apply.

Effectively, this change resulted in Council partially incorporating the assets, liabilities, income and expenses relating to the operating activities of the Port of Apollo Bay in the Council Annual Financial Statements and Performance Statements. The transactions incorporated into the Council Annual Financial Statements included the Port operating income and expenses (except those related to the Port fixed assets e.g. depreciation, net gain/loss on sale of assets, revaluation increments/decrements), the liability for the cash held on reserve for the Port operations and the cash itself. The fixed assets and related income and expenses were removed and treated as a prior period error without disclosure in the Notes to the 2015-16 Colac Otway Shire Council Financial Statements.



Following an in depth review of the practices adopted in 2016 and consideration of the current Accounting Standards, a professional view was documented by Ms Stevenson and Mr Exelby in an Accounting Policy Position Paper (refer to Attachment 4) and presented to the Victorian Auditor-General's agent in 2016. This change was implemented after a view was taken by Council officers and put to the Victorian Auditor-General's present agent, McLaren Hunt, and the Victorian Auditor-General's Office and accepted. This view, accepted by the Victorian Auditor-General's Office, is that Council had erred in making changes to the treatment of the Port of Apollo Bay transactions in 2016 and 2017 and challenges point a) above. These changes significantly impacted the financial position reported in the 2015-16 and 2016-17 financial years.

Council officers prepared the draft financial reports based on this professional view and consistent with the *Framework for the Preparation and Presentation of Financial Statements* that underpins the Accounting Standards. The view taken was that Council has continued to control the Port of Apollo Bay fixed assets. The definition of 'control' takes into consideration whether an entity has employed resources to generate the cash flows or service potential to achieve Council's objectives from the Port operating activities. Importantly, ownership of the resources is not essential if Council controls the economic benefits (ie. the Port income is used to provide the Port services to the community) which are expected to flow from those resources. In essence, Council, as the Port Manager, employs the fixed asset resources to generate service potential from the Port operating activities in the provision of Port services to the community. As a consequence, all assets, liabilities, income and expenses relating to the Port of Apollo Bay operating activities, including the fixed assets, were accounted for in order to state the financial position of Council.

The amendment was presented to the Audit Committee as a prior period adjustment which has particular disclosure requirements. The impact of this change in accounting treatment is explained in the highlights to 2017-18 Financial Statements below.

Following a discussion by the Audit Committee, the Committee members took an alternative view (3:1 by majority not consensus) to the proposed changes to the accounting treatment. The Audit Committee has recommended to Council approval of the Colac Otway Shire Financial Statements, subject to the exclusion of the Port of Apollo Bay fixed assets and all associated transactions on the basis of a decision of the Audit Committee members that the statements be prepared as per the prior two years.

The revised 2017-18 Port of Apollo Bay Financial Statements have been prepared as a special purpose financial report to accurately present the financial position of the Port of Apollo Bay and to meet the financial reporting requirements under the Port of Apollo Bay Management Agreement ('the Agreement') with Transport for Victoria (TFV). The Agreement requires that Council, the Port Manager, provides TFV annually with audited Port of Apollo Bay financial statements that comply with Australian Accounting Standards. The accounting treatment applied by Council officers was consistent with that applied to the 2017-18 Colac Otway Shire Financial Statements and Performance Statement.

The Audit Committee recommended that Council approve, in principle, the 2017-18 Port of Apollo Bay Financial Statements as presented, including the changes proposed by Council officers.

The Audit Committee also recommended that Council engage a person sufficiently experienced in the Australian Accounting Standards to review the reporting of the Port of Apollo Bay financial transactions and report these findings to the Audit Committee during the 2018-2019 year.

The unconfirmed resolution of the Audit Committee was that:

*“The Audit Committee recommends that Council:*

1. *Approves, in principle, the 2017-2018 Colac Otway Shire Council Financial Statements, any changes that are recommended or agreed by the auditor in accordance with section 132(2) of the Local Government Act 1989 (the Act), subject to the exclusion of the Port of Apollo Bay fixed assets and all associated transactions from the 2017-2018 Colac Otway Shire Council Financial Statements, and any changes that are recommended or agreed by the auditor in accordance with section 132(2) of the Act, however:*
  - 1.1 *The Audit Committee approves, in principle, the 2017-18 Port of Apollo Bay Financial Statements, subject to any changes that are recommended or agreed by the auditor to be used to meet the reporting requirements of the Port of Apollo Bay Management Agreement.*
  - 1.2 *The Audit Committee recommends the exclusion of the Port of Apollo Bay fixed assets and all associated transactions on the basis of a decision of the Audit Committee members (3 : 1 by majority not consensus) that the statements be prepared as per the prior two years.*
2. *Approves, in principle, the 2017-2018 Colac Otway Shire Council Performance Statement, subject to any changes that are recommended or agreed by the auditor in accordance with Section 132(2) of the Local Government Act 1989;*
3. *Makes provision for the 2017-2018 Colac Otway Shire Council Financial Statements and Performance Statement to be referred back to the Audit Committee for information, if there is any significant change prior to certification;*
4. *Authorises Crs Stephen Hart and Jason Schram to certify the final 2017-18 Colac Otway Shire Council Financial Statements and Performance Statement in accordance with section 132(5)(a) of the Local Government Act 1989; and*
5. *Appoints a person sufficiently experienced in the Australian Accounting Standards to review all relevant documentation since the 2012 Port of Apollo Bay Management Agreement, including subsequent correspondence from the Victorian Auditor-General’s Office, pertaining to the reporting of the Port of Apollo Bay financial transactions and report these findings to the Audit Committee during the 2018-2019 year.”*

In light of the complexity of the accounting issues considered, management proactively engaged the professional services of Mr John Gavens, Partner-Audit and Assurance, Crowe Horwath, following the Audit Committee meeting to undertake a high level review and provide Council with certainty regarding the appropriate accounting treatment of the Port of Apollo Bay transactions that should apply to:

1. the Colac Otway Shire Council Financial Statements and Performance Statement, and
2. the Port of Apollo Bay Financial Statements.

This management response is consistent with the Audit Committee recommendation to Council to seek independent professional advice, as detailed in this report.

The scope of the professional review was to provide Council with certainty regarding the appropriate accounting treatment, including:

1. review of whether the accounting treatment applied to the Port of Apollo Bay financial transactions by Council officers complies with the Australian Accounting Standards and other authoritative pronouncements of the AASB, the Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014, and
2. identify the implications on compliance of the Audit Committee's recommendations at its meeting held on 29 August 2018, that proposes an alternative accounting treatment.

Mr Gavens has 27 years of experience in interpreting the Australian Accounting Standards in the Local Government sector and is well placed to advise Council on this matter.

Mr Gavens professional opinion on this matter was discussed with Councillors at the Councillor Briefing Session held on 5 September 2018. Mr Gaven's summary of findings is as follows:

*"Subject to the limitations set out below, we have concluded as follows in relation to the project scope:*

- *The COS 2017-18 Financial Statements should be prepared excluding the 'fixed and floating assets' managed on behalf of TFV*
- *The POAB 2017-18 Financial Statements should be prepared on an accrual basis. Payments in relation to project funding (capital works) should be reported separately in a statement showing capital expenditure as required under subclause 7.3.1.1.2 of the Agreement. These financial statements are special purpose financial statements similar to a committee of management.*

*In relation to the Audit Committee resolution of 29 August 2018, we support the Audit Committee's view that the COS 2017-18 Financial Statements should be amended to exclude the capitalisation of POAB assets and associated equity."*

Consistent with the findings of Mr Gavens and in consultation with VAGO's contract agent, McLaren Hunt, Council officers recommend the following outcomes:

1. Presentation for Council approval of the 2017-18 Colac Otway Shire Council Financial Statements (Attachment 1) and 2017-18 Performance Statement (Attachment 2) 'in principle', subject to amendments to be made to exclude the Port of Apollo Bay 'fixed and floating assets' managed on behalf of Transport for Victoria, and
2. Presentation for Council approval of the 2017-18 Port of Apollo Bay Financial Statements, a special purpose financial report, as presented in Attachment 3.

Outcome 1 is consistent with the intent of the recommendation from the Audit Committee that Council exclude the Port of Apollo Bay fixed assets and all associated transactions. It is noted that Outcome 1 does not entirely support the Audit Committee recommendation that the Colac Otway Shire Financial Statements be prepared as per the prior two years due to corrections made to some Port of Apollo Bay transactions to comply with audit requirements. These corrections are not material.

Outcome 2 is consistent with the recommendation of the Audit Committee that Council approves, in principle, the 2017-18 Port of Apollo Bay Financial Statements (as presented by Council Officers in Attachment 3) to meet the reporting requirements of the Port of Apollo Bay Management Agreement.

Council officers received the professional view of Mr Gavens at the time of preparation of this report. Given the late timing of receipt of the opinion, Council officers have not been able to consider the advice in preparation of the attached draft financial and performance statements. A copy of Mr Gaven's professional opinion will be distributed to Councillors prior to consideration of this report at the Special Meeting on 12 September 2018.

### **2017-18 Financial Statements**

Note, the Operating Surplus will change following implementation of the recommended amendment to exclude the Port of Apollo Bay 'fixed and floating assets' managed on behalf of Transport for Victoria. This will result in the removal of depreciation and inclusion of expensed capital works in the Comprehensive Income Statement.

Council's 2017-18 Operating Surplus is \$3.313 million, compared to a 2016-17 Operating Surplus of \$12.535 million. The major factors contributing to the movement from 2016-2017 (2017) to 2017-18 (2018) are:

Item	\$'000
<b>Decrease in Surplus between 2016-17 TO 2017-18</b>	<b>(\$9,222)</b>
<b>Mainly due to:</b>	<b>(\$8,843)</b>
Victorian Grants Commission recurrent funding – effect on movement from 2017 to 2018 of 2018 prepayment	(\$6,228)
Reduction in non-recurrent bushfire State Government grants received	(\$5,430)
Reduction in non-recurrent disaster recovery grants	(\$2,380)
Landfill Restoration Provision – effect of decrease in 2017 and increase in 2018 to provision for estimated cost of monitoring and undertaking future rehabilitation works	(\$2,282)
Reduced capital non-recurrent grant funding relating to Commonwealth grant received in 2017 for Central Reserve redevelopment	(\$1,712)
Increase in Port of Apollo Bay Operating Deficit - 2018 operating subsidy not received	(\$890)
Additional expensed capital projects not capitalised in 2018	(\$238)
Roads to Recovery 2017 recurrent grant – effect on movement from 2017 to 2018 of 2017 grant received in 2018	\$5,520
Victorian Grants Commission recurrent funding - 2019 prepayment	\$3,199
Movement in gifted assets – gifted assets received from developers in 2018 for subdivision works of \$1,598 offset by gifted assets received in 2017 relating to bushfire recovery works	\$1,265

The majority of the Operating Surplus movements above are non-recurring in nature or the result of timing differences such as grant prepayments and delayed receipt of recurrent grant funding. The non-recurring movements include non-cash transactions such as the increase to the Landfill Restoration Provision of \$1.83 million and receipt of gifted assets of \$1.60 million, explained in the highlights in this report. The 2017-18 Port of Apollo Bay Operating result is a \$1.01 million deficit,

which is presented in the Comprehensive Income Statement in the 2017-18 Port of Apollo Bay Financial Statements. The budgeted Port of Apollo Bay operating subsidy of \$805,000 has not been received in 2017-18 due to Port management holdings held in cash backed Reserves, which is \$1.17 million at 30 June 2018.

All surpluses for specific purposes have been allocated to Reserves (See Reserves Note 8.1) following a reconciliation of cash backed reserves using an adjusted Working Capital approach. As a result, the Unallocated Surplus Reserve has increased by \$757,000 to \$934,000.

The Underlying Result is a \$1.64 million deficit, which reflects the \$1.54 million Port of Apollo Bay Underlying Deficit due largely to the budgeted Port of Apollo Bay recurrent operating subsidy of \$805,000 not received.

Reflecting Council's cash backed Reserve balances, Council is holding \$23.51 million of cash and other financial assets at the end of 2017-18 (\$22.69 million 2016-17). Council's current assets at 30 June 2018 are \$27.07 million (\$27.28 million 2016-17), compared to current liabilities of \$10.68 million (\$7.25 million 2015-16). Despite an increase in the current Landfill Restoration Provision of \$1.03 million, the working capital ratio of 253% remains strong (348% 2016-17). Greater than 150% is considered low risk under the Financial Sustainability Index.

Council undertook \$16.22 million in capital works during 2017-18, compared to \$10.25 million in 2016-17. The budget for 2017-18 was \$21.64 million, the \$5.42 million difference is mainly due to:

- \$3.09 million Buildings - unsuccessful funding application for the relocation of the Apollo Bay Kindergarten.
- \$0.30 million Plant, machinery and equipment - delayed replacement of key items of Major Plant awaiting delivery in 2018-19.
- \$0.10 million Fixtures, fittings and furniture - delayed replacement of 2-Way Radio infrastructure until 2018-19.
- \$1.10 million Roads - mainly works on Queen Street, Colac and the reconstruction of Conns Lane, Birregurra expected to be completed in early 2018-19.

Total renewal and upgrade of Council assets for 2017-18 was \$13.31 million (\$9.58 million for 2016-17) giving Council a renewal ratio of 127.7% for 2017-18 (99.4% 2016-17). Greater than 100% is considered low risk under the Financial Sustainability Risk Matrix.

In terms of the delivering of capital projects for 2017-18, Council identified net capital expenditure of \$2.70 million (Income of \$1.21 million and Expense \$3.91 million) to be placed into reserve at the end of 2017-18 so that it can be carried forward to 2018-19. Further operational projects of \$1.27m (Income of \$0.10 million and Expense \$1.37 million) have been carried forward to be completed in 2018-19. This results in a total net carry forward of \$3.97 million (\$3.08 million 2016-17).

The highlights of the 2017-18 Financial Statements are:

**1. Port of Apollo Bay Prior Period Adjustment**

A change to the accounting treatment of the Port of Apollo Bay transactions was made to account for all assets, liabilities, income and expenses relating to the Port of Apollo Bay operating activities.

Note, Council officers anticipate that this note disclosure will be removed following implementation of the recommended amendment to exclude the Port of Apollo Bay 'fixed and floating assets' managed on behalf of Transport for Victoria.

The initial accounting treatment would have resulted in a significant prior period error adjustment, which is disclosed in detail in Note 8.4. The key impacts of the prior period adjustment on the Council's 2017 financial position is summarised below:

- \$14.94 million Port fixed assets recognition
- \$0.59 million Current Trade and other payables removed (Council's Port of Apollo Bay creditor) – internal (interfund) transaction
- \$0.44 million Port fixed assets depreciation expensed to opening Accumulated Surplus

The cash surplus or deficit generated from the Port of Apollo Bay transactions continues to be allocated to Council's Port of Apollo Bay Reserve to ensure that the cash holdings are restricted and available to carry forward each year. The cash holdings for the Port of Apollo Bay Reserve are \$1.17 million at 30 June 2018.

## **2. Landfill Restoration Provision**

Council re-estimated the Landfill Restoration Provision in 2017-18 following receipt of updated guidelines from the Environment Protection Authority in early 2018. The guidelines assist Council to calculate its estimated liability for monitoring and undertaking future rehabilitation works and site aftercare for Council's operating and formerly operated landfills. The guidelines place increased obligations on Council for both landfill site rehabilitation and aftercare.

The effect was an increase in the Current Landfill Restoration Provision by \$1.03 million and an increase in the Non-Current Landfill Restoration Provision by \$0.80 million, which is a total increase by \$1.83 million to \$9.04 million at 30 June 2018. The increase relates to the following additional estimates for landfill obligations:

- \$0.69 million addition of site aftercare - Bruce Street site
- \$0.59 million additional site aftercare for other landfill sites, mainly relating to Barwon Downs site
- \$0.52 million additional rehabilitation
- \$0.03 million addition of site aftercare - Wilson Street site

Council holds cash Reserves for the future rehabilitation of landfill sites, including \$0.86 million for the Alvie site and \$0.65 million for other landfill sites. The funding requirements for the balance of the \$9.04 million estimated liability should be considered in developing Council's long term financial plan through an identified capital works program and forecast annual operating budgets.

## **3. Treatment of 2018-19 Victorian Grants Commission funding prepayment**

In the 2018 Budget the Government announced there will be a prepayment of 50% of the Victorian Grants Commission grants to all Victorian Councils. For Colac Otway this resulted in an additional \$3.20 million in Operating Grants. To ensure this funding is available in 2018-

19 this entire amount has been allocated to a prepaid grants reserve and will be released in 2018-19. Accordingly, it has a zero dollar impact on the unallocated surplus.

**4. Treatment of the outstanding 2016-17 Roads to Recovery grants**

As reported to Council in 2017 and further highlighted above, \$2.72m of Roads to Recovery grants were not processed in 2016-17 and are accounted for in 2017-18, thus impacting the movement in the Operating Surplus from 2016-17 to 2017-18. It is noted that the revenue was carried forward as a project reserve amount and therefore had a nil impact on the unallocated surplus at 30 June 2018.

**5. Additional Other Reserve amounts**

During 2017-18 the following additional Other Reserve transfers occurred pursuant to the 2017-18 Budget:

1. As set out in Note 8.1 the standard operating reserve transfers (i.e. Plant renewal, Port of Apollo Bay, Kerbside bin replacement, carried forward projects, etc.) occurred;
2. Landfill rehabilitation reserve transfers of \$200,000 in total per the 2017-18 Budget
3. Bond repayment reserve transfers of \$100,000 per the 2017-18 Budget
4. The remainder of the unallocated surplus transferred into the matching grants reserve for Councillors to decide funding prioritisation and to take advantage of any matching grant opportunities.

## **2017-18 Performance Statement**

The 2017-18 Performance Statement measures and reports on Council's performance in a consistent way to promote transparency and accountability in the local government sector. It is made up of the following key indicators: Sustainability Capacity, Service Performance and Financial Performance, which are discussed in more detail below:

### **Sustainability Capacity Indicators**

Sustainability Capacity Indicators are designed to provide insight into the sustainability of councils and their capacity to meet current and future service, infrastructure and other obligations as they fall due.

All reported movements in all indicators from the previous financial year fall below the threshold for materiality.

### **Service Performance Indicators**

Service Performance Indicators measure the effectiveness, efficiency and quality of services delivered.

A number of the Service Performance Indicators have shown material variation from the 2016/17 year with the below indicators highlighting the more significant movements:

1. AM2 - Animals reclaimed increased by 40.66% to 77.63% due to Council actively working with a local veterinary clinic's cat adoption program.
2. AM4 - Animal management prosecutions decreased by 40.00% to 6 prosecutions due to continued increased public awareness that Council has the capacity, ability and willingness to prosecute where necessary.
3. FS1 - Time taken to action food complaints decreased by 80.77% to 0.25 days due to a reduction in staffing resources available during the previous year to undertake Food Safety services.
4. R3 - Cost of sealed local road reconstruction increased by 74.21% to \$52.61 due to additional project management, competition for materials due to VicRoads duplication of Princes Highway and complexity of projects delivered.
5. SP3 - Cost of statutory planning service increased by 34.31% to \$3,634.56 due to temporary engagement of contractors to maintain a service that is traditionally challenging to recruit suitably experienced staff.
6. WC1 - Kerbside bin collection requests decreased by 41.34% to 58.69 requests due to prompt and consistent communication with the waste contractor improving the rate of request resolution.
7. WC2 - Kerbside collection bins missed decreased by 63.84% to 2.30 bins due to drivers now completing the same collection run each week with fewer bins now being missed.



## **Financial Performance Indicators**

Financial Performance Indicators measure the soundness of financial management practices.

These Financial Performance Indicators will be updated by Council officers following implementation of the recommended amendment to exclude the Port of Apollo Bay 'fixed and floating assets' managed on behalf of Transport for Victoria.

Currently, the below indicators have shown material movements from the previous year in the Financial Performance area:

1. E3 - Workforce turnover decreased by 24.54% to 17.93% due to continued organisational changes that commenced from the previous year, together with some long term staff who retired.
2. L1 - Working Capital Ratio decreased by 27.22% to 253.31% due to increased trade payables, mainly relating to capital works progress payments and an increase in the current landfill restoration provision.
3. L2 - Unrestricted cash compared to current liabilities decreased by 182.85% to 9.42% due to term deposits held for greater than 90 days of \$17.4m reclassified as Other financial assets in 2017-18, which is excluded from Unrestricted cash. Unrestricted cash and other financial assets is largely set aside in reserves for specific purposes. Trade payables increased \$2.4m and the current landfill restoration provision was increased by \$1.0m for the estimated cost of monitoring and undertaking future rehabilitation works required to reinstate landfill sites to a suitable standard.
4. O3 - Loans and borrowings repayments compared to rates reduced by 24.90% to 2.79% due to Council's low overall debt levels and a prudent debt management strategy of no new loans.
5. OP1 - Adjusted Underlying Result decreased by 101.91% to -0.18% due to higher Victorian Grants Commission grants received in advance in 2016-17.

## **Approval of 2017-18 Financial and Performance Statements**

Following the VAGO external audit, the 2017-18 Colac Otway Shire Council Financial Statements and Performance Statement are recommended to be adopted 'in principle' by Council, including any amendments and subject to any changes that are recommended or agreed to by the auditor.

In addition, the 2017-18 Port of Apollo Bay Financial Statements are recommended to be adopted 'in principle' by Council, subject to any changes that are recommended or agreed by the auditor, to meet the reporting requirements of the Port of Apollo Bay Management Agreement.

The draft Financial Statements and Performance Statement are attached.

## **Signing of the Statements**

Two Councillors are required to be authorised to certify the financial statements and the performance statement in their final form after any changes recommended or agreed by the auditor and/or Victorian Auditor General have been made, in accordance with Section 132(5) of the *Local Government Act 1989*. In accordance with Section 132(5)(a) of the *Local Government Act 1989*, Council may authorise any two Councillors for this purpose. Section 132(5)(b) also requires that the

Principal Accounting Officer and the Chief Executive Officer must also certify the Financial and Performance Statements.

Crs Stephen Hart and Jason Schram have been appointed to the Audit Committee by Council as Council representatives and as such are the Councillors recommended by the Audit Committee to be authorised by the Council to certify the 2017-18 Financial and Performance Statements prior to submitting the Financial and Performance Statements to VAGO.

Subsequent to the Audit Committee meeting held on 29 August 2018, the Chief Executive Officer has been advised that Cr Stephen Hart will not be available, following consideration of the financial reports by Council at this Special Meeting, to certify the financial reports prior to lodgement of the signed 2017-18 Financial and Performance Statements with the Victorian Auditor-General's Office by the 15 September 2018 deadline. As a consequence, the Chief Executive Officer has requested Council officers to nominate the Mayor, Cr Joe McCracken to sign the financial reports in the absence of Cr Stephen Hart. Council officers have amended the Officer recommendation accordingly.

## **FURTHER SUPPORTING INFORMATION**

### **5. COMMUNITY CONSULTATION & ENGAGEMENT**

As this is the presentation of factual information the only community engagement will be the presentation of the 2017-18 Financial and Performance Statements at this meeting.

### **6. ANALYSIS**

#### **ALIGNMENT TO COUNCIL PLAN OR COUNCIL POLICY**

In keeping with the principles of Financial Management and Openness and Accountability under Theme 4: Our Leadership and Management we present the Annual results for Colac Otway Shire.

#### **ENVIRONMENTAL IMPLICATIONS**

Not applicable to this report.

#### **SOCIAL & CULTURAL IMPLICATIONS**

Not applicable to this report.

#### **ECONOMIC IMPLICATIONS**

The economic implications are set out in the attached financial and performance statements. Transparency is at the heart of our approach and it is a strong driver in our use of reserves to account for every dollar of available surplus to ensure it is clear how we spend invaluable ratepayer funds.

#### **LEGAL AND RISK IMPLICATIONS**

The preparation of the Financial and Performance Statements have been prepared in accordance with the *Local Government (Planning and Reporting) Regulations 2014*. Regulation 9 requires the preparation of the financial statements to be prepared in the form set out in the Local Government Model Financial Report that is released annually by Local Government Victoria. Regulation 15, 16 and 17 prescribe the form that Council is required to set out the Performance Statement.

We have satisfied all legislative and accounting standard requirements as set out in the attached Financial Statements and Performance Statements.

#### **RESOURCE IMPLICATIONS (FINANCIAL ETC)**

The Financial report clearly sets out how Colac Otway Shire utilises valuable ratepayer funds to ensure the community gets the maximum value from their rates.

## 7. IMPLEMENTATION STRATEGY

### DETAILS

The Financial report is compiled with great care and attention over several months beginning around April/May each year culminating in the presentation to the Audit Committee and adoption by Council in an open Council meeting in September.

### COMMUNICATION

The Financials Statements and Performance Statement form part of the Council Annual Report which is published in October each year and brought to open Council. The Financial Statements and Performance Statement are scheduled to be presented to the Special Council Meeting on 12 September 2018 in order to resolve to sign the statements for lodgement with the Auditor-General's Office.

### TIMELINE

The following is the timeline for the 2017-18 Financial and Performance Statements:

<b><u>April to June 2018</u></b>	Pre –year preparation of financials include review of assets for impairment, restoration and renewal and for undertaking the cyclical revaluation of asset classes.
<b><u>1 July 2018 to 3 August 2018:</u></b>	Completion of Financial Statements, notes to the accounts and draft of Performance reporting statements in preparation for the external audit visit
<b><u>6 August 2018 to 7 August 2018:</u></b>	Completion of external audit of Financial Statements and Performance reporting
<b><u>29 August 2018:</u></b>	Audit Committee meeting
<b><u>5 September 2018:</u></b>	Councillor briefing of 2017-18 Financial & Performance Statements
<b><u>12 September 2018:</u></b>	Adoption and sign-off of Annual Financial & Performance Statements at Special Council meeting
<b><u>15 September 2018:</u></b>	Lodgement of Signed Annual Financial & Performance Statement with the Auditor-General's Office

## 8. OFFICER DIRECT OR INDIRECT INTEREST

No officer declared an interest under the Local Government Act 1989 in the preparation of this report.



# Colac Otway

SHIRE

Colac Otway Shire Council  
ANNUAL FINANCIAL REPORT

*For the Year Ended 30 June 2018*

**Colac Otway Shire Council  
Financial Report  
Table of Contents**

<b>FINANCIAL REPORT</b>		<b>Page</b>
	Certification of the Financial Statements	1
	Victorian Auditor-General's Office Report	2
<b>Financial Statements</b>		
	Comprehensive Income Statement	4
	Balance Sheet	5
	Statement of Changes in Equity	6
	Statement of Cash Flows	7
	Statement of Capital Works	8
	<b>Overview</b>	9
<b>Notes to Financial Statements</b>		
Note 1	Performance against budget	10
	1.1. Income and expenditure	10
	1.2. Capital works	12
Note 2	Funding for the delivery of our services	14
	2.1. Rates and charges	14
	2.2. Statutory fees and fines	14
	2.3. User fees	14
	2.4. Funding from other levels of government	15
	2.5. Contributions	16
	2.6. Net gain(loss) on disposal of property, infrastructure, plant and equipment	16
	2.7. Other income	16
Note 3	The cost of delivering services	17
	3.1. Employee costs	17
	3.2. Materials and services	18
	3.3. Depreciation and amortisation	18
	3.4. Bad and doubtful debts	18
	3.5. Borrowing costs	19
	3.6. Other expenses	19
Note 4	Our financial position	20
	4.1. Financial assets	20
	4.2. Non-financial assets	22
	4.3. Payables	23
	4.4. Interest bearing liabilities	23
	4.5. Provisions	24
	4.6. Financing arrangements	25
	4.7. Commitments	26
Note 5	Assets we manage	27
	5.1. Property infrastructure plant and equipment	30
	5.2. Investments in associates, joint arrangements and subsidiaries	32
Note 6	People and relationships	34
	6.1. Council and key management remuneration	34
	6.2. Related party disclosure	35
Note 7	Managing uncertainties	36
	7.1. Contingent assets and liabilities	36
	7.2. Change in accounting standards	37
	7.3. Financial instruments	37
	7.4. Fair value measurement	39
	7.5. Events occurring after balance date	39
Note 8	Other matters	40
	8.1. Reserves	40
	8.2. Reconciliation of cash flows from operating activities to surplus/(deficit)	43
	8.3. Superannuation	43
	8.4. Correction of prior period errors	45

### 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*, Australian Accounting Standards and other mandatory professional reporting requirements.

*Lynne Stevenson B.Com, CPA*  
**Principal Accounting Officer**  
Date : 12 September 2018  
Colac

In our opinion the accompanying financial statements present fairly the financial transactions of the Colac Otway Shire Council for the year ended 30 June 2018 and the financial position of the Council as at that date.

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

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

*Cr Stephen Hart*  
**Councillor**  
Date : 12 September 2018  
Colac

*Cr Jason Schram*  
**Councillor**  
Date : 12 September 2018  
Colac

*Peter Brown*  
**Chief Executive Officer**  
Date : 12 September 2018  
Colac

Victorian Auditor-General's Office Report



**Comprehensive Income Statement  
For the Year Ended 30 June 2018**

	Note	2018 \$'000	2017 \$'000
<b>Income</b>			
Rates and charges	<a href="#">2.1</a>	29,654	29,197
Statutory fees and fines	<a href="#">2.2</a>	795	746
User fees	<a href="#">2.3</a>	4,535	4,191
Grants - operating	<a href="#">2.4</a>	9,663	15,804
Grants - capital	<a href="#">2.4</a>	6,386	7,761
Contributions - monetary	<a href="#">2.5</a>	325	320
Contributions - non-monetary	<a href="#">2.5</a>	1,598	334
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	<a href="#">2.6</a>	(87)	(5)
Share of net loss/(gain) of associates and joint ventures	<a href="#">5.3</a>	17	32
Other income	<a href="#">2.7</a>	968	1,418
<b>Total income</b>		<b>53,855</b>	<b>59,798</b>
<b>Expenses</b>			
Employee costs	<a href="#">3.1</a>	18,910	18,929
Materials and services	<a href="#">3.2</a>	17,898	16,850
Bad and doubtful debts	<a href="#">3.4</a>	3	4
Depreciation and amortisation	<a href="#">3.3</a>	10,442	10,080
Borrowing costs	<a href="#">3.5</a>	223	280
Other expenses	<a href="#">3.6</a>	3,066	1,120
<b>Total expenses</b>		<b>50,542</b>	<b>47,263</b>
<b>Surplus/(deficit) for the year</b>		<b>3,313</b>	<b>12,535</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to surplus or deficit in future periods</b>			
Net asset revaluation increment/(decrement)	<a href="#">8.1</a>	(4,247)	6,977
<b>Total comprehensive result</b>		<b>(934)</b>	<b>19,512</b>

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

**Balance Sheet**  
**As at 30 June 2018**

	Note	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4.1	6,093	1,304
Other Financial Assets	4.1	17,419	21,390
Current Trade and other receivables	4.1(c)	3,181	4,209
Inventories	4.2(a)	151	183
Other assets	4.2(b)	367	194
<b>Total current assets</b>		<b>27,209</b>	<b>27,280</b>
<b>Non-current assets</b>			
Investment in associates and joint ventures	5.2(a)	356	338
Property, infrastructure, plant & equipment	5.1	298,426	295,733
Intangible assets	4.2(c)	2	11
<b>Total non-current assets</b>		<b>298,784</b>	<b>296,083</b>
<b>Total assets</b>		<b>325,993</b>	<b>323,364</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current Trade and other payables	4.3(a)	4,781	2,231
Trust funds and deposits	4.3(b)	392	463
Current Provisions	4.5	4,863	3,947
Current Interest-bearing loans and borrowings	4.4	649	604
<b>Total current liabilities</b>		<b>10,684</b>	<b>7,247</b>
<b>Non-current liabilities</b>			
Non-current Provisions	4.5	8,189	7,414
Non-current Interest-bearing loans and borrowings	4.4	2,721	3,370
<b>Total non-current liabilities</b>		<b>10,910</b>	<b>10,784</b>
<b>Total liabilities</b>		<b>21,594</b>	<b>18,030</b>
<b>Net assets</b>		<b>304,399</b>	<b>305,333</b>
<b>Equity</b>			
Accumulated surplus/(deficit)		127,563	124,141
Reserves	8.1	176,836	181,192
<b>Total Equity</b>		<b>304,399</b>	<b>305,333</b>

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

**Statement of Changes in Equity  
For the Year Ended 30 June 2018**

	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
<b>2018</b>					
Balance at beginning of the financial year		305,334	124,141	159,452	21,740
Accumulated surplus/(deficit)		3,313	3,313	-	-
Asset revaluation increment/(Decrement)	<a href="#">8.1 (a)</a>	(4,247)	-	(4,247)	-
Transfers to other reserves	<a href="#">8.1 (b)</a>	-	(17,003)	-	17,003
Transfers from other reserves	<a href="#">8.1 (b)</a>	-	17,112	-	(17,112)
<b>Balance at end of the financial year</b>		<b>304,399</b>	<b>127,563</b>	<b>155,205</b>	<b>21,631</b>
<b>2017</b>					
Balance at beginning of the financial year		285,821	122,279	152,475	11,067
Accumulated surplus/(deficit)		12,535	12,535	-	-
Asset revaluation increment	<a href="#">8.1 (a)</a>	6,977	-	6,977	-
Transfers to other reserves	<a href="#">8.1 (b)</a>	-	(28,601)	-	28,601
Transfers from other reserves	<a href="#">8.1 (b)</a>	0	17,928	-	(17,928)
<b>Balance at end of the financial year</b>		<b>305,334</b>	<b>124,141</b>	<b>159,452</b>	<b>21,740</b>

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

**Statement of Cash Flows  
For the Year Ended 30 June 2018**

	2018 Inflows/ (Outflows) \$'000	2017 Inflows/ (Outflows) \$'000
<b>Cash flows from operating activities</b>		
Rates and charges	29,616	29,135
Statutory fees and fines	761	726
User fees	4,334	4,238
Grants - operating	11,038	14,011
Grants - capital	6,386	7,761
Contributions - monetary	325	320
Interest received	621	455
Trust funds and deposits taken/(paid)	(72)	(217)
Other receipts	493	639
Net GST refund/(payment)	(238)	(1)
Employee costs	(19,049)	(19,544)
Materials and services	(15,472)	(16,908)
Other payments	(1,237)	(1,120)
<b>Net cash provided by/(used in) operating activities</b>	<b>17,505</b>	<b>19,493</b>
<b>Cash flows from investing activities</b>		
Payments for property, infrastructure, plant and equipment	(16,222)	(10,249)
Proceeds from sale of property, infrastructure, plant and equipment	361	291
Payments for investments	(48,528)	(91,244)
Proceeds from sale of investments	52,500	81,100
<b>Net cash provided by/(used in) investing activities</b>	<b>(11,890)</b>	<b>(20,102)</b>
<b>Cash flows from financing activities</b>		
Finance costs	(223)	(280)
Repayment of borrowings	(604)	(800)
<b>Net cash provided by/(used in) financing activities</b>	<b>(827)</b>	<b>(1,080)</b>
Net increase/(decrease) in cash and cash equivalents	4,789	(1,688)
Cash and cash equivalents at the beginning of the financial year	1,304	2,992
<b>Cash and cash equivalents at the end of the financial year</b>	<b>6,093</b>	<b>1,304</b>
Financing arrangements	4.6	
Restrictions on cash assets	4.1	

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

**Statement of Capital Works  
For the Year Ended 30 June 2018**

	2018 \$'000	2017 \$'000
<b>Property</b>		
Buildings	1,328	3,882
<b>Total property</b>	<u>1,328</u>	<u>3,882</u>
<b>Plant and equipment</b>		
Plant, machinery and equipment	1,385	894
Fixtures, fittings and furniture	134	153
Computers and telecommunications	249	41
<b>Total plant and equipment</b>	<u>1,768</u>	<u>1,089</u>
<b>Infrastructure</b>		
Roads	6,207	4,193
Bridges	554	163
Footpaths and cycleways	3,404	378
Drainage	1,020	102
Other infrastructure	1,929	440
Marine infrastructure	13	-
<b>Total infrastructure</b>	<u>13,126</u>	<u>5,277</u>
<b>Total capital works expenditure</b>	<u>16,222</u>	<u>10,249</u>
<b>Represented by:</b>		
New asset expenditure	2,909	670
Asset renewal expenditure	11,536	9,412
Asset upgrade expenditure	1,778	166
<b>Total capital works expenditure</b>	<u>16,222</u>	<u>10,249</u>

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

**OVERVIEW**

**Introduction**

The Colac Otway 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 2-6 Rae Street Colac Victoria 3250.

**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, other authoritative pronouncements of the Australian Accounting Standards Board, the *Local Government Act 1989*, and the *Local Government (Planning and Reporting) Regulations 2014*.

The purpose of the Council is to:

- provide for the peace, order and good government of its municipal district;
- to promote the social, economic and environmental viability and sustainability of the municipal district;
- to ensure that resources are used efficiently and effectively and services are provided in accordance with the Best Value Principles to best meet the needs of the local community;
- to improve the overall quality of life of people in the local community;
- to promote appropriate business and employment opportunities;
- to ensure that services and facilities provided by the Council are accessible and equitable;
- to ensure the equitable imposition of rates and charges; and
- to ensure transparency and accountability in Council decision making.

The following information is provided:

External Auditor : Auditor-General of Victoria  
Internal Auditor : Crowe Horwath  
Solicitors: Maddocks Lawyers Harwood Andrews Pty Ltd  
Bankers : Commonwealth Bank  
Website address : [www.colacotway.vic.gov.au](http://www.colacotway.vic.gov.au)

**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 5.2)
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to Note 5.2)
- the determination of employee provisions (refer to Note 4.5 (a))
- the determination of landfill provisions (refer to Note 4.5 (b))

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

**Note 1 Performance against budget**

The budget comparison notes compare Council's financial plan, expressed through its annual budget, with actual performance. The *Local Government (Planning and Reporting) Regulations 2014* requires explanation of any material variances. Council has adopted a materiality threshold of the lower of 10 percent or \$500,000 where further explanation is warranted. Explanations have not been provided for variations below the materiality threshold unless the variance is considered to be material because of its nature.

The budget figures detailed below are those adopted by Council on 28 June 2017. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for income and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

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

1.1 Income and Expenditure	Budget 2018 \$'000	Actual 2018 \$'000	Variance 2018 \$'000	Ref
<b>Income</b>				
Rates and charges	29,419	29,654	235	
Statutory fees and fines	730	795	65	
User fees	4,540	4,535	(5)	
Grants - operating	9,478	9,663	185	
Grants - capital	10,185	6,386	(3,799)	1
Contributions - monetary	485	325	(160)	2
Contributions - non-monetary	-	1,598	1,598	3
Net loss/(gain) on disposal of property, infrastructure, plant and equipment	147	(87)	(234)	4
Share of net gain/(loss) of associates and joint ventures	7	17	10	5
Other income	436	968	532	6
<b>Total income</b>	<u>55,427</u>	<u>53,855</u>	<u>(1,572)</u>	
<b>Expenses</b>				
Employee costs	18,982	18,910	72	
Materials and services	16,450	17,898	(1,448)	7
Bad and doubtful debts	2	3	(1)	
Depreciation and amortisation	10,027	10,442	(415)	8
Borrowing costs	226	223	3	
Other expenses	2,199	3,066	(867)	9
<b>Total expenses</b>	<u>47,886</u>	<u>50,542</u>	<u>(2,656)</u>	
	-	-	-	
<b>Surplus/(deficit) for the year</b>	<u>7,542</u>	<u>3,313</u>	<u>(4,229)</u>	

**Note 1 Performance against budget**  
**1.1 Income and Expenditure (cont'd)**  
**(f) Explanation of material variations**

Variance Ref	Item	Explanation
1	Grants - capital	Unsuccessful state government grant funding applications included \$2.4m for road slip works on Lardners Track to Sayers Road, Gellibrand following a flooding event and \$2.8m for Apollo Bay Kindergarten relocation and construction. Offsetting this was a 2016-17 Roads to Recovery funding claim of \$1.5m for sealed road pavement programme delayed until 2017-18.
2	Contributions - monetary	Budgeted contributions for building projects not received in 2017-18 included the Apollo Bay Kindergarten project not funded \$150,000, Colac Secondary School sports shelter carried forward to 2017-18 \$80,000 and amenities sports oval and Irrewarra netball facilities upgrade carried forward to 2017-18 \$51,000.
3	Contributions - non-monetary	Colac Otway received the following gifted assets from developers for subdivision works not budgeted for: - \$710,000 Drainage - \$534,000 Roads - \$273,000 Other infrastructure - \$81,000 Footpaths
4	Net loss/(gain) on disposal of property, infrastructure, plant and equipment	Due to a change in the procurement of the vehicles there were a number that were changed over at a later time which resulted less income and inturn a loss on sale of these items.
5	Share of net gain/(loss) of associates and joint ventures	Council's share of the Corangamite Regional Library Corporation is an estimate and not ascertainable at time of budget preparation.
6	Other income	\$135,000 additional interest on investments due to higher than expected cash balances relating mainly to \$4.0m budgeted capital and major project funding carried forward to 2017-18 and \$3.2m 2017-18 Victorian Grants Commission funding received in advance. \$113,000 insurance reimbursements were received in 2017-18 not budgeted for.
7	Materials and services	\$496,000 increase in professional contractor services used and an additional \$721,000 of materials and services related to capital projects expensed in 2017-18 not budgeted for.
8	Depreciation and amortisation	\$482,000 Port of Apollo Bay depreciation budget not included in Council budget.
9	Other expenses	The Landfill Rehabilitation Provision was reestimated in 2017-18 in accordance with the Environment Protection Authority's guidelines, resulting in a \$1.9m increase in the provision.



Note 1 Performance against budget

1.2 Capital Works	Budget	Actual	Variance	Ref
	2018	2018	2018	
	\$'000	\$'000	\$'000	
<b>Property</b>				
Land	500	-	(500)	9
Buildings	4,419	1,328	(3,091)	10
<b>Total Buildings</b>	<u>4,919</u>	<u>1,328</u>	<u>(3,591)</u>	
<b>Total Property</b>	<u>4,919</u>	<u>1,328</u>	<u>(3,591)</u>	
<b>Plant and Equipment</b>				
Plant, machinery and equipment	1,683	1,385	(298)	11
Fixtures, fittings and furniture	237	134	(103)	12
Computers and telecommunications	527	249	(278)	13
<b>Total Plant and Equipment</b>	<u>2,447</u>	<u>1,768</u>	<u>(679)</u>	
<b>Infrastructure</b>				
Roads	7,311	6,207	(1,104)	14
Bridges	650	554	(96)	
Footpaths and cycleways	525	3,404	2,879	15
Drainage	3,445	1,020	(2,425)	15
Other Infrastructure	2,340	1,929	(411)	15
Marine Infrastructure	-	13	13	
<b>Total Infrastructure</b>	<u>14,271</u>	<u>13,126</u>	<u>(1,145)</u>	
<b>Total Capital Works Expenditure</b>	<u>21,637</u>	<u>16,222</u>	<u>(5,415)</u>	
<b>Represented by:</b>				
New asset expenditure	7,755	2,909	(4,846)	
Asset renewal expenditure	12,309	11,536	(773)	
Asset upgrade expenditure	1,572	1,778	206	
<b>Total Capital Works Expenditure</b>	<u>21,637</u>	<u>16,222</u>	<u>(5,415)</u>	

**Note 1 Performance against budget**

**1.2 Capital Works (cont'd)**

**(i) Explanation of material variations**

Variance Ref	Item	Explanation
9	Land	This variance is related to the implementation of the Lake Colac Master Plan. The original budget proposed Land Improvements but as the project has developed it has been allocated across various infrastructure assets such as fixtures, fittings, furniture, footpaths, cycleways, drainage and other infrastructure. There is also an amount that has been carried forward into the 2018-19 financial year.
10	Buildings	The major variance in this category relates to the inability to secure funding for the relocation of the Apollo Bay Kindergarten for \$3.09 million in 2017-18.
11	Plant, machinery and equipment	The variances are due to the timing of replacement of key items of Major Plant. These have been ordered but awaiting delivery in the 2018-19 year.
12	Fixtures, fittings and furniture	This variance is due to the replacement of critical 2-Way Radio infrastructure being delayed until the 2018-19 year.
13	Computers and telecommunications	The variance in this area is due to a large number of the items purchased not meeting Council's asset capitalisation thresholds. These items whilst acquired have been recognised as materials within the Comprehensive Income Statement.
14	Roads	The more significant variances in this category relate to the works on Queen Street, Colac and the reconstruction of Conns Lane, Birregurra. These two projects are expected to be completed in the early part of the 2018-19 year.
15	Footpaths and cycleways, Drainage and Other Infrastructure	There are a number of variances between budgeted works and the actual works performed due to the categorisation of assets. This reallocation has arisen from the complexity of the asset types within projects such as the CBD Revitalisation, Wye River Separation Creek Reticulated Drainage System and Landslip remediation works.

**Note 2 Funding for the delivery of our services**

	2018	2017
	\$'000	\$'000

**2.1 Rates and charges**

Council uses Capital Improved Value as the basis of valuation of all properties within the municipal district. The Capital Improved Value of a property is its value of the land plus buildings and other improvements.

The valuation base used to calculate general rates for 2017/18 was \$5,801 million (2016/17 \$5,755 million).

	2018	2017
Differential rate		
Residential Colac	0.004422	0.004370
Residential Balance of Shire	0.003759	0.003714
Rural Farm	0.003405	0.003452
Holiday Rental	0.004422	0.004370
Commercial /Industrial Colac	0.007297	0.007210
Commercial /Industrial Balance of Shire	0.006191	0.006118
General rates residential	14,986	14,740
General rates farm / rural	5,737	5,806
General rates commercial / industrial	3,199	3,076
Municipal charge	2,653	2,597
Garbage charge	2,932	2,838
Interest on rates and charges	146	119
Special rates and charges	-	22
<b>Total rates and charges</b>	<b>29,654</b>	<b>29,197</b>

The date of the latest general revaluation of land for rating purposes within the municipal district was 1 January 2018, and the valuation will be first applied in the rating year commencing 1 July 2018.

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.

**2.2 Statutory fees and fines**

Town planning fees	334	307
Infringements and costs	186	154
Health regulations	168	163
Building permits	103	100
Engineering fees	4	22
Freedom of information	1	0
<b>Total statutory fees and fines</b>	<b>795</b>	<b>746</b>

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

**2.3 User fees**

Aged services fees	1,329	1,022
Leisure centre fees	1,056	982
Colac Otway performing arts & cultural centre fees	493	426
Colac livestock selling centre fees	455	509
Visitor information centre fees	364	363
Parking, animal control and local laws fees	259	239
Waste disposal fees	174	192
Other fees and charges	156	219
Apollo bay harbour fees	109	66
Council properties fees and rental	64	82
Child care children's programs	40	43
Town planning and building services fees	36	48
<b>Total user fees</b>	<b>4,535</b>	<b>4,191</b>

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

Note 2 Funding for the delivery of our services	2018	2017
2.4 Funding from other levels of government	\$'000	\$'000
Grants were received in respect of the following:		
<b>Summary of grants</b>		
Commonwealth funded grants	5,776	13,093
State funded grants	10,273	10,472
<b>Total grants received</b>	<b>16,049</b>	<b>23,565</b>
<b>(a) Operating Grants</b>		
<b>Recurrent - Commonwealth Government</b>		
Victorian grants commission - untied base grant	3,784	5,334
Victorian grants commission - local roads	2,478	3,798
Family and community services	338	383
Aged and disability services	56	874
Diesel rebate scheme	37	42
Environment and protection services	15	-
<b>Recurrent - State Government</b>		
Aged and disability services	1,220	393
Maternal and child health	258	245
Recreation and culture	125	95
School crossing supervisors	66	45
Environment and protection services	60	81
Family and community services	10	1
Community safety	6	7
Port management	-	811
<b>Total recurrent operating grants</b>	<b>6,453</b>	<b>12,110</b>
<b>Non-recurrent - Commonwealth Government</b>		
Recreation and culture	-	5
<b>Non-recurrent - State Government</b>		
Bushfire recovery	1,013	2,644
Aged and disability services	178	3
Port management	20	10
Flood recovery	-	750
Business and economic services	-	188
Family and community services	-	96
<b>Total non-recurrent operating grants</b>	<b>1,211</b>	<b>3,695</b>
<b>Total operating grants</b>	<b>9,663</b>	<b>15,804</b>
<b>(b) Capital Grants</b>		
<b>Recurrent - Commonwealth Government</b>		
Roads to recovery	4,774	115
<b>Recurrent - State Government</b>		
Aged and disability services	-	15
<b>Total recurrent capital grants</b>	<b>4,774</b>	<b>130</b>
<b>Non-recurrent - Commonwealth Government</b>		
Bluewater leisure centre building upgrade	571	-
Central reserve redevelopment	-	1,712
Maternal and child health	-	19
<b>Non-recurrent - State Government</b>		
Port management	532	20
Family and community services	354	-
Recreation and culture	155	276
Bushfire recovery	-	5,430
Bluewater leisure centre building upgrade	-	115
Local roads and bridges	-	40
Business and economic services	-	10
Central reserve redevelopment	-	10
<b>Total non-recurrent capital grants</b>	<b>1,612</b>	<b>7,632</b>
<b>Total capital grants</b>	<b>6,386</b>	<b>7,761</b>

Note 2 Funding for the delivery of our services	2018	2017
<b>2.4 Funding from other levels of government (cont'd)</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(c) Unspent grants received on condition that they be spent in a specific manner</b>		
Balance at start of year	918	2,347
Received during the financial year and remained unspent at balance date	3,700	380
Received in prior years and spent during the financial year	(914)	(1,809)
Balance at year end	<u>3,705</u>	<u>918</u>

Grant income is recognised when Council obtains control of the contribution. Control is normally obtained upon receipt (or acquittal) or upon earlier notification that a grant has been secured.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in Note 2.4. The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

2.5 Contributions		
Monetary	325	320
Non-monetary	1,598	334
<b>Total contributions</b>	<u><b>1,923</b></u>	<u><b>654</b></u>

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

Drainage	710	-
Roads	302	157
Retaining Structures	273	-
Kerb and Channel	233	116
Footpath	81	61
<b>Total non-monetary contributions</b>	<u><b>1,598</b></u>	<u><b>334</b></u>

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

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

Proceeds of sale	361	291
Written down value of assets disposed	(446)	(297)
<b>Total net gain/(loss) on disposal of property, infrastructure, plant and equipment</b>	<u><b>(87)</b></u>	<u><b>(5)</b></u>

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

#### 2.7 Other income

Interest	475	355
Reimbursements	259	472
Other income	214	153
Licensing fees	19	-
Landfill rehabilitation present value movement	-	424
State Revenue Office	-	14
<b>Total other income</b>	<u><b>968</b></u>	<u><b>1,418</b></u>

Interest is recognised as it is earned.

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

<b>Note 3 The cost of delivering services</b>	<b>2018</b>	<b>2017</b>
<b>3.1 Employee costs</b>	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	13,210	13,723
Employee leave	1,888	1,555
Superannuation	1,541	1,595
Casual staff	1,119	915
Sick leave	513	577
Other employee benefits	319	232
Fringe benefits tax	149	144
WorkCover	171	189
<b>Total employee costs</b>	<b>18,910</b>	<b>18,929</b>

**(b) Superannuation**

Council made contributions to the following funds:

**Defined benefit fund**

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	120	159
	<u>120</u>	<u>159</u>

**Accumulation funds**

Employer contributions to Local Authorities Superannuation Fund (Vision Super)	849	920
Employer contributions - other funds	572	516
	<u>1,421</u>	<u>1,436</u>
Employer contributions payable at reporting date.	<u>139</u>	<u>140</u>

Refer to note 8.3 for further information relating to Council's superannuation obligations.

Note 3 The cost of delivering services	2018	2017
3.2 Materials and services	\$'000	\$'000
Contract Payments	9,188	6,755
Consultants	1,643	1,214
Services	1,426	1,316
Plant and equipment maintenance	979	1,064
Subscriptions and memberships	1,073	1,025
Utilities	1,119	933
Materials	935	2,894
Insurances	363	480
Legal costs	345	298
Advertising	301	236
Training costs	243	167
Hire costs	152	153
Agency staff	125	308
Permits	5	8
<b>Total materials and services</b>	<b>17,898</b>	<b>16,850</b>
<b>3.3 Depreciation and amortisation</b>		
Infrastructure	7,322	6,956
Plant and equipment	1,804	1,853
Property	1,308	1,236
<b>Total depreciation</b>	<b>10,433</b>	<b>10,045</b>
Intangible assets	9	35
<b>Total depreciation and amortisation</b>	<b>10,442</b>	<b>10,080</b>

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

#### 3.4 Bad and doubtful debts

<b>Bad and doubtful debts</b>		
Other debtors	3	4
<b>Total bad and doubtful debts</b>	<b>3</b>	<b>4</b>
<b>Movement in provisions for doubtful debts</b>		
Balance at the beginning of the year	10	7
New Provisions recognised during the year	8	5
Amounts already provided for and written off as uncollectible	(10)	0
Amounts provided for but recovered during the year	0	(2)
Balance at end of year	<b>8</b>	<b>10</b>

Provision for doubtful debt is recognised when there is objective evidence that an impairment loss has occurred. Bad debts are written off when identified.

**3.5 Borrowing costs**

Interest - Borrowings	223	280
<b>Total borrowing costs</b>	<b>223</b>	<b>280</b>

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.

Council does not capitalise borrowing costs.

**3.6 Other expenses**

Waste management	2,013	128
Community grants and donations	512	582
Councillors' allowances	257	242
Other	98	44
Fire services levy	63	60
Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	51	43
Rates and charges written off	37	0
Animal registration levy	17	17
Royalties and commissions	17	4
<b>Total other expenses</b>	<b>3,066</b>	<b>1,120</b>



Notes to the Financial Report  
For the Year Ended 30 June 2018

Note 4 Our financial position 4.1 Financial assets	2018 \$'000	2017 \$'000
<b>(a) Cash and cash equivalents</b>		
Cash on hand	5	5
Cash at bank	87	1,298
Term deposits	6,000	-
<b>Total cash and cash equivalents</b>	<b>6,093</b>	<b>1,304</b>
<b>(b) Other financial assets</b>		
Term deposits - current	17,419	21,315
<b>Total other financial assets</b>	<b>17,419</b>	<b>21,315</b>
<b>Total financial assets</b>	<b>23,511</b>	<b>22,619</b>

Council's cash and cash equivalents and other financial assets are subject to external restrictions that limit amounts available for discretionary use. These include:

- Trust funds and deposits (Note 4.3 (b))	392	463
- Statutory reserves (Note 8.1(b) - Recreational Lands)	725	694
- Conditional grants unspent (Note 2.4)	3,705	918
- Port of Apollo Bay reserve cash held (Note 8.1(b))	1,173	1,611
- Disaster recovery reserve (Note 8.1(b))	1,789	3,938
<b>Total restricted funds</b>	<b>7,784</b>	<b>7,624</b>
<b>Total unrestricted cash and cash equivalents</b>	<b>15,728</b>	<b>14,994</b>

**Intended allocations**

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

- Other reserve funds allocated for specific future purposes .	13,974	12,421
- Carried forward capital works committed.	2,611	2,638
<b>Total funds subject to intended allocations</b>	<b>16,586</b>	<b>15,059</b>

Refer to Note 8.1(b) for details of other reserves.

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.

**(b) Trade and other receivables**

**Current**

<i>Statutory receivables</i>		
Rates debtors	1,221	1,327
Net GST receivable	577	339
Government operating grants	590	1,964
Special rate assessment	40	43
Parking infringement debtor	34	26
Other infringements	104	78
<i>Non statutory receivables</i>		
Loans and advances to community organisations	-	-
Other debtors	623	443
Provision for doubtful debts - other debtors	(8)	(10)
<b>Total trade and other receivables</b>	<b>3,181</b>	<b>4,209</b>

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.

Notes to the Financial Report  
For the Year Ended 30 June 2018

<b>Note 4 Our financial position</b>	<b>2018</b>	<b>2017</b>
<b>4.1 Financial assets (Cont'd)</b>	<b>\$'000</b>	<b>\$'000</b>

**(c) Ageing of Receivables**

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

Current (not yet due)	479	237
Past due by up to 30 days	32	138
Past due between 31 and 180 days	9	3
Past due between 181 and 365 days	13	65
Past due by more than 1 year	74	-
<b>Total ageing of receivables</b>	<b>608</b>	<b>443</b>

**(d) Ageing of individually impaired Receivables**

At balance date, other debtors representing financial assets with a nominal value of \$8,170 (2017: \$10,064) were impaired. The amount of the provision raised against these debtors was \$8,170 (2017: \$10,064). The individual debts 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

Current (not yet due)	-	-
Past due by up to 30 days	0	-
Past due between 31 and 180 days	2	-
Past due between 181 and 365 days	4	5
Past due by more than 1 year	1	5
<b>Total ageing of individually impaired receivables</b>	<b>8</b>	<b>10</b>

	2018	2017
	\$'000	\$'000
<b>Note 4 Our financial position</b>		
<b>4.2 Non-financial assets</b>		
<b>(a) Inventories</b>		
Inventories held for distribution	8	17
Inventories held for sale	142	167
<b>Total inventories</b>	<b>151</b>	<b>183</b>

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	255	98
Accrued income	104	88
Other	8	7
<b>Total other assets</b>	<b>367</b>	<b>194</b>

**(c) Intangible assets**

Software	2	11
<b>Total intangible assets</b>	<b>2</b>	<b>11</b>

	Software \$'000	Landfill \$'000	Other \$'000	Total \$'000
<b>Gross carrying amount</b>				
Balance at 1 July 2017	616	-	-	616
Additions from internal developments	-	-	-	-
Other Additions	-	-	-	-
Balance at 1 July 2018	616	-	-	616
<b>Accumulated amortisation and impairment</b>				
Balance at 1 July 2017	606	-	-	606
Amortisation expense	9	-	-	9
Balance at 1 July 2018	614	-	-	614
Net book value at 30 June 2017	11	-	-	11
Net book value at 30 June 2018	<b>2</b>	-	-	<b>2</b>

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

Note 4 Our financial position	2018	2017
<b>4.3 Payables</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Trade and other payables</b>		
Trade payables	3,603	1,069
Accrued expenses	1,178	1,163
<b>Total trade and other payables</b>	<b>4,781</b>	<b>2,231</b>
<b>(b) Trust funds and deposits</b>		
Refundable deposits	283	255
Fire services levy	71	133
Retention amounts	37	75
<b>Total trust funds and deposits</b>	<b>392</b>	<b>463</b>

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.

**4.4 Interest-bearing liabilities**

<b>Current</b>		
Bank overdraft	-	-
Borrowings - secured	649	604
	<u>649</u>	<u>604</u>
<b>Non-current</b>		
Borrowings - secured	2,721	3,370
<b>Total interest-bearing liabilities</b>	<b>3,370</b>	<b>3,974</b>

Borrowings are secured by council rates and charges

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

Not later than one year	649	604
Later than one year and not later than five years	2,721	2,774
Later than five years	-	596
	<u>3,370</u>	<u>3,974</u>

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

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

**Note 4 Our financial position**  
**4.5 Provisions**

	Employee	Landfill restoration	Total
<b>2018</b>	<b>\$ '000</b>	<b>\$ '000</b>	<b>\$ '000</b>
Balance at beginning of the financial year	4,155	7,206	11,361
Additional provisions	1,407	1,830	3,237
Amounts used	(1,547)	-	(1,547)
Balance at the end of the financial year	<u>4,015</u>	<u>9,036</u>	<u>13,051</u>
<b>2017</b>			
Balance at beginning of the financial year	4,771	7,659	12,430
Additional provisions	1,502	-	1,502
Amounts used	(2,094)	(28)	(2,122)
Change in the discounted amount arising because of time and the effect of any change in the inflation and discount rate	(24)	(424)	(448)
Balance at the end of the financial year	<u>4,155</u>	<u>7,206</u>	<u>11,361</u>
		<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>(a) Employee provisions</b>			
<b>Current provisions expected to be wholly settled within 12 months</b>			
Annual leave		1,118	1,108
Long service leave		210	211
Time in lieu		83	83
		<u>1,411</u>	<u>1,402</u>
<b>Current provisions expected to be wholly settled after 12 months</b>			
Annual leave		182	159
Long service leave		2,209	2,358
		<u>2,391</u>	<u>2,517</u>
<b>Total current employee provisions</b>		<u>3,802</u>	<u>3,919</u>
<b>Non-current</b>			
Long service leave		214	236
<b>Total non-current employee provisions</b>		<u>214</u>	<u>236</u>
Aggregate carrying amount of employee provisions:			
Current		3,802	3,919
Non-current		214	236
<b>Total aggregate carrying amount of employee provisions</b>		<u>4,015</u>	<u>4,155</u>

*Classification of employee costs*

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.

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

The components of this current liability are measured at:

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

Key assumptions:

- discount rate
- index rate
- inflation rate
- settlement rate

Note 4 Our financial position	2018	2017
<b>4.5 Provisions (cont'd)</b>	<b>\$'000</b>	<b>\$'000</b>
<b>(b) Land fill restoration</b>		
Current	1,061	28
Non-current	7,975	7,178
	<u>9,036</u>	<u>7,206</u>
<p>Council is obligated to restore various 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 (including reasonable after-care costs). Accordingly, the estimation of the provision required is dependent on the accuracy of the forecast timing of the work, work required and related costs.</p>		
Key assumptions:		
- discount rate	2.5%	1.6%
- inflation rate	2.2%	3.1%
- estimated cost to rehabilitate	5,036	3,931
<b>Total Provisions</b>		
Current	4,863	3,947
Non-current	8,189	7,414
<b>Total Provisions</b>	<u>13,051</u>	<u>11,361</u>
<b>Note 4 Our financial position</b>	<b>2018</b>	<b>2017</b>
<b>4.6 Financing arrangements</b>	<b>\$'000</b>	<b>\$'000</b>
The Council has the following funding arrangements in place as at 30 June 2018		
Bank overdraft	-	-
Credit card facilities	50	50
<b>Total facilities</b>	<u>50</u>	<u>50</u>
Used facilities	-	-
Unused facilities	<u>50</u>	<u>50</u>

**Note 4 Our financial position**

**4.7 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.

2018	Not later than 1	Later than 1 year	Later than 2 years	Later than 5	Total
	year	and not later than	and not later than	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Operating</b>					
Consultancies	41	-	-	-	41
Garbage collection	2,258	2,258	565	-	5,081
Street lighting	600	600	-	-	1,200
Information technology	133	61	-	-	194
<b>Total</b>	<b>3,032</b>	<b>2,919</b>	<b>565</b>	<b>-</b>	<b>6,516</b>
<b>Capital</b>					
Civil works	6,316	-	-	-	6,316
<b>Total</b>	<b>6,316</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,316</b>

2017	Not later than 1	Later than 1 year	Later than 2 years	Later than 5	Total
	year	and not later than	and not later than	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Operating</b>					
Salaries	1,325	1,110	659	-	3,094
Consultancies	341	38	-	-	379
Garbage collection	2,990	3,073	2,879	-	8,942
Street lighting	67	67	-	-	134
Information technology	31	31	31	-	93
Inspection and maintenance	23	-	-	-	23
Cleaning contracts for council buildings	364	-	-	-	364
<b>Total</b>	<b>5,141</b>	<b>4,319</b>	<b>3,569</b>	<b>-</b>	<b>13,029</b>
<b>Capital</b>					
Plant and equipment	236	-	-	-	236
Civil works	2,397	5	-	-	2,402
<b>Total</b>	<b>2,633</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>2,638</b>

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	2018	2017
	\$'000	\$'000
<b>Note 4 Our financial position</b>		
<b>4.7 Commitments (cont'd)</b>		
<b>Operating lease commitments</b>		
At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities):		
Not later than one year	16	93
Later than one year and not later than five years	-	171
Later than five years	-	-
	<u>16</u>	<u>264</u>

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



Note 5 Assets we manage

5.1 Property, Infrastructure, plant and equipment

Summary of property, Infrastructure, plant and equipment

	At Fair Value 30 June 2017	Acquisitions	Contributions	Revaluation	Depreciation	Disposal	Transfers	At Fair Value 30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land	28,051	-	-	(2,682)	-	-	-	25,379
Buildings	44,647	896	-	(210)	(1,308)	-	32	44,049
Plant and Equipment	10,398	1,717	-	-	(1,804)	(448)	11	9,874
Infrastructure	211,593	9,055	1,598	(1,355)	(7,324)	-	340	213,907
Work in progress	1,037	4,563	-	-	-	-	(383)	5,218
	295,737	16,222	1,598	(4,247)	(10,435)	(448)	-	298,428

Summary of Work in Progress

	Opening WIP	Additions	Transfers	Write Offs	Closing WIP
	\$'000	\$'000	\$'000	\$'000	\$'000
Buildings	34	442	(32)	-	443
Plant and Equipment	131	51	(11)	-	171
Infrastructure	873	4,071	(340)	-	4,604
Total	1,037	4,563	(383)	-	5,218

Note 5 Assets we manage

5.1 Property, Infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment (cont'd)

	Land specialised	Land - non specialised	Land under roads	Total Land	Buildings - specialised	Buildings - Non specialised	Total Buildings	Work In Progress	Total Property
<b>(a) Property</b>									
At Fair Value 1 July 2017	6,919	20,918	224	28,061	63,132	15,198	78,330	34	106,424
Accumulated depreciation at 1 July 2017	-	-	-	-	(26,421)	(5,262)	(33,683)	-	(33,683)
	6,919	20,918	224	28,061	34,711	9,937	44,647	34	72,742
<b>Movements in fair value</b>									
Acquisition of assets at fair value	-	-	-	-	679	208	886	442	1,328
Revaluation increments/decrements	(3,550)	868	-	(2,682)	7,556	747	8,303	-	5,621
Transfers	-	-	-	-	32	-	32	(32)	-
	(3,550)	868	-	(2,682)	8,267	954	9,222	410	6,950
<b>Movements in accumulated depreciation</b>									
Depreciation and amortisation	-	-	-	-	(1,058)	(250)	(1,308)	-	(1,308)
Revaluation increments/decrements	-	-	-	-	(7,441)	(1,072)	(8,513)	-	(8,513)
	-	-	-	-	(8,499)	(1,321)	(9,820)	-	(9,820)
At Fair Value 30 June 2018	3,369	21,786	224	25,379	71,399	16,153	87,552	443	113,374
Accumulated depreciation at 30 June 2018	-	-	-	-	(36,920)	(6,583)	(43,503)	-	(43,503)
	3,369	21,786	224	25,379	34,479	9,570	44,049	443	69,871

**(b) Plant and Equipment**

	Plant machinery and equipment	Furniture fittings and furniture	Computers and telecomms	Work in Progress	Total plant and equipment
At Fair Value 1 July 2017	13,257	9,808	1,101	131	24,297
Accumulated depreciation at 1 July 2017	(5,787)	(7,035)	(846)	-	(13,767)
	7,470	2,773	155	131	10,529
<b>Movements in fair value</b>					
Acquisition of assets at fair value	1,385	83	249	51	1,768
Fair value of assets disposed	(1,113)	-	-	-	(1,113)
Transfers	-	11	-	(11)	-
	272	94	249	40	655
Depreciation and amortisation	(1,052)	(623)	(130)	-	(1,804)
Accumulated depreciation of disposals	665	-	-	-	665
Transfers	-	-	-	-	-
	(387)	(623)	(130)	-	(1,140)
At Fair Value 30 June 2018	13,529	9,902	1,350	171	24,951
Accumulated depreciation at 30 June 2018	(6,174)	(7,657)	(1,076)	-	(14,907)
	7,355	2,245	274	171	10,045

**(c) Infrastructure**

	Roads	Bridges	Footpaths and cycleways	Drainage	Other Infrastructure	Marine Infrastructure	Work In Progress	Total Infrastructure
At Fair Value 1 July 2017	220,557	21,929	22,211	40,719	5,146	14,903	873	326,336
Accumulated depreciation at 1 July 2017	(72,180)	(7,400)	(7,486)	(18,056)	(2,007)	(6,702)	-	(113,871)
	148,376	14,528	14,725	22,624	3,138	8,201	873	212,465
<b>Movements in fair value</b>								
Acquisition of assets at fair value	4,280	515	3,260	46	540	13	4,071	13,126
Contributed assets	534	-	81	710	273	-	-	1,598
Revaluation increments(decrements)	-	(5,853)	-	-	-	-	-	(5,853)
Transfers	9	-	-	66	266	-	(340)	-
	4,823	(5,337)	3,341	821	1,460	13	3,731	8,872
<b>Movements in accumulated depreciation</b>								
Depreciation and amortisation	(5,446)	(448)	(418)	(504)	(301)	(204)	-	(7,324)
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-
Revaluation increments(decrements)	-	4,487	-	-	-	-	-	4,487
	(5,446)	4,049	(418)	(504)	(301)	(204)	-	(2,827)
At Fair Value 30 June 2018	225,380	16,591	25,552	41,540	6,625	14,916	4,604	335,208
Accumulated depreciation at 30 June 2018	(77,629)	(3,351)	(7,903)	(18,559)	(2,308)	(6,906)	-	(116,697)
	147,751	13,240	17,649	22,941	4,317	8,010	4,604	218,511

**Note 5 Assets we manage**

**5.1 Property, infrastructure, plant and equipment**

*Acquisition*

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the price that would be received to sell 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 detailed in Note 5.2 have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

*Land under roads*

Council recognises all land under roads, acquired after 1 July 2008 which 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 below and are consistent with the prior year unless otherwise stated.

*Repairs and maintenance*

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

**Valuation of land and buildings**

Valuation of land and buildings were undertaken 2017-2018 by a qualified independent valuer Mr Les Speed – Certified Practising Valuer – API Member No. 623379 of Preston Paterson Rowe. 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 will have a significant impact on the fair value of these assets.

Details of the Council's land and buildings and information about the fair value hierarchy as at 30 June 2018 are as follows:

	Level 1	Level 2	Level 3
Land	-	21,786	-
Specialised land	-	-	3,369
Buildings	-	9,570	34,479
<b>Total</b>	-	<b>31,356</b>	<b>37,848</b>

**Note 5 Assets we manage**

**5.1 Property, infrastructure, plant and equipment**

Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2018 are as follows

*Valuation of infrastructure*

*Valuation of infrastructure assets has been determined in accordance with an internal valuation undertaken by Jeremy Rudd (B Eng).*

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

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

*Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2018 are as follows:*

	Level 1	Level 2	Level 3
Roads	-	-	147,751
Bridges	-	-	13,240
Footpaths and cycleways	-	-	17,649
Drainage	-	-	22,941
Other infrastructure	-	-	4,317
<b>Total</b>	-	-	<b>205,897</b>

**Description of significant unobservable inputs into level 3 valuations**

**Specialised land and land under roads** is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 5% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$1 and \$270 per square metre.

**Specialised buildings** are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement costs is calculated on a square metre basis and ranges from \$200 to \$2,250 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 40 years to 100 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of buildings are sensitive to changes in expectations or requirements that could either shorten or extend the useful lives of buildings.

**Infrastructure assets** are valued based on the depreciated replacement cost. Significant unobservable inputs include the current replacement cost and remaining useful lives of infrastructure. The remaining useful lives of infrastructure assets are determined on the basis of the current condition of the asset and vary from 5 years to 100 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

	2018	2017
	\$'000	\$'000
<b>Reconciliation of specialised land</b>		
Land under roads	224	224
Parks and reserves	3,369	3,195
<b>Total specialised land</b>	<b>3,593</b>	<b>3,419</b>

Note 5 Assets we manage	2018	2017
5.2 Investment in associates, joint arrangements and subsidiaries	\$'000	\$'000
<b>(a) Investments in associates</b>		
Investments in associates accounted for by the equity method are:		
- Corangamite Regional Library Corporation		
- Colac Community Library and Learning Centre		
<b>Corangamite Regional Library Corporation</b>		
<i>Background</i>		
The Corangamite Regional Library Corporation is a corporation owned by four (4) councils: Colac Otway Shire, Corangamite Shire, Moyne Shire and Warrambool City. Colac Otway Shire has a 24.13% equity interest in 2017/2018 (2016/2017 23.61%).		
<b>Fair value of Council's investment in Corangamite Regional Library Corporation</b>	<b>356</b>	<b>338</b>
<b>Council's share of accumulated surplus/(deficit)</b>		
Council's share of accumulated surplus/(deficit) at start of year	287	249
Reported surplus/(deficit) for year	16	32
Transfers (to) from reserves	(10)	7
Council's share of accumulated surplus/(deficit) at end of year	<b>294</b>	<b>287</b>
<b>Council's share of reserves</b>		
Council's share of reserves at start of year	51	58
Transfers (to) from reserves	10	(7)
Council's share of reserves at end of year (based on population)	<b>61</b>	<b>51</b>
<b>Movement in carrying value of specific investment</b>		
Carrying value of investment at start of year	338	307
Share of surplus/(deficit) for year	16	32
Share of asset revaluation	-	-
Change in equity share due to population change	1	-
Carrying value of investment at end of year	<b>356</b>	<b>338</b>
<b>Significant restrictions</b>		
The associate is not required to repay dividends, loans or advances to Council.		

<b>Note 5 Assets we manage</b>	<b>2018</b>	<b>2017</b>
<b>5.2 Investment in associates, joint arrangements and subsidiaries (Cont'd)</b>	<b>\$'000</b>	<b>\$'000</b>

**(a) Investments in associates**

**Colac Community Library and Learning Centre**

*Background*

The Colac Community Library and Learning Centre is a joint venture between the Colac Otway Shire and Victorian Department of Education and Early Childhood Development and the Colac Secondary College, which results in Colac Otway Shire legally owning 50% of the assets.

The venture's purpose is to construct and operate a joint use library facility.

Council's commitment to the venture is limited to providing a contribution to the construction and fitout costs. Council's share is 50% of costs.

Council accounts for its interests in the joint venture by applying the proportionate consolidation method and by combining Council's share of each of the assets, liabilities, incomes and expenses of the jointly controlled entity with similar items line by line in council's financial statements.

**Council's share of accumulated surplus/(deficit)**

Council is not entitled to a share of any accumulated surplus or deficit.

**Council's share of reserves**

Council is not entitled to a share of any reserves

**Movement in carrying value of specific investment**

Carrying value of investment at start of year	2,628	2,664
Change in asset revaluation	288	-
Write back of annual depreciation	(36)	(36)
Carrying value of investment at end of year	<u>2,880</u>	<u>2,628</u>

**Council's share of expenditure commitments**

Council is not exposed to any further expenditure commitments.

**Council's share of contingent liabilities and contingent assets**

There are no known contingencies outstanding as at 30 June 2018.

**Significant restrictions**

The joint venture is not required to repay dividends, loans or advances to Council.

**Note 6 People and relationships**

**6.1 Council and key management remuneration**

**(a) Related Parties**

*Parent entity*

Colac Otway Shire is the parent entity.

*Subsidiaries and Associates*

Interests in subsidiaries and associates are detailed in note 5.3.

**(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:

<b>Councillors</b>	Councillor Chris Potter (Mayor 01/07/17 to 06/11/17)
	Councillor Stephen Hart
	Councillor Chris Smith
	Councillor Terry Woodcroft
	Councillor Kate Hanson
	Councillor Joe McCracken (Mayor 09/11/17 to current)
	Councillor Jason Schram

**Chief Executive Officer and other Key Management Personnel**

Peter Brown (CEO)  
Robert Dobrynski (Acting CEO)  
Errol Lawrence  
Anthony McGarr  
Gareth Smith

	2018	2017
	No.	No.
Total Number of Councillors	7	11
Chief Executive Officer and other Key Management Personnel	5	8
<b>Total Key Management Personnel</b>	<b>12</b>	<b>19</b>

**(c) Remuneration of Key Management Personnel**

	2018	2018
	\$'000	\$'000
Total remuneration of key management personnel was as follows:		
Short-term benefits	847	1,116
Post-employment benefits	92	114
<b>Total</b>	<b>939</b>	<b>1,230</b>

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

	2018	2017
	No.	No.
\$1 - \$9,999	-	3
\$10,000 - \$19,999	-	3
\$20,000 - \$29,999	3	5
\$30,000 - \$39,999	2	1
\$50,000 - \$59,999	1	1
\$60,000 - \$69,999	1	-
\$70,000 - \$79,999	1	1
\$130,000 - \$139,999	-	1
\$160,000 - \$169,999	1	-
\$170,000 - \$179,999	-	2
\$190,000 - \$199,999	2	-
\$240,000 - \$249,999	-	1
<b>Total</b>	<b>12</b>	<b>19</b>

**(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 \$145,000

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

	2018	2017
	No.	No.
Income Range:		
\$145,000 - \$149,999	3	4
\$150,000 - \$159,999	1	-
<b>Total</b>	<b>4</b>	<b>4</b>

Total Remuneration for the reporting year for Senior Officers included above, amounted to:	595	585
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**Note 6 People and relationships**

**6.2 Related party disclosure**

**(a) Transactions with related parties**

2018  
\$'000

During the period Council entered into the following transactions with related parties. Note these transactions do not include transactions that are typical to any citizen and undertaken in the normal course of Council operations and are at arms-length (i.e. Rates and Charges, Bluewater memberships, etc.).

The following is the aggregate amount of transactions with the above listed **Councillors**.

Materials & Services	91
Employee benefits	41

There are no transactions with **Key Management Personnel** other than the Councillors listed above.

The following is the aggregate amount of transactions with **Investments in associates**.

Payments made to Corangamite Regional Library Corporation	695
Payments received from Corangamite Regional Library Corporation	76

**(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

The following is the aggregate amount of Outstanding balances with the above listed **Councillors**.

Accounts Receivable	-
Accounts Payable	30

There are no outstanding balances with the above listed **Key Management Personnel** other than the Councillors listed above.

**(c) Loans to/from related parties**

There are no loans in existence at balance date that have been made, guaranteed or secured by the council to any related parties.

**(d) Commitments to/from related parties**

There are no commitments in existence at balance date that have been made, guaranteed or secured by the council to a related party.



**Note 7 Managing uncertainties**

**7.1 Contingent assets and liabilities**

**(a) Contingent assets**

There are no contingent assets identified

**(b) Contingent liabilities**

**(i) Superannuation**

Council has obligations under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme, matters relating to this potential obligation are outlined in Note 8.3. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists. At this point in time it is not known if additional contributions will be required, their timing or potential amount.

**(ii) Guarantees for loans to other entities**

Council has no guarantees in place for loans to other entities

**(iii) Financial assurances**

Council is obligated under Section 194 (2A) and 21 of the Environment Protection Act 1970 to provide financial assurance for any remedial action, rehabilitation and site aftercare costs in relation to the Alvie tip site. The purpose of this provision is to ensure that Council does not impose any undue burden on Council's ratepayers to address any of these costs during the operation or after the closure of its operating landfill sites. The amount of the financial assurance provided to the Environment Protection Authority (EPA) is \$322,500.

**(iv) Contingent liability**

Council has identified a potential liability (or the probability of a material expense arising) as a result of a workplace death during the course of the 2016-2017 financial year. At the time of this report an amount and timing of any potential expense is not known.

**Note 7 Managing uncertainties**

**7.2 Change in accounting standards**

The following new AAS's have been issued that are not mandatory for the 30 June 2018 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.

*Financial Instruments - Disclosures (AASB 7) (applies 2018/19)*

This Standard requires entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed.

*Financial Instruments (AASB 9) (applies 2018/19)*

The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.

*Revenue from contracts with customers (AASB 15) (applies 2019/20 for LG sector)*

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

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

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

*Leases (AASB 16) (applies 2019/20)*

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

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

This standard replaces AASB 1004 Contributions and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable to not-for-profit entity to further its objectives.

**7.3 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 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.

**Note 7 Managing uncertainties**

**7.3 Financial instruments**

**Interest rate risk**

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

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

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

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

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

**(c) Credit risk**

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause Council to make a financial loss. Council have exposure to credit risk on some financial assets included in the balance sheet. 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 7.1(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 portfolio structure that requires surplus funds to be invested within various bands of liquid instruments;
- monitor budget to actual performance on a regular basis; and
- set limits on borrowings relating to the percentage of loans to rate revenue and percentage of loan principal repayments to rate revenue.

The Council's maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed on the face of the balance sheet and the amounts related to financial guarantees disclosed in Note 7.1(c), and is deemed insignificant based on prior periods' data and current assessment of risk.

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 4.4.

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 +0.75% and -0.75% in market interest rates (AUD) from year-end rates of 1.95%.

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

**Note 7 Managing uncertainties**

**7.4 Fair value measurement**

*Fair value hierarchy*

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

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

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

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

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

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

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

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

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

*Revaluation*

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

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. Further details regarding the fair value hierarchy are disclosed at Note 5.1 Property, infrastructure, plant and equipment.

In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis ranging from 2 to 5 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.

**7.5 Events occurring after balance date**

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

**Note 8 Other matters**  
**8.1 Reserves**

	Balance at beginning of reporting period	Increment (decrement)	Share of increment (decrement) on revaluation by an associate	Balance at end of reporting period
	\$'000	\$'000	\$'000	\$'000
<b>(a) Asset revaluation reserves</b>				
<b>2018</b>				
<b>Property</b>				
Land	19,275	(2,682)	-	16,594
Buildings	8,807	(210)	-	8,597
	28,083	(2,891)	-	25,191
<b>Plant and Equipment</b>				
Fixed plant, furniture and equipment	293	-	-	293
	293	-	-	293
<b>Infrastructure</b>				
Roads	88,521	-	-	88,521
Bridges	9,270	(1,356)	-	7,914
Footpaths and cycleways	7,312	0	-	7,312
Kerb and channelling	11,619	-	-	11,619
Marine Infrastructure	15	-	-	15
Drainage	14,341	-	-	14,341
	131,077	(1,356)	-	129,721
<b>Total asset revaluation reserves</b>	<b>159,452</b>	<b>(4,247)</b>	<b>-</b>	<b>155,205</b>
<b>2017</b>				
<b>Property</b>				
Land	19,275	-	-	19,275
Buildings	8,807	-	-	8,807
	28,083	-	-	28,083
<b>Plant and Equipment</b>				
Fixed plant, furniture and equipment	293	-	-	293
	293	-	-	293
<b>Infrastructure</b>				
Roads	88,521	-	-	88,521
Bridges	9,270	-	-	9,270
Footpaths and cycleways	3,449	3,863	-	7,312
Kerb and channelling	8,505	3,114	-	11,619
Marine Infrastructure	15	-	-	15
Drainage	14,341	-	-	14,341
	124,099	6,977	-	131,076
<b>Total asset revaluation reserves</b>	<b>152,475</b>	<b>6,977</b>	<b>-</b>	<b>159,452</b>

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

Notes to the Financial Report  
For the Year Ended 30 June 2018

Note 8 Other matters	Balance at beginning of reporting period	Transfer from accumulated surplus	Transfer to accumulated surplus	Balance at end of reporting period
8.1 Reserves (cont'd)	\$'000	\$'000	\$'000	\$'000
<b>(b) Other reserves</b>				
<b>2018</b>				
Carried Forward Projects	3,076	1,830	(936)	3,970
Port of Apollo Bay	1,611	863	(1,301)	1,173
Kerbside bin replacement	1,538	3,008	(2,767)	1,778
Long Service Leave reserve	1,999	5,984	(5,352)	2,631
Landfill rehabilitation (Alvie)	809	57	-	866
Recreational lands	694	61	(30)	725
Colac livestock selling centre	246	475	(596)	124
Rehabilitation reserve	503	143	-	646
Plant replacement	2,399	2,656	(2,973)	2,082
Tirragower Drainage Scheme	33	-	(21)	11
Local Government Financial Vehicle Sinking Funds	904	100	-	1,004
Unallocated Surplus Reserve	177	757	-	934
Contingent Liability Reserve	500	-	-	500
Strategic Projects Reserve	200	-	-	200
Financial Assistance Grants received in advance	3,114	85	-	3,199
Disaster Recovery Reserve	3,938	984	(3,133)	1,789
<b>Total Other reserves</b>	<b>21,740</b>	<b>17,003</b>	<b>(17,112)</b>	<b>21,631</b>
<b>2017</b>				
Carried Forward Projects	1,949	1,682	(555)	3,076
Port of Apollo Bay	1,420	973	(782)	1,611
Kerbside bin replacement	1,298	2,917	(2,678)	1,537
Long Service Leave reserve	2,517	5,352	(5,870)	1,999
Landfill rehabilitation (Alvie)	752	57	-	809
Recreational lands	753	16	(75)	694
Colac livestock selling centre	355	509	(618)	246
Rehabilitation reserve	360	143	-	503
Plant replacement	1,591	3,030	(2,221)	2,400
Home Care Packages	48	-	(48)	-
Tirragower Drainage Scheme	23	22	(13)	32
Local Government Financial Vehicle Sinking Funds	-	904	-	904
Unallocated Surplus Reserve	-	177	-	177
Contingent Liability Reserve	-	500	-	500
Strategic Projects Reserve	-	372	(172)	200
Financial Assistance Grants received in advance	-	3,114	-	3,114
Disaster Recovery Reserve	-	8,834	(4,896)	3,938
<b>Total Other reserves</b>	<b>11,067</b>	<b>28,601</b>	<b>(17,928)</b>	<b>21,740</b>

**Note 8 Other matters**  
**8.1 Reserves (cont'd)**

**Purposes for Reserves**

**Carried forward projects reserve**

This reserve is to recognise the funds allocated and received in prior financial periods that are committed to unfinished projects. This includes grants received in advance for specific projects and funds allocated from prior financial years for projects that are still incomplete at the end of the current financial year.

**Port of Apollo Bay reserve**

These funds are bound by an agreement with the Department of Transport concerning the operations of the Port of Apollo Bay and are the value of cash assets owed.

**Kerbside bin replacement reserve**

This reserve was set up as a source of funding the replacement of kerbside bins. All funds in this reserve are collected from the waste collection service charge and are to be used only in connection with the waste collection service.

**Long service leave reserve**

The purpose of this reserve is to ensure that the nominal long service leave balances owing to employees are maintained.

**Landfill rehabilitation (Alvie) reserve**

This reserve relates to the funds required to restore the Alvie Tip. The rehabilitation reserve will continue to grow until the Tip closes, at which time, the funds will be utilised to meet this obligation.

**Recreational lands reserve**

Statutory reserve to be used for the development of recreational reserves and public open space.

**Colac livestock selling centre reserve**

This reserve is for the purpose of funding works at the Colac Livestock Selling Centre and all funds are derived from any surplus made from the operations of the Colac Livestock Selling Centre.

**Rehabilitation reserve**

This reserve is to fund the rehabilitation of the various waste disposal sites across the Colac Otway Shire.

**Plant replacement reserve**

This reserve is to fund the replacement of council's plant at the end of their useful lives. Inflows to the reserve accrue out of any plant operating surplus with the funds then being used for the changeover of plant.

**Home Care Packages**

This reserve reflects the balance owed to clients at the end of the financial year for consumer directed care packages received from Federal Government funding.

**Tirrengower Drainage Scheme reserve**

These funds are collected via a special rate and must be expended against the purpose of the drainage scheme at Tirrengower.

**Scholarship reserve**

This reserve holds any unspent funds received by Council on behalf of the annual Barnard Trust distribution.

**Local Government Financing Vehicle Sinking Fund**

This reserve has been established to set aside monies to fund the repayment of the Local government Financing Vehicle (LGFV) bonds as the bonds come due for payment.

**Unallocated Surplus reserve**

These funds are the funds that remain unallocated at the end of the financial year to support the delivery of the services and activities as determined through Long Term Financial Planning.

**Contingent liability reserve**

This reserve allows for the payment of a potential obligation that may be incurred depending on the outcome a future event.

**Strategic Projects Reserve**

The purpose of this reserve is for strategic projects and acquisitions of new or expanded assets that are of an intergenerational nature.

**Financial Assistance Grants received in advance**

The purpose of this reserve is to set aside any Commonwealth Financial Assistance Grant funding received in advance of its intended allocation.

**Disaster Recovery reserve**

The purpose of this reserve is to set aside funds received in advance for use in the recovery of Disaster events. The reserve may only be used in accordance with the terms of the disaster relief funding agreements.

	2018	2017
	\$'000	\$'000
<b>Note 8 Other matters</b>		
<b>8.2 Reconciliation of cash flows from operating activities to surplus/(deficit)</b>		
Surplus/(deficit) for the year	3,313	12,535
Depreciation/amortisation	10,442	10,080
Finance costs	223	280
Share of result of associate	(17)	(32)
Profit/(loss) on disposal of property, infrastructure, plant and equipment	87	5
Contributions - non monetary assets	(1,598)	(334)
<b>Change in assets and liabilities:</b>		
(Increase)/decrease in trade and other receivables	1,028	(1,659)
(Increase)/decrease in prepayments	(157)	(30)
(Increase)/decrease in accrued income	(16)	(48)
(Decrease)/increase in trade and other payables	2,534	(578)
(Decrease)/increase in accrued expenses	16	603
(Increase)/decrease in inventories	33	(44)
(Increase)/decrease in trust funds & deposits	(72)	(217)
(Decrease)/increase in provisions	1,690	(1,068)
Net cash provided by/(used in) operating activities	<u>17,505</u>	<u>19,493</u>

### 8.3 Superannuation

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

#### Accumulation

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

#### Defined Benefit

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

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

#### Funding arrangements

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

As at 30 June 2017, a full triennial actuarial investigation was completed. The vested benefit index (VBI) of the Defined Benefit category of which Council is a contributing employer was 103.1%. To determine the VBI, the Fund Actuary used the following long-term assumptions:

Net investment returns 7.0% pa

Salary information 4.25% pa

Price inflation (CPI) 2.5% pa.

Vision Super has advised that the estimated VBI as at 30 June 2018 is 106.0%.

The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2017 actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.



**Note 8 Other matters**

**8.3 Superannuation (Cont'd)**

**Employer contributions**

**Regular contributions**

On the basis of the results of the 2017 triennial actuarial investigation conducted by the Fund Actuary, Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2018, this rate was 9.5% of members' salaries (9.5% in 2016/2017). This rate will increase in line with any increases in the SG contribution rate. In addition, Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

**Funding calls**

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

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

**2017 triennial actuarial investigation surplus amounts**

The Fund's triennial investigation as at 30 June 2017 identified the following in the defined benefit category of which Council is a contributing employer:

- A VBI surplus of \$69.8 million
- A total service liability surplus of \$193.5 million.
- A discounted accrued benefits surplus of \$228.8 million.

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 2017. Council was notified of the 30 June 2017 VBI during August 2017.

**2018 interim actuarial investigation**

An interim actuarial investigation will be conducted for the Fund's position as at 30 June 2018. It is anticipated that this actuarial investigation will be completed in December 2018.

**Note 8 Other matters**

**8.4 Correction of prior period errors**

**(a) Impact of correction of an error on the operating statement**

The Port of Apollo Bay operating activities are controlled by the Colac Otway Shire Council in accordance with the management agreement but due to an inadvertent human error, Council did not include the full impact of the Port of Apollo Bay in its financial statements for the 2016-17 reporting period.

	For the period ended 30 June 2018	For the period ended 30 June 2017 (restated)	Consolidation of Port of Apollo Bay	For the period ended 30 June 2017 as previously presented
	\$'000	\$'000	\$'000	\$'000
<b>Income</b>				
Rates and charges	29,654	29,197	-	29,197
Statutory fees and fines	795	746	-	746
User fees	4,535	4,191	-	4,191
Grants - operating	9,663	15,804	-	15,804
Grants - capital	6,386	7,761	-	7,761
Contributions - monetary	325	320	-	320
Contributions - non-monetary	1,598	334	-	334
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	(87)	(5)	-	(5)
Share of net loss/(gain) of associates and joint ventures	17	32	-	32
Other income	968	1,418	-	1,418
<b>Total income</b>	<b>53,855</b>	<b>59,798</b>	<b>-</b>	<b>59,798</b>
<b>Expenses</b>				
Employee costs	18,910	18,929	-	18,929
Materials and services	17,898	16,850	-	16,850
Bad and doubtful debts	3	4	-	4
Depreciation and amortisation	10,442	10,080	442	9,638
Borrowing costs	223	280	-	280
Other expenses	3,066	1,120	-	1,120
<b>Total expenses</b>	<b>50,542</b>	<b>47,263</b>	<b>442</b>	<b>46,821</b>
<b>Surplus/(deficit) for the year</b>	<b>3,313</b>	<b>12,535</b>	<b>(442)</b>	<b>12,977</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to surplus or deficit in future periods</b>				
Net asset revaluation increment/(decrement)	(4,247)	6,977	-	6,977
<b>Total comprehensive result</b>	<b>(934)</b>	<b>19,512</b>	<b>(442)</b>	<b>19,954</b>

8.4 Correction of prior period errors (cont'd)  
(b) Impact of correction of an error on the balance sheet

	For the period ended 30 June 2018	For the period ended 30 June 2017 (restated)	Consolidation of Port of Apollo Bay	For the period ended 30 June 2017 as previously presented
	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	6,093	1,304	-	1,304
Other financial assets	17,419	21,390	-	21,390
Current Trade and other receivables	3,181	4,209	-	4,209
Inventories	151	183	-	183
Other assets	367	194	-	194
<b>Total current assets</b>	<b>27,209</b>	<b>27,280</b>	<b>-</b>	<b>27,280</b>
<b>Non-current assets</b>				
Investment in associates and joint ventures	356	338	-	338
Property, infrastructure, plant & equipment	298,426	295,733	15,381	280,352
Intangible assets	2	11	-	11
<b>Total non-current assets</b>	<b>298,784</b>	<b>296,082</b>	<b>15,381</b>	<b>280,701</b>
<b>Total assets</b>	<b>325,993</b>	<b>323,363</b>	<b>15,381</b>	<b>307,982</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Current Trade and other payables	4,781	2,231	(593)	2,824
Trust funds and deposits	392	463	-	463
Current Provisions	4,863	3,947	-	3,947
Current Interest-bearing loans and borrowings	649	604	-	604
<b>Total current liabilities</b>	<b>10,684</b>	<b>7,246</b>	<b>(593)</b>	<b>7,839</b>
<b>Non-current liabilities</b>				
Non-current Provisions	8,189	7,414	-	7,414
Non-current Interest-bearing loans and borrowings	2,721	3,370	-	3,370
<b>Total non-current liabilities</b>	<b>10,910</b>	<b>10,784</b>	<b>-</b>	<b>10,784</b>
<b>Total liabilities</b>	<b>21,594</b>	<b>18,029</b>	<b>(593)</b>	<b>18,622</b>
<b>Net assets</b>	<b>304,399</b>	<b>305,333</b>	<b>15,974</b>	<b>289,359</b>
<b>Equity</b>				
Accumulated surplus/(deficit)	127,563	124,141	12,434	111,707
Reserves	176,836	181,192	3,540	177,652
<b>Total Equity</b>	<b>304,399</b>	<b>305,333</b>	<b>15,974</b>	<b>289,359</b>

## Performance Statement

For the year ended 30 June 2018

### Description of Municipality

Colac Otway Shire is situated about 160 kilometers south-west of the Melbourne CBD and approximately an hour to the large regional cities of Geelong to the east and Warrnambool to the west. Colac Otway Shire has a unique and precious natural environment containing some of the most picturesque scenery in the State. A large proportion is Forest Park and National Park, but it also includes beaches, rugged coastline, rainforests, waterfalls, volcanic lakes and craters.

The Colac Otway Shire estimated resident population is 21,436 as at 30 June 2018 and is forecast to grow to 23,725 by 2036. Approximately 83.3% of the Shire's residents were born in Australia and of those born overseas; only 4.2% came from non-English speaking backgrounds. The forecast through to 2036 is for a growth of approximately 10.24%; however we expect this to increase once the dual highway to Geelong is completed as it will open up the region, making commuting an attractive option for both the local population and for those seeking a lifestyle change. With the attraction of affordable housing and great lifestyle, we are ideally located for those looking for a rural idyll within a comfortable commuting distance to major centres.

The five major industry sectors are:

- Manufacturing (1,291 persons or 13.5%)
- Health Care & Social Assistance (1,209 persons or 12.7%)
- Agriculture, Forestry & Fishing (1,191 persons or 12.5%)
- Retail Trade (872 persons or 9.1%)
- Tourism (835 persons or 8.7%)

In combination, these five industries employed a total of 5,398 people or 56.5% of the employed resident population.

Colac Otway Shire Council provides more than 90 high quality services and facilities across a range of areas including Community Services, Environmental Services, Customer Services, Health and Wellbeing, Planning and Building, Economic Development and Tourism, Parks and Gardens and more.

**Sustainable Capacity Indicators**  
For the year ended 30 June 2018

<i>Indicator/measure</i>	Results 2015	Results 2016	Results 2017	Results 2018	Material Variations and Comments
<b>Population</b> <i>Expenses per head of municipal population</i> [Total expenses / Municipal population]	\$2,092.24	\$2,197.93	\$2,192.10	\$2,361.85	
<b>Infrastructure per head of municipal population</b> [Value of infrastructure / Municipal population]	\$12,728.74	\$12,292.96	\$11,996.72	\$12,737.77	
<b>Population density per length of road</b> [Municipal population / Kilometres of local roads]	12.56	12.51	13.18	13.22	
<b>Own-source revenue</b> <i>Own-source revenue per head of municipal population</i> [Own-source revenue / Municipal population]	\$1,543.78	\$1,655.79	\$1,664.87	\$1,677.98	
<b>Recurrent grants</b> <i>Recurrent grants per head of municipal population</i> [Recurrent grants / Municipal population]	\$697.19	\$541.20	\$573.06	\$617.03	
<b>Disadvantage</b> <i>Relative Socio-Economic Disadvantage</i> [Index of Relative Socio-Economic Disadvantage by decile]	3.00	3.00	3.00	3.00	

**Definitions**

"adjusted underlying revenue" means total income other than—

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

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

"local road" means a sealed or unsealed road for which the council is the responsible road authority under the Road Management Act 2004

**"population"** means the resident population estimated by council

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

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

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

**"unrestricted cash"** means all cash and cash equivalents other than restricted cash

## Service Performance Indicators

For the year ended 30 June 2018

Service/indicator/measure	Results 2015	Results 2016	Results 2017	Results 2018	Material Variations and Comments
<b>Aquatic Facilities</b> <b>Utilisation</b> <i>Utilisation of aquatic facilities</i> [Number of visits to aquatic facilities / Municipal population]	0.09	2.73	6.08	5.01	It can be difficult to accurately determine aquatic visitation and net costs in a multi-faceted leisure facility. A management review has been conducted in 2017-18 of attendance and financial reporting systems to provide a more accurate assessment of net costs and visitation for indoor aquatic services.
<b>Animal Management</b> <b>Health and safety</b> <i>Animal management prosecutions</i> [Number of successful animal management prosecutions]	27.00	13.00	10.00	6.00	The number of cases prosecuted continues to reduce due to public awareness that Council has the capacity, ability and willingness to prosecute where necessary.
<b>Food Safety</b> <b>Health and safety</b> <i>Critical and major non-compliance outcome notifications</i> [Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises followed up / Number of critical non-compliance outcome notifications and major non-compliance notifications about a food premises] x100	80.77%	90.91%	81.25%	100.00%	Compliance activity prioritised in allocation of resources to ensure all major and critical non-compliance Food Premises are followed up.
<b>Governance</b> <b>Satisfaction</b> <i>Satisfaction with council decisions</i> [Community satisfaction rating out of 100 with how council has performed in making decisions in the interest of the community]	48.00	43.00	45.00	49.00	Improvements with Council's community consultation and engagement process have increased the satisfaction with Council decisions.

<b>Service/indicator/measure</b>	<b>Results 2015</b>	<b>Results 2016</b>	<b>Results 2017</b>	<b>Results 2018</b>	<b>Material Variations and Comments</b>
<b>Libraries</b> <b>Participation</b> <i>Active library members</i> [Number of active library members / Municipal population] x100	17.61%	17.87%	16.70%	16.04%	Active library members does not include those members who only access e-resources because of inability to count these seperately.
<b>Maternal and Child Health (MCH)</b> <b>Participation</b> <i>Participation in the MCH service</i> [Number of children who attend the MCH service at least once (in the year) / Number of children enrolled in the MCH service] x100	74.83%	71.90%	69.68%	70.85%	
<b>Participation</b> <i>Participation in the MCH service by Aboriginal children</i> [Number of Aboriginal children who attend the MCH service at least once (in the year) / Number of Aboriginal children enrolled in the MCH service] x100	59.26%	58.33%	60.38%	66.67%	Increased work with the new Colac Gathering Place and Maternal Child Health initiatives to review all Aboriginal and Torres Strait Islander histories has resulted in an increased participation rate.
<b>Roads</b> <b>Satisfaction</b> <i>Satisfaction with sealed local roads</i> [Community satisfaction rating out of 100 with how council has performed on the condition of sealed local roads]	44.00	37.00	42.00	39.00	



Service/indicator/measure	Results 2015	Results 2016	Results 2017	Results 2018	Material Variations and Comments
<b>Statutory Planning</b> <b>Decision making</b> Council planning decisions upheld at VCAT [Number of VCAT decisions that did not set aside council's decision in relation to a planning application / Number of VCAT decisions in relation to planning applications] x100	100.00%	100.00%	100.00%	100.00%	Positive result reflects quality of decisions made by Council, the majority of which are made under delegation by officers.
<b>Waste Collection</b> <b>Waste diversion</b> Kerbside collection waste diverted from landfill [Weight of recyclables and green organics collected from kerbside bins / Weight of garbage, recyclables and green organics collected from kerbside bins] x100	55.52%	43.32%	47.09%	47.79%	The increase in 2018 reflects the gradual reinstatement of services to some of the bushfire affected residents as properties re-build, also includes an increase of 175 new kerbside services.

#### Definitions

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

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

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

"**annual report**" means an annual report prepared by a council under sections 131, 132 and 133 of the *Local Government Act 1989*

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

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

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

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

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

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

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

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

**"population"** means the resident population estimated by council

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

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

## Financial Performance Indicators

For the year ended 30 June 2018

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Efficiency</b>									
<b>Revenue level</b>									
<i>Average residential rate per residential property assessment</i> [Residential rate revenue / Number of residential property assessments]	\$1,461.91	\$1,598.36	\$1,650.83	\$1,664.15	\$1,738.01	\$1,756.96	\$1,776.11	\$1,795.47	
<b>Expenditure level</b>									
<i>Expenses per property assessment</i> [Total expenses / Number of property assessments]	\$2,859.53	\$2,967.93	\$3,087.23	\$3,308.20	\$3,101.91	\$3,156.21	\$3,212.59	\$3,273.24	
<b>Workforce turnover</b>									
<i>Resignations and terminations compared to average staff</i> [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100	8.50%	11.34%	23.77%	17.93%	14.90%	14.79%	14.79%	14.79%	The 2017-18 result was influenced by the continued organisational changes that commenced from the previous year, together with the general cyclical staff turnover including some long term staff who retired throughout the year.

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Liquidity</b> <b>Working capital</b> <i>Current assets compared to current liabilities</i> [Current assets / Current liabilities] x100	226.47%	197.53%	348.05%	254.66%	186.60%	162.35%	126.79%	87.44%	<p>The decrease in working capital is due to increased trade payables, mainly relating to capital works progress payments and an increase in the current landfill restoration provision by \$1.0m for the estimated cost of monitoring and undertaking future rehabilitation works required to reinstate landfill sites to a suitable standard. Assumptions applied to forecast data are currently under further review.</p>
<b>Unrestricted cash</b> <i>Unrestricted cash compared to current liabilities</i> [Unrestricted cash / Current liabilities] x100	70.19%	68.22%	192.27%	9.42%	108.57%	70.27%	33.93%	0.73%	<p>The result has reduced from 192.27% to 9.42% due to term deposits held for greater than 90 days of \$17.4m reclassified as Other financial assets in 2017-18, which is excluded from Unrestricted cash. Unrestricted cash and other financial assets is largely set aside in reserves for specific purposes and has increased slightly to \$15.7m in 2017-18 while trade payables increased \$2.4m and the current landfill restoration provision was increased by \$1.0m for the estimated cost of monitoring and undertaking future rehabilitation works required to reinstate landfill sites to a suitable standard. Assumptions applied to forecast data are currently under further review.</p>

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Obligations</b> <b>Asset renewal</b> <i>Asset renewal compared to depreciation</i> [Asset renewal expense / Asset depreciation] x100	101.51%	97.58%	97.66%	110.56%	82.42%	81.23%	80.05%	78.90%	Council increased its asset renewal program by 2.1m in 2017-18 mainly due to undertaking the Colac CBD and entrances project for \$2.5m. The forecast data is an estimate based on the budgeted capital works program.
<b>Loans and borrowings</b> <i>Loans and borrowings compared to rates</i> [Interest bearing loans and borrowings / Rate revenue] x100	20.15%	17.29%	13.67%	11.36%	9.02%	3.33%	2.35%	1.86%	Council has low overall debt levels and a prudent debt management strategy of no new loans.
<i>Loans and borrowings repayments compared to rates</i> [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100	3.37%	3.31%	3.71%	2.79%	2.75%	5.87%	1.08%	0.57%	Council has low overall debt levels and a prudent debt management strategy of no new loans.

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Indebtedness</b> <i>Non-current liabilities compared to own source revenue</i> [Non-current liabilities / Own source revenue] x100	28.23%	25.54%	30.33%	30.33%	23.52%	22.80%	22.48%	21.00%	Council increased the non-current landfill restoration provision by \$0.8m in 2017-18 for the estimated cost of monitoring and undertaking future rehabilitation works required to reinstate landfill sites to a suitable standard. Assumptions applied to forecast data are currently under further review.
<b>Operating position</b> <b>Adjusted underlying result</b> <i>Adjusted underlying surplus (or deficit)</i> [Adjusted underlying surplus (deficit) / Adjusted underlying revenue] x100	10.34%	1.88%	9.27%	0.11%	-5.11%	1.74%	2.23%	2.68%	The decrease is mainly due to higher Victorian Grants Commission grants received in advance in 2016-17. Assumptions applied to forecast data are currently under further review.
<b>Stability</b> <b>Rates concentration</b> <i>Rates compared to adjusted underlying revenue</i> [Rate revenue / Adjusted underlying revenue] x100	55.66%	60.86%	56.35%	58.51%	66.98%	62.21%	61.48%	60.72%	Assumptions applied to forecast data are currently under further review.

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Rates effort</b> <i>Rates compared to property values</i> [Rate revenue / Capital improved value of rateable properties in the municipality] x100	0.49%	0.48%	0.50%	0.51%	0.49%	0.50%	0.50%	0.51%	

**Definitions**

**"adjusted underlying revenue"** means total income other than—

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

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

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

**"current assets"** has the same meaning as in the AAS

**"current liabilities"** has the same meaning as in the AAS

**"non-current assets"** means all assets other than current assets

**"non-current liabilities"** means all liabilities other than current liabilities

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

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

"**population**" means the resident population estimated by council

"**rate revenue**" means revenue from general rates, municipal charges, service rates and service charges

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

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

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

"**unrestricted cash**" means all cash and cash equivalents other than restricted cash





# Colac Otway

SHIRE

Port of Apollo Bay  
ANNUAL FINANCIAL REPORT

*For the Year Ended 30 June 2018*

**Port of Apollo Bay  
Financial Report  
Table of Contents**

	Page
<b>FINANCIAL REPORT</b>	
Certification of the Financial Statements	1
Victorian Auditor-General's Office Report	2
<b>Financial Statements</b>	
Comprehensive Income Statement	3
Balance Sheet	4
Statement of Changes in Equity	5
Statement of Capital Works	6
<b>Overview</b>	<b>7</b>
<b>Notes to Financial Statements</b>	
Note 1	8
Performance against budget	8
1.1. Income and expenditure	8
1.2. Capital works	10
Note 2	12
Funding for the delivery of our services	12
2.1. User fees	12
2.2. Funding from other levels of government	12
2.3. Other income	12
Note 3	13
The cost of delivering services	13
3.1. Employee costs	13
3.2. Materials and services	13
3.3. Depreciation and amortisation	13
3.4. Other expenses	13
Note 4	14
Our financial position	14
4.1. Financial assets	14
4.2. Provisions	15
4.3. Commitments	17
Note 5	17
Assets we manage	17
5.1. Property infrastructure plant and equipment	17
Note 6	21
Managing uncertainties	21
6.1. Contingent assets and liabilities	21
6.2. Change in accounting standards	21
6.3. Financial instruments	21
6.4. Fair value measurement	23
6.5. Events occurring after balance date	23
Note 7	24
Other matters	24
7.1. Reserves	24

### 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*, Australian Accounting Standards and other mandatory professional reporting requirements.

Lynne Stevenson B.Com, CPA  
**Principal Accounting Officer**  
Date : 12 September 2018  
Colac

In our opinion the accompanying financial statements present fairly the financial transactions of the Colac Otway Shire Council for the year ended 30 June 2018 and the financial position of the Council as at that date.

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

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

Cr Stephen Hart  
**Councillor**  
Date : 12 September 2018  
Colac

Cr Jason Schram  
**Councillor**  
Date : 12 September 2018  
Colac

Peter Brown  
**Chief Executive Officer**  
Date : 12 September 2018  
Colac

Victorian Auditor-General's Office Report

**Comprehensive Income Statement  
For the Year Ended 30 June 2018**

	Note	2018 \$'000	2017 \$'000
<b>Income</b>			
User fees	<a href="#">2.1</a>	109	112
Grants - operating	<a href="#">2.2</a>	20	821
Grants - capital	<a href="#">2.3</a>	532	20
Other income	<a href="#">2.4</a>	31	19
<b>Total income</b>		<b>692</b>	<b>973</b>
<b>Expenses</b>			
Employee costs	<a href="#">3.1</a>	475	387
Materials and services	<a href="#">3.2</a>	688	262
Depreciation and amortisation	<a href="#">3.3</a>	537	442
Other expenses	<a href="#">3.4</a>	1	0
<b>Total expenses</b>		<b>1,701</b>	<b>1,091</b>
<b>Surplus/(deficit) for the year</b>		<b>(1,009)</b>	<b>(118)</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to surplus or deficit in future periods</b>			
Net asset revaluation increment/(decrement)	<a href="#">8.1</a>	(3,432)	-
<b>Total comprehensive result</b>		<b>(4,440)</b>	<b>(118)</b>

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

**Balance Sheet**  
**As at 30 June 2018**

	Note	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Current Trade and other receivables	4.1(a)	1,173	1,738
<b>Total current assets</b>		<b>1,173</b>	<b>1,738</b>
<b>Non-current assets</b>			
Property, infrastructure, plant & equipment	5.1	11,513	15,381
<b>Total non-current assets</b>		<b>11,513</b>	<b>15,381</b>
<b>Total assets</b>		<b>12,686</b>	<b>17,119</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current Provisions	4.2	17	12
<b>Total current liabilities</b>		<b>17</b>	<b>12</b>
<b>Non-current liabilities</b>			
Non-current Provisions	4.2	5	2
<b>Total non-current liabilities</b>		<b>5</b>	<b>2</b>
<b>Total liabilities</b>		<b>22</b>	<b>15</b>
<b>Net assets</b>		<b>12,664</b>	<b>17,104</b>
<b>Equity</b>			
Accumulated surplus/(deficit)		12,566	13,565
Reserves	7.1(a)	108	3,540
<b>Total Equity</b>		<b>12,664</b>	<b>17,104</b>

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

**Statement of Changes in Equity  
For the Year Ended 30 June 2018**

	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000
<b>2018</b>				
Balance at beginning of the financial year		17,104	13,565	3,540
Accumulated surplus/(deficit)		(1,009)	(1,009)	-
Asset revaluation increment/(Decrement)	<a href="#">7.1 (a)</a>	(3,432)	-	(3,432)
<b>Balance at end of the financial year</b>		<b>12,664</b>	<b>12,556</b>	<b>108</b>

	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000
<b>2017</b>			
Balance at beginning of the financial year	17,223	13,683	3,540
Accumulated surplus/(deficit)	(118)	(118)	-
<b>Balance at end of the financial year</b>	<b>17,104</b>	<b>13,565</b>	<b>3,540</b>

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

**Statement of Capital Works  
For the Year Ended 30 June 2018**

	2018 \$'000	2017 \$'000
<b>Property</b>		
Buildings	62	-
<b>Total property</b>	<u>62</u>	<u>-</u>
<b>Plant and equipment</b>		
Plant, machinery and equipment	25	138
<b>Total plant and equipment</b>	<u>25</u>	<u>138</u>
<b>Infrastructure</b>		
Marine Infrastructure	13	-
<b>Total infrastructure</b>	<u>13</u>	<u>-</u>
<b>Total capital works expenditure</b>	<u>100</u>	<u>138</u>
<b>Represented by:</b>		
New asset expenditure	12	-
Asset renewal expenditure	87	138
<b>Total capital works expenditure</b>	<u>100</u>	<u>138</u>

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



**OVERVIEW**

**Introduction**

The financial report is for the Port of Apollo Bay Facility, which is managed by the Colac Otway Shire Council on behalf of Transport for Victoria. This report is prepared for the use solely by TFV only and consists of a comprehensive income statement, balance sheet, statement of change in equity, cash flow statement, and notes accompanying this report which comply with Australian Accounting Standards. The Council's main office is located at 2-6 Rae Street Colac Victoria 3250.

**Statement of compliance**

This financial report is a special purpose financial report that consists of a Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, and Notes accompanying these financial statements. The special purpose financial report complies with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and Australian Accounting interpretations. The special purpose financial report complies with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the Local Government Act 1989, and the Local Government (Planning and Reporting) Regulations 2014 and has been prepared in accordance with the requirements of the management agreement signed with Transport for Victoria 30 June 2011.

The following information is provided :

External Auditor : Auditor-General of Victoria  
Internal Auditor : Crowe Horwath  
Solicitors: Maddocks Lawyers Harwood Andrews Pty Ltd  
Bankers : Commonwealth Bank  
Website address : [www.colacotway.vic.gov.au](http://www.colacotway.vic.gov.au)

**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 5.2)
- the determination of depreciation for buildings, other infrastructure, marine infrastructure and plant and equipment (refer to Note 5.1)
- the determination of employee provisions (refer to Note 4.2 (a))

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

**Note 1 Performance against budget**

The budget comparison notes compare the Port'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 \$500,000 where further explanation is warranted. Explanations have not been provided for variations below the materiality threshold unless the variance is considered to be material because of its nature.

The budget figures detailed below are those adopted by Council, the Port Manager, on 28 June 2017. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for income and expense targets in this budget in order to meet the Port's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

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

1.1 Income and Expenditure	Budget 2018 \$'000	Actual 2018 \$'000	Variance 2018 \$'000	Ref
<b>Income</b>				
User fees	113	109	(3)	
Grants - operating	805	20	(785)	1
Grants - capital	276	532	256	2
Other income	20	31	11	3
<b>Total income</b>	<u>1,213</u>	<u>692</u>	<u>(521)</u>	
<b>Expenses</b>				
Employee costs	533	475	58	
Materials and services	435	688	(253)	4
Depreciation and amortisation	482	537	(55)	5
Other expenses	39	1	38	6
<b>Total expenses</b>	<u>1,489</u>	<u>1,701</u>	<u>(213)</u>	
	-			
<b>Surplus/(deficit) for the year</b>	<u>(275)</u>	<u>(1,009)</u>	<u>(734)</u>	

**Note 1 Performance against budget**  
**1.1 Income and Expenditure (cont'd)**  
**(f) Explanation of material variations**

<b>Variance Ref</b>	<b>Item</b>	<b>Explanation</b>
1	Grants - operating	Operational subsidy not received from the Department of Transport.
2	Grants - capital	Increased capital grant funding was received for renewal of the Harbour navigation lights and boat launching facility.
3	Other income	Clearance of superfluous minor plant and equipment sold in 2017-18 for a total of \$17,000.
4	Materials and services	Increased contractors and materials purchased, mainly relating to dredging operations and temporary replacement of vacant Port Coordinator position.
5	Depreciation and amortisation	Depreciation of the fleet is higher mainly due to unbudgeted renewal works relating to the dredge in 2016-17.
6	Other expenses	External audit fee not accrued due to audit undertaken as part of Council audit.

Note 1 Performance against budget

1.2 Capital Works	Budget 2018 \$'000	Actual 2018 \$'000	Variance 2018 \$'000	Ref
<b>Property</b>				
Buildings	50	62	12	7
<b>Total Buildings</b>	<u>50</u>	<u>62</u>	<u>12</u>	
<b>Total Property</b>	<u>50</u>	<u>62</u>	<u>12</u>	
<b>Plant and Equipment</b>				
Plant, machinery and equipment	26	25	(1)	
<b>Total Plant and Equipment</b>	<u>26</u>	<u>25</u>	<u>(1)</u>	
<b>Infrastructure</b>				
Marine Infrastructure	-	13	13	8
<b>Total Infrastructure</b>	<u>-</u>	<u>13</u>	<u>13</u>	
<b>Total Capital Works Expenditure</b>	<u>76</u>	<u>100</u>	<u>24</u>	
<b>Represented by:</b>				
New asset expenditure	-	12	12	
Asset renewal expenditure	76	87	12	
<b>Total Capital Works Expenditure</b>	<u>76</u>	<u>100</u>	<u>24</u>	

**Note 1 Performance against budget**

**1.2 Capital Works (cont'd)**

**(i) Explanation of material variations**

<b>Variance Ref</b>	<b>Item</b>	<b>Explanation</b>
7	Buildings	Unbudgeted works on the Apollo Bay Harbour Facilities of \$12,000 was undertaken in 2017-18.
8	Plant, machinery and equipment	Unbudgeted renewal of the Apollo Bay Harbour lead lights of \$13,000 was undertaken in 2017-18.

<b>Note 2 Funding for the delivery of our services</b>	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>

**2.1 User fees**

Apollo bay harbour fees	109	112
<b>Total user fees</b>	<b>109</b>	<b>112</b>

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

**2.2 Funding from other levels of government**

Grants were received in respect of the following:

**Summary of grants**

State funded grants	552	841
<b>Total grants received</b>	<b>552</b>	<b>841</b>

**(a) Operating Grants**

**Recurrent - State Government**

Operational subsidy	-	811
<b>Total recurrent operating grants</b>	<b>-</b>	<b>811</b>

**Non-recurrent - State Government**

Marine infrastructure maintenance	20	10
<b>Total non-recurrent operating grants</b>	<b>20</b>	<b>10</b>
<b>Total operating grants</b>	<b>20</b>	<b>821</b>

**(b) Capital Grants**

**Non-recurrent - Commonwealth Government**

**Non-recurrent - State Government**

Marine infrastructure	532	20
<b>Total non-recurrent capital grants</b>	<b>532</b>	<b>20</b>
<b>Total capital grants</b>	<b>532</b>	<b>20</b>

Grant income is recognised when Council obtains control of the contribution. Control is normally obtained upon receipt (or acquittal) or upon earlier notification that a grant has been secured.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were undischarged at balance date, the unused grant or contribution is disclosed in Note 2.2. The note also discloses the amount of unused grant or contribution from prior years that was expended on the Port's operations during the current year.

**2.3 Other income**

Sale proceeds minor equipment	17	-
Interest	14	19
<b>Total other income</b>	<b>31</b>	<b>19</b>

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.

<b>Note 3 The cost of delivering services</b>	<b>2018</b>	<b>2017</b>
<b>3.1 Employee costs</b>	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	332	312
Casual staff	50	9
Employee leave	54	15
Superannuation	24	25
Other employee benefits	0	1
<b>Total employee costs</b>	<b>475</b>	<b>387</b>
<b>(b) Superannuation</b>		
Council made contributions to the following funds:		
<b>Accumulation funds</b>		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	7	5
Employer contributions - other funds	17	20
	<u>24</u>	<u>25</u>
Employer contributions payable at reporting date.	<u>2</u>	<u>2</u>
<b>Note 3 The cost of delivering services</b>		
<b>3.2 Materials and services</b>		
Contract Payments	545	102
Plant and equipment maintenance	52	14
Materials	49	118
Utilities	29	15
Services	5	4
Training costs	4	1
Advertising	2	0
Insurances	1	1
Consultants	1	-
Agency staff	-	7
<b>Total materials and services</b>	<b>688</b>	<b>262</b>
<b>3.3 Depreciation and amortisation</b>		
Infrastructure	410	355
Plant and equipment	122	83
Property	5	5
<b>Total depreciation and amortisation</b>	<b>537</b>	<b>442</b>
<i>Refer to note 5.1 for a more detailed breakdown of depreciation and amortisation charges and accounting policy.</i>		
<b>3.4 Other expenses</b>		
Other	1	0
<b>Total other expenses</b>	<b>1</b>	<b>0</b>

Note 4 Our financial position	2018	2017
4.1 Financial assets	\$'000	\$'000
<b>(a) Trade and other receivables</b>		
<b>Current</b>		
Other debtors		
Port Manager holdings	1,173	1,738
<b>Total trade and other receivables</b>	<u>1,173</u>	<u>1,738</u>
evidence that an impairment has occurred.		
<b>(b) Ageing of Receivables</b>		
At balance date other debtors representing financial assets were past due but not impaired. The ageing of the Port's trade & other receivables was:		
Current (not yet due)	1,173	1,738
<b>Total ageing of receivables</b>	<u>1,173</u>	<u>1,738</u>
<b>(d) Ageing of individually impaired Receivables</b>		
At balance date, other debtors representing financial assets with a nominal value of \$8,170 (2017: \$10,064) were impaired. The ageing of receivables that have been individually determined as impaired at reporting		
Current (not yet due)	1,173	1,738
<b>Total ageing of individually impaired receivables</b>	<u>1,173</u>	<u>1,738</u>



Note 4 Our financial position 4.2 Provisions	2018 Employee	2017 Total
<b>2018</b>	<b>\$ '000</b>	<b>\$ '000</b>
Balance at beginning of the financial year	15	15
Additional provisions	322	322
Amounts used	(315)	(315)
Change in the discounted amount arising because of time and the effect of any change in the inflation and discount rate	0	0
Balance at the end of the financial year	<u>22</u>	<u>22</u>
<b>2017</b>		
Balance at beginning of the financial year	79	79
Additional provisions	(60)	(60)
Amounts used	(4)	(4)
Change in the discounted amount arising because of time and the effect of any change in the inflation and discount rate	-	-
Balance at the end of the financial year	<u>15</u>	<u>15</u>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Employee provisions</b>		
<b>Current provisions expected to be wholly settled within 12 months</b>		
Annual leave	17	8
Long service leave	-	3
	<u>17</u>	<u>11</u>
<b>Current provisions expected to be wholly settled after 12 months</b>		
Long service leave	-	1
	<u>0</u>	<u>1</u>
<b>Total current employee provisions</b>	<u>17</u>	<u>12</u>
<b>Non-current</b>		
Long service leave	5	2
<b>Total non-current employee provisions</b>	<u>5</u>	<u>2</u>
Aggregate carrying amount of employee provisions:		
Current	17	12
Non-current	5	2
<b>Total aggregate carrying amount of employee provisions</b>	<u>22</u>	<u>15</u>

*Classification of employee costs*

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.

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

The components of this current liability are measured at:

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

Key assumptions:

- discount rate
- index rate
- inflation rate
- settlement rate

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	2018	2017
	\$'000	\$'000
<b>Note 4 Our financial position</b>		
<b>4.2 Provisions (cont'd)</b>		
<b>Total Provisions</b>		
Current	17	12
Non-current	5	2
<b>Total Provisions</b>	<b>22</b>	<b>15</b>

**4.3 Commitments**

At the reporting date Council had no capital or operating lease commitments relating to the Port. Commitments are not recognised in the Balance Sheet. Commitments are disclosed at their nominal value and presented inclusive of the GST payable.

Note 5 Assets we manage

5.1 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2017	Acquisitions	Contributions	Revaluation	Depreciation	Disposal	Transfers	At Fair Value 30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land	3,500	-	-	(3,435)	-	-	-	65
Buildings	47	62	-	4	(5)	-	-	108
Plant and Equipment	3,334	25	-	-	(122)	-	-	3,236
Infrastructure	8,500	13	-	-	(410)	-	-	8,104
Work in progress	-	-	-	-	-	-	-	-
	15,381	100	-	(3,431)	(537)	-	-	11,513

Note 5 Assets we manage

5.1 Property, Infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment (cont'd)

	Land specialised	Total Land	Buildings specialised	Total Buildings	Work In Progress	Total Property
<b>(a) Property</b>						
At Fair Value 1 July 2017	3,500	3,500	216	216	-	3,716
Accumulated depreciation at 1 July 2017	-	-	(169)	(169)	-	(169)
	3,500	3,500	47	47	-	3,547
<b>Movements in fair value</b>						
Acquisition of assets at fair value	-	-	62	62	-	62
Revaluation increments/decrements	(3,435)	(3,435)	6	6	-	(3,429)
Transfers	-	-	-	-	-	-
	(3,435)	(3,435)	68	68	-	(3,367)
<b>Movements in accumulated depreciation</b>						
Depreciation and amortisation	-	-	(5)	(5)	-	(5)
Revaluation increments/decrements	-	-	(2)	(2)	-	(2)
	-	-	(7)	(7)	-	(7)
At Fair Value 30 June 2018	65	65	284	284	-	349
Accumulated depreciation at 30 June 2018	-	-	(176)	(176)	-	(176)
	65	65	108	108	-	173
<b>(b) Plant and Equipment</b>						
At Fair Value 1 July 2017	3,920	122	-	-	-	4,042
Accumulated depreciation at 1 July 2017	(556)	(52)	-	-	-	(708)
	3,264	70	-	-	-	3,334
<b>Movements in fair value</b>						
Acquisition of assets at fair value	25	-	-	-	-	25
	25	-	-	-	-	25
<b>Depreciation and amortisation</b>						
	(117)	(5)	-	-	-	(122)
	(117)	(5)	-	-	-	(122)
At Fair Value 30 June 2018	3,945	122	-	-	-	4,067
Accumulated depreciation at 30 June 2018	(773)	(58)	-	-	-	(831)
	3,172	64	-	-	-	3,236
<b>(c) Infrastructure</b>						
At Fair Value 1 July 2017	3,080	484	14,858	-	-	18,462
Accumulated depreciation at 1 July 2017	(2,817)	(444)	(6,701)	-	-	(9,962)
	263	40	8,157	-	-	8,500
<b>Movements in fair value</b>						
Acquisition of assets at fair value	-	-	13	-	-	13
	-	-	13	-	-	13
<b>Movements in accumulated depreciation</b>						
Depreciation and amortisation	(167)	(40)	(202)	-	-	(410)
	(167)	(40)	(202)	-	-	(410)
At Fair Value 30 June 2018	3,080	484	14,911	-	-	18,475
Accumulated depreciation at 30 June 2018	(2,984)	(484)	(6,904)	-	-	(10,372)
	96	-	8,007	-	-	8,104

**Note 5 Assets we manage**

**5.1 Property, infrastructure, plant and equipment**

*Acquisition*

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the price that would be received to sell 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 detailed in Note 5.1 have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

*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 below and are consistent with the prior year unless otherwise stated.

*Repairs and maintenance*

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

*Valuation of land and buildings*

Valuation of land and buildings were undertaken 2017-2018 by a qualified independent valuer Mr Les Speed – Certified Practising Valuer – API Member No. 623379 of Preston Paterson Rowe. 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 engiobo (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 will have a significant impact on the fair value of these assets.

Details of the Council's land and buildings and information about the fair value hierarchy as at 30 June 2018 are as follows:

	Level 1	Level 2	Level 3
Specialised land	-	-	65
Buildings	-	-	108
<b>Total</b>	-	-	<b>173</b>

**Note 5 Assets we manage**

**5.1 Property, infrastructure, plant and equipment**

Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2018 are as follows

*Valuation of infrastructure*

*Valuation of infrastructure assets has been determined in accordance with an internal valuation undertaken by Jeremy Rudd (B Eng).*

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

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

*Details of the Council's infrastructure and information about the fair value hierarchy as at 30 June 2018 are as follows:*

	Level 1	Level 2	Level 3
Roads	-	-	96
Marine infrastructure	-	-	8,007
Other infrastructure	-	-	-
<b>Total</b>	-	-	<b>8,104</b>

**Description of significant unobservable inputs into level 3 valuations**

**Specialised land** is valued using a market based direct comparison technique. Significant unobservable inputs include the extent and impact of restriction of use and the market cost of land per square metre. The extent and impact of restrictions on use varies and results in a reduction to surrounding land values between 5% and 95%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$1 and \$270 per square metre.

**Specialised buildings** are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement costs is calculated on a square metre basis and ranges from \$200 to \$2,250 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 40 years to 50 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of buildings are sensitive to changes in expectations or requirements that could either shorten or extend the useful lives of buildings.

**Infrastructure assets** are valued based on the depreciated replacement cost. Significant unobservable inputs include the current replacement cost and remaining useful lives of infrastructure. The remaining useful lives of infrastructure assets are determined on the basis of the current condition of the asset and vary from 10 years to 80 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

	2018	2017
<b>Reconciliation of specialised land</b>	<b>\$'000</b>	<b>\$'000</b>
Parks and reserves	65	3,195
<b>Total specialised land</b>	<b>65</b>	<b>3,195</b>

**Note 6 Managing uncertainties**

**6.1 Contingent assets and liabilities**

**(a) Contingent assets**

There are no contingent assets identified.

**(b) Contingent liabilities**

There are no contingent liabilities identified.

**Note 6 Managing uncertainties**

**6.2 Change in accounting standards**

The following new AASB's have been issued that are not mandatory for the 30 June 2018 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.

*Financial Instruments - Disclosures (AASB 7) (applies 2018/19)*

This Standard requires entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed.

*Financial Instruments (AASB 9) (applies 2018/19)*

The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.

*Revenue from contracts with customers (AASB 15) (applies 2019/20 for LG sector)*

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

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

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

*Leases (AASB 16) (applies 2019/20)*

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

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

This standard replaces AASB 1004 Contributions and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable to not-for-profit entity to further its objectives.

**6.3 Financial instruments**

**(a) Objectives and policies**

The principal financial instruments relating to the Port comprise receivables. 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 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. As the Port Manager, 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.

**Note 6 Managing uncertainties**

**6.3 Financial instruments**

**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 the Port 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, as the Port Manager, has minimal exposure to cash flow interest rate risk through its cash and deposits that are at floating rates.

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

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

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

Interest rate movements have not been sufficiently significant during the year to have an impact on the Port'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 the Port to make a financial loss. Council, as the Port Manager, has exposure to credit risk on some financial assets included in the Colac Otway Shire Council balance sheet. To help manage this risk:

- Council have a policy for establishing credit limits for the entities Council, as the Port Manager, 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.

The Port may also be subject to credit risk for transactions which are not included in the balance sheet, such as when Council, as the Port Manager, provides a guarantee for another party. The Council has no identified exposure to contingent liabilities relating to the Port.

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 relating to Port financial assets.

**(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 relating to the Port 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 portfolio structure that requires surplus funds to be invested within various bands of liquid instruments;
- monitor budget to actual performance on a regular basis; and
- set limits on borrowings relating to the percentage of loans to rate revenue and percentage of loan principal repayments to rate revenue.

The Port's maximum exposure to liquidity risk is the carrying amounts of the Port Manager's holdings as disclosed in Current Trade and other receivables on the face of the balance sheet, and is deemed insignificant based on prior periods' data and current assessment of risk.

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.

All financial liabilities are expected to be settled within normal terms of trade.

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 +0.75% and -0.75% in market interest rates (AUD) from year-end rates of 1.95%.

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



**Note 6 Managing uncertainties**

**6.4 Fair value measurement**

*Fair value hierarchy*

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

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

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

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

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

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

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

For the purpose of fair value disclosures, Council has determined classes of Port 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 Port 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. Further details regarding the fair value hierarchy are disclosed at Note 5.1 Property, infrastructure, plant and equipment.

In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis ranging from 2 to 5 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 the Port's 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.

**6.5 Events occurring after balance date**

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

**Note 7 Other matters**  
**7.1 Reserves**

	Balance at beginning of reporting period	Increment (decrement)	Balance at end of reporting period
(a) Asset revaluation reserves	\$'000	\$'000	\$'000
<b>2018</b>			
<b>Property</b>			
Land	3,500	(3,435)	65
Buildings	25	4	28
	<u>3,525</u>	<u>(3,432)</u>	<u>93</u>
<b>Infrastructure</b>			
Marine Infrastructure	15	-	15
	<u>15</u>	<u>-</u>	<u>15</u>
<b>Total asset revaluation reserves</b>	<b><u>3,540</u></b>	<b><u>(3,432)</u></b>	<b><u>108</u></b>
<b>2017</b>			
<b>Property</b>			
Land	3,500	-	3,500
Buildings	25	-	25
	<u>3,525</u>	<u>-</u>	<u>3,525</u>
<b>Infrastructure</b>			
Marine Infrastructure	15	-	15
	<u>15</u>	<u>-</u>	<u>15</u>
<b>Total asset revaluation reserves</b>	<b><u>3,540</u></b>	<b><u>-</u></b>	<b><u>3,540</u></b>

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



# Accounting Policy position paper

## ASSESSMENT OF CONTROLLED ASSETS OF THE PORT OF APOLLO BAY

### SUMMARY

Prior to production of the 2015-16 Council financial statements, Council as the Port Manager of the Port of Apollo Bay, incorporated all assets, liabilities, income and expenses of the Port of Apollo Bay within the Colac Otway Shire Council Financial Report. Council significantly altered the treatment and presentation of the Port of Apollo Bay transactions in the production of the 2015-16 Council Financial Report. This change was based on a view put to the Victorian-Auditor General's agent and Council's Audit Committee by Council officers in September 2016 that:

- a) Council does not control the Port of Apollo Bay fixed assets; and
- b) *AASB 10 Consolidated Statements* did not apply.

The view was accepted at the time as appropriate and changes made to put that view into practice.

As a result of changes in staffing during 2017-18, Brett Exelby and Lynne Stevenson were engaged in July 2018 to both manage the operational aspects of Council's finances and to assist Council's Finance team regarding the preparation of the 2017-18 Colac Otway Shire Council Annual Financial Report. In preparing the financial report, concerns were raised about the treatment of the Port of Apollo Bay transactions. Following an in depth review of the practices adopted in 2016 and further consideration of the current Accounting Standards, our professional view is that Council has erred in making changes to the treatment of the Port of Apollo Bay transactions. The basis of this view is that Council has continued to control the Port of Apollo Bay assets that contribute directly to the cash flows of Council in the provision of Port services to the community.

### BACKGROUND AND DISCUSSION

#### COUNCIL'S OBLIGATIONS

In accordance with the Port of Apollo Bay Management Agreement (the Agreement) with the Department of Transport (DOT), Council is the Port Manager who is responsible for the management and administration of the Port. The Agreement specifies that Council is responsible for the management, maintenance and operational control of the fixed assets and floating plant (fixed assets) on behalf of DOT. DOT has retained ownership of these assets and Council may not dispose, remove, close or change the use of these assets without the prior written approval of DOT.

In accordance with the Agreement, DOT will provide operating and maintenance funds to Council to manage and administer the Port. Funds provided and cash flows generated must be used in accordance with an annual budget submitted to DOT for approval and prepare audited financial reports for the Port of Apollo Bay that are compliant with relevant Accounting Standards.

## CURRENT INTERPRETATION OF THE ACCOUNTING STANDARDS

The Colac Otway Shire Council Annual Financial Report provides information about the financial position of Council as a reporting entity, that is, information about Council's economic resources and obligations.

Our interpretation considers the substance of what is both intended by the agreement and what practically occurs, underpinned fundamentally by the *Framework for the Preparation and Presentation of Financial Statements* as prepared by the Australian Accounting Standards Board (AASB).

The basis of our opinion considers whether Council controls the fixed assets of the Port of Apollo Bay and is based on an assessment of whether these fixed assets are economic resources of the Council. In considering the issue, we rely on the conceptual framework of the AASB.

The relevant references in *The Framework for the Preparation and Presentation of Financial Statements* include:

- Para 49 *"An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."*
- Para 53 *"The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity."*
- Para 54 *"An entity usually employs its assets to produce goods or services capable of satisfying the wants or needs of customers..."*
- Para 57 *"In determining the existence of an asset, the right of ownership is not essential if the entity controls the benefits which are expected to flow from the resource."*
- Para 58 *"Entities normally obtain assets by purchasing or producing them, but other transactions or events may generate assets."*

In considering the question of control of the Port assets, the following facts are noted:

1. Council employs the Port assets to provide the management and administration services of the Port as the appointed Port Manager under the Agreement.
2. The management and administration of the Port is part of Council's operating activities. Council employs the staff to deliver the services. The operating activities are not provided by a separate entity. It is noted that these operating activities must be accounted for and presented in a separate audited financial report under the terms of the Agreement.
3. The Port assets are an essential economic resource to enable these operating activities to be undertaken by Council.
4. Council provides the Port management and administration services to satisfy a community need.
5. Council generates cash flows as a result of its operating activities that are included in Council's financial report.
6. Council receives from DOT funding and rights to employ fixed asset resources to obtain these economic benefits or cash flows. Consequently, Council has operational control of the fixed asset resources to enable provision of the services regardless of ownership of the fixed assets.

These facts are consistent with the above mentioned principles in the Framework. Consistent with Para. 49, Council, the reporting entity, by entering into the contractual agreement receives from DOT rights to employ resources from which

future economic benefits are expected to flow. The cash flows generated from the Port operating activities enable provision of Port management and administration services that satisfies a community need.

#### APPLICATION OF THE ACCOUNTING STANDARDS IN 2015-16 AND 2016-17

It is unclear why the view considered in 2016 relied on an interpretation of *AASB 10 Consolidated Statements*, which establishes principles relating to investor control of another entity. The facts above demonstrate that the Port of Apollo Bay is not a separate entity from Council, therefore it is agreed that Council does not have investor control.

The view taken in 2016 concluded *“that only a liability (Creditor) for the cash held on reserve for the Port and the cash itself should appear in the results of Council.”* In fact, Council has continued to include the operating activities of the Port of Apollo Bay in the 2015-16 and 2016-17 Council Financial Reports, yet excluded the fixed assets and related transactions such as depreciation. In effect, Council has continued to recognise the operational activities by reporting the other assets, liabilities, income and expenses relating to the operating activities but has not accounted for the essential fixed asset resources employed to generate the cash flows from those activities. Consequently, the current approach only partially incorporates the Accounting Standard principles and is not an appropriate application in preparation of Council’s Financial Report. The impact of the current application is to incorrectly state the financial position of Council.

#### CONCLUSION

Our interpretation and opinion has drawn upon our extensive experience as Local Government finance professionals and our intimate knowledge of both the historical facts and the nature of the agreement with DOT. As such our professional view is that at its core, Council controls the Port fixed assets from which future economic benefits flow, so enabling Council to provide Port management and administration services that satisfy a community need. Consequently, all the assets, liabilities, income and expenses relating to the Port operating activities, including the fixed assets, should be included in the Council Financial Report, further those assets, liabilities, income and expenses should be reported as a prior period error in the 2017-18 Colac Otway Shire Annual Financial Report.

#### RELATED DOCUMENTS

- Australian Accounting Standards
- *Framework for the Preparation and Presentation of Financial Statements 2009*
- Port of Apollo Bay Management Agreement (2012).
- Memo regarding Consolidation treatment for POAB

#### FILE MANAGEMENT

Authors	<b>Brett Exelby CPA Acting Manager Finance</b>  <b>Lynne Stevenson CPA Consultant</b>	Division	Corporate Services
File Number		Prepared	9 August 2018