



Colac Otway
SHIRE

SPECIAL COUNCIL MEETING

AGENDA

Wednesday 21 October 2020

at 4:00 PM

COPACC

95 - 97 Gellibrand Street, Colac

and by videoconference



COLAC OTWAY SHIRE SPECIAL COUNCIL MEETING

Wednesday 21 October 2020

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COLAC OTWAY SHIRE SPECIAL COUNCIL MEETING

NOTICE is hereby given that the next **SPECIAL COUNCIL MEETING OF THE COLAC OTWAY SHIRE COUNCIL** will be held at COPACC and by videoconference on Wednesday 21 October 2020 at 4:00 PM.

AGENDA

1 DECLARATION OF OPENING

OPENING PRAYER

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

AMEN

2 PRESENT

3 APOLOGIES AND LEAVE OF ABSENCE

4 WELCOME AND ACKNOWLEDGEMENT OF COUNTRY

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

Please note: All Council and Committee meetings will be audio recorded and live streamed, with the exception of matters identified as confidential items in the Agenda. This includes the public participation sections of the meetings.

By participating in open Council meetings, individuals consent to the use and disclosure of the information they share at the meeting (including any personal and/or sensitive information).

Audio recordings of meetings will be available to the public on Council's website as soon as practicable following the meeting and may be circulated by other means also. Audio recordings are also taken to facilitate the preparation of the minutes of open Council and Committee meetings and to ensure their accuracy. Original audio recordings will be retained by Council for a period of four years.

As stated in the Governance Rules, other than an official Council recording, no video or audio recording of proceedings of Council Meetings will be permitted without specific approval by resolution of the relevant Council Meeting.

In response to the COVID-19 pandemic and in accordance with the relevant Directions issued by the Chief Health Officer of Victoria that are in place in regional Victoria at the time of publication, Council

advises only Councillors and Council staff are permitted to attend the Special Council meeting. Strict hygiene and social distancing measures will be in place for those who need to physically attend.

The sole purpose of the Special Council Meeting is for noting and signing off the financial statements for 2019/20.

5 QUESTION TIME

Colac Otway Shire encourages community input and integral to this is the opportunity provided to ask questions at Council Meetings. A maximum of 30 minutes is usually allowed for question time however, in response to the COVID-19 pandemic and in accordance with the relevant Directions issued by the Chief Health Officer of Victoria that are in place at the time of publication, only those people who are working are permitted to attend this Special Council Meeting. Only Councillors and Council staff will be permitted to attend this Special Council Meeting.

Questions and responses to questions that are submitted in writing by 5pm of the Monday preceding this Special Council Meeting will be included in the minutes of this meeting. Please note that as this is a Special Council Meeting, only questions pertaining to this agenda will be responded to.

6 TABLING OF RESPONSES TO QUESTIONS TAKEN ON NOTICE AT PREVIOUS MEETING

Nil

7 DECLARATIONS OF INTEREST

A Councillor who has declared a conflict of interest, must leave the meeting and remain outside the room while the matter is being considered, or any vote is taken.

Councillors are also encouraged to declare circumstances where there may be a perceived conflict of interest.

Item: 8.1

Approval and Certification of 2019/20 In Principle Financial and Performance Statements

OFFICER	Jason Clissold
GENERAL MANAGER	Errol Lawrence
DIVISION	Corporate Services
ATTACHMENTS	<ol style="list-style-type: none"> 1. 2019 - 2020 In Principle Financial Statements [8.1.1 - 46 pages] 2. 2019 - 2020 In Principle Performance Statement [8.1.2 - 13 pages] 3. 2019 - 2020 Closing Report [8.1.3 - 17 pages] 4. 2019 - 2020 Management Letter [8.1.4 - 13 pages]
PURPOSE	To approve and certify the 2019/20 'In Principle' Financial & Performance Statements for submission to Victorian Auditor-General.

1. EXECUTIVE SUMMARY

This report provides an overview of the 2019/20 Financial Statements (Attachment 1) and 2019/20 Performance Statement (Attachment 2) to facilitate the approval and certification of the two 'in principle' statements in accordance with Section 132 of the Local Government Act 1989. The statements, closing report and management letter were reviewed in detail and approved by the Audit and Risk Committee on 14 October 2020.

The 2019/20 results show that Council achieved the budgeted operating revenue and expenditure for the year. This excludes the impact of the COVID-19 pandemic and the timing of revenues and expenditure associated with major initiatives and capital projects. The impact of lost revenue and additional costs associated with managing the COVID-19 pandemic has been provided for in the 2020/21 budget.

Compared to 2018/19 Council was successful in limiting the overall increase costs of materials and services and employee costs to 1.87% and 1.96% respectively. The limiting of employee costs was achieved with a reduction in staff numbers.

While Council is considered to be financially sustainable, the Audit and Risk Committee have raised some serious concerns regarding some of Council's future sustainability indicators which continue to trend downward. These indicators are discussed in more detail in the report.

Of particular concern to the Committee is Council's ability to fund its current liabilities, allocated reserves and asset renewal into the future. This concern is supported by a continual reduction in both cash and working capital, which have been permanently impacted over recent years by rates increases less than CPI. I.e. Revenue growth has not been able to match the increased costs of delivering Council services, that traditionally increase by more than CPI due to their nature.

While, Council continues to investigate and implement cost reduction measures, there will be a challenge for the incoming Council to balance service levels with available revenue, within the Long Term Financial Plan.

The attached Management Letter and Closing Report do not raise any concerns over the audit and indicate that an unmodified audit opinion is expected to be issued for both statements.

Once certified the Statements will be formally lodged with the Victorian Auditor-General's Office (VAGO), who will then issue a formal Audit Opinion on each, allowing the Annual Report to be finalised and submitted to the Minister for Local Government by 30 November 2020.

The Management Letter discloses two moderate and four low rated risks. Three of these risks are from previous financial years and three relate to new risks identified in 2019/20. Two low risk issues have been resolved since the interim audit, being the development of a formalised User Access Review Procedure and Stocktake Procedures.

2. RECOMMENDATION

That Council:

- 1. Receives the 'in principle' 2019/20 Financial and Performance Statements and notes the recommendation from the Audit and Risk Committee dated 14 October 2020;***
- 2. Approves, in principle, the 2019/20 Financial Statements, subject to any changes that are recommended or agreed by the auditor in accordance with section 132(2) of the Local Government Act 1989;***
- 3. Approves, in principle, the 2019/20 Performance Statement, subject to any changes that are recommended or agreed by the auditor in accordance with Section 132(2) of the Local Government Act 1989;***
- 4. Will refer the 2019/20 Financial Statements and Performance Statement back to the Audit and Risk committee for information, if there is any significant change prior to certification;***
- 5. Authorises Councillors Jason Schram and Stephen Hart to certify the final Financial Statements and Performance Statement in accordance with section 132(5)(a) of the Local Government Act 1989; and***
- 6. Records its thanks to the Audit and Risk Committee and to those Council staff and staff of McLaren Hunt Financial Group who were involved with the preparation of the 2019/20 Annual Statements and Audit Processes.***

3. KEY INFORMATION

Council's Financial Statements and Performance Statement for 2019/20 were audited independently by McLaren Hunt as the contract agent on behalf of the Victorian Auditor-General's Office. Representatives of McLaren Hunt commenced the final audit for 2019/20 on Monday 10 August 2020.

The attached draft Management Letter and Closing Report do not raise any concerns over the audit and indicate that an unmodified audit opinion is expected to be issued for both statements.

The Management Letter discloses two moderate and four low rated risks. Three of these risks are from previous financial years and three risks have been included in addition to these previously identified risks. Two low risk issues have been resolved since the interim audit, being the development of a formalised User Access Review Procedure and Stocktake Procedures.

Financial Performance

Council is committed to providing accurate, understandable and fair reporting on our financial performance for 2019/20 and our financial position at the end of the period. It enables an assessment of our ability to deliver current services and maintain existing facilities in the longer-term.

In brief

The 2019/20 results show that Council remains financially sustainable, but some critical indicators continue to trend downward. Specifically:

- An adjusted Underlying Deficit in 2019/20 of \$1.91m. I.e. Without revenue from capital grants, etc. Council would have made a deficit of \$1.91m.
 - The adjusted Underlying Deficit would have been \$585k if the new Accounting Standards had not been introduced in 2019/20.
- Third successive year of a reduction in the Working Capital Ratio, to 178%. This is positively impacted by \$3.4 million cash received in advance.
- Third successive year of a reduction in the Internal Financing Ratio to 83.3%.

An explanation and some commentary of these indicators are discussed further in this report.

Other key results include:

- Net Surplus \$1.17m
- Capital Works program \$14.89m, of which 75% related to asset renewal projects
- Cash Balance \$16.2m

The \$187k unfavourable result compared to budget primarily relates to the following:

- \$3.7m of unbudgeted grants, including:
 - \$1.9m relating to the management of Port of Apollo Bay.
 - \$0.37m received for various bridge projects.
 - \$0.54m received for various road project.
- \$728k of additional non-monetary contributions;
- \$4.0m of additional Materials and Services expense;
 - Materials and Services increased by 1.87% compared to 2018/19.
- \$1.1m of additional employee benefits.
 - Employee benefits increased by 1.96% compared to 2018/19.

For more information on the actual variances to budget please refer to the 'In Principle' Financial Statements Note 1 – Performance against budget.

Council ended the financial year with a total cash balance of \$16.2 million. This is a decrease of \$4.3 million from the prior year primarily due to;

- Reducing reserve commitments by \$5.86m;
- Timing of payments and receipts;
- Funding 100% (\$14.89m) of the capital works program from operating cash and cash reserves;
- \$1.7m of existing loans and borrowings were repaid;
- No additional loans and borrowings were undertaken in 2019/20.

Operating results

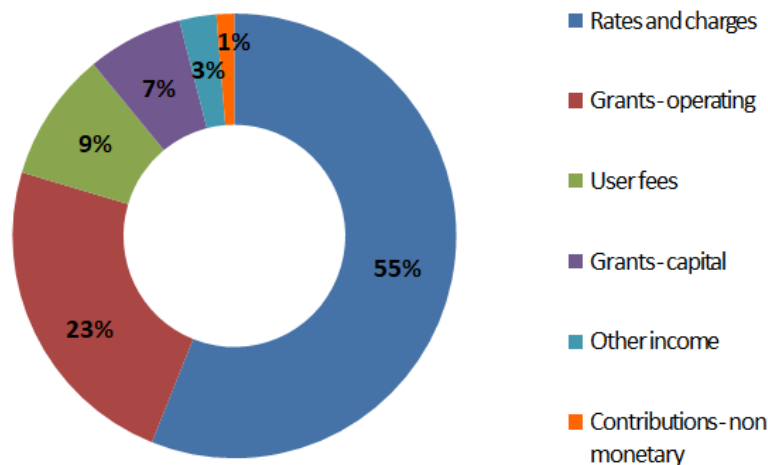
The surplus for the year totalled \$1.17 million, compared to a surplus of \$6.97 million in 2018/19.

Council’s major challenge in future years is to continue generating sufficient cash to fund infrastructure renewal requirements whilst maintaining service levels. This challenge is further impacted given the current restrictions on Council’s ability to raise revenue within the rate cap, set under the State Government’s Fair Go Rates System.

Council is currently undertaking a project to develop a more robust long term financial plan that will assist in meeting these renewal requirements.

Revenue

Total revenue for 2019/20 was \$56.8 million (budgeted \$51.3 million) compared with \$61.6 million for 2018/19. Further detail on our income can be seen in the Comprehensive Income Statement.

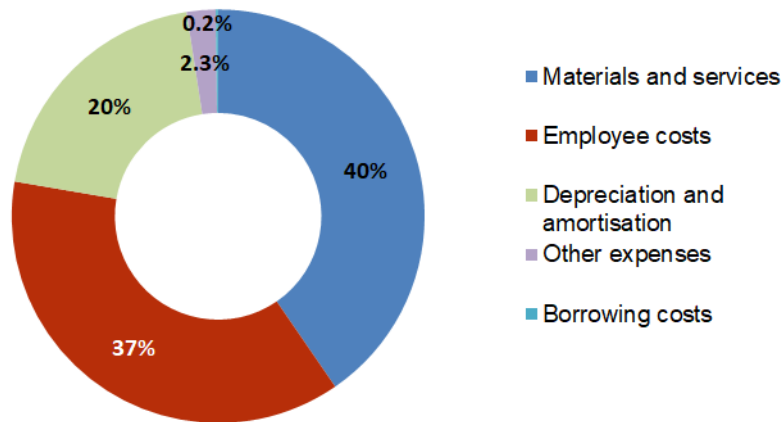


An analysis of Council’s revenue sources highlights that 78% of our income is derived from two income categories:

- Rates and charges 55%
- Operating grants 23%

Expenditure

Total expenses for 2019/20 were \$55.6 million; \$1 million, or 1.8%, more than the \$54.6 million spent in 2018/19 (detailed in the Comprehensive Income Statement).



An analysis of expenses indicates that 97% were in the following three categories:

- Materials and services 40%
- Employee benefits 37%
- Depreciation and amortisation 20 %

At the adoption of the 2019/20 budget officers recommended a rate increase of 2.0%, which was the rate cap set by the State Government. Council voted to adopt a rate increase of 0.5% and instructed that the saving of 1.5%, or \$450,000, must be achieved with a reduction in Employee costs.

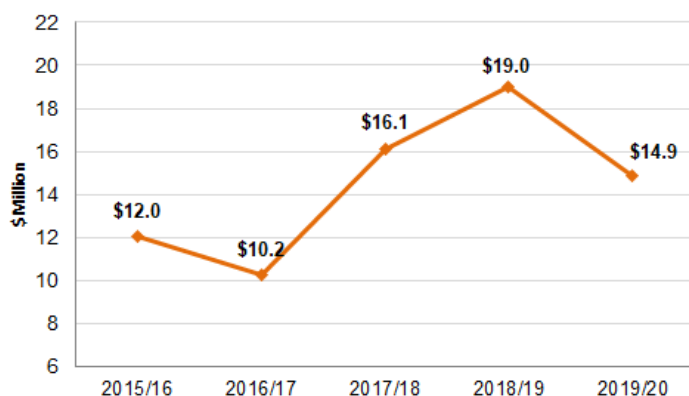
The Annual Financial Report indicates that actual Employee Costs exceeded budget, and is specifically detailed in Note 1.1, item 8 of the Annual Financial Report, which includes:

- \$240k due to utilisation of 3 additional FTE in Services and Operations, rather than the use of budgeted contractors.
- \$218 due to a change in the discount rates applied to the leave provision.
- \$145k due to salaries being paid to employees on long term injuries. Council received \$90k in reimbursements from its insurer.
- \$128k fully funded additional employees required to fulfil additional Home Care Packages.
- \$110k due to the restructure of Bluewater Fitness Centre. This is partly offset by \$47k in additional revenue for 2019/2020
- \$104k due to the utilisation of employees to deliver initiatives, whereby contracted expenditure was expected. This includes the City Deal Project and the MCH Hard to Staff Project.
- \$57k due to a decision to increase resources in the Statutory Planning area to improve the level of service to the community.
- \$47k due to an increase in the WorkCover premium above the budgeted level. This is partly due to several long-term WorkCover claims.
- \$36k fully funded employee costs were utilised in relation to Aboriginal Engagement – Healthy Babies Stronger Families.
- \$25k fully funded employee costs in relation to the Working for Victoria initiative.
- \$22k fully funded employee costs relating to the Port of Apollo Bay.

The \$450,000 reduction in employee costs required was achieved with the following savings:

Position	2019/20 Saving	
	FTE	\$'000
Employee Benefit Savings		
Reduced FTE		
Corporate Services administration support reduced	0.50	40
Health & Wellbeing Administrator	0.50	31
Environmental Project Officer/Coordinator restructure	0.40	28
GIS Coordinator - New service-sharing arrangement	1.00	95
Customer Assist role not replaced - Apollo Bay	0.19	13
Local Laws Administrator	0.15	10
Finance Projects Officer	0.20	21
Contracts Administrator	0.70	46
Infrastructure Customer Service Coordinator	0.50	46
Total FTE reduction savings	4.14	329
Delayed recruitment without backfill	2.22	187
Total identified Employee Benefit savings	6.36	516

Capital Works



In 2019/20 Council's Capital Works activities decreased by \$4.1 million from last year, to a total of \$14.9 million. Renewal of our existing assets accounted for \$11.2 million, new assets accounted for \$3 million and upgrade to existing assets totalled \$0.7 million. The investment in capital works is a strategic approach to maintaining or renewing the community's existing assets as they age. Council is currently undertaking a large body of work to review existing and develop new asset management plans.

Activities included:

- \$4.5 million on road works.
- \$2.9 million on drainage and storm water.
- \$2.2 million on renewal of Council's plant, machinery and equipment.
- \$1.1 million on buildings.
- \$0.5 million on footpaths and cycle ways.
- \$0.5 million on bridge works.

Assets

Total assets are valued at \$377 million; 99% consisting of:

- Property, plant, equipment and infrastructure (land, buildings, roads, bridges etc.)
- Cash assets (mainly short-term investments)

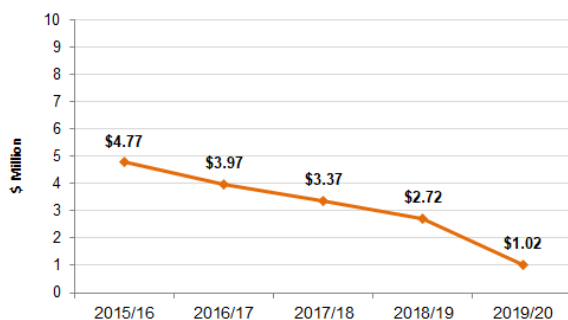
Liabilities

Total liabilities were \$21.9 million as at 30 June 2020. Liabilities included loans, amounts owed to suppliers, lease obligations, provisions for landfill rehabilitation and amounts owed to employees for leave entitlements. Liabilities increased by \$0.9 million, in comparison with 2018/19.

Due to the introduction of new Accounting Standards, Council was required to recognise lease liabilities of \$0.9 million in 2019/20.

Loan liability

Council's borrowings liability levels reduced from \$2.72 million in 2018/19 to \$1.02 million in 2019/20.

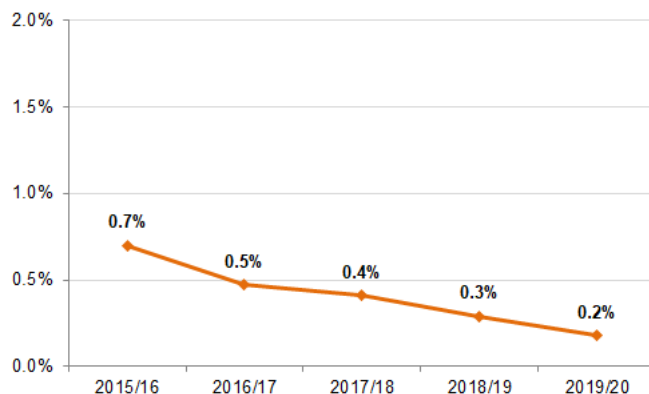


During 2019/20 Council made total loan payments of \$1.8 million (\$1.7 million repayment and \$0.1 million interest). Council's current loans and borrowing are well under the prudential ratio limits previously used by the Victorian State Government.

Financial Indicators

The financial indicators included in this report provide information on performance trends over time.

Debt Servicing Ratio

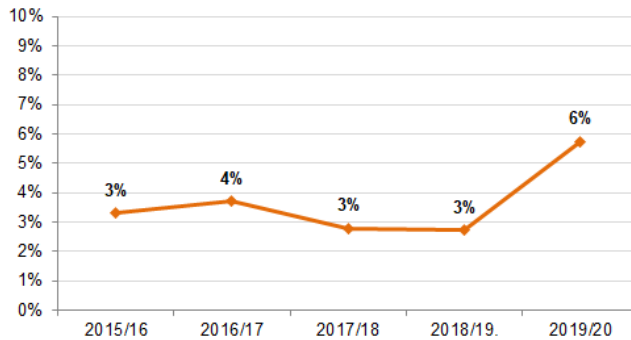


The Debt Servicing Ratio essentially shows how much Council spends on maintaining its outstanding debts compared with how much revenue it earns. These debt-servicing costs refer to the payment of

interest on loan borrowings and any lease interest. The ratio expresses the amount of interest paid as a percentage of our total revenue.

The ratio of 0.2% is very low and indicates that Council is able to service existing debt levels and have further capacity to borrow if required.

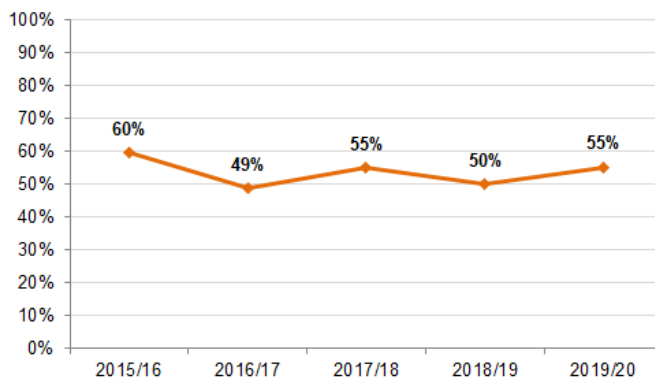
Debt Repayment Ratio



The Debt Repayment Ratio is used to illustrate how much rate revenue is used to fund existing debt for the year. This includes the payment of principal and interest relating to loans and leases. The rate at which the ratio either increases or decreases is a reflection of Council's debt redemption strategy. The debt repayment ratio expresses the percentage of rate revenue utilised to pay interest and redeem debt principal.

The Debt Repayment Ratio was higher in 2019/20 due to the increased repayment of loans, including a \$1m bond repayment in November 2019, which was taken under the Local Government Funding Vehicle in 2014.

Revenue Ratio



The Revenue Ratio shows the level of reliance on rate revenue. It is an indication of how much total revenue comes from rates and charges. It is influenced by other revenue sources such as government grants, contributions, special charges, user fees and charges. Rate income is a secure and predictable source of revenue. A low ratio can warn of undue reliance on other forms of revenue, which may or may not be sustainable, e.g. government grants. The preferred position is for a reliance on rates and other commercial revenue, with a low dependency on government grants.

Financial Sustainability Indicators

Financial sustainability is defined in a number of different ways. A generally accepted definition is whether local governments have sufficient current and prospective financial capacity (inflows) to meet their current and prospective financial requirements (outflows).

To be sustainable, councils need to have some excess capacity at any point in time to be able to manage future financial risks and shocks without having to radically adjust their current revenue or expenditure policies.

The following seven indicators are utilised and published by the Victorian Auditor General annually, to assess the financial viability of councils. The figures for the financial years 2015/16 to 2018/19 are taken from the Victorian Auditor-General's Office (VAGO) report that can be found at:

<https://www.audit.vic.gov.au/sites/default/files/2019-11/20191127-Local-Government-report.pdf>

The 2019/20 figures in the following graphs are officer calculations of the ratios.

The following table summarises Colac Otway Shire Council's result for 2019/20:

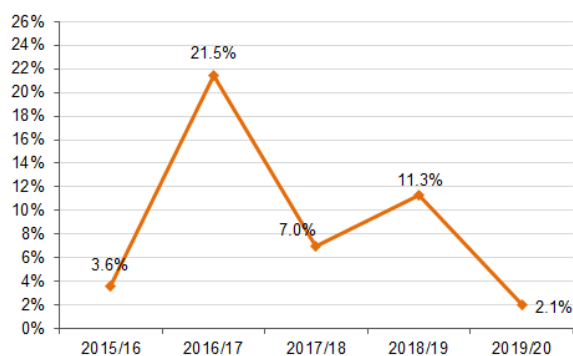
Indicators	Colac Otway Result	Risk Levels		
		High	Medium	Low
Net Result Ratio	2.1%	Less than Negative 10%	Between negative 10% and zero	Greater than zero
Adjusted underlying result	-3.5%	Less than 0%	Between 0% and 5%	Greater than 5%
Liquidity Ratio	178.4%	Less than 75%	Between 75% and 100%	Greater than 100%
Indebtedness Ratio	27.1%	Greater than 60%	Between 40% and 60%	Less than 40%
Internal Financing Ratio	83.3%	Less than 75%	Between 75% and 100%	Greater than 100%
Capital Replacement	136.0%	Less than 100%	Between 100% and 150%	Greater than 150%
Renewal Gap	108.8%	Less than 50%	Between 50% and 100%	Greater than 100%

1

The following information provides a definition for each indicator and the five year trend for each:

Net Result Ratio

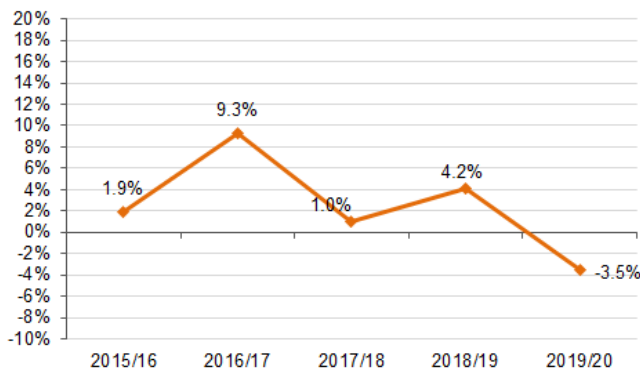
This measures how much of each dollar collected as revenue translates to net result. A positive result indicates a surplus, and the larger the percentage, the stronger the result.



This ratio includes capital grants and grants received in advance that aid in generating a surplus. This can be utilised for new assets or asset renewal. This result places Council within the 'Low' risk category for financial sustainability.

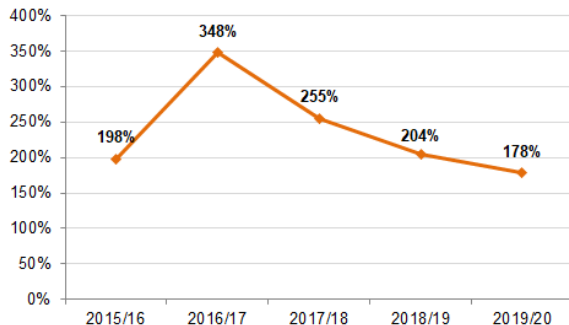
Adjusted Underlying Result

This measures an entity's ability to generate surplus in the ordinary course of business—excluding non-recurrent capital grants, non-monetary asset contributions, and other contributions to fund capital expenditure from the net result. A deficit suggests a reduction in the operating position.



Working Capital Ratio

This measures an entity's ability to pay existing liabilities in the next 12 months. A ratio greater than 100% means there are more cash and liquid assets than short-term liabilities.

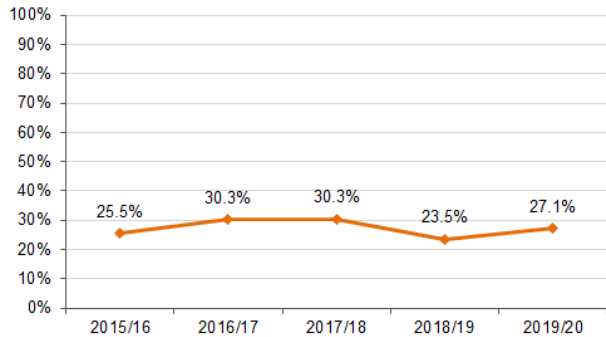


The Working Capital Ratio expresses the level of current assets, such as cash and investments, that Council has available to meet our current liabilities. This includes outstanding creditors and employee entitlements.

The current ratio of 178% is greater than the target for low risk, but does include \$3.4 million of cash received in advance.

Indebtedness Ratio

This assesses an entity’s ability to pay the principal and interest on borrowings, as and when they fall due, from the funds it generates. The lower the ratio, the less revenue the entity is required to use to repay its total debt. Own-sourced revenue is used, rather than total revenue, because it does not include grants or contributions.

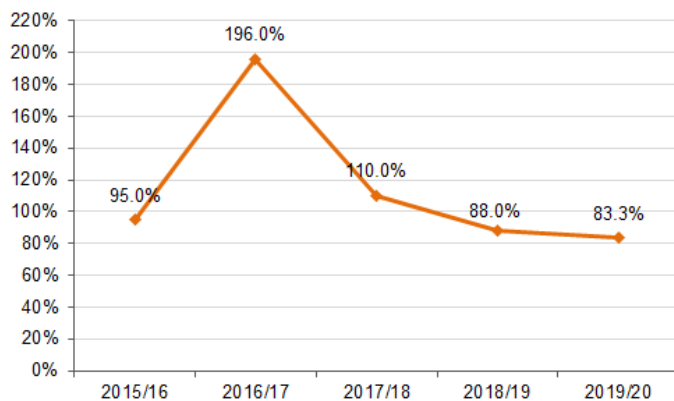


This ratio indicates our ability to repay debt from our own sources of revenue, such as rates and charges. The ratio is comfortably in the low risk category, indicating that we are generating sufficient funds to cover debt without requiring outside assistance.

Despite repaying a large amount of debt in 2019/20 this indicator has increased due to the low level of own sourced income.

Internal Financing Ratio

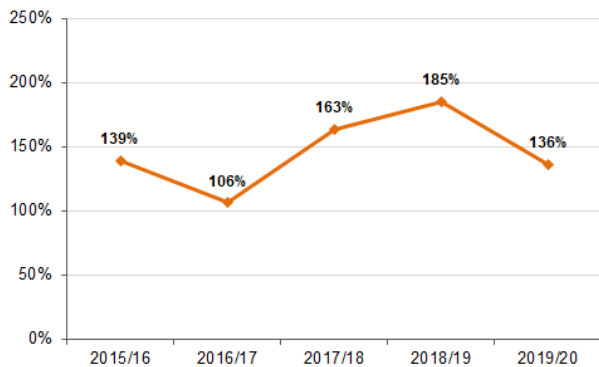
This measures an entity’s ability to finance capital works using cash generated by its operating cash flows. The higher the percentage, the greater the ability for the entity to finance capital works from its own funds.



Results indicate that Council’s ability to generate sufficient cash from operations to fund the renewal of existing assets has declined over the last three years.

Capital Replacement Ratio

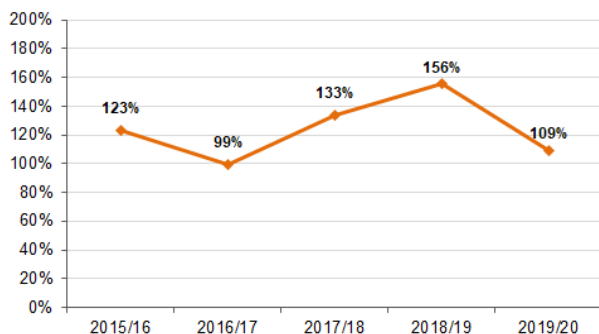
This compares the rate of spending on infrastructure, property, plant and equipment, and intangibles with its depreciation and amortisation. This is a long-term indicator, as capital expenditure can differ in the short term if there are insufficient funds available from operations, and borrowing is not an option. A ratio less than 100% means the spending on capital works has not kept pace with consumption of assets.



This ratio is about the overall spending on assets, both new and existing.

Renewal Gap Ratio

This compares the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 100% indicate that spending on existing assets is faster than the depreciation rate.



This ratio is about the renewal and upgrade of our existing assets (i.e. replacing one asset with another of the same or better quality).

PERFORMANCE STATEMENT

The data and indicators contained in the attached 'In Principle' Performance Statement has been carefully collated and reviewed to ensure it is consistent with the Local Government Performance Report Framework Indicator Workbook.

Any material variation or commentary has been provided against each indicator.

4. COMMUNITY CONSULTATION & ENGAGEMENT

The preparation of Annual Financial Statements and Performance Statement is a legislative requirement and once the documents, by way of the Annual Report, have been finalised and adopted, they will be made available to the community at Council's Customer Service Centres and via Council's website.

5. ALIGNMENT TO COUNCIL PLANS, POLICIES OR STRATEGIES

Alignment to Council Plan 2017-2021:

Theme 4 - Our Leadership & Management

1. Effectively manage financial resources.
2. Openness and accountability in decision making.
3. Organisational development and legislative compliance.
4. Provide value for money services for our community.
5. Communicate regularly with our community and involve them in decision-making.

6. CONSIDERATIONS

ENVIRONMENTAL, SOCIAL & CULTURAL, & ECONOMIC

This report does not have any environmental, social & cultural or economic impact to the community.

LEGAL & RISK

All legislative and accounting standard requirements are set out in the attached Financial Statements and Performance Statements.

FINANCIAL & BUDGETARY

The Financial report clearly sets out how Colac Otway Shire utilises valuable ratepayer funds to ensure the Council achieves Best Value.

7. IMPLEMENTATION STRATEGY

The Financial Statements and Performance Statement have been compiled with great care and attention over several months beginning in April/May and culminating in the presentation to the Audit Committee and approval by Council in an open Council meeting in November.

COMMUNICATION

Following their approval and certification, the Financials Statements and Performance Statement form part of the Council Annual Report which will be brought to open Council in November 2020 and published.

TIMELINE

The approved statements will be submitted to the Victorian Auditor-General's Office for final clearance before being certified and forwarded onto the Minister for Local Government prior to 30 November 2020.

8. OFFICER DIRECT OR INDIRECT INTEREST

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

**Colac Otway Shire Council
ANNUAL FINANCIAL REPORT**

For the Year Ended 30 June 2020

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

Jason Clissold FCPA
Principal Accounting Officer

21 October 2020
Colac

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

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

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

Cr Jason Schram
Councillor

21 October 2020
Colac

Cr Stephen Hart
Councillor

21 October 2020
Colac

Peter Brown
Chief Executive

21 October 2020
Colac

Colac Otway Shire Council
2019/2020 Financial Report

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Comprehensive Income Statement For the Year Ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Income			
Rates and charges	3.1	31,366	30,905
Statutory fees and fines	3.2	807	885
User fees	3.3	5,269	5,167
Grants - operating	3.4	13,174	16,719
Grants - capital	3.4	3,902	5,984
Contributions - monetary	3.5	195	180
Contributions - non monetary	3.5	728	457
Net gain (or loss) on disposal of property, infrastructure, plant and equipment	3.6	(44)	202
Share of net profits (or loss) of associates and joint ventures	6.2	51	35
Other income	3.7	1,303	1,037
Total income		56,752	61,570
Expenses			
Employee costs	4.1	20,727	20,329
Materials and services	4.2	22,458	22,047
Depreciation and amortisation	4.3	10,944	10,266
Amortisation - intangible assets	4.4	-	2
Amortisation - right of use assets	4.5	95	-
Bad and doubtful debts	4.6	15	47
Borrowing costs	4.7	102	178
Finance costs - leases	4.8	35	-
Other expenses	4.9	1,209	1,729
Total expenses		55,585	54,599
Surplus/(deficit) for the year		1,167	6,971
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	6.1	32,113	20,920
Total comprehensive result		33,280	27,891

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

Colac Otway Shire Council
2019/2020 Financial Report

Balance Sheet
As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1	16,198	20,524
Trade and other receivables	5.1	3,359	3,304
Inventories	5.2	215	149
Other assets	5.2	486	431
Total current assets		20,259	24,408
Non-current assets			
Property, infrastructure, plant and equipment	6.1	355,731	319,427
Investments in associates, joint arrangements and subsidiaries	6.2	441	390
Right-of-use assets	5.8	863	-
Total non-current assets		357,036	319,817
Total assets		377,295	344,226
Liabilities			
Current liabilities			
Trade and other payables	5.3	5,622	3,900
Trust funds and deposits	5.3	985	802
Interest-bearing liabilities	5.4	286	1,697
Provisions	5.5	4,357	5,540
Lease liabilities	5.8	105	-
Total current liabilities		11,356	11,939
Non-current liabilities			
Interest-bearing liabilities	5.4	738	1,024
Provisions	5.5	9,005	7,967
Lease liabilities	5.8	773	-
Total non-current liabilities		10,516	8,991
Total liabilities		21,872	20,930
Net assets		355,423	323,296
Equity			
Accumulated surplus		130,527	124,652
Reserves	9.1	224,896	198,644
Total Equity		355,423	323,296

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

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

	Note	Total \$'000	Accumulated Surplus \$'000	Revaluation Reserve \$'000	Other Reserves \$'000
2020					
Balance at beginning of the financial year		323,296	124,652	176,018	22,626
Impact of change in accounting policy - AASB 15 Revenue from Contracts with Customers	10	(1,153)	(1,153)		
Adjusted Opening balance		322,143	123,499	176,018	22,626
Surplus/(deficit) for the year		1,167	1,167	-	-
Net asset revaluation increment/(decrement)	6.1	32,113	-	32,113	-
Transfers to other reserves	9.1	-	(13,598)	-	13,598
Transfers from other reserves	9.1	-	19,459	-	(19,459)
Balance at end of the financial year		355,423	130,527	208,131	16,765
2019					
Balance at beginning of the financial year		292,887	116,159	155,098	21,630
Prior Period Error Adjustment	6.1	2,518	2,518	-	-
Surplus/(deficit) for the year		6,971	6,971	-	-
Net asset revaluation increment/(decrement)	6.1	20,920	-	20,920	-
Transfers to other reserves	9.1	-	(15,644)	-	15,644
Transfers from other reserves	9.1	-	14,648	-	(14,648)
Balance at end of the financial year		323,296	124,652	176,018	22,626

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

Statement of Cash Flows
For the Year Ended 30 June 2020

	Note	2020 Inflows/ (Outflows) \$'000	2019 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		30,712	30,758
Statutory fees and fines		807	885
User fees		5,981	5,636
Grants - operating		13,438	16,714
Grants - capital		4,546	5,984
Contributions - monetary		195	180
Interest received		272	270
Trust funds and deposits taken/(paid)		183	410
Other receipts		1,003	731
Net GST refund/(payment)		1,718	1,684
Employee costs		(20,340)	(20,103)
Materials and services		(25,270)	(24,899)
Other payments		(1,209)	(1,729)
Net cash provided by/(used in) operating activities		12,036	16,521
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment	6.1	(14,682)	(18,970)
Proceeds from sale of property, infrastructure, plant and equipment	3.6	233	288
Payments for investments		(27,000)	(41,500)
Proceeds from sale of investments		27,000	58,918
Net cash provided by/(used in) investing activities		(14,449)	(1,263)
Cash flows from financing activities			
Finance costs		(102)	(178)
Repayment of borrowings		(1,697)	(649)
Interest paid - lease liability		(35)	-
Repayment of lease liabilities		(79)	-
Net cash provided by/(used in) financing activities		(1,913)	(827)
Net increase (decrease) in cash and cash equivalents		(4,326)	14,431
Cash and cash equivalents at the beginning of the financial year		20,524	6,093
Cash and cash equivalents at the end of the financial year		16,198	20,524
Restrictions on cash assets	5.1		
Financing arrangements	5.6		

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

**Statement of Capital Works
For the Year Ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
Property			
Land		22	58
Total land		22	58
Buildings		1,082	1,098
Total buildings		1,082	1,098
Total property		1,104	1,156
Plant and equipment			
Plant, machinery and equipment		2,176	883
Fixtures, fittings and furniture		599	229
Computers and telecommunications		147	-
Total plant and equipment		2,921	1,112
Infrastructure			
Roads		4,464	9,643
Bridges		548	580
Footpaths and cycleways		478	2,107
Drainage		2,860	2,597
Other infrastructure		2,510	1,774
Total infrastructure		10,859	16,702
Total capital works expenditure	6.1	14,885	18,970
Represented by:			
New asset expenditure		2,977	2,986
Asset renewal expenditure		11,164	12,900
Asset upgrade expenditure		744	3,084
Total capital works expenditure		14,885	18,970

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

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

Significant accounting policies**(a) Basis of accounting**

The accrual basis of accounting has been used in the preparation of these financial statements, whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated judgements are based on professional judgement derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AAS's that have significant effects on the financial statements and estimates relate to:

- the fair value of land, buildings, infrastructure, plant and equipment (refer to Note 6.1)
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to Note 6.1)
- the determination of employee provisions (refer to Note 5.5)
- the determination of landfill provisions (refer to Note 5.5)
- the determination of whether performance obligations are sufficiently specific so as to determine whether an arrangement is within the scope of AASB 15 Revenue from Contracts with Customers or AASB 1058 Income of Not-for-Profit Entities (refer to Note 3)
- the determination, in accordance with AASB 16 Leases, of the lease term, the estimation of the discount rate when not implicit in the lease and whether an arrangement is in substance short-term or low value (refer to Note 5.8)
- other areas requiring judgements

Unless otherwise stated, all accounting policies are consistent with those applied in the prior year. Where appropriate, comparative figures have been amended to accord with current presentation (except where transitional requirements of AASB 15 Revenue from Contracts with Customers, AASB 16 Leases and AASB 1058 Income of Not-for-Profit Entities do not require restatement of comparatives under the modified retrospective approach adopted by the Council), and disclosure has been made of any material changes to comparatives.

(b) Rounding

Unless otherwise stated, amounts in the financial report have been rounded to the nearest thousand dollars. Figures in the financial statement may not equate due to rounding.

(c) Abbreviation

The letter 'k' has been used to represent thousands ('000's) and the letter 'm' has been used to represent millions ('000,000's).

Note 1 Performance against budget

The performance against budget notes compare Council's financial plan, expressed through its annual budget, with actual performance. The *Local Government (Planning and Reporting) Regulations 2014* requires explanation of any material variances. Council has adopted a materiality threshold of the lower of 10 percent or \$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 26 June 2019. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for income and expense targets in this budget in order to meet Council's planning and financial performance targets for both the short and long-term. The budget did not reflect any changes to equity resulting from asset revaluations, as their impacts were not considered predictable.

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

1.1. Income and expenditure

	Budget 2020 \$'000	Actual 2020 \$'000	Variance 2020 \$'000	Variance 2020 %	Ref
Income					
Rates and charges	31,165	31,366	201	1	
Statutory fees and charges	816	807	(10)	(1)	
User fees and charges	5,268	5,269	1	0	
Grants - Operating	10,022	13,174	3,152	31	1
Grants - Capital	3,340	3,902	562	17	2
Contributions - monetary	132	195	64	48	3
Contributions - non-monetary	-	728	728	100	4
Net gain/(loss) on disposal of property, infrastructure, plant and equipment	147	(44)	(191)	(130)	5
Share of net profits/(losses) of associates and joint ventures	35	51	16	47	6
Other income	416	1,303	887	213	7
Total income	51,341	56,752	5,411	11	
Expenses					
Employee costs	19,656	20,727	(1,070)	(5)	8
Materials and services	18,431	22,458	(4,027)	(22)	9
Bad and doubtful debts	2	15	(13)	(653)	10
Depreciation and amortisation	10,600	10,944	(344)	(3)	
Amortisation - right of use assets	-	95	(95)	100	11
Borrowing costs	112	102	10	9	
Finance costs - leases	-	35	(35)	100	12
Other expenses	1,186	1,209	(23)	(2)	
Total expenses	49,987	55,585	(5,598)	(11)	
Surplus/(deficit) for the year	1,354	1,167	(187)	(14)	

Note 1 Performance against budget

1.1. Income and expenditure (cont'd)

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Grants - Operating	<p>\$2.06m of this variance relates to conditional grants that were received in 2018-19, whereby the associated projects were completed in 2019-20. The new Accounting Standards require this revenue to be recognised in 2019-20.(refer to Note 10(d) for further detail regarding the impact of the new Accounting Standards).</p> <p>Unbudgeted funding was also received (\$317k) in relation to the following unbudgeted, fully funded, projects:</p> <ul style="list-style-type: none"> • Working for Victoria (\$109k) • Roadside Weeds and Pests (\$43k). • Birregurra Stormwater Drainage Strategy (\$50k). • Aboriginal Engagement - Healthy Babies Stronger Families (\$105k). • Wye River Surf Life Saving Club – Bushfire Recovery Wye Peak Challenge - (\$10k).
2	Grants - Capital	Funding was received for unbudgeted capital works, including State Grants to complete Forest St, Jacksons Track and Upper Gellibrand Road Bridges (\$367k). Also, funding received for Roads to Recovery exceeded budget (\$210k).
3	Contributions - monetary	Monetary contributions that were received include \$60k of unbudgeted revenue relating to the Apollo Bay Community Infrastructure Plan. Corresponding expenditure has been included in Material and Services (No net impact).
4	Contributions - Non-monetary	Colac Otway received the following gifted assets from developers for subdivision works not budgeted for: <ul style="list-style-type: none"> • \$290k Roads • \$381k Drainage • \$57k Footpaths
5	Net gain/(loss) on disposal of property, infrastructure, plant and equipment	This unfavourable variance relates to the timing of the disposal of several plant items, which were disposed prior to the end of useful life. This decision was made to avoid the repair costs that would otherwise be incurred to ensure the items were operational.
6	Share of net profits/(losses) of associates and joint ventures	Council's share of the Corangamite Regional Library Corporation is an estimate and is not ascertainable at the time of budget preparation.
7	Other income	Reimbursements for employees on Workcover (\$90k) were received in 2019-20 that were not budgeted, which partially offsets the additional employee costs relating to employees with long-term workplace injuries. Reimbursements from the AFL for Match Day expenditure (\$57k) was received for the unbudgeted AFL match held in Colac .

Note 1 Performance against budget

1.1. Income and expenditure (cont'd)

(i) Explanation of material variations

Variance Ref	Item	Explanation
8	Employee costs	<p>Employee costs were higher than budgeted due to a range of factors, including:</p> <ul style="list-style-type: none"> • \$240k due to the utilisation of 3 additional FTE in Services and Operations, rather than the use of budgeted contractors. • \$218k due to a change in the discount rates applied to the leave provision. • \$145k due to salary being paid to employees on long term injuries. Council received \$90k in reimbursements from its insurer. • \$128k fully funded additional employees required to fulfill additional Home Care Packages. • \$110k due to the restructure of Bluewater Fitness Centre. This is partly offset by \$47k in additional revenue for 2019/20. • \$104k due to the utilisation of employees to deliver initiatives, whereby contracted expenditure was expected. This includes the City Deal Project, and the MCH Hard to Staff Project. • \$57k due to a decision to increase resources in the Statutory Planning area to improve the level of service to the community. • \$47k due to an increase in the Workcover Premium above budgeted level. This is partly due to several long-term Workcover claims. • \$36k fully funded employee costs were utilised in relation to Aboriginal Engagement - Healthy Babies Stronger Families. • \$25k fully-funded employee costs in relation to the Working For Victoria initiative. • \$22k fully funded employee costs relating to the Port of Apollo Bay. • Employee costs were favourably impacted due to the impact of COVID-19.
9	Materials and services	<p>This variance includes \$2.44m relating to projects carried forward from 2018-19, including:</p> <ul style="list-style-type: none"> • Port of Apollo Bay Operations - In harbour dredging project (\$1m) - fully-funded • Port Boat Ramp Car Park Renewal Project (\$711k) - fully funded • Apollo Bay Community Infrastructure Plan (\$195k) • Lighting Project (\$100k). <p>In addition to the carried forward items, this unfavourable variance can also be attributed to:</p> <ul style="list-style-type: none"> • Unbudgeted funding was received, which resulted in unbudgeted project expenditure (\$181k), including Birregurra Stormwater Drainage Strategy (\$118k). • Fully-funded Home Care Package delivery (\$170k). • Expensed items of capital, as some capital works did not meet the capitalisation threshold and have been treated as operational expenditure (\$1.7m). Expensed capital items amounted to \$2.36m in 2018-19.
10	Bad and doubtful debts	<p>There has been a movement in the Doubtful Debts Provision of \$13k, reflecting expected funds owing to Colac Otway Shire that are no longer expected to be recovered.</p>
11	Amortisation - right of use assets	<p>This variance is due to the introduction of the Accounting Standard AASB 16 Leases and the subsequent recognition requirements. The expenditure relating to leases was previously budgeted and recognised within Materials and Services.</p>
12	Finance costs - leases	<p>This variance is due to the introduction of the Accounting Standard AASB 16 Leases and the subsequent recognition requirements. The expenditure relating to leases was previously budgeted and recognised within Materials and Services.</p>

Note 1 Performance against budget

1.2. Capital works

	Budget 2020 \$'000	Actual 2020 \$'000	Variance 2020 \$'000	Variance 2020 %	Ref
Property					
Land	-	22	22	100	1
Buildings	726	1,082	356	49	2
Total property	726	1,104	378	52	
Plant and equipment					
Plant, machinery and equipment	2,170	2,176	6	0	
Fixtures, fittings and furniture	840	599	(241)	(29)	3
Computers and telecommunications	140	147	7	5	
Total plant and equipment	3,150	2,921	(229)	(7)	
Infrastructure					
Roads	5,942	4,464	(1,478)	(25)	4
Bridges	715	548	(167)	(23)	5
Footpaths and cycleways	383	478	95	25	6
Drainage	450	2,860	2,410	536	7
Other infrastructure	1,695	2,510	815	48	8
Total infrastructure	9,185	10,859	1,674	18	
Total capital works expenditure	13,061	14,885	1,824	14	
Represented by:					
New asset expenditure	1,645	2,977	1,332	81	
Asset renewal expenditure	10,776	11,164	388	4	
Asset upgrade expenditure	640	744	104	16	
Total capital works expenditure	13,061	14,885	1,824	14	

(i) Explanation of material variations

Variance Ref	Item	Explanation
1	Land	Strategic acquisition of land for the Tiger Rail Trail
2	Buildings	A number of unbudgeted works carried-forward from 2018-19 were completed during 2019-20. This includes the Winifred Nance Kindergarten project.
3	Fixtures, fittings and furniture	This programme has a number of items that have been expense due to low value items. The remainder of this programme will be carried over relating to the Memorial Square to be expended in the 2020-21 year (\$241k).
4	Roads	This programme has a number of items that have been allocated to different areas. This is due to the complex nature of the programmes associated with this class of assets. For example with a reconstruction programme works may include retaining structures, drainage or footpaths.
5	Bridges	There are a number of projects that have been either rescoped or have been retendered during the year. These works will be completed during the 2020-21 year. These include Forrest Street Bridge Replacement (\$130k)
6	Footpaths and cycleways	Completion of a number of projects carried-forward from the 2018-19 financial year are included within this figure. This included works on the Hart Street Footpath (\$25k) and smaller amounts in Skenes Creek and Colac.
7	Drainage	The variance largely relates to the Wye River and Separation Creek reticulated drainage works (\$2.2m). These works were unbudgeted in 2019-20, however they are funded by the State and Federal Government.
8	Other infrastructure	The overspend is related to Flood Recovery works completed in the 2019-20 year. These works include a large amount of retaining wall works across the shire. These works are funded by the State and Federal Government.

Note 2 Analysis of Council**Note 2.1. Analysis of Council results by program**

Council delivers its functions and activities through the following programs.

(a) Chief Executive

Chief Executive provides efficient, effective and proactive support services to include the Mayor and Councillors. Chief Executive provides effective governance oversight of the organisation. Service areas include governance, enterprise risk and legal services.

Corporate Services

Corporate Services Management provides efficient, effective and proactive support services across council to enable the delivery of policy commitments, council vision and mission. The provision of these services includes finance services, digital information and technology, property and procurement, strategy and program delivery and program integration and development. Human resource management provides support to the organisation and ensures councils customer focus includes communication and community engagement processes.

Development and Community Services

Development and Community Services Management provides high quality community focused programs, service delivery and communication to residents. Development and Community Services Management is comprised of community care, connected communities, family services and health communities. The planning services area includes the assessment of town development, health and local laws, planning strategy and urban growth. Economic Development supports local festivals and events and advocates on behalf of the community for major events, tourism and cultural opportunities.

Infrastructure and Leisure Services

Infrastructure and Leisure Services Management is responsible for constructing new infrastructure and maintaining existing infrastructure across a very diverse range of assets that underpin the wellbeing of the community. These assets include capital works engineering services, waste, parks and gardens, emergency management and municipal resources. Infrastructure and Leisure Services Management is responsible for arts and culture, Port of Apollo Bay, leisure management and services and operations of council assets.

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

	Income	Expenses	Surplus/ (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2020					
Chief Executive	6	1,569	(1,563)	-	1,485
Corporate Services Management	41,313	19,841	21,472	11,248	27,159
Development and Community Services Management	6,786	13,025	(6,239)	2,537	13,735
Infrastructure and Leisure Services Management	8,646	21,150	(12,503)	3,291	334,917
	56,752	55,585	1,167	17,076	377,295
	Income	Expenses	Surplus/ (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2019					
Chief Executive	1	1,514	(1,512)	-	1,099
Corporate Services Management	40,795	21,713	19,081	11,375	33,769
Development and Community Services Management	6,524	11,631	(5,107)	2,704	12,807
Infrastructure and Leisure Services Management	14,251	19,741	(5,491)	8,623	296,551
	61,570	54,599	6,972	22,702	344,226

Colac Otway Shire Council
2019/2020 Financial Report

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

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

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

The valuation base used to calculate general rates for 2019/20 was \$6,619 million (2018/19 \$6,195 million).

General rates residential	16,223	15,750
General rates farm / rural	5,666	5,617
General rates commercial / industrial	3,215	3,259
Municipal charge	2,787	2,730
Garbage charge	3,196	3,147
Interest on rates and charges	81	162
Special rates and charges	22	22
Revenue in lieu of rates	176	217
Total rates and charges	31,366	30,905

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

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

3.2. Statutory fees and fines

Town planning fees	329	466
Health regulations	225	171
Building permits	90	103
Infringements and costs	84	94
Engineering fees	45	-
Land information certificates	33	31
Freedom of information	1	1
Special Charge schemes	-	19
Total statutory fees and fines	807	885

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

3.3. User fees

Aged services fees	2,183	1,618
Leisure centre fees	1,096	1,357
Colac livestock selling centre fees	462	488
Parking, animal control and local laws fees	238	287
Visitor information centre fees	230	300
Colac Otway performing arts & cultural centre fees	212	394
Waste disposal fees	215	198
Council properties fees and rental	213	211
Other fees and charges	187	38
Apollo bay harbour fees	111	118
Child care childrens programs	82	93
Town planning and building services fees	40	64
Total user fees	5,269	5,167

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

Colac Otway Shire Council
2019/2020 Financial Report

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

Note 3 Funding for the delivery of our services	2020	2019
3.4. Funding from other levels of government	\$'000	\$'000
Grants were received in respect of the following :		
Summary of grants		
Commonwealth funded grants	9,799	10,157
State funded grants	7,277	12,545
Total grants received	17,076	22,702
(a) Operating Grants		
<i>Recurrent - Commonwealth Government</i>		
Financial Assistance Grant - untied base grant	3,926	4,939
Financial Assistance Grant - local roads	2,726	2,154
Family and community services	538	493
Diesel rebate scheme	97	178
Aged and disability services	78	91
Public Health	2	2
<i>Recurrent - State Government</i>		
Aged and disability services	1,254	1,271
Port management	861	1,060
Maternal and child health	397	417
Recreation and culture	216	105
Family and community services	91	15
School crossing supervisors	68	54
Fire Service Property Levy	47	-
Public Health	18	24
Environment and protection services	12	65
Total recurrent operating grants	10,333	10,868
<i>Non-recurrent - Commonwealth Government</i>		
Environment and protection services	200	200
City Deal	90	-
Recreation and culture	54	-
<i>Non-recurrent - State Government</i>		
Port Management	1,943	1,427
Recreation and culture	109	50
Family and community services	107	-
Environment	106	61
Roads	100	11
Strategic Planning	51	104
Civic Precinct	40	-
Disaster Recovery - Bushfire	26	3,998
Economic Development	15	-
Total non-recurrent operating grants	2,841	5,851
Total operating grants	13,174	16,719
(b) Capital Grants		
<i>Recurrent - Commonwealth Government</i>		
Roads to recovery	1,703	1,954
Recreation and culture	50	-
Total recurrent capital grants	1,753	1,954
<i>Non-recurrent - Commonwealth Government</i>		
Roads	334	-
Recreation and culture	-	146
<i>Non-recurrent - State Government</i>		
Roads	1,001	1,112
Recreation and culture	750	743
Family and community services	64	286
Bushfire recovery	-	1,742
Total non-recurrent capital grants	2,149	4,030
Total capital grants	3,902	5,984

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

Note 3 Funding for the delivery of our services	2020	2019
3.4. 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	2,682	3,705
Received during the financial year and remained unspent at balance date	1,690	2,447
Received in prior years and spent during the financial year	(2,682)	(3,470)
Balance at year end	<u>1,690</u>	<u>2,682</u>

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

3.5. Contributions

Monetary	195	180
Non-monetary	728	457
Total contributions	<u>923</u>	<u>637</u>

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

Drainage	381	169
Roads	290	222
Footpath	57	67
Total non-monetary contributions	<u>728</u>	<u>457</u>

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

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

Proceeds of sale	233	288
Written down value of assets disposed	(277)	(86)
Total net gain/(loss) on disposal of property, infrastructure, plant and equipment	<u>(44)</u>	<u>202</u>

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

3.7. Other income

Other income	968	413
Reimbursements	181	305
Interest	150	306
Rates Legal Costs Recovered	3	8
Scheme Interest Received	2	1
Colac Otway performing arts & cultural centre fees	-	4
Total other income	<u>1,303</u>	<u>1,037</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.

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For the Year Ended 30 June 2020

Note 4 The cost of delivering services	2020	2019
4.1. (a) Employee costs	\$'000	\$'000
Wages and salaries	15,027	14,330
Employee leave	2,115	2,154
Superannuation	1,739	1,664
Casual staff	832	1,204
Sick leave	524	567
WorkCover	247	161
Fringe benefits tax	148	146
Other employee benefits	93	102
Total employee costs	20,727	20,329
(b) Superannuation		
Council made contributions to the following funds:		
Defined benefit fund		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	94	101
	<u>94</u>	<u>101</u>
Employer contributions payable at reporting date.	-	-
Accumulation funds		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	1,017	911
Employer contributions - other funds	628	652
	<u>1,646</u>	<u>1,563</u>
Employer contributions payable at reporting date.	145	152
Refer to note 9.3 for further information relating to Council's superannuation obligations.		
4.2. Materials and services		
Contract Payments	11,375	10,553
Materials	4,296	4,900
Subscriptions and memberships	2,007	1,715
Consultants	1,048	963
Utilities	977	906
Agency staff	918	1,067
Plant and equipment maintenance	533	665
Insurances	508	388
Legal costs	496	520
Training costs	261	301
Other	38	10
Hire costs	2	60
Permits	-	1
Total materials and services	22,458	22,047

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

Note 4 The cost of delivering services	2020	2019
4.3. Depreciation and amortisation	\$'000	\$'000
Infrastructure	7,932	7,554
Plant and equipment	1,310	1,394
Property	1,702	1,318
Total depreciation	10,944	10,266
Intangible assets	-	2
Total depreciation and amortisation	10,944	10,268

Refer to note 6.1 for a more detailed breakdown of depreciation and amortisation charges and accounting policy.

4.4 Amortisation - Intangible assets

Software	-	2
Total Amortisation - Intangible assets	-	2

4.5 Amortisation - Right of use assets

Plant and Equipment	95	-
Total Amortisation - Right of use assets	95	-

4.6 Bad and doubtful debts

Other debtors	15	47
Total bad and doubtful debts	15	47

Movement in provisions for doubtful debts

Balance at the beginning of the year	44	8
New provisions recognised during the year	37	44
Amounts already provided for and written off as uncollectible	(2)	(8)
Amounts provided for but recovered during the year	(22)	-
Balance at end of year	57	44

Provision for doubtful debt is recognised based on an expected credit loss model. This model considers both historic and forward looking information in determining the level of impairment.

4.7 Borrowing costs

Interest - Borrowings	102	178
Total borrowing costs	102	178

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

4.8 Finance Costs - Leases

Interest - Lease Liabilities	35	-
Total finance costs	35	-

4.9 Other expenses

Community grants and donations	474	588
Councillors' allowances	262	253
Other	267	729
Rates and charges written off	65	26
Fire services levy	61	58
Auditors remuneration	45	46
Animal registration levy	22	19
Royalties and commissions	13	10
Total other expenses	1,209	1,729

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

Note 5 Our financial position	2020	2019
5.1. Financial assets	\$'000	\$'000
(a) Cash and cash equivalents		
Cash on hand	5	5
Cash at bank	1,146	5,319
Term deposits	15,047	15,200
Total cash and cash equivalents	16,198	20,524
Total financial assets	16,198	20,524

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

- Trust funds and deposits	985	802
- Statutory reserves	936	768
- Conditional grants unspent (Excludes Port of Apollo Bay)	1,580	1,083
- Port of Apollo Bay reserve cash held	565	2,022
- Disaster recovery reserve	6	2,155
Total restricted funds	4,072	6,830
Total unrestricted cash and cash equivalents	12,126	13,695

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 .	12,793	14,310
- Carried forward works committed	2,466	3,485
Total funds subject to intended allocations	15,259	17,795

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.

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Notes to the Financial Report
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Note 5 Our financial position	2020	2019
5.1. Financial assets (cont'd)	\$'000	\$'000
(b) Trade and other receivables		
Current		
Statutory receivables		
Rates Debtor	2,336	1,691
Government operating grants	143	763
Net GST receivable	182	268
Special rate assessment	42	40
Parking infringement debtor	60	52
Other infringements	124	117
Provision for doubtful debts - infringements	(14)	-
Other debtors	530	418
Provision for doubtful debts - other debtors	(43)	(44)
Total current trade and other receivables	<u>3,359</u>	<u>3,304</u>
Total trade and other receivables	<u>3,359</u>	<u>3,304</u>

Short term receivables are carried at invoice amount. A provision for doubtful debts is recognised when there is objective evidence that an impairment has occurred. Long term receivables are carried at amortised cost using the effective interest rate method.

(c) Ageing of Receivables

The ageing of the Council's trade and other receivables (excluding statutory receivables) that are not impaired was:

Current (not yet due)	379	242
Past due by up to 30 days	12	69
Past due between 31 and 180 days	43	26
Past due between 181 and 365 days	28	28
Past due by more than 1 year	24	8
Total trade and other receivables	<u>487</u>	<u>374</u>

(d) Ageing of individually impaired Receivables

At balance date, other debtors representing financial assets with a nominal value of \$43k (2019: \$44k) were impaired. The amount of the provision raised against these debtors was \$43k (2019: \$44k). They individually have been impaired as a result of their doubtful collection. Many of the long outstanding past due amounts have been lodged with Council's debt collectors or are on payment arrangements.

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

Current (not yet due)	-	-
Past due by up to 30 days	-	-
Past due between 31 and 180 days	-	7
Past due between 181 and 365 days	-	5
Past due by more than 1 year	43	32
Total trade & other receivables	<u>43</u>	<u>44</u>

Note 5 Our financial position

5.2. Non-financial assets	2020	2019
(a) Inventories	\$'000	\$'000
Inventories held for distribution	53	17
Inventories held for sale	162	132
Total inventories	215	149

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

(b) Other assets

Prepayments	134	239
Accrued income	352	192
Total other assets	486	431

5.3. Payables	\$'000	\$'000
(a) Trade and other payables		
Trade payables	2,327	2,723
Accrued expenses	822	1,178
Unearned Income	2,473	-
Total trade and other payables	5,622	3,900

Unearned income

Grants received in advance - operating	1,401	-
Grants received in advance - capital	289	-
Other	783	-
Total unearned income	2,473	-

(b) Trust funds and deposits

Refundable deposits	409	440
Fire services levy	349	307
Retention amounts	228	55
Total trust funds and deposits	985	802

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

Purpose and nature of items

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

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

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

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Notes to the Financial Report
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Note 5 Our financial position

5.4. Interest-bearing liabilities	2020 \$'000	2019 \$'000
Current		
Borrowings - secured	286	1,697
	<u>286</u>	<u>1,697</u>
Non-current		
Borrowings - secured	738	1,024
	<u>738</u>	<u>1,024</u>
Total	<u>1,024</u>	<u>2,721</u>

Borrowings are secured by council rates and charges

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

Not later than one year	286	1,697
Later than one year and not later than five years	738	1,024
Later than five years	-	-
	<u>1,024</u>	<u>2,721</u>

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

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

5.5. Provisions

	Employee \$ '000	Landfill restoration \$ '000	Total \$ '000
2020			
Balance at beginning of the financial year	4,241	9,265	13,507
Additional provisions	1,391	-	1,391
Amounts used	(1,415)	(203)	(1,618)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	243	(161)	82
Balance at the end of the financial year	<u>4,461</u>	<u>8,901</u>	<u>13,362</u>

2019			
Balance at beginning of the financial year	4,015	9,036	13,051
Additional provisions	1,696	-	1,696
Amounts used	(1,470)	(147)	(1,617)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	-	377	377
Balance at the end of the financial year	<u>4,241</u>	<u>9,265</u>	<u>13,507</u>

	2020 \$'000	2019 \$'000
(a) Employee provisions		
Current provisions expected to be wholly settled within 12 months		
Annual leave	1,167	1,146
Long service leave	202	202
Time in lieu	99	99
	<u>1,468</u>	<u>1,447</u>
Current provisions expected to be wholly settled after 12 months		
Annual leave	244	246
Long service leave	2,399	2,309
	<u>2,644</u>	<u>2,555</u>
Total current employee provisions	<u>4,111</u>	<u>4,002</u>
Non-current		
Long service leave	349	239
Total non-current employee provisions	<u>349</u>	<u>239</u>
Aggregate carrying amount of employee provisions:		
Current	4,111	4,002
Non-current	349	239
Total aggregate carrying amount of employee provisions	<u>4,461</u>	<u>4,241</u>

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

Note 5 Our financial position**5.5. Provisions (cont'd)****(a) Employee provisions***Wages and salaries and annual leave*

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

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

Long service leave

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

Key assumptions:

- discount rate	0.02%	1.04%
- index rate	1.75%	1.75%

	2020	2019
	\$'000	\$'000
(b) Landfill restoration		
Current	246	1,537
Non-current	8,655	7,728
	<u>8,901</u>	<u>9,265</u>

Council is obligated to restore various landfill sites to a particular standard. The forecast life of the sites are based on current estimates of remaining capacity and the forecast rate of infill. The provision for landfill restoration has been calculated based on the present value of the expected cost of works to be undertaken. The expected cost of works has been estimated based on current understanding of work required to reinstate the site to a suitable standard. Accordingly, the estimation of the provision required is dependent on the accuracy of the forecast timing of the work, work required and related costs.

Key assumptions:

- discount rate	0.58%	1.46%
- index rate	1.50%	2.00%

5.6. Financing arrangements

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

Business Card Facility (balance cleared monthly)	50	50
Total facilities	<u>50</u>	<u>50</u>
Used facilities	-	-
Unused facilities	<u>50</u>	<u>50</u>

Note 5 Our financial position**5.7. Commitments**

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

	Not later than 1 year	Later than 1 year and not later than 2 years	Later than 2 years and not later than 5 years	Later than 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
2020					
Operating					
Garbage collection	565	-	-	-	565
Consultancies	252	-	-	-	252
Civil Works	933	-	-	-	933
Information Technology	41	41	24	-	105
Total	1,791	41	24	-	1,856
Capital					
Civil Works	1,617	1,350	-	-	2,967
Plant and Equipment	250	250	-	-	500
Total	1,867	1,600	-	-	3,467
2019					
Operating					
Garbage collection	3,034	759	-	-	3,793
Consultancies	61	61	-	-	122
Street Lighting	600	-	-	-	600
Information Technology	52	-	-	-	52
Total	3,748	820	-	-	4,567
Capital					
Civil Works	2,293	1,617	1,350	-	5,260
Plant and Equipment	250	250	250	-	750
Total	2,543	1,867	1,600	-	6,010

Note 5 Our financial position**5.8 Leases****Policy applicable before 1 July 2019**

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

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

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

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

Policy applicable after 1 July 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 5 Our financial position**5.8 Leases (cont'd)**

Right-of-Use Assets	Plant and Equipment	Total
	\$'000	\$'000
Balance at 1 July 2019	869	869
Additions	89	89
Amortisation charge	(95)	(95)
Balance at 30 June 2020	<u>863</u>	<u>863</u>

Lease Liabilities	2020
	\$'000
Maturity analysis - contractual undiscounted cash	140
Less than one year	521
One to five years	373
More than five years	<u>1,034</u>
Total undiscounted lease liabilities as at 30 June:	<u>1,034</u>

Lease liabilities included in the Balance Sheet at 30 June:

Current	105
Non-current	773
Total lease liabilities	<u>879</u>

Short-term and low value leases

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

Expenses relating to:	2020
	\$'000
Short-term leases	81
Leases of low value assets	-
Total	<u>81</u>
Variable lease payments (not included in measurement of lease)	-

i. Leases classified as operating leases under AASB 117 Leases

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

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

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

ii. Leases previously classified as finance leases

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

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

Impact on financial statements

On transition to AASB 16 Leases, Council recognised an additional \$869k of right-of-use assets and \$869k of lease liabilities, recognising the difference in retained earnings.

When measuring lease liabilities, Council discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 4.25%.

Note 6 Assets we manage

6.1. Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value 30 June 2019	Additions	Contributions	Revaluation	Depreciation	Disposal	Write-off	Transfers	At Fair Value 30 June 2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Property	69,156	1,104	-	-	(1,702)	-	-	291	68,849
Plant and equipment	6,181	2,744	-	-	(1,310)	(277)	-	85	7,423
Infrastructure	234,182	7,122	728	32,113	(7,932)	-	-	4,863	271,076
Work in progress	9,907	3,915	-	-	-	-	(201)	(5,238)	8,383
	319,426	14,885	728	32,113	(10,944)	(277)	(201)	-	355,731

Summary of Work in Progress

	Opening WIP	Additions	Write-off	Transfers	Closing WIP
	\$'000	\$'000	\$'000	\$'000	\$'000
Property	377	-	(70)	(291)	16
Plant and equipment	262	147	(114)	(85)	210
Infrastructure	9,268	3,768	(17)	(4,863)	8,157
Total	9,907	3,915	(201)	(5,238)	8,383

(a) Property

	Land - specialised	Land - non specialised	Land under roads	Total Land & Land Improvements	Buildings - specialised	Buildings - non specialised	Total Buildings	Work In Progress	Total Property
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	3,362	21,784	224	25,369	71,989	16,443	88,432	377	114,178
Accumulated depreciation at 1 July 2019	-	-	-	-	(37,834)	(6,811)	(44,645)	-	(44,645)
	3,362	21,784	224	25,369	34,156	9,631	43,787	377	69,533
Movements in fair value									
Additions	22	-	-	22	1,008	74	1,082	-	1,104
Write-off	-	-	-	-	-	-	-	(70)	(70)
Transfers	-	-	-	-	276	15	291	(291)	-
	22	-	-	22	1,284	89	1,373	(361)	1,034
Movements in accumulated depreciation									
Depreciation and amortisation	-	-	-	-	(1,473)	(229)	(1,702)	-	(1,702)
	-	-	-	-	(1,473)	(229)	(1,702)	-	(1,702)
At fair value 30 June 2020	3,383	21,784	224	25,391	73,273	16,532	89,805	16	115,212
Accumulated depreciation at 30 June 2020	-	-	-	-	(39,307)	(7,040)	(46,347)	-	(46,347)
	3,383	21,784	224	25,391	33,966	9,492	43,458	16	68,865

(b) Plant and Equipment

	Plant machinery and equipment	Fixtures fittings and furniture	Computers and telecomms	Work in Progress	Total plant and equipment
	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	9,694	9,917	1,350	262	21,223
Accumulated depreciation at 1 July 2019	(5,624)	(7,952)	(1,204)	-	(14,781)
	4,070	1,965	146	262	6,443
Movements in fair value					
Additions	2,176	568	-	147	2,891
Disposal	(695)	-	-	-	(695)
Write-off	-	-	-	(114)	(114)
Transfers	-	85	-	(85)	-
	1,481	653	-	(52)	2,082
Movements in accumulated depreciation					
Depreciation and amortisation	(950)	(274)	(86)	-	(1,310)
Accumulated depreciation of disposals	418	-	-	-	418
	(532)	(274)	(86)	-	(892)
At fair value 30 June 2020	11,175	10,570	1,350	210	23,305
Accumulated depreciation at 30 June 2020	(6,156)	(8,226)	(1,290)	-	(15,672)
	5,019	2,343	61	210	7,633

(c) Infrastructure

	Roads	Bridges	Footpaths and cycleways	Drainage	Other Infrastructure	Work In Progress	Total Infrastructure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	256,119	17,210	27,226	45,352	7,904	9,268	363,579
Accumulated depreciation at 1 July 2019	(85,648)	(3,739)	(8,522)	(19,980)	(2,241)	-	(120,130)
	170,471	13,471	19,205	25,372	5,663	9,268	243,449
Movements in fair value							
Additions	3,861	474	478	702	1,608	3,768	10,890
Contributions	290	-	57	381	-	-	728
Revaluation	4,159	-	240	(10,945)	-	-	(6,546)
Write-off	-	-	-	-	-	(17)	(17)
Transfers	4,239	200	-	114	309	(4,863)	-
	12,549	674	774	(9,748)	1,917	(1,111)	5,055
Movements in accumulated depreciation							
Depreciation and amortisation	(5,802)	(409)	(699)	(511)	(511)	-	(7,932)
Revaluation	27,076	-	147	11,437	-	-	38,660
	21,274	(409)	(552)	10,926	(511)	-	30,727
At fair value 30 June 2020	268,669	17,884	28,501	35,604	9,821	8,157	368,635
Accumulated depreciation at 30 June 2020	(64,375)	(4,148)	(9,074)	(9,054)	(2,752)	-	(89,403)
	204,294	13,735	19,427	26,549	7,070	8,157	279,232

Note 6 Assets we manage**6.1. Property, infrastructure, plant and equipment (cont'd)***Acquisition*

The purchase method of accounting is used for all acquisitions of assets, being the fair value of assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Fair value is the price that would be received to sell an asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date.

Where assets are constructed by Council, cost includes all materials used in construction, direct labour, borrowing costs incurred during construction, and an appropriate share of directly attributable variable and fixed overheads.

In accordance with Council's policy, the threshold limits have applied when recognising assets within an applicable asset class and unless otherwise stated are consistent with the prior year.

<i>Asset recognition thresholds and depreciation periods</i>	Depreciation Period	Threshold Limit \$'000
Land		
land	-	-
land under roads	-	-
land improvements	-	5
Buildings		
heritage buildings	90 - 180 years	5
buildings	10 - 120 years	5
shelters	10 - 90 years	5
building improvements	10 - 180 years	5
leasehold improvements	10 - 180 years	5
Plant and Equipment		
Furniture		
art work	0 - 100 years	4
indoor furniture	5 - 30 years	4
playground equipment	10 - 40 years	4
Plant		
heritage plant and equipment	-	10
fixed plant, machinery and equipment	3 - 50 years	10
fleet (vehicles)	3 - 30 years	10
major plant	3 - 50 years	10
minor plant	3 - 10 years	4
Equipment		
appliances	3 - 60 years	4
fixed equipment / fixtures and fittings	5 - 55 years	4
computers and telecommunications	3 - 21 years	4
leased plant and equipment	-	4
Infrastructure		
Roads		
road and tarmac formation and earthworks	-	10
road and tarmac pavements	10 - 80 years	10
road and tarmac seals	10 - 60 years	10
road and tarmac kerb, channel and minor culverts	45 - 80 years	2.5
footpaths and cycleways	15 - 50 years	2.5
Bridges		
bridges deck	10 - 70 years	10
bridges substructure	10 - 70 years	10
bridges major culverts	50 - 70 years	10
Drainage		
open drainage network	10 - 100 years	10
pit and pipe network	40 - 100 years	10
water retention structures	80 - 100 years	10
Other Infrastructure		
gardens and landscaping	5 - 25 years	10
playing surfaces	10 - 70 years	10
retaining structures	10 - 45 years	10
off street car parks	25 - 100 years	10
aerodromes	25 - 100 years	10
Intangible assets		
software	5 years	4

Note 6 Assets we manage**6.1. Property, infrastructure, plant and equipment (cont'd)****Land under roads**

Council recognises land under roads it controls at fair value.

Depreciation and amortisation

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

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

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

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

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

Repairs and maintenance

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

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 and land under roads 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 2020 are as follows:

	Level 1	Level2	Level 3	Revaluation Date
Land	-	21,784	-	30/06/2018
Specialised land	-	-	3,607	30/06/2018
Buildings	-	9,492	33,966	30/06/2018
Total	-	31,275	37,574	

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Note 6 Assets we manage**6.1. Property, infrastructure, plant and equipment (cont'd)****Valuation of infrastructure**

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

An index and condition based revaluation was conducted in the current year.

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

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

	Level 1	Level2	Level 3	Revaluation Date
Roads	-	-	204,294	30/06/2020
Bridges	-	-	13,735	30/06/2020
Footpaths and cycleways	-	-	19,427	30/06/2018
Drainage	-	-	26,549	30/06/2020
Other infrastructure	-	-	7,070	N/A
Total	-	-	271,076	

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.

	2020 \$'000	2019 \$'000
Reconciliation of specialised land		
Land under roads	224	224
Parks and reserves	3,383	3,362
Total specialised land	3,607	3,586

Correction of a prior period error

Council have identified a prior period error, which relates to the recognition of Council assets that were not recognised in the Financial Statements in prior years. These identified assets relate to the recognition of Drainage assets valued at \$2.518m. The Financial Statements have been adjusted to reflect the Found Assets, including the restatement of the 2018-19 comparative figures, increasing property, infrastructure, plant and equipment and accumulated surplus.

The error has been corrected by restating each of the impacted financial statement line items for the year in which the error occurred and described above.

	2020 \$'000	2019 \$'000
Drainage		
Opening Balance	25,372	22,941
Movements in fair value	(9,748)	419
Movements in accumulated depreciation	10,926	(506)
Closing balance per financial statements	26,549	22,854
Adjustment - Found Assets	-	2,518
Adjusted Closing Balance	26,549	25,372

Note 6 Assets we manage	2020	2019
6.2. Investments 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*Background*

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 24.04% equity interest in 2019/2020 (2018/2019 24.05%).

Fair value of Council's investment in Corangamite Regional Library Corporation	-	-
Council's share of accumulated surplus/(deficit)		
Council's share of accumulated surplus/(deficit) at start of year	375	293
Reported surplus/(deficit) for year	51	34
Transfers (to) from reserves	0	46
Council's share of accumulated surplus/(deficit) at end of year	<u>426</u>	<u>374</u>
Council's share of reserves		
Council's share of reserves at start of year	15	61
Transfers (to) from reserves	-	(46)
Council's share of reserves at end of year (based on population)	<u>15</u>	<u>15</u>
Movement in carrying value of specific investment		
Carrying value of investment at start of year	390	355
Share of surplus/(deficit) for year	51	34
Share of asset revaluation		
Change in equity share due to population change	-	1
Carrying value of investment at end of year	<u>441</u>	<u>390</u>

Significant restrictions

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

(b) Investments in joint ventures**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	2,840	2,880
Depreciation	(40)	(40)
Carrying value of investment at end of year	<u>2,800</u>	<u>2,840</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 2020.

Significant restrictions

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

	2020	2019
	No.	No.
Note 7 People and relationships		
7.1. Council and key management remuneration		
(a) Related Parties		
<i>Parent entity</i>		
Colac Otway Shire Council is the parent entity.		
<i>Subsidiaries and Associates</i>		
Interests in subsidiaries and associates are detailed in Note 6.2.		
(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		
Councillor Stephen Hart		
Councillor Chris Smith		
Councillor Brian Crook		
Councillor Kate Hanson		
Councillor Joe McCracken		
Councillor Jason Schram (Mayor)		
Chief Executive Officer and other Key Management Personnel		
Chief Executive		
General Manager Corporate Services		
General Manager Infrastructure and Leisure Services		
General Manager Development & Community Services		
Total Number of Councillors	7	8
Total of Chief Executive Officer and other Key Management Personnel	4	5
Total Number of Key Management Personnel	<u>11</u>	<u>13</u>
(c) Remuneration of Key Management Personnel	2020	2019
	\$'000	\$'000
Total remuneration of key management personnel was as follows:		
Short-term benefits	1,027	1,088
Long-term benefits	19	18
Post employment benefits	72	75
Total	<u>1,118</u>	<u>1,181</u>
The numbers of key management personnel whose total remuneration from Council and any related entities, fall within the following bands:		
\$1 - \$9,999	-	1
\$20,000 - \$29,999	4	3
\$30,000 - \$39,999	2	2
\$40,000 - \$49,999	-	1
\$60,000 - \$69,999	-	1
\$70,000 - \$79,999	-	1
\$80,000 - \$89,999	1	-
\$180,000 - \$189,999	-	1
\$190,000 - \$199,999	1	2
\$200,000 - \$209,999	2	-
\$230,000 - \$239,999	1	-
\$240,000 - \$249,999	-	1
	<u>11</u>	<u>13</u>
(d) Senior Officer Remuneration		
A Senior Officer is an officer of Council, other than Key Management Personnel, who:		
a) has management responsibilities and reports directly to the Chief Executive; or		
b) whose total annual remuneration exceeds \$151,000		
The number of Senior Officers are shown below in their relevant income bands:		
	2020	2019
	No.	No.
Income Range:		
\$140,000 - \$149,999	-	1
\$150,000 - \$159,999	3	2
\$160,000 - \$169,999	-	1
\$170,000 - \$179,999	1	-
\$180,000 - \$189,999	1	-
	<u>5</u>	<u>4</u>
Total Remuneration for the reporting year for Senior Officers included above, amounted to:	831	606

Colac Otway Shire Council
2019/2020 Financial Report

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

Note 7 People and relationships	2020	2019
7.2. Related party disclosure	\$'000	\$'000
(a) Transactions with related parties		
During the period Council entered into the following transactions with related parties.		
Employee benefit	46	22
Materials & Services	35	19
Other Expenses	6	4
The following is the aggregate amount of transactions with Investments in associates.		
Payments made to Corangamite Regional Library Corporation	727	709
Payments received from Corangamite Regional Library	1	28

All transactions Council enter into with related parties are undertaken on commercial terms, within Council Policy.

(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.

Accounts Receivable	-	-
Accounts Payable	2	1

(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 8 Managing uncertainties**8.1. Contingent assets and liabilities****(a) Contingent assets**

Council has a number of funding sources that are contingent on the completion of an acquittal report early in the 2019/20 financial year resulting in revenue being recognised, and cash received, in 2020/21, rather than 2019/20.

(b) Contingent liabilities**Superannuation**

Council has obligations under a defined benefit superannuation scheme that may result in the need to make additional contributions to the scheme, matters relating to this potential obligation are outlined in Note 9.3. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists.

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.

(c) Guarantees for loans to other entities

Council has no guarantees in place for loans to other entities.

8.2. Change in accounting standards

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

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

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

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

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

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

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

AASB 2019-1 Amendments to Australian Accounting Standards - References to the Conceptual Framework

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

Note 8 Managing uncertainties**8.3. Financial instruments****(a) Objectives and policies**

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

(b) Market risk

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

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Council 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. Particularly significant areas of credit risk exist in relation to outstanding fees and fines as well as loans and receivables from sporting clubs and associations. To help manage this risk:

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

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

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

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

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

Note 8 Managing uncertainties**8.3. Financial instruments (cont'd)****(d) Liquidity risk**

Liquidity risk includes the risk that, as a result of council's operational liquidity requirements it will not have sufficient funds to settle a transaction when required or will be forced to sell a financial asset at below value or may be unable to settle or recover a financial asset.

To help reduce these risks Council:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments;
- monitor budget to actual performance on a regular basis; and
- set limits on borrowings relating to the percentage of loans to rate revenue and percentage of loan principal repayments to rate revenue.

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 8.1(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 5.4.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

(e) Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, Council believes the following movements are 'reasonably possible' over the next 12 months:

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

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

8.4. Fair value measurement*Fair value hierarchy*

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

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

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.

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.

Note 8 Managing uncertainties**8.4. Fair value measurement (cont'd)***Revaluation*

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

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use of an asset result in changes to the permissible or practical highest and best use of the asset. In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis ranging from 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.

8.5. Events occurring after balance date

The COVID-19 Pandemic has created unprecedented economic uncertainty. Actual economic events and conditions in the future may be materially different from those estimated by Colac Otway Shire at the reporting date. As responses by government continue to evolve, management recognises that it is difficult to reliably estimate with any degree of certainty the potential impact of the pandemic after the reporting date on Colac Otway Shire, its operations, its future results and financial position. The state of emergency in Victoria was extended on 16 August 2020 until 13 September 2020 and the state of disaster still in place.

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

Note 9 Other matters**9.1. Reserves**

	Balance at beginning of reporting period	Increment (decrement)	Balance at end of reporting period
	\$'000	\$'000	\$'000
(a) Asset revaluation reserves			
2020			
Property			
Land	16,529	-	16,529
Buildings	8,570	-	8,570
	25,099	-	25,099
Plant and Equipment			
Fixed plant, furniture and equipment	293	-	293
	293	-	293
Infrastructure			
Roads	109,441	31,235	140,676
Bridges	7,914	-	7,914
Footpaths and cycleways	7,312	386	7,698
Kerb and channelling	11,619	-	11,619
Drainage	14,341	492	14,833
	150,626	32,113	182,740
Total asset revaluation reserves	176,018	32,113	208,131
2019			
Property			
Land	16,529	-	16,529
Buildings	8,570	-	8,570
	25,099	-	25,099
Plant and Equipment			
Fixed plant, furniture and equipment	293	-	293
	293	-	293
Infrastructure			
Roads	88,521	20,920	109,441
Bridges	7,914	-	7,914
Footpaths and cycleways	7,312	-	7,312
Kerb and channelling	11,619	-	11,619
Drainage	14,341	-	14,341
	129,706	20,920	150,626
Total asset revaluation reserves	155,098	20,920	176,018

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

Note 9 Other matters

9.1. Reserves (cont'd)

(b) Other reserves

2020

	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
Carried Forward Projects	3,372	2,465	(3,372)	2,466
Port of Apollo Bay	2,022	1,499	(2,956)	565
Waste Management	2,004	3,199	(2,896)	2,307
Long Service Leave	2,572	332	(252)	2,652
Landfill rehabilitation (Alvie)	923	57	-	980
Recreational lands	768	124	-	892
Colac livestock selling centre	26	462	(488)	-
Rehabilitation	789	143	-	932
Plant replacement	2,441	1,591	(2,176)	1,856
Tirrengower Drainage Scheme	11	22	(9)	24
Local Government Financial Vehicle				
Sinking Funds	1,000	-	(1,000)	-
Water Saving Urban Design	-	44	-	44
Contingent Liability	500	-	(500)	-
Strategic Projects	382	220	-	602
Financial Assistance Grants received in advance	3,663	3,438	(3,662)	3,439
Disaster Recovery	2,155	-	(2,149)	6
Total Other reserves	22,627	13,598	(19,459)	16,765

2019

Carried Forward Projects	3,970	-	(598)	3,372
Port of Apollo Bay	1,173	2,690	(1,842)	2,022
Waste Management	1,778	3,156	(2,929)	2,004
Long Service Leave	2,631	2,750	(2,809)	2,572
Landfill rehabilitation (Alvie)	866	57	-	923
Recreational lands	725	43	-	768
Colac livestock selling centre	124	488	(586)	26
Rehabilitation	646	143	-	789
Plant replacement	2,082	1,783	(1,424)	2,441
Tirrengower Drainage Scheme	11	22	(23)	11
Local Government Financial Vehicle				
Sinking Funds	1,004	100	(104)	1,000
Unallocated Surplus	934	-	(934)	-
Contingent Liability	500	-	-	500
Strategic Projects	200	382	(200)	382
Financial Assistance Grants received in advance	3,199	3,663	(3,199)	3,663
Disaster Recovery	1,789	366	-	2,155
Total Other reserves	21,630	15,644	(14,648)	22,627

Note 9 Other matters**9.1. 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.

Waste Management 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.

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.

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.

Water Saving Urban Design reserve

Statutory reserve to be used for the construction of Future Water Quality Infrastructure.

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.

Note 9 Other matters	2020	2019
9.2. Reconciliation of cash flows from operating activities to surplus/(deficit)	\$'000	\$'000
Surplus/(deficit) for the year	1,167	6,971
Revenue adjustment - impact of AASB 15 Revenue from Contracts with Customers	(1,153)	-
Depreciation/amortisation	11,039	10,268
Finance costs	137	178
Share of result of associate	(51)	(35)
Profit/(loss) on disposal of property, infrastructure, plant and equipment	44	(202)
Contributions - non monetary assets	(728)	(457)
<i>Change in assets and liabilities:</i>		
(Increase)/decrease in trade and other receivables	(55)	(115)
(Increase)/decrease in prepayments	104	16
(Increase)/decrease in accrued income	(160)	(88)
(Decrease)/increase in trade and other payables	1,722	(882)
(Increase)/decrease in inventories	(67)	2
(Increase)/decrease in trust funds & deposits	183	410
(Decrease)/increase in provisions	(145)	455
Net cash provided by/(used in) operating activities	12,036	16,521

9.3. Superannuation

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

Accumulation

The Fund's accumulation categories 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 2020, this was 9.5% as required under Superannuation Guarantee legislation).

Defined Benefit

Council does not use defined benefit accounting for its defined benefit obligations under the Fund's Defined Benefit category. This is because the Fund's Defined Benefit category is a pooled multi-employer sponsored plan. There is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of Colac Otway Shire Council in the Fund cannot be measured as a percentage compared with other participating employers. Therefore, the Fund Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.

Funding Arrangements

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

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

As at 30 June 2019, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which Colac Otway Shire Council is a contributing employer was 107.1%.

The financial assumptions used to calculate the VBIs were:

Net investment returns 6.0% pa
Salary information 3.5% pa
Price inflation (CPI) 2.0% pa.

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

The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2019 interim actuarial investigation determined 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 9 Other matters

9.3. Superannuation (cont'd)

Employer Contributions**Regular Contributions**

On the basis of the results of the 2017 full actuarial investigation conducted by the Fund Actuary, Council makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2020, this rate was 9.5% of members' salaries (9.5% in 2018/2019). This rate will increase in line with any increases in the SG contribution rate. In addition, Council reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

Funding Calls

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

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

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

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

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

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

The 2019 interim actuarial investigation surplus amounts

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

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

	2019 \$'000	2017 \$'000
A VBI surplus	151,300	69,800
A total service liability surplus	233,400	193,500
A discounted accrued benefits surplus	256,700	228,800

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

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

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

Council was notified of the 30 June 2019 VBI during August 2019.

The 2020 triennial actuarial investigation

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

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

Note 10 Change in accounting policy

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

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

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

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

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

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

b) AASB 16 Leases

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

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

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

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

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

d) Transition impacts

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

	2019 \$'000
Retained earnings at 30 June 2019	124,652
Revenue adjustment - impact of AASB 15 Revenue from Contracts with Customers	(1,153)
Retained earnings at 1 July 2019	123,499

Council adopted the practical expedient of deeming the lease asset to be equal in value to the lease liability at 1 July 2019. As such there was no impact on retained earnings on the adoption of AASB 16

The following table summarises the impacts of transition to the new standards on Council's balance sheet for the year ending 30 June 2019.

	As reported 30 June 2019 \$'000	Adjustments \$'000	Post adoption \$'000
Assets			
Right of use assets	-	869	869
Grants receivable	-	1,529	1,529
	-	2,398	2,398
Liabilities			
Unearned income - operating grants	-	2,062	2,062
Unearned income - capital grants	-	619	619
Lease liability - current	-	79	79
Lease liability - non-current	-	790	790
	-	3,551	3,551

Note 11 Impact of COVID 19 pandemic on Colac Otway Shire operations and 2019-20 financial report

On 30 January 2020, COVID 19 was declared as a global pandemic by World Health Organisation. Since then, various measures have been taken by all three levels of Government in Australia to reduce the spread of COVID-19. This crisis and measures taken to mitigate it has impacted Colac Otway Shire operations in the following areas for the financial year ended 30 June 2020:

- In response to significant government directive amidst the COVID-19 outbreak, the following facilities were closed.
 - o Bluewater Leisure Centre.
 - o Colac Otway Performing Arts & Cultural Centre.
 - o Colac Visitor Information Centre.
 - o Great Ocean Road Visitor Information Centre.
- These closures resulted in a decrease in the council User Fee revenue and also decreased associated expenses.
- In response to government directives, additional ICT infrastructure has been introduced to ensure that Council Officers have the ability to work from home effectively and the public can participate in Ordinary Council Meetings.
- In response to government directives, additional hygiene and cleaning practices have been introduced within the workplace.
- There has been a financial impact to Council from deferral of rates revenue and the implementation of an interest free period. The Rates Debtor balance as at 30 June 2020 has increased by \$645k compared to last year, which can predominately be attributed to rate payers taking advantage of the interest free period.
- A Community Support Package was developed to support the local business community's COVID-19 response and recovery, which was adopted in 2020-2021.

Performance Statement

For the year ended 30 June 2020

Description of Municipality

Colac Otway Shire is situated about 160 kilometers south-west of the Melbourne CBD and approximately an hour's drive to the large regional cities of Geelong to the east, Ballarat to the north 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.

Our resident population is estimated at 21,564 as at 30 June 2020. Approximately 83.2% of the Shire's residents were born in Australia and of those born overseas, only 4.2% came from non-English speaking nations. The forecast through to 2041 is for growth of approximately 23.39%, this significant increase is expected in part due to the completion of the dual highway to Geelong. The duplication opens 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 49 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.

Sustainable Capacity Indicators

For the year ended 30 June 2020

Service/indicator/ measure	Results 2017	Results 2018	Results 2019	Results 2020	Material Variations and Comments
Population Expenses per head of municipal population [Total expenses / Municipal population]	\$2,192.10	\$2,341.46	\$2,539.11	\$2,577.70	The indicator has been contained to a 1.5% increase from 2018/19 primarily due to the increase in Employee Benefits and Materials and Services both being kept below 2%. This indicator will generally increase annually due to the stable population of the shire.
Infrastructure per head of municipal population [Value of infrastructure / Municipal population]	\$11,996.72	\$12,203.77	\$13,558.14	\$15,319.07	An asset revaluation was completed in 2019/20 for infrastructure assets, which resulted in a net revaluation increment. This indicator has increased as a result of the increased value of infrastructure assets.
Population density per length of road [Municipal population / Kilometres of local roads]	13.18	13.22	13.20	13.28	
Own-source revenue Own-source revenue per head of municipal population [Own-source revenue / Municipal population]	\$1,664.87	\$1,677.98	\$1,777.87	\$1,797.15	The growth in this indicator has been restricted primarily due to the 0.5% increase in rate revenue in 2019/20 (rate cap 2.5%). Rate Revenue is Council's primary source of own-sourced revenue.
Recurrent grants Recurrent grants per head of municipal population [Recurrent grants / Municipal population]	\$573.06	\$617.03	\$596.29	\$560.47	Council's recurrent grants have remained steady over recent years. The fluctuation in this indicator is primarily the result of the timing and amount of Federal Assistance Funding. 53% of 2019/20 funding was received in 2018/19.
Disadvantage Relative Socio-Economic Disadvantage [Index of Relative Socio- Economic Disadvantage by decile]	3.00	3.00	3.00	3.00	A rating of 3 indicates Colac Otway Shire is considered a disadvantaged area.

Service/indicator/ measure	Results 2017	Results 2018	Results 2019	Results 2020	Material Variations and Comments
<p>Workforce turnover Percentage of staff turnover [Index of Relative Socio- [Number of permanent staff resignations and terminations / Average number of permanent staff for the financial year] x100</p>	23.8%	17.9%	17.3%	11.2%	<p>Following two Alignment and Engagement Survey's the organisation has begun to respond to the cultural and employment concerns raised by our employees. Specific actions have been implemented to improve engagement and communication within the organisation, presence of leadership, addressing short-term and contracted employees and implementing cultural improvement activities. The organisation's collective response to turnover is seeing improvements in retention of employees. A further contributing factor to reduced turnover is suspected to be due to COVID-19.</p>

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 website

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

Service Performance Indicators

For the year ended 30 June 2020

Service/indicator/ measure	Results 2017	Results 2018	Results 2019	Results 2020	Material Variations and Comments
Aquatic Facilities Utilisation <i>Utilisation of aquatic facilities</i> [Number of visits to aquatic facilities / Municipal population]	6.08	5.01	4.60	5.17	Numbers were trending upward until COVID closed the centre on 23 March 2020. Re-opening 1 June 2020 for pool only (20 people at a time) and 22 June 2020 for Gym (20 people at a time) restricted the upward trend significantly.
Animal Management Health and safety <i>Animal management prosecutions</i> [Number of successful animal management prosecutions]	New in 2020	New in 2020	New in 2020	100%	<i>This new indicator now on reports the percentage of successful animal management prosecutions.</i> Council only pursued two prosecutions in 2019/20 and was successful in both cases.
Animal Management Health and safety <i>Animal management prosecutions</i> [Number of successful animal management prosecutions]	10.00	6.00	4.00	Retired in 2020	<i>This measure has been retired.</i>
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	81.25%	100.00%	94.74%	97.50%	High result consistent with 2018/19 performance, reflecting focus given by staff to this task. 39 of the 40 notifications had been followed up by 30 June 2020.

Service/indicator/ measure	Results 2017	Results 2018	Results 2019	Results 2020	Material Variations and Comments
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]	45.00	49.00	52.00	50.00	
Libraries Participation <i>Active library borrowers in municipality</i> [Number of active library members / Municipal population] x100	16.70%	16.04%	14.99%	15.45%	Active borrowers of physical collections are lower in 2019/20 due to the closure of Library centres between 23 March 2020 and 9 June 2020, in response to the COVID-19 pandemic. Despite this, borrowing figures have increased slightly due to active borrowers of E-resources being included this year for the first time.
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	69.68%	70.85%	74.44%	55.23%	Following advice from DHHS to Maternal Child Health Services in response to the COVID-19 pandemic, priority was placed on visits for babies 0-8 weeks old during the last quarter of 2019/20. This has resulted in a drop in attendance from older children who were otherwise well.
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	60.38%	66.67%	58.33%	55.26%	Less identified Aboriginal families in the last financial year. This result is based on small numbers of enrolled children.
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]	42.00	39.00	42.00	44.00	The Services and Operations team has continued their focus on "Fix it first time" and has shown a determination to react to problems more quickly. Its compliance with the response times contained in the Road Management Plan improved into the high 90's during the year.

Service/indicator/measure	Results 2017	Results 2018	Results 2019	Results 2020	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%	0.00%	50.00%	Three of the six VCAT decisions were upheld
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	47.09%	47.79%	52.06%	60.38%	The increase in waste diverted from landfill is due to better source separation at the kerbside and the extra weekly collection of green organics in October/ November and yellow recycling bins during Christmas school holiday period.

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 2020

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2017	2018	2019	2020	2021	2022	2023	2024	
Efficiency Expenditure level <i>Expenses per property assessment</i> [Total expenses / Number of property assessments]	\$3,087.23	\$3,279.64	\$3,546.50	\$3,609.44	\$3,641.69	\$3,806.03	\$3,859.68	\$3,912.59	The indicator has been contained to a 1.8% increase from 2018/19 primarily due to the increase in Employee Benefits and Materials and Services both being kept below 2%. This indicator will generally increase annually due to the stable population of the shire.
Revenue level <i>Average rate per property assessment</i> [General rates and Municipal charges / Number of property assessments]	\$1,747.87	\$1,752.27	\$1,787.51	\$1,811.10	\$1,848.12	\$1,864.17	\$1,896.62	\$1,929.68	Historically, this indicator has been consistent with other Large Rural Shires. The current Strategic Resource Plan assumes a 2.25% average rate increase for 2022 to 2024.
Revenue level <i>Average residential rate per residential property assessment</i> [Residential rate revenue / Number of residential property assessments]	\$1,650.83	\$1,664.15	\$1,788.98	Retired in 2020					<i>This measure has been retired.</i>
Liquidity Working capital <i>Current assets compared to current liabilities</i> [Current assets / Current liabilities] x100	348.05%	254.66%	204.46%	178.40%	153.64%	125.52%	87.51%	56.62%	Working capital is forecast to continually decrease over the coming years as increases in revenue are not sufficient to cover the increases in operating costs associated with delivering the current level of services. Council will need to review its Revenue Strategy and the type and level of service it offers to address this concern.

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2017	2018	2019	2020	2021	2022	2023	2024	
Unrestricted cash <i>Unrestricted cash compared to current liabilities</i> [Unrestricted cash / Current liabilities] x100	192.27%	9.42%	119.98%	104.93%	109.36%	80.39%	42.00%	11.25%	This indicator has reduced, and is forecast to reduce further, primarily due to increases in revenue not being sufficient to cover the increases in operating costs associated with delivering the current level of services. The 2019/20 result has been impacted by increased expenditure/reduced revenue resulting from the COVID-19 pandemic and an average rate increase of 0.5% (rate cap 2.5%), which is insufficient to meet increasing costs.
Obligations Loans and borrowings <i>Loans and borrowings compared to rates</i> [Interest bearing loans and borrowings / Rate revenue] x100	13.67%	11.36%	8.92%	3.27%	2.32%	1.82%	0.00%	0.00%	This indicator is much lower in 2019/20 due to a \$1m bond repayment in November 2019, which was taken under the Local Government Funding Vehicle in 2014.
<i>Loans and borrowings repayments compared to rates</i> [Interest and principal repayments on interest bearing loans and borrowings / Rate revenue] x100	3.71%	2.79%	2.71%	5.74%	1.06%	0.56%	1.89%	0.00%	This indicator was much higher in 2019/20 due to a \$1m bond repayment in November 2019, which was taken under the Local Government Funding Vehicle in 2014

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2017	2018	2019	2020	2021	2022	2023	2024	
Indebtedness <i>Non-current liabilities compared to own source revenue</i> [Non-current liabilities / Own source revenue] x100	30.33%	30.33%	23.52%	27.14%	26.07%	25.27%	23.44%	22.87%	This has increased primarily due to Council's own-sourced income only increasing by 1.9% in 2019/20. This was largely impacted by an average rate increase of 0.5% (rate cap 2.5%) and also some lost revenue relating to the COVID-19 pandemic.
Asset renewal and upgrade <i>Asset renewal and upgrade compared to depreciation</i> [Asset renewal and asset upgrade expense / Asset depreciation] x100	New in 2020	New in 2020	New in 2020	108.81%	89.48%	107.16%	108.28%	104.54%	This indicator is budgeted to significantly reduce in 2020/21 due to a reduced capital works program and a one-off reduction in renewal projects. This reduction in renewal expenditure has been reallocated to support the community in the recovery from the COVID-19 pandemic.
Asset renewal <i>Asset renewal compared to depreciation</i> [Asset renewal expense / Asset depreciation] x100	97.66%	115.56%	125.63%	Retired in 2020					<i>This measure has been retired.</i>

Dimension/indicator/measure	Results				Forecasts				Material Variations and Comments
	2017	2018	2019	2020	2021	2022	2023	2024	
Operating position Adjusted underlying result <i>Adjusted underlying surplus (or deficit)</i> [Adjusted underlying surplus (deficit)/ Adjusted underlying revenue] x100	9.27%	0.97%	4.15%	-3.55%	-1.02%	-2.41%	-2.81%	-3.05%	This indicator has reduced, and is forecast to remain in deficit, primarily due to increases in revenue not being sufficient to cover the increases in operating costs associated with delivering the current level of services. The 2019/20 result has been impacted by increased expenditure/reduced revenue resulting from the COVID-19 pandemic and an average rate increase of 0.5% (rate cap 2.5%), which is insufficient to meet increasing costs. The 2019/20 result has also been impacted by the introduction of new Accounting Standards. The result would have been -1.04% if these Accounting Standards had not been introduced.
Stability Rates concentration <i>Rates compared to adjusted underlying revenue</i> [Rate revenue / Adjusted underlying revenue] x100	56.35%	58.51%	53.55%	58.39%	57.42%	56.29%	56.64%	56.93%	This indicator has increased due to a significant reduction in adjusted underlying revenue in 2019/20. The 2018/19 figure contained some large operating grants that are classified as adjusted underlying revenue.
Rates effort <i>Rates compared to property values</i> [Rate revenue / Capital improved value of rateable properties in the municipality] x100	0.50%	0.51%	0.46%	0.47%	0.45%	0.44%	0.43%	0.43%	This indicator is forecast to continually decrease as property values are expected to increase at a greater rate than rate revenue. Property values are forecast to increase by 4% p.a. compared to a 2.25% p.a. average increase in rate revenue.

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



Closing Report

2019-2020 Financial Report and Performance Statement of Colac Otway Shire Council

Presented to the Audit and Risk Committee on 14 October 2020


Background

I enclose for your information the closing report for the year ended 30 June 2020. The closing report provides a summary of results of our audit. This report will be discussed at the Audit and Risk Committee meeting on 14 October 2020.

Acknowledgement

I also take this opportunity to thank your executive team and staff for the time they made available to us during our audit.

Yours sincerely



C.J. Kol

Partner

McLaren Hunt Audit and Assurance

VAGO Audit Service Provider

Warrnambool

22 September 2020

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Introduction

Purpose of the closing report

- Our closing report summarises the results of our audit and communicates significant findings from the final audit phase.
- Please read this document in conjunction with our Audit Strategy Memorandum issued on 20 January 2020.

Scope and purpose of the audit

- The *Audit Act 1994* requires the Auditor-General to form an opinion on your financial report and performance statement and provide a copy of the audit report to you.
- Copies of the report are also provided to the title of the minister responsible for the entity and to the Assistant Treasurer.

The Auditor-General

The Auditor-General is:

- an independent officer of the Victorian Parliament
- appointed under legislation to examine, on behalf of parliament and taxpayers, the management of resources within the public sector
- not subject to the control or direction of either parliament or the government.



Audit completion status

We have completed our audit of the financial report and performance statement. We performed our audit in accordance with the *Audit Act 1994* and the terms of our engagement letter. We can provide reasonable assurance that the financial report and performance statement presented fairly under the *Local Government Act 1989*.

Expected audit opinion

Based on our audit, we expect to conclude that the financial report is presented fairly. We also expect to conclude that the performance statement is presented fairly. We expect to issue an unmodified audit opinions.

Outstanding audit matters

We can conclude and issue our audit opinions when we finalise our audit process. Outstanding audit matters include:

- financial report and performance statement certification
- a final review of the financial report and performance statement
- a review of the signed management representation letter
- completion of the review of subsequent events.

Appendix A provides a detailed list of all outstanding audit matters.

Areas of audit focus

Our audit focused on the financial report balances / disclosures / areas that we rated as higher risk for material misstatement in your financial report and performance statement.

After the State of Victoria declared a State of Emergency on 16 March 2020, we revisited our audit approach to consider impacts of the COVID-19 pandemic on your operations and financial report. We were required to revise our audit approach and reissue/revise of our strategy. We issued a revised strategy to you on 2/04/2020.

Our procedures enabled us to conclude, with reasonable assurance, whether the risks resulted in a material misstatement. The outcome of our procedures is summarised in this section.

Risk of material misstatement	Our audit response	Results of our key procedures
<p>1. Valuation of property, plant and equipment</p> <p>Infrastructure, property, plant and equipment represents a significant part of Council's total assets (\$316 million in the 2018-19 financial year), with the majority of these assets carried at fair value.</p> <p>Determining the fair value of these assets is a highly complex process that relies on numerous assumptions underpinning the valuation methodology, the engagement of valuation experts and management judgement.</p> <p>Footpaths and drainage assets are scheduled for revaluation in 2019-20, while remaining assets will be subject to indexation assessment in 2019-20.</p> <p>The financial report may include a material misstatement if the valuation is not performed in line with a suitable methodology, by unqualified experts or is based on inappropriate assumptions and judgements.</p> <p>Valuations may be inaccurate due to the judgement and complexities associated with</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed the nature and extent of management's oversight and review of the fair value measurement by valuation experts reviewed the valuer's report to evaluate the appropriateness of the methodology adopted, assumptions and estimates used and the overall reasonableness of the valuation assessed the valuer's competence, skills and experience to conduct an appropriate valuation review any indexation calculations prepared by management review management's impairment assessments 	<p>Roads, drainage and footpaths and were revalued during the year resulting in a increase in roads of \$31.235, drainage of \$0.492m, footpaths of \$0.387m. Roads</p> <p>A prior period error was adjusted to found drainage assets valued at \$2.518m.</p> <p>Changes in fair value for other classes of asset have been considered by management, and assumptions reviewed by audit, with no material differences identified.</p>

applying AASB 13 *Fair Value Measurement*.

Disclosures may be incorrect or insufficient.

2. New accounting standards applicable in 2019–20

A number of new accounting standards will impact Council's financial report for the first time, in 2019–20.

These standards include:

- AASB 15 *Revenue from Contracts with Customers*
- AASB 1058 *Income for Not-for-profit Entities*
- AASB 16 *Leases*.

Council may not be adequately prepared to make changes to their systems, processes and resources to address the accounting and disclosure requirements of the new accounting standards.

We have:

- gained an understanding of Council's processes to assess and record the impact of the new accounting standards
- reviewed 'shell' accounts and the financial report against the Local Government Model Financial Report, the requirements of the Australian Accounting Standards and the *Local Government (Planning and Reporting) Regulations 2014*
- reviewed management's estimates, judgements and assumptions
- reviewed the journals posted by management to support the figures within the financial statements.

We are satisfied with the initial application of the new accounting standards. Adjustment of \$1.153m was made to the opening equity balance to account to reflect deferred income under AASB 15. Right of use assets and lease liability was also recorded for the first time from the introduction of AASB 16.

3. The performance statement may not be prepared in accordance with applicable legislative requirements

There is a potential risk that:

- systems in place at the Council may not accurately capture the data required to support service performance outcomes
- incomplete and/or inaccurate data due to inadequate systems may result in material misstatement of the performance statement
- a lack of quality assurance over the preparation of performance statement may also result in significant errors or omissions.

We have:

- reviewed the systems in place to capture the financial and non-financial data
- determined the reliability and soundness of the available records for compiling that indicator
- checked the calculations of reported figures
- assessed the reasonableness of explanations included in the report of significant variations
- confirmed that the performance statement complies with legislative requirements.

Performance report has been prepared in accordance with the Performance Reporting Framework. Calculations have been agreed to required source documentation.

<p>4. Covid-19</p> <p>We have identified impacts on your operations as a result of the pandemic, including some facilities were closed, including the Bluewater Leisure Centre, Colac Otway Performing Arts & Cultural Centre, Colac Visitor Information Centre and Great Ocean Road Visitor Information Centre. The Council has adopted a COVID-19 A Community Support Package was developed to support the local business community's COVID-19 response and recovery, which was adopted in 2020-2021 .</p>	<p>We have assessed the impacts of the pandemic on your entity identifying:</p> <p>impacts on your control environment</p> <p>uncertainty for the following key judgement/s estimates</p>	<p>We are satisfied the disclosures maintained in the financial report regarding COVID and the maintenance of the internal control environment during this period.</p>
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Audit findings—financial report

Materiality assessment

Misstatements are considered material if they individually or collectively could influence economic decisions of users of the financial statements. Users could be influenced by either the amount (quantity) or the nature (quality) of the matter.

Final materiality for the financial report has been set at:

Overall materiality - 3% of 2020 infrastructure balance \$356 Million - \$ 9.5 million.

Specific materiality- 2% of 2020 Rates and Charges and User fees revenue \$36 million - \$ 0.720million.

In our view:

- total uncorrected errors above this amount for account balances or disclosures would mislead the users of the financial report.
 - risk that there may be material error the financial report increases with the level of accumulated uncorrected error below this threshold.
-

Adjusted audit differences

The effect of adjusted audit differences on the financial report is a decrease of \$30,125 in the net result, and a decrease of \$30,125 in net assets. We identified adjustments related to: Impairment of financial assets.

We also found material differences in the disclosures supporting the financial report, which management adjusted.

Appendix B presents the adjusted audit differences.

Unadjusted immaterial differences

The effect of unadjusted differences on the financial report is that the net result is overstated by \$123k, and net assets are overstated by \$123k.

Appendix C presents the unadjusted immaterial differences.

Control environment

The Australian Auditing Standards require us to write to those charged with governance about any significant deficiencies we identified during the audit.

As part of our audit process, we consider, but do not assess or provide an opinion on, the effectiveness of your internal control framework. If we identify any significant weaknesses in internal control during our audit, we communicate them to you in our management letters.

These have been included in the attached final management letter.

Audit findings—performance statement

Materiality assessment

Misstatements are considered material if they individually or collectively could influence economic decisions of users of the performance statement. Users could be influenced by either the amount (quantity) or the nature (quality) of the matter.

We set materiality for each indicator reported in a performance statement after we consider the qualitative and quantitative factors that influence each indicator. We cannot set an overall materiality level for the performance statement due to its nature.

Adjusted differences

We identified no audit differences in the performance statement.

Unadjusted immaterial differences

We identified no unadjusted immaterial differences in the performance statement.

Control environment

The Australian Auditing Standards require us to write to those charged with governance about any significant deficiencies we identified during the audit.

As part of our audit process, we consider, but do not assess or provide an opinion on, the effectiveness of your internal control framework. If we identify any significant weaknesses in internal control during our audit, we communicate them to you in our management letters.

These have been included in the attached final management letter.

Other audit findings

Fraud, irregularities or regulatory non-compliance

When performing our risk assessments and conducting our audit procedures, we consider the risk of material misstatement in the financial report and performance statement that may be due to fraud. We are not responsible for preventing or detecting fraud.

Our audit procedures did not identify any specific financial report and performance statement areas of fraud risk or regulatory non-compliance.

Waste, probity & financial prudence

Our procedures are not specifically designed to detect matters of waste, probity and financial prudence but we may detect these matters.

Our audit procedures did not identify any material issues concerning waste, probity or lack of financial prudence.

Accounting policies

Your entity's material accounting policies, material transactions and/or events that occurred during the financial year are in accordance with the Australian accounting standards.

Reports to Parliament

Results of the 2020 Audits: Local Government

Colac Otway Shire Council will be included in the *Results of the 2020 Audits: Local Government*, scheduled for tabling in March 2021. The report will analyse the financial sustainability, performance and position of the sector. It will inform parliament about the strengths and weaknesses in the control environments of entities within the sector and make recommendations for improvement.

We will release an interactive dashboard to accompany the Parliamentary report. This will enable users to visualise:

- sector results over the last 2 years
- trends and composition analyses for specific entities
- compare results between entities over time.

We may make comment on Colac Otway Shire Council in the body of either of these reports. If this is the case, we will provide you with relevant extracts of the report for your response.

VAGO links and resources



VAGO's website

VAGO's role

Annual work plan

Strategic plan

Our reports

Audits in progress

Privacy policy

APPENDIX A

Outstanding audit matters

The following items are outstanding at the date of this report and need to be resolved before we can issue our audit reports.

Item	Action required	Responsibility
Subsequent events update	Provide details of significant transactions and events up to date of signing. Audit will assess for any impact on the financial report	Management and audit
Financial report and performance statement certification	To be signed on adoption of the accounts by the Council	Management
Management representation letter	To be signed on same date as the certification of the financial report	Management

After we issue our audit report, we are required to undertake the following procedures. We will report any issues we find to your accountable officer for appropriate remedial action.

Item	Our procedure
Annual report	We will review your annual report to confirm that it includes the correct version of the signed financial report, performance report and auditor's report. We will also check that all information in the annual report is materially consistent with the financial report. We request you provision of an electronic copy of the printers' proof of the annual report.
Website publication of annual report	We will review your annual report on your website to confirm that it includes the correct versions of the signed financial report, performance report and auditor's report. We request your notification to us of your publication of your annual report on your website.

APPENDIX B

Adjusted audit differences

Adjusted dollar differences

Financial report component(s)	Adjusted \$	Basis for the adjustment
Bad & doubtful debts	DR 30,125	Increased the provision for impaired receivables to better align with AASB 9.
Allowance for doubtful debts	CR 30,125	

Adjusted differences of disclosures in your financial report and indicators in your performance statement

Financial report disclosure / performance statement indicator	Adjustment	Basis for the adjustment
Nil		

APPENDIX C

Unadjusted audit differences

Unadjusted dollar differences

Financial report component(s)	Adjusted \$	Basis for the difference and the reason/s for not adjusting
Employee benefits – leave	Dr 123,295	Unadjusted difference to accrued salaries and wages as at 30 June 2020, based on an estimate for on-costs.
Accrued employee entitlements	Cr 123,295	

Unadjusted differences of disclosures in your financial report and indicators in your performance statement

Financial report disclosure / performance statement indicator	Recommended disclosure	Basis of our recommendation
Nil		

APPENDIX D

Management representation letter

As part of gathering audit evidence, we obtain formal management representations about your entity's financial report and performance statement. We look at the completeness, preparation, and presentation of the information in the report and statement.

We do not rely solely on the management representations, except when they are the only evidence reasonably available.

A draft version of the management representation letter is provided as a separate attachment.

When forming our audit opinion, we did not rely solely on management representations.



Final Management Letter

2019-2020 Financial report and Performance Statement of Colac Otway Shire

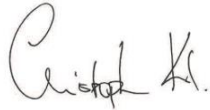
Background

I attach for your information the final management letter for the year ended 30 June 2020. The final management letter provides a summary of results of our audit. This report will be discussed at the Audit and Risk Committee meeting on 14 October 2020.

Acknowledgement

I also take this opportunity to thank your executive team and staff for the time they made available to us during our audit.

Yours sincerely



C. J. Kol
Partner
McLaren Hunt Audit and Assurance
VAGO Audit Service Provider

Warrnambool
22 September 2020

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Introduction

We have completed the 2020 audit and now bring our findings to your attention.

Please read this document in conjunction with the closing report, which we presented to the Audit and Risk Committee on 14 October 2020.

We include our assessment of the audit significance of the findings, which fall into the following categories:

- internal control weaknesses
- financial reporting and performance statement reporting
- business improvement opportunities and other guidance

Appendix A explains the rating criteria we used, and the management action required.

Internal control weaknesses

As part of our audit, we assess the design and implementation of internal controls relevant to financial reporting and performance statement reporting. If we intend to rely on these controls, we test how effectively they are operating.

Financial reporting and performance statement reporting

We may identify errors and weaknesses in management's approach to financial reporting and performance statement reporting, which may lead to material misstatement. We consider how your entity has complied with the Australian Accounting Standards and other reporting frameworks.

Reporting and tracking internal control and financial reporting findings

This letter includes:

- our assessment of the significance of the findings
- our recommended actions
- management comments and dates for implementation.

Scope and purpose of the audit

The objective of our audit is to enable the Auditor-General to express an opinion on your financial report and performance statement. When designing our audit procedures, we consider the internal controls relevant to your financial report and performance statement. Our audit strategy communicated our planned approach and level of reliance on internal controls. Expressing an opinion on the effectiveness of internal controls is not part of our audit scope.

We do not carry out a comprehensive audit of all the processes and systems in your entity's internal controls. We do not try to uncover all deficiencies, breaches and irregularities. Inherent limitations in any process and system of internal controls may mean that we do not detect some errors or irregularities.

Reports to Parliament

In a report to parliament, the Auditor-General may include findings that we rated as high in this letter. Before it is tabled, we will send you a draft of the report to parliament and invite your comments.

Summary of audit findings

The table below summarises all management letter findings in two areas: either resolved during the period; or open issues, which include 'unresolved', 'partially resolved' or 'substantially resolved' as of the date of this letter.

Finding first raised (month / year)	Reference	Findings	Rating	Classification of deficiency		Area	Resolved (R)/ unresolved (U)	Management acceptance	Agreed implementation date
				Internal control	Financial / performance reporting				
Open issues (current and prior period)									
September 2020	2020.1	Contribution to Colac College Library	Low	-	X	Infrastructure, property, plant & equipment	U	Yes	30 June 2021
September 2020	2020.2	Bank Reconciliation	Moderate	-	X	Cash	U	Yes	30 June 2021
September 2020	2020.3	Year end outstanding rates listing	Low	X	-	Debtors reconciliation	U	Yes	30 Sept 2020.
May 2018	2018.6	IT policies & user access levels	Low	X	-	IT Systems	R	Yes	Jul – Dec 2018
September 2017	2017.1	Footpaths valuation method	Moderate	X	-	Governance	U	Yes	30 April 2018
September 2017	2017.2	Stock take procedures	Low	X	-	Governance	R	Yes	30 June 2018
June 2017	2017.4	Review of Council policies	Low	X	-	Governance	Partially resolved	Yes	31 March 2018
September 2015	2015.1	Trust bonds and deposits	Low	X	-	Governance	U	Yes	31 March 2017
Prior period issues resolved during the period									

Detailed audit findings-open issues

Ref	Description of finding and implication	VAGO recommendation on new findings and update on open items	Response from management
2020.1	<p>Contribution to Colac College Library</p> <p>The Colac Otway Shire made a contribution to the construction of the Colac College Library back in 2009/10. The contribution to this asset was capitalised into the Colac Otway Shire Asset Register and subsequently depreciated. We also note that a subsequent revaluation of this asset was booked.</p> <p>A review of the Colac College Library agreement states that the Colac Otway Shire has been granted a licence to use the facility for a period of 50 years. The asset is currently being amortised over an 80 year period.</p>	<p>Recommendation</p> <p>The Council should conduct a review of this asset and establish if they have any control over this asset and if it should be recorded in the Colac Otway Shire Asset Register. This could be conducted as part of the 2020/21 revaluation of the Colac Otway Shire land and building revaluation.</p>	<p>Recommendation accepted</p> <p>Responsible officer: Nick Howard – Finance Coordinator</p> <p>Implementation date: 30 June 2021</p> <p>Management comment</p> <p>This asset will be reviewed to establish:</p> <ol style="list-style-type: none"> whether Council have control over this asset and whether it should be recorded in the Colac Otway Shire Asset Register; and if so determine the period in which this asset should be amortised. <p>This review will be conducted as part of the 2020/21 revaluation of the Colac Otway Shire land and building.</p>
2020.2	<p>Bank Reconciliation</p> <p>A review of the general account bank reconciliation that was printed off the “Authority” system was a five page reconciliation that was confusing to follow, and required manual adjustments to reconcile to the general ledger.</p>	<p>Recommendation</p> <p>The Finance team should conduct a review of the bank reconciliation report that is extracted from the system, and either simplify the report or conduct a manual reconciliation.</p>	<p>Recommendation accepted</p> <p>Responsible officer: Nick Howard – Finance Coordinator</p> <p>Implementation date: 30 June 2021</p> <p>Management comment</p> <p>The Authority system occasionally incurs reporting and processing errors, which impact the bank reconciliation report. It is hoped Civica rectify this issue shortly, but in the interim officers will create and implement a manual reconciliation process to simplify the bank reconciliation reporting. A completion date of 30 June 2021 is expected.</p>

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2020.3	<p>Year end rates listing</p> <p>Whilst conducting a review of the year end rates debtors, we note that we could not obtain a detailed listing of outstanding rates debtors.</p>	<p>Recommendation</p> <p>The Finance team should investigate if there is the ability for the system to produce a detailed rates listing to support the outstanding balance as part of the monthly rates reconciliation.</p>	<p>Recommendation accepted</p> <p>Responsible officer: Paul Carmichael – Revenue Coordinator</p> <p>Implementation date: 30 Sept 2020.</p> <p>Management comment:</p> <p>The Finance team have identified a report enabling the production of a detailed rates listing to support the outstanding balance as part of the monthly rates reconciliation. This report will be incorporated into the ongoing monthly reconciliation process. A completion date of 30 September 2020 is expected.</p>
2018.6	<p>IT Policies and User Access Levels</p> <p>During our review of Information System’s Policies, we noted most policies were reviewed many years ago and due for review.</p> <p>Access levels in Civica were reviewed for payroll, delegation levels, access to process general journals, and all permissions access. Audit noted that 14 users have 'all permissions' access. We also noted 3 staff with access to process general journals who are no longer employed at Colac Otway Shire Council.</p> <p>From discussion with the IT Manager, we noted there is no formal review of access levels conducted.</p> <p>During testing we noted 11 employees who have delegations in the system but are not listed in the staff per delegated limits 27 March 2018. Further we noted 1 employee whose delegation did not match their delegated limit.</p> <p>Risk of unauthorised access to sensitive information.</p>	<p>Recommendation</p> <p>We recommend that IT Policies be reviewed and updated, including a formal review on access levels periodically (e.g. every 6 months). We also recommend a full review of CIVICA to align delegations within the system to the Instruments of Delegation.</p> <p>2019–20 interim audit comment:</p> <p>To be reviewed at year end 2020</p> <p>2019–20 year end audit comment:</p> <p>Resolved</p>	<p>Recommendation accepted</p> <p>Responsible officer: Shane Whitten updated to Jason Clissold – Manager Financial Services and Richard Bianco</p> <p>Implementation date: Jul – Dec 2018</p> <p>We acknowledge that a number of policies are overdue for review and potential updating.</p> <p>We currently spot check (as part of our Fraud Prevention Program) access levels in Authority on a quarterly basis. This is currently focused on higher risk areas of payroll and accounting. This will be expanded to a full review each 6 months of Authority delegation levels in comparison to the published instrument of delegation.</p> <p>Management update Interim 2019</p> <p>Several outdated policies have now been consolidated into single policies and will be reviewed on a regular basis. A process will be developed to ensure access is reviewed on a systematic basis and policies are reviewed accordingly.</p> <p>Updated Implementation date: June 2020</p> <p>2019–20 year end management comment:</p>

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			<p>The development of a formalised Authority Access Levels Review Procedure has been completed. Policies are now reviewed on a more frequent basis.</p>
2017.1	<p>Footpaths Valuation Method</p> <p>In the review of the valuation rates used for the footpath revaluation, we identified that the rate per square metre of concrete used included an element for removal costs. Infrastructure costing rates used should be on a “Greenfield” basis and not include costs associated with removal, destruction or disposal of an asset.</p> <p>The rate used by Council for the purpose of the revaluation was \$100.20 per square metre using rates from the Rawlinsons Construction Cost Guide 2017, however, on review we identified that Council is currently paying an average of \$92.80 per square meter based on current contractor rates.</p> <p>We have also identified Council’s Asset Revaluation Policy does not include specifics on the basis in which Infrastructure assets are valued.</p> <p>Using Council’s revaluation upload spread sheet, we were able to estimate that the difference between the rate used for the revaluation and the average contractor rate for a square metre of concrete has potentially resulted in a net overstatement of \$1m in the valuation of footpaths as at 30 June 2017. The corresponding side to this is an overstatement in the Asset Revaluation Reserve in the equity section of the balance sheet. However, we do note that this is below our balance sheet materiality level so no adjustment is required.</p>	<p>Recommendation</p> <p>We recommend that rates used for the revaluation of infrastructure be on a “Greenfield” basis and that Council’s Asset Revaluation Policy be amended to include the basis in which infrastructure assets are valued.</p> <p>2019–20 year end audit comment:</p> <p>To be reviewed at year end 2021.</p>	<p>Recommendation Yes</p> <p>Responsible officer: Coordinator Financial Accounting updated to Jason Clissold and Jeremy Rudd</p> <p>Implementation date: 30 April 2018</p> <p>Policy will be updated accordingly before next year’s revaluation process.</p> <p>Management update</p> <p>There is no asset revaluation procedures document just a generalised policy document, we are currently exploring updating the policy document with a specific reference to greenfield basis of valuation.</p> <p>Management update Interim 2019</p> <p>Council officers will utilise ‘Greenfield’ values in relation to infrastructure valuations methodology in the future. Council Policy 16.7 - Asset Valuation and Revaluation is due for review in Sept 2019 and will be updated to include this.</p> <p>2019–20 year end management comment:</p> <p>Policy 16.7 - Asset Valuation and Revaluation has not yet been reviewed. It is now expected that a revised policy will be presented to the May 2021 Audit Committee meeting. This policy will be updated to utilise ‘Greenfield’ values in relation to infrastructure valuations methodology. This methodology was applied to the 2019/20 revaluation, so the policy needs to be updated to reflect this and other considerations.</p>

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2017.2	<p>Stocktake Procedures</p> <p>As part of our review of inventory, we identified that there is currently no documented stock take procedure or policy.</p> <p>We also noted that the count sheet for the GORVIC stock take was not retained after the count for audit to review.</p> <p>If there is no documented procedure, there is an increased risk of fraud or error as a result of the stock take not being accurately performed.</p> <p>Although, we do note that the level of stock held by Council is not significant.</p>	<p>Recommendation</p> <p>We recommend that the stock take procedures, retention of count sheets, certification and review/approval process be documented in a policy to ensure that all relevant staff are aware of the process and requirements.</p> <p>2019–20 interim audit comment:</p> <p>To be reviewed at year end 2020</p> <p>2019–20 year end audit comment:</p> <p>Resolved</p>	<p>Recommendation accepted: Yes</p> <p>Responsible officer: Coordinator Financial Accounting replaced by Nick Howard – Finance Coordinator</p> <p>Implementation date: 30 June 2018</p> <p>Management comment:</p> <p>An operational policy will be put in place before the end of the financial year.</p> <p>Management update</p> <p>A stocktake procedure is currently being compiled and will be provided to Auditors by year end.</p> <p>Management update Interim 2019</p> <p>Council officers will look to document a process during the 30 June 2019 process and refine it prior to 30 June 2020.</p> <p>As an interim measure Council officers will continue to monitor the level of sales compared to inventory purchased on a regular basis to ensure reasonableness.</p> <p>2019–20 year end management comment:</p> <p>The development of a formalised Stocktake Procedure has been completed, ensuring that all relevant staff are aware of the process and requirements.</p>
2017.4	<p>Review of Council Policies</p> <p>During our review of Council finance policies, we have identified some policies that have not been reviewed in a number of years. These include:</p> <p>Finance Policies and Procedure Manual – last updated July 2008</p> <p>Business Credit Cards – last reviewed April 2014</p>	<p>Recommendation</p> <p>It is recommended that if the policies are still relevant, then they should be reviewed and updated to ensure that they reflect the current procedures and processes being undertaken.</p> <p>Audit Status: Outstanding as the Credit Card Policy provided to audit team was still from 2014</p>	<p>Recommendation accepted: Yes</p> <p>Responsible officer: Daniel Fogarty, Manager financial Services updated to Jason Clissold – Manager Financial Services</p> <p>Implementation date: 31 March 2018</p> <p>Management comment:</p> <p>The Finance Policies and Procedure Manual is no longer relevant so does not need to be reviewed. The</p>

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	<p>If policies are not reviewed and updated when required, there is an increased risk that the procedures or information contained within them may become outdated and provided inaccurate guidance for staff.</p>	<p>2019–20 year end audit comment:</p> <p>Partially resolved. To be reviewed at year end 2021</p>	<p>Business Credit Cards Policy will be reviewed and updated by the implementation date.</p> <p>Management update</p> <p>The new Credit Card Policy is still under review, other policy document was previously identified as not relevant.</p> <p>Management update Interim 2019</p> <p>The Business Credit Card Policy still has not been reviewed since 2014. Management understand the need to review these policies on a regular basis and it is expected that this will be completed by 30 June 2020.</p> <p>2019–20 year end management comment:</p> <p>The Business Credit Card Operating Policy has not formally been reviewed since 2014. Management were presented with a draft 'Procurement Card Operating Policy' and 'Procurement Card Procedure' which supersedes this operational policy in May 2020. This draft Policy and Procedure was presented to the Audit Committee in August 2020, although it was resolved to present this again for review at a future Audit Committee Meeting. It should be noted that any improved controls contained in the draft policy have been implemented by Management in the interim.</p>
2015.1	<p>Trust bonds and deposits</p> <p>Trust funds and deposits held by the Council amount to under \$300,000. A net of about \$40,000 has been added since last year.</p> <p>Since last year not a lot of action has occurred in terms of reviewing old outstanding bonds. We are informed that the Finance officers have communicated with planning and have contacted some of the bond holders. The review process is still incomplete.</p>	<p>Recommendation</p> <p>Management should continue the review of the old deposits and funds in the ledgers with a view to clearing those that no longer remain as an obligation of the council.</p> <p>2019–20 year end audit comment:</p> <p>To be reviewed at year end 2021.</p>	<p>Recommendation accepted: Yes</p> <p>Responsible officer: Daniel Fogarty, Manager financial Services updated to Nick Howard – Finance Coordinator</p> <p>Implementation date: 31 March 2017</p> <p>Management comment:</p> <p>The review process is continuing. This is a detailed and at times very resource consuming process due to the number of diverse records which need to be accessed and cross-checked</p>

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	<p>Liabilities may appear to exist and / or continue to accrue to the council which may overstate their obligations.</p>		<p>(i.e. planning permits, building permits, health records, etc.). There is also some time required to trace deposit holders. It is hoped to have as much of this process completed as possible by the end of the 2015-16 financial year.</p> <p>Management update</p> <p>As part of the 2017/18 end of year process, a full review and reconciliation of trust funds and deposits will be undertaken. Following this review, a register will be created to capture details regarding amounts outstanding for greater than 1 year. This will ensure we comply with our obligations under the Unclaimed Money Act 2008.</p> <p>Management update Interim 2019</p> <p>Council Finance officers continue to work with other areas of the organisation in an attempt to identify all the amounts being held in trust.</p> <p>This item remains outstanding. A revised completion date of 30 June 2020 is expected.</p> <p>2019–20 year end management comment:</p> <p>This item remains outstanding. This list has been reviewed, although clearing deposits that no longer remain an obligation of the council will be an arduous process.</p> <p>Current processes have been revised and documented to ensure they are robust in tracking the collection and return of such funds.</p> <p>A completion date of 30 June 2021 is expected.</p>

APPENDIX A

Rating definitions and actions

Rating	Description of rating	Management action required
High	<ul style="list-style-type: none"> → A material misstatement in the financial report has occurred or is likely to occur. It could result in a modified audit opinion if the entity does not take urgent action. → A control weakness could cause, or is causing, a major disruption to the entity's ability to achieve process objectives and comply with relevant legislation. 	<ul style="list-style-type: none"> → Executive management must correct the misstatement in the financial report or take urgent action to avoid a modified audit opinion. → Management must immediately create a detailed action plan that the entity will implement within one month.
Moderate	<ul style="list-style-type: none"> → A non-material misstatement, which has the potential to become material, has occurred, or is likely to occur, in the financial report. → A control weakness could have, or is having, a moderately adverse effect on the entity's ability to achieve process objectives and comply with relevant legislation. 	<ul style="list-style-type: none"> → Management must immediately create a detailed action plan that the entity will implement within three to six months.
Low	<ul style="list-style-type: none"> → A misstatement (not expected to be material) is likely to occur in the financial report. → A minor control weakness, with minimal but reportable impact, is affecting the entity's ability to achieve process objectives and comply with relevant legislation. 	<ul style="list-style-type: none"> → Management must immediately create a detailed action plan that the entity will implement within 12 months.

