



Colac Otway

SHIRE

**Colac Otway Shire Council
ANNUAL FINANCIAL REPORT**

For the Year Ended 30 June 2018

**Colac Otway Shire Council
Financial Report
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Certification of the Financial Statements

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

Jason Clissold, FCPA
Principal Accounting Officer
Date :
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 Joe McCracken
Councillor
Date :
Colac

Cr Jason Schram
Councillor
Date :
Colac

Peter Brown
Chief Executive Officer
Date :
Colac

Victorian Auditor-General's Office Report

Comprehensive Income Statement For the Year Ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Income			
Rates and charges	2.1	29,654	29,197
Statutory fees and fines	2.2	795	746
User fees	2.3	4,535	4,191
Grants - operating	2.4	9,663	15,804
Grants - capital	2.4	6,386	7,761
Contributions - monetary	2.5	325	320
Contributions - non-monetary	2.5	1,598	334
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	2.6	(87)	(5)
Share of net loss/(gain) of associates and joint ventures	5.3	17	32
Other income	2.7	968	1,418
Total income		53,855	59,798
Expenses			
Employee costs	3.1	18,910	18,929
Materials and services	3.2	17,998	16,984
Bad and doubtful debts	3.4	3	4
Depreciation and amortisation	3.3	9,905	9,638
Borrowing costs	3.5	223	280
Other expenses	3.6	3,066	1,120
Total expenses		50,105	46,956
Surplus/(deficit) for the year		3,750	12,843
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	8.1	(815)	6,977
Total comprehensive result		2,934	19,820

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	
Assets				
Current assets				
Cash and cash equivalents	4.1	6,093	1,304	22,694
Other Financial Assets	4.1	17,419	21,390	
Current Trade and other receivables	4.1(c)	3,181	4,209	4,209
Inventories	4.2(a)	151	183	183
Other assets	4.2(b)	367	194	194
Total current assets		27,209	27,280	27,280
Non-current assets				
Investment in associates and joint ventures	5.2(a)	356	338	338
Property, infrastructure, plant & equipment	5.1	286,913	280,352	280,798
Intangible assets	4.2(c)	2	11	11
Total non-current assets		287,271	280,702	281,148
Total assets		314,480	307,983	308,428
Liabilities				
Current liabilities				
Current Trade and other payables	4.3(a)	4,781	2,231	2,824
Trust funds and deposits	4.3(b)	392	463	463
Current Provisions	4.5	4,863	3,947	3,947
Current Interest-bearing loans and borrowings	4.4	649	604	604
Total current liabilities		10,684	7,247	7,839
Non-current liabilities				
Non-current Provisions	4.5	8,189	7,414	7,414
Non-current Interest-bearing loans and borrowings	4.4	2,721	3,370	3,370
Total non-current liabilities		10,910	10,784	10,784
Total liabilities		21,594	18,030	18,623
Net assets		292,886	289,952	289,805
Equity				
Accumulated surplus/(deficit)		116,159	112,300	112,153
Reserves	8.1	176,728	177,652	177,652
Total Equity		292,886	289,952	289,805

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**

2018	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		289,952	112,300	155,913	21,739
Accumulated surplus/(deficit)		3,750	3,750	-	-
Asset revaluation increment/(Decrement)	8.1 (a)	(815)	-	(815)	-
Transfers to other reserves	8.1 (b)	-	(17,003)	-	17,003
Transfers from other reserves	8.1 (b)	-	17,112	-	(17,112)
Balance at end of the financial year		292,887	116,159	155,098	21,630

2017		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
Balance at beginning of the financial year		270,132	110,130	148,936	11,066
Accumulated surplus/(deficit)		12,843	12,843	-	-
Asset revaluation increment	8.1 (a)	6,977	-	6,977	-
Transfers to other reserves	8.1 (b)	-	(28,601)	-	28,601
Transfers from other reserves	8.1 (b)	0	17,928	-	(17,928)
Balance at end of the financial year		289,952	112,300	155,913	21,739

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

	Note	2018 Inflows/ (Outflows) \$'000	2017 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
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		(15,572)	(16,908)
Other payments		(1,237)	(1,120)
Net cash provided by/(used in) operating activities	8.2	17,405	19,493
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment	5.2	(16,122)	(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
Net cash provided by/(used in) investing activities		(11,790)	(20,102)
Cash flows from financing activities			
Finance costs		(223)	(280)
Repayment of borrowings		(604)	(800)
Net cash provided by/(used in) financing activities		(827)	(1,080)
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
Cash and cash equivalents at the end of the financial year		6,093	1,304
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
Property		
Buildings	1,266	3,882
Total property	<u>1,266</u>	<u>3,882</u>
Plant and equipment		
Plant, machinery and equipment	1,360	894
Fixtures, fittings and furniture	134	153
Computers and telecommunications	249	41
Total plant and equipment	<u>1,743</u>	<u>1,089</u>
Infrastructure		
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	-	-
Total infrastructure	<u>13,113</u>	<u>5,277</u>
Total capital works expenditure	<u>16,122</u>	<u>10,249</u>
Represented by:		
New asset expenditure	2,909	670
Asset renewal expenditure	11,436	9,412
Asset upgrade expenditure	1,778	166
Total capital works expenditure	<u>16,122</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

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
Income				
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
Total income	<u>55,427</u>	<u>53,855</u>	<u>(1,572)</u>	
Expenses				
Employee costs	18,982	18,910	72	
Materials and services	16,450	17,998	(1,548)	7
Bad and doubtful debts	2	3	(1)	
Depreciation and amortisation	10,027	9,905	122	8
Borrowing costs	226	223	3	
Other expenses	2,199	3,066	(867)	9
Total expenses	<u>47,886</u>	<u>50,105</u>	<u>(2,219)</u>	
	-			
Surplus/(deficit) for the year	<u>7,542</u>	<u>3,750</u>	<u>(3,792)</u>	

Note 1 Performance against budget
1.1 Income and Expenditure (cont'd)
(i) 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 2018 \$'000	Actual 2018 \$'000	Variance 2018 \$'000	Ref
Property				
Land	500	-	(500)	9
Buildings	4,419	1,266	(3,153)	10
Total Buildings	4,919	1,266	(3,653)	
Total Property	4,919	1,266	(3,653)	
Plant and Equipment				
Plant, machinery and equipment	1,683	1,360	(323)	11
Fixtures, fittings and furniture	237	134	(103)	12
Computers and telecommunications	527	249	(278)	13
Total Plant and Equipment	2,447	1,743	(704)	
Infrastructure				
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	-	-	-	
Total Infrastructure	14,271	13,113	(1,158)	
Total Capital Works Expenditure	21,637	16,122	(5,515)	
Represented by:				
New asset expenditure	7,755	2,909	(4,846)	
Asset renewal expenditure	12,309	11,436	(873)	
Asset upgrade expenditure	1,572	1,778	206	
Total Capital Works Expenditure	21,637	16,122	(5,515)	

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 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).

Differential rate	2018	2017
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
Total rates and charges	29,654	29,197

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
Total statutory fees and fines	795	746

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
Total user fees	4,535	4,191

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:		
Summary of grants		
Commonwealth funded grants	12,037	12,281
State funded grants	4,012	11,284
Total grants received	16,049	23,565
(a) Operating Grants		
Recurrent - Commonwealth Government		
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	-	-
Recurrent - State Government		
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	75	81
Family and community services	10	1
Community safety	6	7
Port management	-	811
Total recurrent operating grants	8,453	12,110
Non-recurrent - Commonwealth Government		
Recreation and culture	-	5
Non-recurrent - State Government		
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
Total non-recurrent operating grants	1,211	3,695
Total operating grants	9,663	15,804
(b) Capital Grants		
Recurrent - Commonwealth Government		
Roads to recovery	4,774	115
Recurrent - State Government		
Aged and disability services	-	15
Total recurrent capital grants	4,774	130
Non-recurrent - Commonwealth Government		
Bluewater leisure centre building upgrade	571	-
Central reserve redevelopment	-	1,712
Maternal and child health	-	19
Non-recurrent - State Government		
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
Total non-recurrent capital grants	1,612	7,632
Total capital grants	6,386	7,761

Note 2 Funding for the delivery of our services	2018	2017
2.4 Funding from other levels of government (cont'd)	\$'000	\$'000

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

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
Total contributions	<u>1,923</u>	<u>654</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
Total non-monetary contributions	<u>1,598</u>	<u>334</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	(448)	(297)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	<u>(87)</u>	<u>(5)</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
Total other income	<u>968</u>	<u>1,418</u>

Interest is recognised as it is earned.

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

Note 3 The cost of delivering services	2018	2017
3.1 Employee costs	\$'000	\$'000
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
Total employee costs	<u>18,910</u>	<u>18,929</u>
(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	1,035	3,028
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
Total materials and services	17,998	16,984
3.3 Depreciation and amortisation		
Infrastructure	6,912	6,601
Plant and equipment	1,682	1,770
Property	1,303	1,231
Total depreciation	9,897	9,603
Intangible assets	9	35
Total depreciation and amortisation	9,905	9,638

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

3.4 Bad and doubtful debts

Bad and doubtful debts		
Other debtors	3	4
Total bad and doubtful debts	3	4
Movement in provisions for doubtful debts		
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	8	10

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
Total borrowing costs	223	280

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
Total other expenses	3,066	1,120

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

Councils 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
Total restricted funds	7,784	7,624
Total unrestricted cash and cash equivalents	15,728	14,994

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	12,420
- Carried forward capital works committed.	2,611	2,638
Total funds subject to intended allocations	16,585	15,058

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

Statutory receivables

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

Non statutory receivables

Loans and advances to community organisations	-	-
Other debtors	623	443
Provision for doubtful debts - other debtors	(8)	(10)
Total trade and other receivables	3,181	4,209

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.

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

(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	-
Total ageing of receivables	608	443

(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

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
Total ageing of individually impaired receivables	8	10

	2018 \$'000	2017 \$'000
Note 4 Our financial position		
4.2 Non-financial assets		
(a) Inventories		
Inventories held for distribution	8	17
Inventories held for sale	142	167
Total inventories	151	183
<p>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.</p>		
(b) Other assets		
Prepayments	255	98
Accrued income	104	88
Other	8	7
Total other assets	367	194
(c) Intangible assets		
Software	2	11
Total intangible assets	2	11

	Software \$'000	Landfill \$'000	Other \$'000	Total \$'000
Gross carrying amount				
Balance at 1 July 2017	616	-	-	616
Additions from internal developments	-	-	-	-
Other Additions	-	-	-	-
Balance at 1 July 2018	616	-	-	616
Accumulated amortisation and impairment				
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	2	-	-	2

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

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

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

Current

Bank overdraft	-	-
Borrowings - secured	649	604
	<u>649</u>	<u>604</u>

Non-current

Borrowings - secured	2,721	3,370
Total Interest-bearing liabilities	3,370	3,974

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
	\$ '000	\$ '000	\$ '000
2018			
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	4,015	9,036	13,051
2017			
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	4,155	7,206	11,361

	2018 \$'000	2017 \$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12 months		
Annual leave	1,118	1,108
Long service leave	210	211
Time in lieu	83	83
	1,411	1,402
Current provisions expected to be wholly settled after 12 months		
Annual leave	182	159
Long service leave	2,209	2,358
	2,391	2,517
Total current employee provisions	3,802	3,919
Non-current		
Long service leave	214	236
Total non-current employee provisions	214	236
Aggregate carrying amount of employee provisions:		
Current	3,802	3,919
Non-current	214	236
Total aggregate carrying amount of employee provisions	4,015	4,155

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
4.5 Provisions (cont'd)	\$'000	\$'000
(b) Land fill restoration		
Current	1,061	28
Non-current	7,975	7,178
	<u>9,036</u>	<u>7,206</u>

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.

Key assumptions:

- discount rate	2.5%	1.6%
- inflation rate	2.2%	3.1%
- estimated cost to rehabilitate	5,036	3,931

Total Provisions

Current	4,863	3,947
Non-current	8,189	7,414
Total Provisions	<u>13,051</u>	<u>11,361</u>

Note 4 Our financial position	2018	2017
4.6 Financing arrangements	\$'000	\$'000

The Council has the following funding arrangements in place as at 30 June 2018

Bank overdraft	-	-
Credit card facilities	50	50
Total facilities	<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 2 years	and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
Consultancies	41	-	-	-	41
Garbage collection	2,258	2,258	565	-	5,081
Street lighting	600	600	-	-	1,200
Information technology	133	61	-	-	194
Total	3,032	2,919	565	-	6,516
Capital					
Civil works	6,316	-	-	-	6,316
Total	6,316	-	-	-	6,316

2017	Not later than 1	Later than 1 year	Later than 2 years	Later than 5	Total
	year	and not later than 2 years	and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
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
Total	5,141	4,319	3,569	-	13,029
Capital					
Plant and equipment	236	-	-	-	236
Civil works	2,397	5	-	-	2,402
Total	2,633	5	-	-	2,638

	2018	2017
	\$'000	\$'000
Note 4 Our financial position		
4.7 Commitments (cont'd)		
Operating lease commitments		
At the reporting date, the Council had the following obligations under non-cancellable operating leases for the lease of equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities):		
Not later than one year	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	24,561	-	-	753	-	-	-	25,314
Buildings	44,601	824	-	(213)	(1,303)	-	32	43,940
Plant and Equipment	7,069	1,692	-	-	(1,682)	(448)	11	6,642
Infrastructure	203,089	9,042	1,598	(1,356)	(6,912)	-	340	205,801
Work in progress	1,037	4,563	-	-	-	-	(383)	5,218
	280,356	16,122	1,598	(816)	(9,897)	(448)	-	286,913

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)

(a) Property	Land - specialised	Land - non specialised	Land under roads	Total Land	Buildings - specialised	Buildings - Non specialised	Total Buildings	Work In Progress	Total Property
At Fair Value 1 July 2017	3,419	20,918	224	24,561	62,916	15,198	78,114	34	102,709
Accumulated depreciation at 1 July 2017	-	-	-	-	(28,252)	(5,262)	(33,514)	-	(33,514)
	3,419	20,918	224	24,561	34,664	9,937	44,600	34	69,195
Movements in fair value									
Acquisition of assets at fair value	-	-	-	-	616	208	824	442	1,266
Revaluation increments/decrements	(115)	868	-	753	7,550	747	8,297	-	9,051
Transfers	-	-	-	-	32	-	32	(32)	-
	(115)	868	-	753	8,199	954	9,153	410	10,317
Movements in accumulated depreciation									
Depreciation and amortisation	-	-	-	-	(1,053)	(250)	(1,303)	-	(1,303)
Revaluation increments/decrements	-	-	-	-	(7,439)	(1,072)	(8,510)	-	(8,510)
	-	-	-	-	(8,492)	(1,321)	(9,813)	-	(9,813)
At Fair Value 30 June 2018	3,304	21,786	224	25,314	71,115	16,153	87,267	443	113,025
Accumulated depreciation at 30 June 2018	-	-	-	-	(36,744)	(6,583)	(43,327)	-	(43,327)
	3,304	21,786	224	25,314	34,371	9,570	43,940	443	69,698

(b) Plant and Equipment	Plant machinery and equipment	Fixtures fittings and furniture	Computers and telecomms	Work in Progress	Total plant and equipment
At Fair Value 1 July 2017	9,337	9,686	1,101	131	20,255
Accumulated depreciation at 1 July 2017	(5,130)	(6,978)	(946)	-	(13,055)
	4,206	2,708	155	131	7,200
Movements in fair value					
Acquisition of assets at fair value	1,360	83	249	51	1,743
Fair value of assets disposed	(1,113)	-	-	-	(1,113)
Transfers	-	11	-	(11)	-
	247	94	249	40	630
Depreciation and amortisation	(935)	(617)	(130)	-	(1,682)
Accumulated depreciation of disposals	665	-	-	-	665
Transfers	-	-	-	-	-
	(270)	(617)	(130)	-	(1,017)
At Fair Value 30 June 2018	9,584	9,780	1,350	171	20,885
Accumulated depreciation at 30 June 2018	(5,401)	(7,596)	(1,076)	-	(14,072)
	4,183	2,184	274	171	6,813

(c) Infrastructure	Roads	Bridges	Footpaths and cycleways	Drainage	Other Infrastructure	Marine Infrastructure	Work In Progress	Total Infrastructure
At Fair Value 1 July 2017	217,476	21,929	22,211	40,719	4,661	-	873	307,869
Accumulated depreciation at 1 July 2017	(69,363)	(7,400)	(7,486)	(18,095)	(1,563)	-	-	(103,907)
	148,113	14,528	14,725	22,624	3,098	-	873	203,961
Movements in fair value								
Acquisition of assets at fair value	4,280	515	3,260	46	940	-	4,071	13,113
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	1,480	-	3,731	8,859
Movements in accumulated depreciation								
Depreciation and amortisation	(5,282)	(448)	(418)	(504)	(261)	-	-	(6,912)
Accumulated depreciation of disposals	-	-	-	-	-	-	-	-
Revaluation increments/(decrements)	-	4,497	-	-	-	-	-	4,497
	(5,282)	4,049	(418)	(504)	(261)	-	-	(2,415)
At Fair Value 30 June 2018	222,300	16,591	25,552	41,540	6,141	-	4,604	316,727
Accumulated depreciation at 30 June 2018	(74,645)	(3,351)	(7,903)	(18,599)	(1,824)	-	-	(106,323)
	147,654	13,240	17,649	22,941	4,317	-	4,604	210,405

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	-	-	3,304
Buildings	-	9,570	34,371
Total	-	31,356	37,675

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	-	-	147,654
Bridges	-	-	13,240
Footpaths and cycleways	-	-	17,649
Drainage	-	-	22,941
Other infrastructure	-	-	4,317
Total	-	-	205,801

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
Reconciliation of specialised land	\$'000	\$'000
Land under roads	224	224
Parks and reserves	3,304	3,195
Total specialised land	3,528	3,419

Note 5 Assets we manage	2018	2017
5.2 Investment in associates, joint arrangements and subsidiaries	\$'000	\$'000
(a) Investments in associates		
Investments in associates accounted for by the equity method are:		
- Corangamite Regional Library Corporation		
- Colac Community Library and Learning Centre		
Corangamite Regional Library Corporation		
<i>Background</i>		
The Corangamite Regional Library Corporation is a corporation owned by four (4) councils: Colac Otway Shire, Corangamite Shire, Moyne Shire and Warrnambool City. Colac Otway Shire has a 24.13% equity interest in 2017/2018 (2016/2017 23.61%).		
Fair value of Council's investment in Corangamite Regional Library Corporation	356	338
Council's share of accumulated surplus/(deficit)		
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	294	287
Council's share of reserves		
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)	61	51
Movement in carrying value of specific investment		
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	356	338

Significant restrictions

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

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

(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:

Councillors	Councillor Chris Potter (Mayor 01/07/17 to 08/11/17)
	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 Dobrynzski (Acting CEO)
Errol Lawrence
Anthony McGann
Gareth Smith

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

(c) Remuneration of Key Management Personnel

Total remuneration of key management personnel was as follows:

	2018 \$'000	2017 \$'000
Short-term benefits	847	1,116
Post-employment benefits	92	114
Total	939	1,230

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

	2018 No.	2017 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
	12	19

(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 No.	2017 No.
Income Range:		
\$145,000 - \$149,999	3	4
\$150,000 - \$159,999	1	-
	4	4

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

595	585
-----	-----

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 membership's, etc.).

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

<i>Materials & Services</i>	91
<i>Employee benefits</i>	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**.*

<i>Payments made to Corangamite Regional Library Corporation</i>	695
<i>Payments received from Corangamite Regional Library Corporation</i>	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**.*

<i>Accounts Receivable</i>	-
<i>Accounts Payable</i>	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
(a) Asset revaluation reserves	\$'000	\$'000	\$'000	\$'000
2018				
Property				
Land	15,775	753	-	16,529
Buildings	8,783	(213)	-	8,570
	24,558	540	-	25,099
Plant and Equipment				
Fixed plant, furniture and equipment	293	-	-	293
	293	-	-	293
Infrastructure				
Roads	88,521	-	-	88,521
Bridges	9,270	(1,356)	-	7,914
Footpaths and cycleways	7,312	-	-	7,312
Kerb and channelling	11,619	-	-	11,619
Marine Infrastructure	-	-	-	-
Drainage	14,341	-	-	14,341
	131,061	(1,356)	-	129,707
Total asset revaluation reserves	155,913	(815)	-	155,098
2017				
Property				
Land	15,775	-	-	15,775
Buildings	8,783	-	-	8,783
	24,558	-	-	24,558
Plant and Equipment				
Fixed plant, furniture and equipment	293	-	-	293
	293	-	-	293
Infrastructure				
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	-	-	-	-
Drainage	14,341	-	-	14,341
	124,083	6,977	-	131,060
Total asset revaluation reserves	148,936	6,977	-	155,913

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 8.1 Reserves (cont'd)	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
(b) Other reserves				
2018				
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)	2,630
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
Tirrengower 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
Total Other reserves	21,740	17,003	(17,112)	21,630
2017				
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)	-
Tirrengower 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
Total Other reserves	11,067	28,601	(17,928)	21,739

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 \$'000	2017 \$'000
Note 8 Other matters		
8.2 Reconciliation of cash flows from operating activities to surplus/(deficit)		
Surplus/(deficit) for the year	3,749	12,843
Depreciation/amortisation	9,905	9,638
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)
Change in assets and liabilities:		
(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	(444)
(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>17,405</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.

**Port of Apollo Bay
SPECIAL PURPOSE FINANCIAL REPORT**

For the Year Ended 30 June 2018

**Port of Apollo Bay
Special Purpose Financial Report
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Certification of the Special Purpose Financial Report

In my opinion the accompanying Special Purpose Financial Report has been prepared in accordance with the Australian Accounting Standards and other mandatory professional reporting requirements.

Jason Clissold FCPA
Principal Accounting Officer
Date :
Colac

In our opinion the accompanying report presents fairly the financial transactions of the Port of Apollo Bay for the year ended 30 June 2018.

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

We have been authorised by the Council to certify the report in its final form.

Cr Joe McCracken
Councillor
Date :
Colac

Cr Jason Schram
Councillor
Date :
Colac

Peter Brown
Chief Executive Officer
Date :
Colac

Independent Audit Report

Comprehensive Income Statement For the Year Ended 30 June 2018

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

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
Assets			
Current assets			
Current Trade and other receivables	4.1(a)	1,173	1,738
Total current assets		1,173	1,738
Non-current assets			
Property, infrastructure, plant & equipment	5.1	11,513	15,381
Total non-current assets		11,513	15,381
Total assets		12,686	17,119
Liabilities			
Current liabilities			
Current Provisions	4.2	17	12
Total current liabilities		17	12
Non-current liabilities			
Non-current Provisions	4.2	5	2
Total non-current liabilities		5	2
Total liabilities		22	15
Net assets		12,664	17,104
Equity			
Accumulated surplus/(deficit)		12,556	13,565
Reserves	7.1(a)	108	3,540
Total Equity		12,664	17,104

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

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

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

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
Property		
Buildings	62	-
Total property	<u>62</u>	<u>-</u>
Plant and equipment		
Plant, machinery and equipment	25	138
Total plant and equipment	<u>25</u>	<u>138</u>
Infrastructure		
Marine Infrastructure	13	-
Total infrastructure	<u>13</u>	<u>-</u>
Total capital works expenditure	<u>100</u>	<u>138</u>
Represented by:		
New asset expenditure	12	-
Asset renewal expenditure	87	138
Total capital works expenditure	<u>100</u>	<u>139</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.

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 and has been prepared in accordance with the requirements of the management agreement signed with Transport for Victoria 30 June 2011.

In managing the Port, Council provides the following information:

External Auditor : McLaren Hunt

Internal Auditor : Crowe Horwath

Solicitors: Maddocks Lawyers Harwood Andrews Pty Ltd

Bankers : Commonwealth Bank

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, which is incorporated in Council's annual budget, with actual performance. 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.

1.1 Income and Expenditure	Budget 2018 \$'000	Actual 2018 \$'000	Variance 2018 \$'000	Ref
Income				
User fees	113	109	(3)	
Grants - operating	805	20	(785)	1
Grants - capital	276	532	256	2
Other income	20	31	11	3
Total income	<u>1,213</u>	<u>692</u>	<u>(521)</u>	
Expenses				
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
Total expenses	<u>1,488</u>	<u>1,701</u>	<u>(213)</u>	
	-			
Surplus/(deficit) for the year	<u>(275)</u>	<u>(1,009)</u>	<u>(734)</u>	

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

Variance Ref	Item	Explanation
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
Property				
Buildings	50	62	12	7
Total Buildings	50	62	12	
Total Property	50	62	12	
Plant and Equipment				
Plant, machinery and equipment	26	25	(1)	
Total Plant and Equipment	26	25	(1)	
Infrastructure				
Marine Infrastructure	-	13	13	8
Total Infrastructure	-	13	13	
Total Capital Works Expenditure	76	100	24	
Represented by:				
New asset expenditure	-	12	12	
Asset renewal expenditure	76	87	12	
Total Capital Works Expenditure	76	100	24	

Note 1 Performance against budget

1.2 Capital Works (cont'd)

(i) Explanation of material variations

Variance Ref	Item	Explanation
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.

Note 2 Funding for the delivery of our services	2018	2017
	\$'000	\$'000

2.1 User fees

Apollo bay harbour fees	109	112
Total user fees	109	112

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
Total grants received	552	841

(a) Operating Grants

Recurrent - State Government

Operational subsidy	-	811
Total recurrent operating grants	-	811

Non-recurrent - State Government

Marine infrastructure maintenance	20	10
Total non-recurrent operating grants	20	10

Total operating grants	20	821
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(b) Capital Grants

Non-recurrent - Commonwealth Government

Non-recurrent - State Government

Marine infrastructure	532	20
Total non-recurrent capital grants	532	20

Total capital grants	532	20
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Grant income is recognised when the Port (Council) obtains control of the contribution. Control is normally obtained upon receipt (or acquittal) or upon earlier notification that a grant has been secured.

2.3 Other income

Sale proceeds minor equipment	17	-
Interest	14	19
Total other income	31	19

Interest is recognised as it is earned.

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

Note 3 The cost of delivering services	2018	2017
3.1 Employee costs	\$'000	\$'000
Wages and salaries	332	312
Casual staff	50	9
Employee leave	54	15
Superannuation	24	25
Other employee benefits	0	1
Total employee costs	475	387

(b) Superannuation

Council made contributions to the following funds:

Accumulation funds

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>

Note 3 The cost of delivering services

3.2 Materials and services

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
Total materials and services	688	262

3.3 Depreciation and amortisation

Infrastructure	410	355
Plant and equipment	122	83
Property	5	5
Total depreciation and amortisation	537	442

Refer to note 5.1 for a more detailed breakdown of depreciation and amortisation charges and accounting policy.

3.4 Other expenses

Other	1	0
Total other expenses	1	0

Note 4 Our financial position	2018	2017
4.1 Financial assets	\$'000	\$'000
(a) Trade and other receivables		
Current		
Other debtors		
Port Manager holdings	1,173	1,738
Total trade and other receivables	<u>1,173</u>	<u>1,738</u>
evidence that an impairment has occurred.		
(b) Ageing of Receivables		
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
Total ageing of receivables	<u>1,173</u>	<u>1,738</u>
(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 ageing of receivables that have been individually determined as impaired at		
Current (not yet due)	-	-
Total ageing of individually impaired receivables	<u>-</u>	<u>-</u>

Note 4 Our financial position 4.2 Provisions	2018 Employee	2017 Total
	\$ '000	\$ '000
2018		
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>
2017		
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>
	2018	2017
	\$'000	\$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12 months		
Annual leave	17	8
Long service leave	-	3
	<u>17</u>	<u>11</u>
Current provisions expected to be wholly settled after 12 months		
Long service leave	-	1
	<u>0</u>	<u>1</u>
Total current employee provisions	<u>17</u>	<u>12</u>
Non-current		
Long service leave	5	2
Total non-current employee provisions	<u>5</u>	<u>2</u>
Aggregate carrying amount of employee provisions:		
Current	17	12
Non-current	5	2
Total aggregate carrying amount of employee provisions	<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

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

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)

(a) Property	Land - specialised	Total Land	Buildings - specialised	Total Buildings	Work In Progress	Total Property
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
Movements in fair value						
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)
Movements in accumulated depreciation						
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) Plant and Equipment	Plant machinery and equipment	Fixtures fittings and furniture	Work in Progress	Total plant and equipment
At Fair Value 1 July 2017	3,920	122	-	4,042
Accumulated depreciation at 1 July 2017	(656)	(52)	-	(708)
	3,264	70	-	3,334
Movements in fair value				
Acquisition of assets at fair value	25	-	-	25
	25	-	-	25
Depreciation and amortisation	(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

(c) Infrastructure	Roads	Other Infrastructure	Marine Infrastructure	Work In Progress	Total Infrastructure
At Fair Value 1 July 2017	3,080	484	14,898	-	18,462
Accumulated depreciation at 1 July 2017	(2,817)	(444)	(6,701)	-	(9,962)
	263	40	8,197	-	8,500
Movements in fair value					
Acquisition of assets at fair value	-	-	13	-	13
	-	-	13	-	13
Movements in accumulated depreciation					
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 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
Specialised land	-	-	65
Buildings	-	-	108
Total	-	-	173

Note 5 Assets we manage

5.1 Property, infrastructure, plant and equipment

Details of the Port'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	-	-	-
Total	-	-	8,104

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
	\$'000	\$'000
Reconciliation of specialised land		
Parks and reserves	65	3,195
Total specialised land	65	3,195

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 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.

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
2018			
Property			
Land	3,500	(3,435)	65
Buildings	25	4	28
	<u>3,525</u>	<u>(3,432)</u>	<u>93</u>
Infrastructure			
Marine Infrastructure	15	-	15
	<u>15</u>	<u>-</u>	<u>15</u>
Total asset revaluation reserves	<u>3,540</u>	<u>(3,432)</u>	<u>108</u>
2017			
Property			
Land	3,500	-	3,500
Buildings	25	-	25
	<u>3,525</u>	<u>-</u>	<u>3,525</u>
Infrastructure			
Marine Infrastructure	15	-	15
	<u>15</u>	<u>-</u>	<u>15</u>
Total asset revaluation reserves	<u>3,540</u>	<u>-</u>	<u>3,540</u>

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

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
Population <i>Expenses per head of municipal population</i> [Total expenses / Municipal population]	\$2,092.24	\$2,197.93	\$2,192.10	\$2,341.46	
Infrastructure per head of municipal population [Value of infrastructure / Municipal population]	\$12,728.74	\$12,292.96	\$11,996.72	\$12,203.77	
Population density per length of road [Municipal population / Kilometres of local roads]	12.56	12.51	13.18	13.22	
Own-source revenue <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	
Recurrent grants <i>Recurrent grants per head of municipal population</i> [Recurrent grants / Municipal population]	\$697.19	\$541.20	\$573.06	\$617.03	
Disadvantage <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
<p>Aquatic Facilities Utilisation <i>Utilisation of aquatic facilities</i> [Number of visits to aquatic facilities / Municipal population]</p>	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.
<p>Animal Management Health and safety <i>Animal management prosecutions</i> [Number of successful animal management prosecutions]</p>	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.
<p>Food Safety Health and safety <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</p>	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.
<p>Governance Satisfaction <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]</p>	48.00	43.00	45.00	49.00	Improvements with Council's community consultation and engagement process have increased the satisfaction with Council decisions.

Service/indicator/measure	Results 2015	Results 2016	Results 2017	Results 2018	Material Variations and Comments
<p>Libraries Participation <i>Active library members</i> [Number of active library members / Municipal population] x100</p>	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.
<p>Maternal and Child Health (MCH) Participation <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</p>	74.83%	71.90%	69.68%	70.85%	
<p>Participation <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</p>	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.
<p>Roads Satisfaction <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]</p>	44.00	37.00	42.00	39.00	

Service/indicator/measure	Results 2015	Results 2016	Results 2017	Results 2018	Material Variations and Comments
Statutory Planning Decision making 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.
Waste Collection Waste diversion 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	
Efficiency									
Revenue level									
<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	
Expenditure level									
<i>Expenses per property assessment</i> [Total expenses / Number of property assessments]	\$2,859.53	\$2,967.93	\$3,087.23	\$3,279.64	\$3,101.91	\$3,156.21	\$3,212.59	\$3,273.24	
Workforce turnover									
<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/ <i>indicator/measure</i>	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
Liquidity Working capital <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> <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>
Unrestricted cash <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%	

Dimension/ <i>indicator/measure</i>	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
Obligations Asset renewal <i>Asset renewal compared to depreciation</i> [Asset renewal expense / Asset depreciation] x100	101.51%	97.58%	97.66%	115.56%	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.
Loans and borrowings <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/ <i>indicator/measure</i>	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
Indebtedness <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.
Operating position Adjusted underlying result <i>Adjusted underlying surplus (or deficit)</i> [Adjusted underlying surplus (deficit) / Adjusted underlying revenue] x100	10.34%	1.88%	9.27%	0.97%	-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.
Stability Rates concentration <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/ <i>indicator/measure</i>	Results				Forecasts				Material Variations and Comments
	2015	2016	2017	2018	2019	2020	2021	2022	
Rates effort <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

Other Information

For the year ended 30 June 2018

1. Basis of preparation

Council is required to prepare and include a performance statement within its annual report. The performance statement includes the results of the prescribed sustainable capacity, service performance and financial performance indicators and measures together with a description of the municipal district and an explanation of material variations in the results. This statement has been prepared to meet the requirements of the *Local Government Act 1989* and *Local Government (Planning and Reporting) Regulations 2014*.

Where applicable, the results in the performance statement have been prepared on accounting bases consistent with those reported in the Financial Statements. The other results are based on information drawn from council information systems or from third parties (e.g. Australian Bureau of Statistics).

The performance statement presents the actual results for the current year and for the prescribed financial performance indicators and measures, the results forecast by the council's strategic resource plan. The *Local Government (Planning and Reporting) Regulations 2014* requires explanation of any material variations in the results contained in the performance statement. Council has provided comments against each performance indicator and measure to assist readers interpret the results.

The forecast figures included in the performance statement are those adopted by council in its Strategic Resource Plan on 22 June 2016 and which forms part of the council plan. The Strategic Resource Plan includes estimates based on key assumptions about the future that were relevant at the time of adoption and aimed at achieving sustainability over the long term. Detailed information on the actual financial results is contained in the General Purpose Financial Statements. The Strategic Resource Plan can be obtained by contacting council.

Certification of the performance statement

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

Jason Clissold FCPA
Principal Accounting Officer
Date:
Colac

In our opinion, the accompanying performance statement of the Colac Otway Shire Council for the year ended 30 June 2018 presents fairly the results of council's performance in accordance with the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014*.

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

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

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

Cr Joe McCracken
Councillor
Date:
Colac

Cr Jason Schram
Councillor
Date:
Colac

Peter Brown
Chief Executive Officer
Date:
Colac

5 September 2018

Mr. Errol Lawrence
General Manager Corporate Services
Colac Otway Shire Council
errol.lawrence@colacotway.vic.gov.au

PORT OF APLO BAY

In accordance with our correspondence dated 30 August 2018, we have completed an independent review of the accounting treatment of the Port of Apollo Bay (POAB) in preparation of the draft Colac Otway Shire (COS) 2017-18 Financial Statements.

Project scope

The project scope was as follows:

1. review whether the accounting treatment applied to the POAB financial transactions by Council officers in the preparation of the:
 - a. draft 2017-18 COS financial statements, and
 - b. draft POAB 2017-18 Financial Statements (special purpose financial report),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, giving due consideration to the following information:
 - a. The case for the change in accounting treatment applied in 2018 (explained in the Accounting Policy Position Paper dated 9 August 2018, presented to VAGO's agent, McLaren Hunt.
 - b. the case for the change in accounting treatment implemented in 2016 and applied to the 2015-16 and 2016-17 COS Financial Statements.
 - c. The POAB Management Agreement.

Summary of findings

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.

Basis of report preparation

This report was prepared pursuant to a request from Council on 29 August 2018. The project scope was as determined by Council.

For the purpose of this report, we have relied on documents provided by Council including:

- COS 2014-15 Financial Statements (no exclusions)
- COS 2015-16 Financial Statements (POAB partially excluded)
- COS 2016-17 Financial Statements (POAB partially excluded)
- POAB 2016-17 Financial Statements
- Draft COS 2017-18 Financial Statements (no exclusions)
- Draft POAB 2017-18 Financial Statements (all POAB transactions)
- Accounting Policy position paper - 2016
- Accounting Policy position paper - 2018
- Draft Audit Committee minutes of 29 August 2018

In addition, we have reviewed:

- the published financial statements of other Councils with similar local ports management agreements – Moyne, Warrnambool and Glenelg,
- the POAB Management Agreement commencing July 2017, and
- the Port Management Act 1995.
- relevant Australian Accounting Standards including AASB 10.

The project scope and an extract of the above documents were provided to the Crowe Horwath National Technical Team for their input on 30 August and this report was reviewed by them on 3 September 2018.

Background

Local ports along Victoria's coasts provide services to the commercial fishing industry, charter boats, and recreational fishing and boating interests. They are also key recreation and tourist assets and contribute significantly to the local economies.

Port Managers are appointed to manage a port pursuant to Section 44A of the Port Management Act 1995.

Local ports are managed with the support of a funding program managed by Transport for Victoria (TFV). Port managers are responsible for the operation and maintenance of local ports, including:

- Planning
- Issuing permits and licences
- Allocating moorings
- Maintaining wharves, jetties and navigation aids
- Dredging
- Operating facilities such as slipways, and
- Constructing new facilities.

There are 13 local ports in Victoria, as follows:

Local port	Port manager
Anderson Inlet Corner Inlet Gippsland Lakes Snowy River Mallacoota	Gippsland Ports Committee of Management Inc.
Port Phillip Bay and Westernport	Parks Victoria
Port Fairy	Moyne Shire Council
Warrnambool	Warrnambool City Council
Port Campbell	Parks Victoria
Lorne	Great Ocean Road Coast Committee3
Barwon Heads	Barwon Coast Committee of Management Inc.
Apollo Bay	Colac Otway Shire Council
Portland Bay	Glenelg Shire Council

The POAB is managed in accordance with a management agreement between TFV and COS. The current funding agreement is for the period 1 July 2017 to 30 June 2020.

The 'Recitals' of the agreement state:

- TFV is responsible for managing the overall funding program for local ports and broad strategic planning services for local port facilities across the State
- The Port Manager (COS) manages and administers the Port as part of its statutory functions as set out in the Port Management Act 1995
- TFV have agreed to provide the Port Manager with funding for the administration and management of the Port.
- This Agreement sets out the terms and conditions on which the Port Manager will administer and manage the Port and TFV will provide funding for the management and administration of the Port.

Section 4 sets out matters relating to fixed and floating assets including:

- Fixed and floating assets are owned by the State
- TFV controls the fixed and floating assets on behalf of the State
- The Port Manager will be responsible for the management, maintenance and operational control of the fixed and floating assets.

Furthermore, Section 4 of the Agreement stipulates that the ownership of the fixed and floating assets does not transfer to the Port Manager and the Port Manager must not dispose, remove, close permanently or change the use of those assets without a prior approval from TFV. In addition, the Port Manager must notify TFV when fixed assets are closed following an emergency or when they are unsafe for public use together with the proposed date of re-opening.

The Port Manager is also required to prepare a rolling three-year business plan each year in accordance with Section 5. The plan, which forms the basis for funding is subject to an approval by TFV. It is understood the approval process is a substantive process.

Section 6 of the Agreement states that TFV will provide operating and maintenance funding (including wages) and project funding to the Port Manager subject to approval of TFV. Project funding must be used for the purpose agreed by TFV. The Port Manager is to determine user fees in accordance with its legislative powers and is to endeavour sufficient revenue to cover the full cost of all utilities. TFV also provides funding for emergency repairs in the event of storms or other serious unforeseen events. Further, clause 6.9 states that "If DOT (TFV) does not provide funding for the full cost of performing any necessary repairs and maintenance following a submission from the Port Manager under clause 6.6, nothing in this Agreement shall require the Port Manager to itself provide funding from its own resources."

Section 7 of the Agreement sets out the requirements relating to budgeting, accounts, annual reporting and audit. In particular, section 7.4 states that annual accounts are to be provided to TFV prepared in accordance with Australian Accounting Standards and audited in accordance with Australian Auditing Standards.

Insurance for the fixed assets, floating plant and port operator liability is the responsibility of TFV under Section 8 of the Agreement.

The Port Management (Local Ports) Regulations 2015 give the Port Manager the right to set aside areas in a local port for specific purposes or temporarily prohibit access in certain circumstances but ultimately any long-term decisions impacting port access are the responsibility of TFV.

In preparing the draft COS 2017-18 financial reports, Council officers raised concerns about the accounting treatment of the POAB transactions. Following a review of the practices adopted in 2016 and consideration of the current Accounting Standards, an Accounting Policy position paper was prepared. In the paper, Council officers concluded that Council had erred in making changes to the treatment of the POAB transactions in 2016.

As a result, Council officers prepared the financial reports based on the view that all assets, liabilities, income and expenses relating to the POAB operating activities, including the fixed assets, should be recognised in COS's financial statements in order to correctly state the financial position of Council.

The 2017-18 POAB Financial Statements is a special purpose financial report that is prepared to meet Council's reporting obligations under the Port of Apollo Bay Management Agreement. The draft 2017-18 POAB Financial Statements have been wholly incorporated into the draft 2017-18 Colac Otway Shire Council Financial Statements (after eliminating internal transactions). This revised accounting treatment has been accepted by VAGO and their agent, McLaren Hunt.

At its meeting held on 29 August 2018, Council's Audit Committee recommended to Council that it:

- approve the 2017-18 POAB Financial Statements as presented
- recommended that Council approve an amendment to the 2017-18 COS Council Financial Statements, excluding the POAB fixed assets and all associated transactions, which largely reflects the accounting practices adopted in 2016 in preparation of the COS Council Financial Statements in 2016.

Accounting treatment of POAB

In conducting this review, we have considered the accounting treatment applied by other council Port Managers pursuant to similar agreements. Set out below is a summary of our findings:

Port manager	Capitalised fixed and floating assets in Council accounts	Capitalised fixed and floating assets in Committee of management report
Glenelg Shire	No	No – note in accounts
Warrnambool City	No	No – note in accounts
Moyne Shire	No	No – confirmed directly with Council

The table above is based on review of the respective councils' annual reports for 2016/17 and internet searches.

We further noted that Gippsland Ports is a separately incorporated entity. Unlike the other Port Managers, Gippsland Ports appears to fully recognise the fixed assets and floating assets it manages in its financial statements.

In considering the appropriate treatment of the management agreement, we considered the following alternatives:

- Does the management agreement give rise to a service agreement whereby the Port Manager performs a role similar to a trustee of assets?
- Does the management agreement give rise to a transfer of control of the assets?

We note in the position paper and prior advice, reference is made to AASB 10 *Consolidated Financial Statements* and *The Framework for the Preparation and Presentation of Financial Statements*. In these papers, key matters for consideration are the definition of an asset and control over the economic benefit to be derived from the asset.

The AASB *Framework for the Preparation and Presentation of Financial Statements* defines an asset as 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. As result, an asset must:

- be controlled by the entity;
- be a result of past events; and
- produce future economic benefits.

The accounting concept of control is contained in AASB 10 and has three elements: power, exposure or right to variable returns and the ability to use the power to affect the returns. When applied in this case, the determining factor to consider is which entity has the ability to restrict access to the future economic benefits associated with the assets.

In the not-for-profit sector the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows but are synonymous with the notion of service potential, i.e. the capacity or means to achieve the objectives of the entity.

We recognise that Council obtains benefits indirectly from the assets through their existence and use by generating economic activity and for recreation purposes, thus assisting Council in achieving its broader functions. Council also generates user fees and recovers the cost of utilities, however the income derived from port operations is insignificant in the context of overall revenue generated by Council. In our view, it is ultimately the Victorian Government who establishes and manages ports to achieve its own policy objectives.

Furthermore, we note substantial limitations on Council's ability to direct and obtain or restrict access to the economic benefits associated with the POAB. To this end we have considered a range of factors including:

- Ownership of the assets
- The ability to direct use of the assets
- The ability to determine the type of use and access of the assets
- The ability to determine the renewal, expansion and maintenance of the assets
- The ability to revoke management, operation and administration of the assets
- The ability to control funding in relation the assets
- The ability to close the port (or part of it) or sell the port (and receive the proceeds)
- Approval of asset management and business plans and the ability, through the approval process, to direct the activities of Council as the port manager
- Maintaining insurance cover for the assets and port operator liability.

In summary, the responsibility for the establishment and operations of local ports rests with the Victorian Government who appointed Council to manage and administer the POAB. Council is obligated under contractual arrangements to manage, maintain and operate the fixed assets and floating plant on behalf of the Victorian Government, who controls and regulates the services to be provided. In addition, the Victorian Government controls any residual interest in the assets by restricting Council from selling or pledging those assets. Council has the right to use those assets in accordance with the contractual arrangements. In our view, there is a clear distinction between control of the assets and their management on behalf of the Victorian Government, even though Council may have managerial discretion in some aspects of operating the POAB.

Based on this consideration, we are of the opinion that Council's ability to restrict access to the economic benefits associated with the POAB is limited and substantial restrictions exist on Council in relation to its ability to direct the use and obtain substantially all the benefits from the use of the assets.

Because we have not established that Council controlled the assets, we have concluded as follows:

- 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 view that the COS 2017-18 Financial Statements should be amended to exclude the capitalisation of POAB assets and associated equity.

The report

This report has been prepared at the request of the Director of Corporate Services of COS.

The report was prepared based on documents provided by the Council as requested by us, discussions with Council staff and our research. The conclusions in this report are based on this information and we are not aware of any limitations placed on us in completing the report.

We have only considered the treatment of the fixed and floating assets in COS financial statements for 2017-18. We have not considered the treatment of related income and expenditure. We have also not considered the following standards in this regard:

- AASB 1004 Contributions
- AASB 15 Revenue from Contracts with Customers (effective from 1 January 2019)
- AASB 117 Leases (and AASB 16 Leases effective from 1 January 2019)
- Interpretation 12 Service Concession Arrangements (and AASB 1059 Service Concession Arrangements: *Grantors* in the context of Interpretation 12).

A draft of the report was provided to the Director of Corporate Services for his comments in relation to accuracy and completeness. Amendments to the report were made based on feedback received.

The report was prepared by John Gavens, a Partner in Crowe Horwath Melbourne's Audit & Risk Consulting Division. John has more than 27 years' experience in the provision of internal and external audit, assurance, strategic risk management, probity, compliance, fraud and governance advice. John has significant experience in local government and audit including as:

- a service provider to the Victorian Auditor General
- member of the Auditing Assurance Standards Board
- Registered Company Auditor
- contracted internal auditor to metropolitan, regional and rural councils,
- member of two local government audit committees

Crowe Horwath Melbourne is currently the internal audit service contractor to COS. In addition, in the past John Gavens and another partner have been the audit service provider for VAGO at COS. We do not believe these current and prior relationships give rise to a conflict of interest in relation to this advice.

Yours sincerely

CROWE HORWATH MELBOURNE



JOHN GAVENS
Partner