

**Bayside City Council
ANNUAL FINANCIAL REPORT**

For the Year Ended 30 June 2020

**Bayside City 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.

Bill Shanahan CPA
Principal Accounting Officer

Date : 15 September 2020
Sandringham

In our opinion the accompanying financial statements present fairly the financial transactions of Bayside City 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 which would render any particulars in the financial statements to be misleading or inaccurate.

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

Sonia Castelli
Councillor
Date : 15 September 2020
Sandringham

Rob Grinter
Councillor
Date : 15 September 2020
Sandringham

Mick Cummins
Chief Executive Officer
Date : 15 September 2020
Sandringham

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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	97,954	95,496
Statutory fees and fines	3.2	8,301	7,948
User fees	3.3	7,924	8,917
Grants - operating	3.4(a)	10,613	11,280
Grants - capital	3.4(b)	1,077	1,235
Contributions	3.5	3,573	6,546
Contributions - non monetary	3.5	2,528	-
Rental Income	3.7	2,993	4,167
Interest Income	3.8	2,874	3,235
Other income	3.9	2,091	1,704
Total income		139,928	140,528
Expenses			
Employee costs	4.1	45,566	43,816
Materials and services	4.2	51,423	49,718
Depreciation	4.3	20,548	18,373
Amortisation - intangible assets	4.4	896	774
Amortisation - right of use assets	4.5	836	-
Bad and doubtful debts	4.6	1,901	678
Net loss on disposal of property, infrastructure, plant and equipment	3.6	3,984	1,910
Impairment loss on financial assets	4.7	245	302
Finance Costs - leases	4.8	77	-
Other expenses	4.9	397	406
Total expenses		125,873	115,977
Surplus for the year		14,055	24,551
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	6.2	55,905	(414,004)
Total comprehensive result		69,959	(389,453)

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

Balance Sheet
As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1(a)	473	5,604
Trade and other receivables	5.1(c)	8,575	7,301
Other financial assets	5.1(b)	104,028	96,027
Inventories	5.2(a)	144	102
Non-current assets classified as held for sale	6.1	3,064	5,683
Other assets	5.2(b)	1,390	2,524
Total current assets		117,675	117,241
Non-current assets			
Trade and other receivables	5.1(c)	114	178
Other financial assets	5.1(b)	3,000	8,230
Property, infrastructure, plant and equipment	6.2	3,401,778	3,332,347
Right-of-use assets	5.7	1,744	-
Intangible assets	5.2(c)	2,774	3,008
Other assets	5.2(b)	130	130
Total non-current assets		3,409,540	3,343,893
Total assets		3,527,215	3,461,134
Liabilities			
Current liabilities			
Trade and other payables	5.3(a)	8,285	15,015
Trust funds and deposits	5.3(b)	4,945	4,426
Provisions	5.4	10,130	10,685
Income in advance	5.3(c)	1,463	461
Lease liabilities	5.7	844	-
Total current liabilities		25,667	30,587
Non-current liabilities			
Provisions	5.4	1,084	965
Lease liabilities	5.7	922	-
Total non-current liabilities		2,006	965
Total liabilities		27,673	31,552
Net assets		3,499,542	3,429,582
Equity			
Accumulated surplus		899,520	892,911
Reserves	9.1	2,600,022	2,536,671
Total Equity		3,499,542	3,429,582

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	Asset Revaluation Reserve \$'000	Other Reserves \$'000
2020					
Balance at beginning of the financial year		3,429,582	892,911	2,470,590	66,081
Surplus for the year		14,055	14,055	-	-
Net asset revaluation increment	9.1(a)	55,905	-	55,905	-
Transfers to other reserves	9.1(b)	-	(17,189)	-	17,189
Transfers from other reserves	9.1(b)	-	9,743	-	(9,743)
Balance at end of the financial year		3,499,542	899,520	2,526,495	73,527

	Note	Total \$'000	Accumulated Surplus \$'000	Asset Revaluation Reserve \$'000	Other Reserves \$'000
2019					
Balance at beginning of the financial year		3,813,080	879,076	2,884,594	49,410
Adjustment to opening balance		5,955	5,955	-	-
Restated balances		3,819,035	885,031	2,884,594	49,410
Surplus for the year		24,551	24,551	-	-
Net asset revaluation (decrement)	9.1(a)	(414,004)	-	(414,004)	-
Transfers to other reserves	9.1(b)	-	(24,807)	-	24,807
Transfers from other reserves	9.1(b)	-	8,136	-	(8,136)
Restated balance at end of the financial year		3,429,582	892,911	2,470,590	66,081

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		97,058	94,972
Statutory fees and fines		7,351	7,094
User fees		7,456	11,921
Rental income		3,505	4,167
Grants - operating		11,072	11,326
Grants - capital		1,132	1,264
Contributions - monetary		3,573	6,546
Interest received		3,248	3,015
Trust funds and deposits taken		2,503	3,734
Other receipts		1,866	1,710
Net GST refund/(payment)		6,905	6,902
Employee costs		(45,620)	(42,751)
Materials and services		(58,894)	(55,510)
Short-term, low value and variable lease payments		(363)	-
Trust funds and deposits repaid		(1,984)	(3,960)
Other payments		(397)	(406)
Net cash provided by operating activities	9.2	<u>38,413</u>	<u>50,024</u>
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment		(40,116)	(31,640)
Proceeds from sale of assets held for sale		462	-
Payments for investments		(3,000)	(14,501)
Net cash used in investing activities		<u>(42,654)</u>	<u>(46,141)</u>
Cash flows from financing activities			
Interest paid - lease liability		(77)	-
Repayment of lease liabilities		(813)	-
Net cash used in financing activities		<u>(890)</u>	<u>-</u>
Net increase / (decrease) in cash and cash equivalents		(5,131)	3,883
Cash and cash equivalents at the beginning of the financial year		5,604	1,721
Cash and cash equivalents at the end of the financial year	5.1(a)	<u>473</u>	<u>5,604</u>
Restrictions on cash assets	5.1		

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

Statement of Capital Works
For the Year Ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Property			
Buildings		12,784	8,792
Building improvements		1,839	1,561
Total buildings		14,623	10,353
Total property		14,623	10,353
Plant and equipment			
Arts and culture collection		85	16
Plant, machinery and equipment		27	-
Fixtures, fittings and furniture		67	398
Computers and telecommunications		857	1,155
Library books		365	416
Total plant and equipment		1,402	1,985
Infrastructure			
Roads		6,608	5,184
Footpaths and cycleways		2,670	4,166
Drainage		2,580	2,651
Parks, open space and streetscapes		6,177	6,609
Foreshore and conservation		1,087	1,615
Off street car parks		533	1,840
Road management, traffic signals and street furniture		629	543
Laneways		196	-
Total infrastructure		20,481	22,608
Total capital works expenditure		36,506	34,946
Represented by:			
New asset expenditure		4,414	4,546
Asset renewal expenditure		22,176	22,274
Asset expansion expenditure		8,602	814
Asset upgrade expenditure		1,314	7,312
Total capital works expenditure		36,506	34,946

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

OVERVIEW

Introduction

The Bayside City Council was established by an Order of the Governor in Council on 15 December 1994 and is a body corporate. The Council's main office is located at 76 Royal Avenue Sandringham 3191.

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

Basis of accounting

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

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

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

- the fair value of land, buildings, infrastructure, plant and equipment (refer to Note 6.2)
- the determination of depreciation for buildings, infrastructure, plant and equipment (refer to Note 6.2)
- the determination of employee provisions (refer to Note 5.4)
- 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 5.7)
- other areas requiring judgments

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.

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 \$1M 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 25 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	Var %	Ref
Income					
Rates and charges	97,862	97,954	92	0.1%	
Statutory fees and fines	7,138	8,301	1,163	16%	1
User fees	8,123	7,924	(199)	(2%)	
Grants - operating	10,564	10,613	49	0%	
Grants - capital	2,147	1,077	(1,070)	(50%)	2
Contributions - monetary	2,113	3,573	1,460	69%	3
Contributions - non-monetary	-	2,528	2,528	100%	4
Rental	4,170	2,993	(1,177)	(28%)	5
Interest	2,430	2,874	444	18%	6
Net gain on disposal of assets held for sale	1,556	462	(1,094)	(70%)	7
Other income	1,935	2,091	156	8%	
Total income	138,038	140,390	2,352	2%	
Expenses					
Employee costs	46,891	45,566	1,325	3%	8
Materials and services	49,207	51,423	(2,216)	(5%)	9
Bad and doubtful debts	226	1,901	(1,675)	(741%)	10
Depreciation	18,272	20,548	(2,276)	(12%)	11
Amortisation - Intangible assets	718	896	(178)	(25%)	12
Amortisation - Right of use assets	-	836	(836)	100%	13
Finance costs - Leases	-	77	(77)	100%	14
Net loss on disposal of property, infrastructure, plant and equipment	-	4,446	(4,446)	100%	15
Impairment loss on financial assets	-	245	(245)	100%	16
Other expenses	441	397	44	10%	
Total expenses	115,755	126,335	(10,580)	(9%)	
Surplus/(deficit) for the year	22,283	14,055	(8,229)	(37%)	

Explanation of material variations

Variance Ref	Item	Explanation
1	Statutory fees and fines	The \$1.16 million favourable variance to budget relates mainly to an increase in parking revenue of \$1.0 million as a result of improved Court recoveries as well as a slight improvement in the number of Infringements issued compared to budget. In addition to \$0.42 million revenue from pool registrations due to the new Victorian Government's <i>Building Amendment (Swimming Pool and Spa) Regulations 2019</i> , partly offset by a reduction of \$0.41 million in Statutory Planning Applications due to a reduction in the size and type of applications received.
2	Grants - Capital	The (\$1.07 million) unfavourable variance to budget is mainly a result of capital funding for Fern Street Childcare Centre of (\$0.8 million), now expected to be received in 2020/21. Additional funding was received during the year from the Safe Travel in Local Streets Program of \$0.3 million, as well as \$0.075 million received in relation to the Annual Road Reseal and Resheet Program, partly offset by (\$0.4 million) related to funding for the construction of Sandringham Library Redevelopment received in June 2019.
3	Contributions monetary	The \$1.44 million favourable variance to budget includes increased Resort & Recreation Levy income which was \$0.78 million favourable to budget reflecting increased development across the municipality. Unbudgeted drainage contributions of \$0.74 million were also received from developers in 2019/20. These funds are to be transferred to reserves to fund future open space and drainage infrastructure expenditure.
4	Contributions non-monetary	The \$2.5 million favourable variance relates to the recognition of Land and Land Improvements contributed to Council in relation to the construction of a new development within the municipality.
5	Rental Income	The unfavourable variance of (\$1.1 million) is mainly associated to the financial impact of Covid-19. Primarily made up of rent relief to Commercial Tenants of (\$0.64 million) as a result of State Government Regulations, short-term rental hire and winter allocation fees for sporting clubs (\$0.11 million) and Community tenancies (\$0.03 million). In addition, Council approved the rent deferral for a Tenant pre COVID-19 (\$0.25 million) and (\$0.18 million) related to a reduction in annual rent as a result of a market rent review.
6	Interest Income	The favourable variance of \$0.44 million is due to favourable operating results and the carry forward of capital projects from previous years as well as additional interest received of \$0.2M as a result of the delay in settlement on the sale of Council property to 2020/21.
7	Net gain on disposal of assets held for sale	The unfavourable variance of (\$1.0 million) relates to the delay in settlement on the sale of Council Property, now expected in 2020/21.

Variance Ref	Item	Explanation
8	Employee costs	Employee costs were \$1.3 million underspend due primarily to the redundancy of two budgeted positions, in addition to staff vacancies during the year, a reduction of overtime expenditure as a result of the closure of a number of Council facilities following the impact of Covid-19 and a reduction in staff hours in Aged and Disability due to the transition of final clients to the National Disability and Insurance Scheme (NDIS).
9	Materials and Services	Materials and services were (\$2.21 million) unfavourable to budget and included (\$0.65 million) in increased Legal Fees for planning appeals, contractual and property and lease management matters, Council's contribution of (\$0.41 million) for irrigation works in one of Council's leased properties, write-offs for assets which do not meet Council's capitalisation criteria (\$1.6 million), additional expenditure of (\$0.97 million) for consultant services related to contractual and construction matters. This is partly offset by a reduction of lease payments of \$0.8 million as a result of changes to Accounting Standards which requires Council to recognise the right of use of leased assets and related liability on balance sheet, and to disclose the lease payments as amortisation and interest costs instead.
10	Bad and doubtful debts	The overspend against budget is due to an increase in provision of (\$0.38M) in relation to outstanding capital contributions from sporting clubs to reflect the unknown impact of Covid-19 on debt collectability, in addition to an increase of (\$0.41 million) in relation to the deferred commercial rent payable in future years, per the Victorian State Government Regulations, as well as an increase in the provision for parking fines reflecting an increase in fines issued and debt outstanding (\$0.9M).
11	Depreciation	Depreciation was (\$2.2 million) unfavourable to budget due to the increased investment in the accelerated capital program as well as the Buildings and Infrastructure Revaluations for Roads and Footpaths classes which occurred as at 31st March 2020 and resulted in an increased depreciation expense for the period April to June 2020.
12	Amortisation - Intangible assets	The increase in amortisation expense for Intangibles reflects increased capital expenditure and the relative short-life of intangibles assets.
13	Amortisation - Right of Use assets	The unfavourable variance of (\$0.83 million) is as a result of the implementation of changes to <i>AASB 16 Leases</i> which requires Council to recognise the right of use of eligible leased assets and related liability on balance sheet, and to disclose the lease payments as amortisation and interest costs from 1 July 2019.
14	Finance Costs - Leases	The unfavourable variance of (\$0.07 million) is as a result of the implementation of changes to <i>AASB 16 Leases</i> which requires Council to recognise the right of use of eligible leased assets and related liability on balance sheet, and to disclose the lease payments as amortisation and interest costs from 1 July 2019.
15	Net loss on disposal of property, infrastructure, plant and equipment	The written-down value of infrastructure assets which have been replaced during the year as part of the capital renewal program have been written-off. This includes Sandringham Library, pavilions, roads, footpaths, drainage and Golf Club assets.
16	Impairment loss on financial assets	An impairment loss on the carrying value of Council's investment in Council's Regional Kitchen Shareholding interests.

1.2 Capital works

	Budget 2020 \$'000	Actual 2020 \$'000	Variance 2020 \$'000	Var 2020 % Ref
Property				
Land	9,000	-	(9,000)	100% 1
Total Land	9,000	-	(9,000)	100%
Buildings	18,951	12,784	(6,167)	(33%) 2
Building improvements	2,267	1,839	(428)	(19%) 3
Total Buildings	21,218	14,623	(6,595)	(31%)
Total Property	30,218	14,623	(15,595)	(52%)
Plant and Equipment				
Arts and cultural collection	214	85	(129)	(60%) 4
Plant, machinery and equipment	-	27	27	100%
Fixtures, fittings and furniture	75	67	(8)	(11%)
Computers and telecommunications	1,391	857	(534)	(38%) 5
Library books	440	365	(75)	(17%)
Total Plant and Equipment	2,120	1,402	(718)	(34%)
Infrastructure				
Roads	4,521	6,608	2,087	46% 6
Footpaths and cycleways	3,165	2,866	(299)	(9%)
Drainage	2,237	2,580	343	15% 7
Parks, open space and streetscapes	15,108	6,177	(8,931)	(59%) 8
Foreshore and conservation	2,840	1,087	(1,753)	(62%) 9
Off street car parks	906	533	(373)	(41%) 10
Other infrastructure	1,069	629	(440)	(41%) 11
Total Infrastructure	29,846	20,481	(9,365)	(31%)
Total Capital Works Expenditure	62,184	36,506	(25,678)	(41%)
Represented by:				
New asset expenditure	18,409	4,414	(13,995)	(76%)
Asset renewal expenditure	27,927	22,176	(5,751)	(21%)
Asset expansion expenditure	14,243	8,602	(5,641)	(40%)
Asset upgrade expenditure	1,605	1,314	(291)	(18%)
Total Capital Works Expenditure	62,184	36,506	(25,678)	(41%)

Explanation of material variations

Variance Ref	Item	Explanation
1	Land	The \$9M purchase of the CSIRO land for the establishment of the Highett Library did not proceed in 2019/20 due to ongoing negotiations between the Commonwealth and the developers. The purchase from the developers is expected to proceed in 2021/22.
2	Buildings	The \$6.1M underspend in building is mainly due to the carry forward of the Dendy St Beach Pavilion 1.7M, due to delays caused by VCAT approval and soil remediation works. In addition to \$1.1M for Fern Street Early Years Integration Children's Centre to be carried forward to 2021/22 as well as the carry forward of pavilion projects expected to be completed in 2020/21 including Elsternwick Park Oval 2 \$0.98M, Beaumaris Hub at Beaumaris Reserve \$0.85M and AW Oliver Pavilion \$0.72M
3	Building improvements	The \$0.48M underspend is due mainly to the delay of construction of Public Toilets under Council's Public Toilet Strategy, delayed to coincide with the Playground Construction works in 2020/21.
4	Arts and cultural collection	Underspend of \$0.12M due to Community consultation on the identification of an appropriate location for public artwork delaying the project with the installation to take place in 2020/21
5	Computers and telecommunications	The underspend of \$0.8M relates mainly to a delay in implementation of Microsoft Office 365, the Enterprise Integration Platform and the Customer Data Management systems.
6	Roads	The overspend of (\$2.0M) is mainly due to bringing forward capital works from 2020/21 for the Road Reseal and Resheet Program, the Road Reconstruction Program and the Kerb and Channel Renewal Program of (\$1.9M).
7	Drainage	The overspend of (\$0.34M) is mainly due to bringing forward capital works from 2020/21 in relation to the Integrated Water Management Strategy Implementation - Year 1 as well as a number of Drainage renewals in Sandriggaham and Brighton.
8	Parks, open space and streetscapes	The \$8.9M underspend relates mainly to the carry forward of the Bayside Netball Centre \$6.5M, now deferred to 2022/23. In addition to savings of \$0.42M in the delivery of the Playground Renewal Program for 2019/20, now carried forward to 2020/21, as well as savings in the Streetscape Upgrade Hampton East \$0.56M and \$0.74M Sillitoe Reserve Hybrid Grass Installation deliveries.
9	Foreshore and conservation	\$1.7M underspend is primarily made up of HMVS Preservation works \$0.54M have been deferred pending ongoing project risk assessment and consideration of alternative solutions, in addition to carry forward of Masterplan Implementation Red Bluff to Half Moon Bay \$0.46M and Masterplan Implementation Black Rock Foreshore \$0.31M
10	Off street car parks	The underspend in car park projects is largely due to savings in the conversion of a Brighton site to Car Park which did not receive State Government approval to re-zone.
11	Other infrastructure	The underspend of \$0.44M is mainly due to the carry forward of the Parking Technology for Church Street delayed to 2020/21

Note 2 Analysis of Council results by program

Council delivers its functions and activities through the following programs.

2 (a) CEO Division

The CEO Division provides oversight of the organisations and each of its Directorates with immediate direct support to Council in the areas of strategic planning, business improvements, service planning and human resources management for the organisation.

Corporate Services

Corporate Services provides support to Council in the areas of budgeting, governance, property and procurement, information technology to include IT support and digital transformation, occupational health, safety and welfare and delivery of the Enterprise Project Management Program for the community.

Environment, Recreation and Infrastructure

Environment, Recreation and Infrastructure provides high quality community focused programs, service delivery and is responsible for constructing new infrastructure and maintaining existing infrastructure across a diverse range of assets that underpin the wellbeing of the community. These assets include capital works engineering services, environment and waste, city works, parks and gardens, sustainability and transport.

City Planning and Amenity

City Planning and Amenity include the assessment of city development, health and local laws, planning strategy and urban growth of the community.

Community and Customer Experience

Community and Customer Experience provides high quality community focused programs, service delivery and communication to residents. Community and Customer Experience is comprised of community services, aged and disability services, family services, youth services, communications and engagement and customer and cultural services including libraries and arts and culture.

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

	Income	Expenses	Surplus/ (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2020					
Executive	2,693	2,693	-	-	-
Corporate Services	25,435	25,435	-	2,895	11,821
Environment, Recreation and Infrastructure	74,687	60,632	14,055	1,336	3,506,932
City Planning and Amenity	16,007	16,007	-	372	1,524
Community and Customer Experience	21,106	21,106	-	7,086	6,938
	139,928	125,873	14,055	11,690	3,527,215
	Income	Expenses	Surplus/ (Deficit)	Grants included in income	Total assets
	\$'000	\$'000	\$'000	\$'000	\$'000
2019					
Executive	3,030	3,030	-	-	-
Corporate Services	19,434	19,434	-	2,711	12,252
Environment, Recreation and Infrastructure	81,401	56,850	24,551	1,661	3,438,578
City Planning and Amenity	15,892	15,892	-	359	1,563
Community and Customer Experience	20,771	20,771	-	7,784	8,741
	140,528	115,977	24,551	12,515	3,461,134

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

Council uses Capital Improved Value (C.I.V.) as the basis of valuation of all properties within the municipal district. The C.I.V. of a property is the market value of land and improvements.

The valuation base used to calculate general rates for 2019/20 was \$67,803 million (2018/19 \$69,410 million).

General rates	76,843	73,967
Municipal charge	7,105	6,829
Waste management charge	13,308	13,485
Supplementary rates and rate adjustments	373	870
Cultural and recreational	325	345
Total rates and charges	97,954	95,496

The date of the latest general revaluation of land for rating purposes within the municipal district was 01/01/2019, and the valuation was first applied in the rating year commencing 01/07/2019. Council's rate revenue increase complied with the Victorian Government rate cap of 2.5% set for 2019/20.

Annual rates and charges are recognised on a straight-line basis over the rating period for which the Rates and Charges are raised. Supplementary rates are recognised when a valuation and reassessment is completed and a supplementary rates notice issued.

3.2 Statutory fees and fines

Infringements and costs		
- Parking	4,033	4,140
- Animal management	80	70
- Compulsory voting enforcement	8	6
- Other	56	76
Court recoveries	1,323	1,243
Town planning fees	1,524	1,627
Land information certificates	114	105
Building permits	1,067	586
Other	97	95
Total statutory fees and fines	8,301	7,948

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

3.3 User fees

Aged and health services	1,027	1,057
Open space and recreation	519	703
Planning and infrastructure	1,639	1,645
Children's services	13	18
Parking	1,808	1,989
Animal registration permits	1,284	1,212
Amenity protection	918	1,383
Waste management services	96	50
Other fees and charges	620	860
Total user fees	7,924	8,917

User fees by timing of revenue recognition	2020	2019
	\$'000	\$'000
User fees recognised over time	-	-
User fees recognised at a point in time	7,924	8,917
Total user fees	7,924	8,917

User fees are recognised as revenue at a point in time, or over time, when (or as) the performance obligation is satisfied. Recognition is based on the underlying contractual terms.

3.4 Funding from other levels of government

Grants were received in respect of the following:

Summary of grants

Commonwealth funded grants	8,720	8,000
State funded grants	2,942	4,405
Other	28	110
Total grants received	11,690	12,515

(a) Operating grants

Recurrent - Commonwealth Government

Financial assistance grants	2,910	2,711
General home care	3,377	3,197
Aged care	926	1,005
Assessment and Review	694	694
Other	9	11

Recurrent - State Government

Aged care	8	26
General home care	172	678
School crossing supervisors	352	338
Youth services	24	72
Libraries	665	648
Maternal and child health	682	753
Community safety and wellbeing	220	267

Recurrent - Other

Environmental health	20	21
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Total recurrent operating grants	10,059	10,421
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Non-recurrent - Commonwealth Government

Regional projects	336	382
Open Space	30	-
Delivered Meals	67	-

Non-recurrent - State Government

Environmental	-	80
Regional projects	112	257
Library	1	16
Youth services	-	35

Non-recurrent - Other

Health	5	88
Other	3	1

Total non-recurrent operating grants	554	859
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Total operating grants	10,613	11,280
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(b) Capital Grants	2020	2019
<i>Recurrent - Commonwealth Government</i>	\$'000	\$'000
Roads to recovery	371	-
Total recurrent capital grants	371	-
<i>Non-recurrent - State Government</i>		
Buildings	56	1,060
VicRoads	650	175
Total non-recurrent capital grants	706	1,235
Total capital grants	1,077	1,235
(c) Unspent grants received on condition that they be spent in a specific manner		
<i>Operating</i>		
Balance at start of year	2,309	1,620
Received during the financial year and remained unspent at balance date	435	2,309
Received in prior years and spent during the financial year	(2,309)	(1,620)
Balance at year end	435	2,309
<i>Capital</i>		
Received during the financial year and remained unspent at balance date	55	-
Balance at year end	55	-
Total Unspent grants	490	2,309

9.1(b)

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 - Operating

VicRoads road maintenance	28	28
Other	10	116
	38	144

Monetary - Capital

Open space contributions	2,781	5,056
Drainage	740	1,312
Roads	15	34
	3,535	6,402

Total monetary contributions

Non-monetary	2,528	-
Total contributions	6,101	6,546

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

Land	2,340	-
Buildings	172	-
Laneways	13	-
Drainage	3	-
Total non-monetary contributions	2,528	-

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

3.6 Net loss on disposal of property, infrastructure, plant and equipment

Disposal of non-current assets held for sale

Proceeds of sale	462	-
Gain from disposal of non-current asset held for sale	462	-

A 10% non-refundable deposit on the sale of Council Property was received during the year, with settlement expected in 2020/21. A gain or loss on sale will be determined when control of the asset passes to the buyer.

Written down value of asset disposed

Foothpaths and cycleways	(465)	(473)
Roads	(280)	(716)
Drains	(2)	(105)
Buildings	(3,445)	(608)
Intangibles	-	(8)
Road management	(254)	-
Total loss on disposal of assets	(4,446)	(1,910)
Total net loss on disposal of property, infrastructure, plant and equipment	(3,984)	(1,910)

The profit or loss on sale of an asset is determined when control of the asset has passed to the buyer or when Council disposes of the asset or part of, as part of its capital works renewal program.

	2020	2019
	\$'000	\$'000
3.7 Rental income		
Golf Courses	459	1,066
Other recreation facilities	1,146	1,410
Mobile phone facilities	678	772
Food premises	516	654
Other rentals	194	265
Total rental income	2,993	4,167

Council has assessed its rental leases where Council is lessor to be operating leases; lease payments are recognised on a straight-line basis over the lease term.

3.8 Interest income

Interest - Cash and cash equivalents	2,234	2,800
Interest - Rates late payment	432	435
Interest - Other	208	-
Total Interest Income	2,874	3,235

Interest is recognised as it is earned. Other relates to interest received as a result of the delay in settlement on the sale of Council Property, now expected to settle in 2020/21.

3.9 Other income

Cost recovery	898	875
Sale of roads and laneways	378	566
Sales of bathing boxes	305	-
Employee contributions	234	230
Other	276	33
Total other income	2,091	1,704

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

Note 4 The cost of delivering services	2020	2019
4.1 (a) Employee costs	\$'000	\$'000
Wages and salaries	39,230	36,645
WorkCover	366	310
Casual staff	684	901
Superannuation	3,577	3,403
Fringe benefits tax	299	299
Agency Staff	1,410	2,258
Total employee costs	45,566	43,816

(b) Superannuation

Council made contributions to the following funds:

Scheme	Type of scheme	Rate	2020 \$'000	2019 \$'000
Vision Super	Defined Benefits	9.50%	\$156	\$179
Vision Super	Accumulation	9.50%	\$1,768	\$1,638
Other Funds	Accumulation	9.50%	\$1,756	\$1,575

\$149,270 employer contributions payable at reporting date (2019: \$0)

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

4.2 Materials and services

Contracts		
- Environmental sustainability and open space services	20,616	19,952
- City works services	3,078	2,605
- Other services	1,685	1,064
- General maintenance	3,450	3,647
- Building maintenance	2,111	2,152
Services and purchases	11,812	11,614
Motor vehicle costs	359	813
Rental/leases	548	769
Office administration	904	824
Insurance	921	832
Community grants and sponsorship	814	938
Utilities and taxes	2,441	2,518
Other	2,684	1,990
Total materials and services	51,423	49,718

4.3 Depreciation

Buildings	5,355	4,651
Plant and equipment	945	929
Infrastructure	14,248	12,793
Total depreciation	20,548	18,373

4.4 Amortisation - Intangible assets

Software	896	774
Total Amortisation - Intangible assets	896	774

Refer to note 5.2(c), 5.7 and 6.2 for a more detailed breakdown of depreciation and amortisation charges and accounting policy.

4.5 Amortisation - Right of use assets	2020	2019
	\$'000	\$'000
Plant and equipment	255	-
Vehicles	481	-
Other	100	-
Total Amortisation - Right of use assets	5.8 836	-

4.6 Bad and doubtful debts		
Parking fine debtors	1,104	691
Other debtors	797	(13)
Total bad and doubtful debts	1,901	678

Movement in provisions for doubtful debts

Balance at the beginning of the year	2,569	1,963
New provisions recognised during the year	1,901	678
Amounts already provided for and written off as uncollectible	(202)	(72)
Balance at end of year	4,268	2,569

Provision for doubtful debts are recognised based on an expected credit loss model. This model considers both historic and forward looking information in determining the level of impairment. Given the significant financial impact of COVID-19, Council has increased its provision for doubtful debt as the impact on future collectability is uncertain. The increase in other debtors, relates primarily to a provision for outstanding sporting club contributions as well as outstanding rental debtors at 30 June 2020.

4.7 Impairment loss on financial assets

Impairment loss	245	302
Total impairment loss	245	302

The loss on impairment of Council's unlisted shares in the Regional Kitchen Pty Ltd arises as a result of a current valuation which confirms that the value of the shares is nil at 30 June 2020. Prior year loss on impairment of assets classified as held for sale arose because the asset is held at fair value in the held for sale class, which is considered to be lower than its carrying amount, with the difference reflected as an impairment loss.

4.8 Finance Costs - Leases

Interest - Lease Liabilities	77	-
Total finance costs	5.8 77	-

4.9 Other expenses

Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	66	66
Auditors' remuneration - Internal	74	100
Councillors' allowances	257	240
Total other expenses	397	406

Note 5 Our financial position	2020	2019
5.1 Financial assets	\$'000	\$'000
(a) Cash and cash equivalents		
Cash at bank and on hand	473	5,604
Total cash and cash equivalents	473	5,604
(b) Other financial assets		
Current		
Term deposits	104,028	96,027
	104,028	96,027
Non-current		
Term deposits	3,000	8,000
Unlisted shares at cost - Regional Kitchen Pty Ltd	-	230
	3,000	8,230
Total other financial assets	107,028	104,257
Total financial assets	107,501	109,861

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

- Trust funds and deposits (Note 5.3(b))	4,945	4,426
- Statutory Reserves (Note 9.1(b))	24,261	22,484
Total restricted funds	29,206	26,910
Total unrestricted cash and cash equivalents	78,295	82,951

Intended allocations

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

- Cash held to fund carried forward capital works (Note 9.1 (b))	20,126	12,708
- Total other discretionary reserves (Note 9.1 (b))	29,140	30,889
Total funds subject to intended allocations	49,266	43,597

Total unallocated unrestricted financial assets	29,029	39,354
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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.

	2020	2019
	\$'000	\$'000
(c) Trade and other receivables		
Current		
<i>Statutory receivables</i>		
Rates debtors	3,619	2,660
Parking infringement debtors	4,685	3,849
Provision for doubtful debts - parking infringements	(3,236)	(2,372)
Other infringement debtors	249	216
Provision for doubtful debts - other infringements	(174)	(130)
Net GST receivables	1,454	1,475
<i>Non statutory receivables</i>		
Aged and disability	92	111
Rental debtors	534	32
Other debtors	2,210	1,526
Provision for doubtful debts - other debtors	(858)	(66)
Total current trade and other receivables	<u>8,575</u>	<u>7,301</u>
Non-current		
<i>Statutory receivables</i>		
Rates debtors	114	178
Total non-current trade and other receivables	<u>114</u>	<u>178</u>
Total trade and other receivables	<u>8,689</u>	<u>7,479</u>

Short-term (current) 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 (non-current) receivables are carried at amortised cost using the effective interest rate method.

(d) Ageing of receivables

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

Current (not yet due)	1,718	492
Past due by up to 30 days	19	235
Past due between 31 and 60 days	61	66
Past due by more than 60 days	1,037	812
Total trade and other receivables	<u>2,835</u>	<u>1,605</u>

5.2 Non-financial assets	2020	2019
(a) Inventories	\$'000	\$'000
Inventories held for sale	144	102
Total inventories	144	102
(b) Other assets		
Current		
Prepayments	744	1,497
Accrued income	646	1,027
	1,390	2,524
Non-current		
Deposits held by suppliers - refundable	130	130
Total other assets	1,520	2,654
(c) Intangible assets		
Software	2,774	3,008
Total intangible assets	2,774	3,008
Gross carrying amount		
Balance at 1 July 2019	7,370	
Additions	93	
Disposals	(62)	
Work in progress	632	
Balance at 30 June 2020	8,033	
Accumulated amortisation and impairment		
Balance at 1 July 2018	(4,362)	
Amortisation expense	(896)	
Disposals	-	
Balance at 30 June 2020	(5,259)	
Net book value at 30 June 2019	3,008	
Net book value at 30 June 2020	2,774	

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

5.3 Payables

(a) Trade and other payables		
Trade payables	(i) 16	10,505
Accrued expenses		
- Capital	3,695	1,329
- Materials and service	4,101	1,590
- Employee cost	474	1,591
Total trade and other payables	8,285	15,015
(b) Trust funds and deposits		
Building and Infrastructure refundable deposits	3,337	3,288
Fire services levy	459	227
Retention amounts	164	164
Other refundable deposits	985	747
Total trust funds and deposits	4,945	4,426
(c) Unearned income		
Grants received in advance - operating	435	-
Grants received in advance - capital	55	-
Rental In advance	392	461
Rental Deferred	581	-
Total unearned income	1,463	461

(i) As a result of the financial impact of COVID-19 on the Victorian economy, Council suspended its 30 days standard government payment terms. Council is committed to supporting our suppliers to manage their cash flow requirements and has therefore continued to pay invoices on 7 day payment terms since March 2020, the last supplier payments for the year were made on 30 June 2020.

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

Building and Infrastructure refundable deposits - Deposits are taken by council as a form of surety in relation to building and infrastructure works. Amount will be refunded if council's assets are maintained in their original condition.

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.

Other refundable deposits - Deposits are taken by council as a form of surety in relation to leasing or hiring transactions for council assets. Amount will be refunded if council's assets are maintained in their original condition.

5.4 Provisions

	Annual leave	Long service leave	Staff gratuity scheme	Other Provisions	Total
2020	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Balance at beginning of the financial year	3,044	6,713	27	1,866	11,650
Additional provisions	3,517	1,307	-	-	4,824
Amounts used	(2,935)	(681)	(10)	(1,500)	(5,126)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	-	(134)	-	-	(134)
Balance at the end of the financial year	3,626	7,205	17	366	11,214
2019					
Balance at beginning of the financial year	2,762	5,980	27	-	8,769
Additional provisions	3,239	1,402	-	1,866	6,507
Amounts used	(2,957)	(699)	-	-	(3,656)
Change in the discounted amount arising because of time and the effect of any change in the discount rate	-	30	-	-	30
Balance at the end of the financial year	3,044	6,713	27	1,866	11,650
	2020	2019			
	\$'000	\$'000			
(a) Employee provisions					
Current provisions expected to be wholly settled within 12 months					
Annual leave	2,406	2,155			
Long service leave	868	828			
Staff gratuity scheme	17	27			
	3,291	3,010			
Current provisions expected to be wholly settled after 12 months					
Annual leave	1,220	889			
Long service leave	5,253	4,920			
	6,473	5,809			
Total current employee provisions	9,764	8,819			
Non-current provisions					
Long service leave	1,084	965			
Total non-current employee provisions	1,084	965			
Aggregate carrying amount of employee provisions:					
Current	9,764	8,819			
Non-current	1,084	965			
Total aggregate carrying amount of employee provisions	10,848	9,784			

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

Annual leave

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

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

Long service leave

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

Key assumptions:	2020	2019
- discount rate	0.87%	2.65%
- inflation rate	4.25%	3.88%

Staff Gratuity Scheme

The staff gratuity scheme entitlement of \$17,296 (2019: \$27,299) is recognised at 31 January 1996 values (frozen in accordance with the Bayside Enterprise Bargaining Agreement) and is adjusted by Consumer Price index less any leave taken.

(b) Other provisions

Current	366	1,866
Total other current provisions	366	1,866

Aggregate carrying amount of provisions:

Current	10,130	10,685
Non-current	1,084	965
Total aggregate carrying amount of provisions	11,214	11,650

5.5 Financing arrangements

	2020	2019
	\$'000	\$'000
The Council has the following funding arrangements in place as at 30 June		
Credit card facilities	95	105
Leasing facilities	1,500	1,500
Total facilities	1,595	1,605
Used facilities	16	12
Unused facilities	1,579	1,593

5.6 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					
Waste collection and disposal	7,988	3,658			11,646
Infrastructure and Open Space	17,332	17,505	17,680	17,857	70,374
Building	2,970	-	-	-	2,970
Other	926	714	370	-	2,010
Total	29,216	21,877	18,050	17,857	87,000
Capital					
Buildings	2,055	-	-	-	2,055
Carparks	36	-	-	-	36
Total	2,091	-	-	-	2,091

5.6 Commitments (continued)

2019	Not later	Later than 1	Later than 2	Later than 5	Total
	than 1 year	year and not later than 2 years	years and not later than 5 years	years	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating					
Waste collection and disposal	5,395	3,700	3,700	-	12,795
Cleaning	2,824	-	-	-	2,824
Parks and gardens	3,542	-	-	-	3,542
Building maintenance	1,013	1,026	-	-	2,039
City works	2,002	-	-	-	2,002
Other	570	416	33	-	1,019
Total	15,346	5,142	3,733	-	24,221
Capital					
Buildings	2,941	-	-	-	2,941
Parks, open space and streetscapes	525	-	-	-	525
Roads	885	-	-	-	885
Total	4,351	-	-	-	4,351

Operating lease commitments	2020	2019
	\$'000	\$'000

At the reporting date, Council had the following obligations under non-cancellable operating leases for the lease of equipment and land and buildings for use within Council's activities (these obligations are not recognised as liabilities):

Not later than one year	379	882
Later than one year and not later than five years	684	1,233
	1,063	2,115

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

5.7 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

- 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.

AASB 16 Leases allows a temporary option for 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. Council does not have any leases that are significantly below-market terms and therefore has not made an election to apply the temporary option.

Right-of-Use Assets

	IT \$'000	Vehicles \$'000	Other \$'000	Total \$'000
Balance at 1 July 2019	883	834	300	2,017
Additions	-	563	-	563
Amortisation charge	(255)	(481)	(100)	(836)
Balance at 30 June 2020	<u>628</u>	<u>915</u>	<u>200</u>	<u>1,744</u>

Lease Liabilities

Maturity analysis - contractual undiscounted cash flows	2020 \$'000
Less than one year	897
One to five years	1,052
More than five years	-
Total undiscounted lease liabilities as at 30 June:	<u>1,949</u>

Lease liabilities included in the Balance Sheet at 30 June:

Current	844
Non-current	922
Total lease liabilities	<u>1,766</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\$5,000), including IT equipment. Council recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

	2020 \$'000
Expenses relating to:	
Short-term leases	301
Leases of low value assets	62
Total	<u>363</u>
Variable lease payments (not included in measurement of lease liabilities)	-

Non-cancellable lease commitments - Short-term and low-value leases

Commitments for minimum lease payments for short-term and low-value leases are payable as follows:

Payable:

Within one year	379
Later than one year but not later than five years	684
Total lease commitments	<u>1,063</u>

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 \$1.904 million of right-of-use assets and \$1.904 million of lease liabilities, recognising the difference in retained earnings.

When measuring lease liabilities, Council discounted lease payments using either the implicit interest rate for each lease, where available or Council's incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 4.16%.

	2019
	\$'000
Operating lease commitment at 30 June 2019 as disclosed in Council's financial statements	2,115
Discounted using the incremental borrowing rate at 1 July 2019	(74)
Finance lease liability recognised as at 30 June 2019	<u>2,041</u>
Recognition exemption for:	
short-term leases	262
leases of low-value assets	62
leases contained within contracts -contract extensions/renewals	(300)
Lease liabilities recognised as at 1 July 2019	<u>2,017</u>

Note 6 Assets we manage	2020	2019
6.1 Non-current assets classified as held for sale	\$'000	\$'000
Cost of acquisition	3,064	5,683
Total Non-current assets classified as held for sale	3,064	5,683

Non-current assets classified as held for sale (including disposal groups) are measured at the lower of its carrying amount and fair value less costs of disposal, and are not subject to depreciation. Current assets, disposal groups and related liabilities and assets are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset's sale (or disposal group sale) is expected to be completed within 12 months from the date of classification.

Council approved the sale of its Maternal Child Health Centre located on the corner of Abbott Street and Station Street in Sandringham at its ordinary Council meeting on the 19th December 2017. As a result the carrying value of the land and buildings were classified as held for sale. A contract of sale was entered into on the 18th May 2018 with settlement now delayed to end of 2020.

Council had approved the sale of council property at Karrakatta Street in Black Rock at its ordinary Council meeting on the 19th of February 2019 and had classified the land and buildings as held for sale in 2019, however, Council was unable to secure suitable premises to relocate the Black Rock Activity Centre service, as a result, the land and buildings will be retained by Council for continuing service delivery.

6.2 Property, infrastructure, plant and equipment
Summary of property, infrastructure, plant and equipment

	Fair value at 30 June 2019 \$'000	Additions \$'000	Contributed Assets \$'000	Revaluation \$'000	Depreciation \$'000	Disposal \$'000	Write-off \$'000	Reclassified \$'000	Transfers - Asset held for sale \$'000	Transfers - WIP \$'000	At fair value 30 June 2020 \$'000
Land	2,801,277	-	2,340	(1,086)	-	-	-	-	2,186	-	2,804,717
Buildings	162,729	6,666	172	14,441	(5,355)	(3,445)	-	-	433	4,420	180,059
Plant and equipment	8,340	657	-	-	(945)	-	-	-	-	-	8,052
Infrastructure	348,962	14,563	16	42,550	(14,248)	(1,001)	-	-	-	1,135	391,978
Work in progress	11,039	13,874	-	-	-	-	(2,386)	-	-	(5,555)	16,972
	3,332,347	35,760	2,528	55,905	(20,548)	(4,446)	(2,386)	-	2,619	-	3,401,778

Summary of work in progress (WIP)

	Opening WIP \$'000	Additions \$'000	Write-off \$'000	Transfers \$'000	Closing WIP \$'000
Buildings	7,197	8,239	(932)	(4,364)	10,140
Plant and equipment	2	27	(1)	-	28
Infrastructure	3,840	5,608	(1,453)	(1,191)	6,804
Total	11,039	13,874	(2,386)	(5,555)	16,972

(a) Property

	Land - specialised	Land - non specialised	Land under roads	Total land	Heritage buildings	Buildings - specialised	Buildings - non specialised	Total buildings	Work In progress	Total property
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	1,962,732	326,788	511,757	2,801,277	28,964	255,952	1,622	286,538	7,197	3,095,012
Accumulated depreciation at 1 July 2019	-	-	-	-	(7,567)	(115,917)	(325)	(123,809)	-	(123,809)
	1,962,732	326,788	511,757	2,801,277	21,397	140,035	1,297	162,729	7,197	2,971,203
Movements in fair value										
Additions	-	-	-	-	34	6,599	33	6,666	8,239	14,905
Contributed assets	2,340	-	-	2,340	-	172	-	172	-	2,512
Revaluation	-	-	(1,086)	(1,086)	2,868	23,013	217	26,098	-	25,012
Disposal	-	-	-	-	(2)	(11,492)	-	(11,494)	-	(11,494)
Write-off	-	-	-	-	-	-	-	-	(932)	(932)
Transfers - Assets held for sale	-	2,186	-	2,186	-	-	433	433	-	2,619
Transfers - WIP	-	-	-	-	-	4,420	-	4,420	(4,364)	56
	2,340	2,186	(1,086)	3,440	2,900	22,712	682	26,294	2,943	32,677
Movements in accumulated depreciation										
Depreciation and amortisation	-	-	-	-	(226)	(5,107)	(22)	(5,355)	-	(5,355)
Accumulated depreciation of disposals	-	-	-	-	-	8,049	-	8,049	-	8,049
Revaluation	-	-	-	-	(717)	(10,889)	(51)	(11,657)	-	(11,657)
	-	-	-	-	(944)	(7,947)	(73)	(8,964)	-	(8,964)
At fair value 30 June 2020	1,965,072	328,974	510,671	2,804,717	31,864	278,664	2,305	312,833	10,140	3,127,690
Accumulated depreciation at 30 June 2020	-	-	-	-	(8,511)	(123,864)	(399)	(132,774)	-	(132,774)
	1,965,072	328,974	510,671	2,804,717	23,353	154,800	1,906	180,059	10,140	2,994,916

(b) Plant and Equipment

	Plant machinery and equipment	Fixtures fittings and furniture	Library books	Arts and culture assets	Work in progress	Total plant and equipment
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	2,079	4,580	6,261	4,827	2	17,750
Accumulated depreciation at 1 July 2019	(1,615)	(2,783)	(5,011)	-	-	(9,409)
	464	1,798	1,250	4,827	2	8,342
Movements in fair value						
Additions	27	205	365	59	27	684
	27	205	365	59	27	684
Movements in accumulated depreciation						
Depreciation and amortisation	(140)	(425)	(379)	-	-	(945)
	(140)	(425)	(379)	-	-	(945)
At fair value 30 June 2020	2,107	4,785	6,626	4,886	29	18,433
Accumulated depreciation at 30 June 2020	(1,755)	(3,208)	(5,391)	-	-	(10,354)
	352	1,577	1,236	4,886	29	8,079

(c) Infrastructure

	Roads	Bridges	Footpaths and cycleways	Drainage	Parks open spaces and streetscapes	Foreshore and conservation	Off street car parks	Road mgmt, traffic signals & street furnitures	Laneways	Work In progress	Total infrastructure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At fair value 1 July 2019	198,131	6,151	152,228	324,452	68,641	13,382	9,762	17,090	-	3,840	793,677
Accumulated depreciation at 1 July 2019	(83,128)	(3,449)	(91,640)	(217,246)	(28,681)	(6,442)	(2,491)	(7,798)	-	-	(440,876)
	115,003	2,702	60,588	107,206	39,960	6,940	7,271	9,292	-	3,840	352,801
Movements in fair value											
Additions	4,011	-	4,697	1,086	3,742	179	386	267	196	5,608	20,171
Contributed Assets	-	-	-	3	-	-	-	-	13	-	16
Revaluation	7,293	1,008	27,325	-	-	-	-	3,061	-	-	38,687
Disposal	(1,582)	-	(1,910)	(11)	-	-	-	(396)	-	-	(3,899)
Write-off	-	-	-	-	-	-	-	-	-	(1,453)	(1,453)
Transfers - WIP	-	-	-	74	955	57	23	26	-	(1,191)	(56)
Transfers - Between asset classes	(1,476)	-	(9,087)	-	1,321	-	-	1,701	7,541	-	-
	8,245	1,008	21,026	1,152	6,018	236	409	4,659	7,750	2,964	53,466
Movements in accumulated depreciation											
Depreciation and amortisation	(2,244)	(61)	(2,978)	(3,503)	(3,557)	(777)	(568)	(463)	(97)	-	(14,248)
Accumulated depreciation of disposals	1,303	-	1,445	8	-	-	-	142	-	-	2,898
Revaluation	(141)	(575)	5,913	-	-	-	-	(1,334)	-	-	3,863
Transfers - Between asset classes	63	-	3,570	-	(19)	-	-	(23)	(3,591)	-	-
	(1,020)	(636)	7,950	(3,494)	(3,575)	(777)	(568)	(1,678)	(3,688)	-	(7,486)
At fair value 30 June 2020	206,376	7,159	173,254	325,604	74,659	13,618	10,172	21,749	7,750	6,804	847,143
Accumulated depreciation at 30 June 2020	(84,148)	(4,086)	(83,690)	(220,740)	(32,256)	(7,219)	(3,059)	(9,476)	(3,688)	-	(448,363)
	122,228	3,073	89,564	104,863	42,402	6,399	7,113	12,273	4,062	6,804	398,780

Acquisition

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

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

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

Asset recognition thresholds and depreciation periods

	Depreciation Period	Threshold Limit \$'000
<u>Property</u>		
building improvements	25-100 years	10
heritage building	50-250 years	Nil
<u>Plant and Equipment</u>		
plant, machinery and equipment	7-10 years	2
arts and culture collection	Nil	Nil
fixtures, fittings and furniture	3-25 years	2
computers and telecommunications	3-5 years	2
library books	6 years	Nil
<u>Infrastructure</u>		
roads		
pavement	100-200 years	25
surfacing	10-35 years	25
footpaths and cycleways	25-55 years	20
laneways	25-129 years	20
kerb & channel	55-75 years	20
drainage	75-100 years	10
activity centres	20-160 years	10
parks, open space and streetscapes	9-100 years	10
foreshore and conservation	9-30 years	10
bridges	100 years	20
bridges substructure	18-35 years	20
waste management	10 years	10
off street car parks	6-50 years	10
road management, traffic signals and street furniture	10-70 years	2
<u>Intangible assets</u>		
intangible assets	3-5 years	5
<u>Right-of-use-assets</u>		
Fleet leases	3-5 years	Nil
IT Equipment	4 years	2
Other - assets embedded within service contracts	3 years	Nil

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 (excluding arts & culture assets and works in progress) 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.

Land, is not depreciated on the basis that it is 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 was undertaken by a qualified independent valuer, ValTec Property Pty Ltd Registration number 62774 during the 2018/19 financial year.

Subsequent to a review of movements in the Fair Value of Buildings, a desktop valuation was undertaken by a qualified independent valuer, ValTec Property Pty Ltd Registration number 62774 as at 31st March 2020. The valuation of land and buildings is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions the valuation is reduced to reflect this limitation. This adjustment is an unobservable input in the valuation. The adjustment has no impact on the comprehensive income statement.

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

Any significant movements in the unobservable inputs for land and land under roads will have a significant impact on the fair value of these assets.

The date of the current valuation is detailed in the following table. A desktop valuation was performed for Buildings whilst Land was reviewed for significant movements in the Fair Value based on analysis of applied valuation changes from the 2019 Revaluation to the 2020 Revaluation, revealing overall a very minor reduction in site values and capital improved values between the two periods.

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	Valuation Date
Land specialised	-	-	1,965,072	Jun-19
Land non specialised	-	328,974	-	Jun-19
Land under roads	-	-	510,671	Jun-19
Heritage Buildings	-	-	23,353	Mar-20
Buildings specialised	-	-	154,800	Mar-20
Buildings non specialised	-	1,906	-	Mar-20
Total	-	330,880	2,653,896	

Valuation of infrastructure

Valuation of infrastructure assets has been determined in accordance with a valuation undertaken by Mr. B Robertson BE (Civil). MInfrastructEng&Mgt which was subsequently peer reviewed by Andrew Bainbridge BE (Civil) of CT Management Group Pty Ltd.

The date of the current valuation is detailed in the following table. A full revaluation was performed for Roads and Footpaths and Cycleways classes while an indices movement analysis identified significant movements in the Bridges and Road Management, Traffic Signals and Street Furnitures Classes, a desktop revaluation was performed in March 2020, with a full revaluation expected in 2020/21.

The indices movement review did not identify any significant movement in the Drainage Class, whilst Parks, open space and streetscapes, foreshore and conservation and off street car parks asset classes are carried at historical cost and have not been assessed for revaluation purposes in 2020.

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	Valuation Date
Roads	-	-	122,228	Mar-20
Bridges	-	-	3,073	Mar-20
Footpaths and cycleways	-	-	89,564	Mar-20
Laneways	-	-	4,062	Jun-17
Drainage	-	-	104,863	Jun-19
Road mgmt, traffic signals & street furnitures	-	-	12,273	Mar-20
Total	-	-	336,063	

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 10% and 85%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$170 and \$3,399 per square metre. The methodology for valuing land under roads is based on Council's Municipal Site Value and was calculated at 30 June 2020. The average rate per square meter has been discounted by 95% to account for its undeveloped state, limits to rights of access and infrastructure easements which resulted in a value of \$88 per square meter.

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 \$195 to \$115,000 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and vary from 1 years to 133 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 1 years to 200 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

	2020 \$'000	2019 \$'000
Reconciliation of specialised land		
Land under roads	510,671	511,757
Parks and reserves	1,965,072	1,962,732
Total specialised land	2,475,743	2,474,489

Financial impact of COVID-19 uncertainty over asset values

Council valuations in 2019/20 are effective as at 31st March 2020 which largely excludes any market movements as a result of the financial impact of COVID-19. Council has reviewed market movements between April 2020 and June 2020, including for Land, Buildings and Infrastructure assets and has found that whilst the market has been impacted by the uncertainty that the COVID-19 outbreak has caused, the analysis indicates that there has not been a significant change that would have a material impact over the asset values at 30 June 2020.

	2020 No.	2019 No.
Note 7 People and relationships		
7.1 Council and key management remuneration		
(a) Related parties		
<i>Parent entity</i>		
Bayside City Council is the parent entity.		
<i>Subsidiaries and Associates</i>		
No Interests in subsidiaries or associates.		
(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		
Clarke Martin - (Mayor 8 November 2019 to 30 June 2020, Councillor from 1 July 2019)		
Michael Heffernan - (Mayor 1 July 2019 to 7 November 2019, Councillor to 30 June 2020)		
Laurence Evans - (Councillor)		
Sonia Castelli - (Councillor)		
Rob Grinter - (Councillor)		
James Long - (Councillor)		
Alex del Porto - (Councillor)		
Chief Executive Officer and other key management personnel		
Michael Cummins - Chief Executive Officer		
Jill Colson - Director Corporate Services		
Bryce Craggs - Director Community and Customer Experience		
Hamish Reid - Director City Planning and Amenity (from 1 July 2019 to 6 January 2020 & from 23 May 2020 to 30 June 2020) & Acting Director Environment, Recreation and Infrastructure (from 9 January to 5 April 2020)		
John Coates - Acting Director City Planning and Amenity (from 7 January 2020 to 17 January 2020)		
Matthew Cripps - Acting Director City Planning and Amenity (from 20 January 2020 to 22 May 2020)		
Adam McSwain - Director Environment, Recreation and Infrastructure (from 6 April 2020)		
Steven White - Director Environment, Recreation and Infrastructure (to 8 January 2020)		
Kathryn Tozer - Acting Executive Manager People and Strategy (from 25 November 2019 to 30 June 2020)		
Rebecca Aldridge - Executive Manager People and Strategy (to 24 November 2019)		
Total number of Councillors	7	7
Total of Chief Executive Officer and other key management personnel	10	11
Total number of key management personnel	<u>17</u>	<u>18</u>
(c) Remuneration of key management personnel	2020	2019
Total remuneration of key management personnel was as follows:	\$'000	\$'000
Short-term benefits	1,842,801	1,681,380
Long-term benefits	37,512	37,400
Post-employment benefits	168,641	169,439
Total	<u>\$ 2,048,954</u>	<u>\$ 1,888,219</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	5	6
\$30,000 - \$39,999	-	2
\$40,000 - \$49,999	1	2
\$60,000 - \$69,999	2	1
\$90,000 - \$99,999	2	-
\$100,001 - \$119,999	-	1
\$120,001 - \$129,999	1	-
\$130,001 - \$139,999	-	1
\$140,001 - \$149,999	-	1
\$170,001 - \$179,999	1	-
\$200,001 - \$209,999	-	1
\$260,001 - \$269,999	-	1
\$270,001 - \$279,999	2	-
\$280,001 - \$289,999	-	1
\$300,001 - \$309,999	1	-
\$360,000 - \$369,999	-	1
\$380,000 - \$389,999	1	-
	<u>17</u>	<u>18</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:

Income Range:	2020	2019
	No.	No.
\$151,000 - \$159,999	5	1
\$160,000 - \$169,999	2	2
\$170,000 - \$179,999	3	5
\$180,000 - \$189,999	3	3
\$190,000 - \$199,999	3	-
	<u>(i) 16</u>	<u>11</u>

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

\$ 2,780,001	\$ 1,806,459
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(i) The significant increase in Senior Officers during the year relates to three staff whose earnings were below the threshold in 2019 due to commencing employment at Council part-way through the year, but whose earnings in 2020 satisfied the threshold for inclusion (\$0.50M). In addition, there were two staff who satisfied the threshold for inclusion for the first time in 2020 (\$0.31M).

7.2 Related party disclosure

(a) Transactions with related parties

No transactions between Council and related parties have taken place during the reporting year which require disclosure.

(b) Outstanding balances with related parties

There were no outstanding balances with related parties at the end of the reporting period which require disclosure.

(c) Loans to/from related parties

No loans have been made, guaranteed or secured by the Council to related parties during the reporting year.

(d) Commitments to/from related parties

There were no commitments in existence at balance date that had been made, guaranteed or secured by the council to related parties.

Note 8 Managing uncertainties

8.1 Contingent assets and liabilities

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

(a) Contingent assets

Operating lease receivables

Council has entered into commercial property leases on its property, consisting of sporting facilities, mobile telecommunication installations, cafes, leisure centres and waste centres. These properties held under operating leases have remaining non-cancellable lease terms of between 1 and 23 years. All leases include a CPI based revision of the rental charge annually.

In response to the financial impact of COVID-19, on Friday 1 May 2020, the Governor in Council published the *COVID-19 Omnibus (Emergency Measures) Commercial Leases and Licences Regulations 2020*. The regulations, include the parameters for which a landlord and tenant must abide by during the relevant period, being 29 March 2020 to 29 September 2020 which requires Council, as a landlord to offer the tenant the following terms for an 'eligible lease':

- Rent relief commensurate with the reduction of turnover made up of 50% waiver and 50% deferral; and
- Extension of the lease by the period of deferral (currently 6 months)

At 30th June, Council has estimated that the impact is a reduction in rental income of \$0.64 million and has therefore made provisions for \$0.32 million rent waiver and \$0.32 million rent deferral at balance date.

Future minimum rentals receivable under non-cancellable operating leases (net of GST) are as follows:

	2020	2019
	\$'000	\$'000
Not later than one year	3,430	3,239
Later than one year and not later than five years	5,537	7,239
Later than five years	6,997	8,058
	15,964	18,536

(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 below. As a result of the volatility in financial markets the likelihood of making such contributions in future periods exists.

Future superannuation contributions

In addition to the disclosed contributions, Bayside City Council has paid unfunded liability payments to Vision Super totalling \$0 (2019: \$0). There were no contributions outstanding and no loans issued from or to the above schemes as at 30 June 2020. The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2021 are \$140,000.

Liability Mutual Insurance

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

MAV Workcare

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

Wangara Road (Netball Facility)

As the Wangara Rd location is a former landfill site, as part of preliminary soil investigations, contaminated soils were identified. Council is working with the EPA to determine the extent and type of contamination, as well as any works required to ensure there is no risk to human health. The cost of work associated with mitigating this risk is not yet clear and subject to ongoing investigations.

Dendy Street Beach Masterplan

As part of the Dendy Street Beach Project, the Environment Protection Authority (EPA) has expanded its request for Council to undertake environmental assessment to identify potentially contaminated land. This request is for the foreshore land stretching from Grosvenor St to South Road. At this time, a draft Clean Up Notice has been provided for Council's comment. The draft notice seeks environmental assessment to enable the EPA to determine what, if any, remediation work may be required. At this time the cost implications of this issue are not able to be quantified, but if remediation works are necessary and widespread, costs could be significant.

Foreshore between Green Point and Brighton Yacht Club

As part of the assessment works for the Dendy St Beach masterplan project some contamination was found outside of the proposed work zone for the Dendy St Beach project. As such the EPA have determined that Council need to undertake further evaluation of the whole of the Lot to determine the extent of any further contamination. Any cost of associated with this assessment is not yet clear and subject to ongoing investigations.

(c) Guarantees for loans to other entities

The amount disclosed for financial guarantee in this note is the nominal amount of the underlying loan that is guaranteed by the Council, not the fair value of the financial guarantee.

Financial guarantee contracts are not recognised as a liability in the balance sheet unless the lender has exercised their right to call on the guarantee or Council has other reasons to believe that it is probable that the right will be exercised.

					Loan Balance	
	Entity	Bank	Guarantee (\$)	Project	2020 (\$)	2019 (\$)
(i)	Sandringham Football Club	Bendigo Bank	\$100,000	Refurbishment of the club's social club building.	NIL	\$11,378
(ii)	Highbett Youth Club Inc.	Bendigo Bank	\$150,000	To assist with its commitment to the Highbett Recreation Centre Community Hub.	\$24,648	\$45,960
(iii)	Hurlingham Park Tennis Club Inc.	Bank of Queensland	\$40,000	Court renewal program.	\$6,693	\$15,200
(iv)	Brighton Beach Bowls Club	Bendigo Bank	\$100,000	Replacement of the surface and installation of floodlights	\$77,095	\$86,610
(v)	Cheltenham Football Club Inc.	Bendigo Bank	\$30,000	Upgrade existing sportsground lighting, electrical power supply and install an electronic scoreboard	\$29,273	N/A
TOTAL					\$137,708	\$159,149

8.2 Change in accounting standards

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

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

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

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

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

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

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

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

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

8.3 Financial instruments

(a) Objectives and policies

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

(b) Market risk

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

(c) 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.

(d) 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.

(e) 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.

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

(f) 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 0.75%.

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.

Revaluation

Subsequent to the initial recognition of assets, non-current physical assets, other than plant and equipment, furniture and fittings, library books and intangible assets 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 3 to 5 years. The valuation is performed either by experienced council officers or independent experts.

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

Impairment of assets

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

8.5 Events occurring after balance date

On Sunday 2nd August, the Victorian Premier announced that from 6pm, the State of Victoria was to enter a State of Disaster, with Melbourne moving into stage 4 restrictions for a period of at least 6 weeks to limit the movement of people and reduce the spread of COVID-19.

Council continues to monitor the non-financial and financial impacts, however due to the significant amount of uncertainty, it is not yet possible to fully estimate the economic impact.

Council has created four principles to guide our pandemic response actions, including:

- continuing services to the community,
- meaningful employment for staff for as long as possible
- staff health and wellbeing, and
- sustainability of the organisation for the long term.

Apart from above, no other matters have occurred after balance date that require disclosure in the Financial Report.

Note 9 Other matters

9.1 Reserves

(a) Asset revaluation reserve

2020

Property

Land and land improvements

Land under roads

Buildings

Infrastructure

Roads

Bridges

Footpaths and cycleways

Road mgmt, traffic signals & street furnitures

Drainage

Plant and equipment

Arts and culture

Total asset revaluation reserves

2019

Property

Land

Land under roads

Buildings

Infrastructure

Roads

Bridges

Footpaths and cycleways

Drainage

Plant and equipment

Arts and culture

Total asset revaluation reserves

	Balance at beginning of reporting period \$'000	Increment (decrement) \$'000	Balance at end of reporting period \$'000
2020			
Property			
Land and land improvements	2,097,342	-	2,097,342
Land under roads	72,343	(1,086)	71,257
Buildings	93,827	14,441	108,268
	2,263,512	13,355	2,276,867
Infrastructure			
Roads	127,881	7,151	135,032
Bridges	142	433	575
Footpaths and cycleways	2,027	33,239	35,266
Road mgmt, traffic signals & street furnitures	-	1,727	1,727
Drainage	75,105	-	75,105
	205,155	42,550	247,705
Plant and equipment			
Arts and culture	1,923	-	1,923
	1,923	-	1,923
Total asset revaluation reserves	2,470,590	55,905	2,526,495
	Balance at beginning of reporting period \$'000	Increment (decrement) \$'000	Balance at end of reporting period \$'000
2019			
Property			
Land	2,270,139	(172,797)	2,097,342
Land under roads	324,307	(251,964)	72,343
Buildings	93,827	-	93,827
	2,688,273	(424,761)	2,263,512
Infrastructure			
Roads	127,881	-	127,881
Bridges	142	-	142
Footpaths and cycleways	2,027	-	2,027
Drainage	64,348	10,757	75,105
	194,398	10,757	205,155
Plant and equipment			
Arts and culture	1,923	-	1,923
	1,923	-	1,923
Total asset revaluation reserves	2,884,594	(414,004)	2,470,590

The asset revaluation reserve is used to record the movement in the fair value of Council's assets over time.

	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
(b) Other reserves 2020				
Statutory reserves				
Car parking reserve	411	12	-	423
Drainage contribution reserve	594	235	-	829
Recreational land reserve	21,479	3,361	(1,831)	23,009
Total statutory reserves	22,484	3,608	(1,831)	24,261
Discretionary reserves				
Infrastructure reserve	16,615	448	-	17,063
Dendy street beach improvement reserve	2,183	300	-	2,483
Community facilities enhancement reserve	936	25	(961)	-
Defined superannuation shortfall	3,000	500	-	3,500
Unspent conditional grants reserve	2,309	490	(2,309)	490
Capital works carried forward reserve	12,708	11,605	(4,187)	20,126
Early childhood facilities reserve	5,617	152	(455)	5,314
Street and park tree management reserve	229	61	-	290
Total discretionary reserves	43,597	13,581	(7,912)	49,266
Total other reserves	66,081	17,189	(9,743)	73,527
Total reserves	2,536,671			2,600,022

	Balance at beginning of reporting period \$'000	Transfer from accumulated surplus \$'000	Transfer to accumulated surplus \$'000	Balance at end of reporting period \$'000
2019				
Statutory reserves				
Car parking reserve	407	4	-	411
Drainage contribution reserve	394	200	-	594
Recreational land reserve	17,905	5,270	(1,696)	21,479
Total statutory reserves	18,706	5,474	(1,696)	22,484
Discretionary reserves				
Infrastructure reserve	8,235	8,380	-	16,615
Dendy street beach improvement reserve	2,157	26	-	2,183
Community facilities enhancement reserve	968	11	(43)	936
Defined superannuation shortfall	2,500	500	-	3,000
Unspent conditional grants reserve	1,620	2,309	(1,620)	2,309
Capital works carried forward reserve	9,564	7,921	(4,777)	12,708
Early childhood facilities reserve	5,550	67	-	5,617
Street and park tree management reserve	110	119	-	229
Total discretionary reserves	30,704	19,333	(6,440)	43,597
Total other reserves	49,410	24,807	(8,136)	66,081
Total reserves				2,536,671

The car parking reserve is a statutory reserve designed to hold funds for allocation to car park projects works.

The drainage contribution reserve is a statutory reserve that contains contributions received from planning applicants who sought to increase the number of dwellings on a private lot or expand the area of a commercial building and is used to fund future drainage works.

The recreational land reserve is a statutory reserve that contains contributions received as public open space levies and is used to fund future recreational land facilities.

The infrastructure reserve is to quarantine identified savings from the operating and capital budget to fund replacement infrastructure or held as a contingency to finance projects deemed as "unavoidable" or to be allocated against the repayment of interest only loans that are to be refinanced.

The Dendy street beach improvement reserve receives the net proceeds from the sale of bathing boxes and is used to fund future works in the Dendy street beach precinct.

The community facilities enhancement reserve holds the proceeds from the sale of the independent living units to fund new or improvements to community facilities that provide direct benefit to the Bayside community.

The defined superannuation shortfall reserve is to quarantine \$0.5 million annually to ensure Council sets aside sufficient cash to cover for future defined benefit superannuation shortfall calls, which are one-off and material in nature.

The unspent conditional grants reserve is to quarantine grants received during the financial year which are not fully spent at 30 June 2020. Council is obligated to expedite the funded programs in the next financial year.

The capital works carried forward reserve is to quarantine budgeted capital projects which are in progress at 30 June 2020 and will require the funds in order to complete the projects.

Early Childhood Facilities Reserve holds the proceeds from the sale of former childcare centres to fund the redevelopment of early childhood facilities.

Street and park tree management reserve holds the cumulative surplus from income received from applications to remove trees less the amount spent to fund the continued re-planting of trees within the district.

	2020 \$'000	2019 \$'000
9.2 Reconciliation of cash flows from operating activities to surplus		
Surplus for the year	14,055	24,551
Depreciation/amortisation	22,280	19,147
Loss on disposal of property, infrastructure, plant and equipment	3,984	1,910
Finance costs	77	-
Work in progress written-off	1,675	923
Contributions - Non-monetary assets	(2,528)	-
Impairment loss on financial assets	245	302
<i>Change in assets and liabilities:</i>		
(Increase)/decrease in trade and other receivables	(1,211)	911
(Increase) in prepayments	753	(675)
(Decrease) in accrued income	381	(215)
Increase/(decrease) in trade and other payables	(2,337)	237
(Decrease)/increase in income in advance	1,002	6
(Increase) in inventories	(42)	45
Increase/(Decrease) in provisions	(437)	2,881
Increase/(decrease) in trusts and deposits	519	1
Net cash provided by/(used in) operating activities	38,413	50,024

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. The Defined Benefit category provides lump sum benefits based on years of service and final average salary. In certain circumstances a defined benefit member may be eligible to purchase a lifetime pension with up to 50% of their lump sum benefit. The accumulation category receives fixed contributions from Bayside City Council and Bayside City Council's legal or constructive obligation is limited to these contributions. Obligations for contributions to the Fund are recognised as an expense in Comprehensive Operating Statement when they are made or due.

Accumulation

The Fund's accumulation category, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings. For the year ended 30 June 2020, this was 9.5% (9.5% in 2018/19) as required under Superannuation Guarantee legislation. Our commitment to accumulation plans is limited to making contributions in accordance with our minimum statutory requirements. No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

The Superannuation Guarantee (SG) rate will remain at 9.5% for the next year, increasing to 10% from 1 July 2021, and eventually to 12% from 1 July 2025.

Defined Benefit

As provided under Paragraph 34 of AASB 119 of AASB 119 – Employee Benefits, 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 multi-employer sponsored plan.

As a multi-employer sponsored plan, the Fund was established as a mutual scheme to allow for the mobility of the workforce between the participating employers without attaching a specific liability to particular employees and their current employer. Therefore, there is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of Council in the Fund cannot be measured as a percentage compared with other participating employers. While there is an agreed methodology to allocate any shortfalls identified by the Fund Actuary for funding purposes, there is no agreed methodology to allocate benefit liabilities, assets and costs between the participating employers for accounting purposes. Therefore, the Fund Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119 because of the pooled nature of the Fund's Defined Benefit category.

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 Council is a contributing employer was 107.1% as at 30 June 2019 (106.0% at 30 June 2018). The financial assumptions used to calculate the VBIs were:

	30 June 2019	30 June 2018
Net investment returns	6.0% pa	6.0% pa
Salary information	3.5% pa	3.5% pa
Price inflation (CPI)	2.0% pa	2.0% pa

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

The Australian Prudential Regulation Authority (APRA) superannuation prudential standard (SPS 160) - Defined Benefit Matters determines the funding requirements of a defined benefit (DB) arrangement. Under this standard:

- The VBI is the measure to determine whether there is an unfunded liability, and
- Any unfunded liability that arises must be paid within three years.

Under SPS 160, the VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2019 interim actuarial investigation showed that the Defined Benefit category was in a satisfactory financial position under SPS 160. As a result, the Fund Actuary determined that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

The Fund's employer funding arrangements comprise of three components as follows:

1. Regular contributions - which are ongoing contributions needed to fund the balance of benefits for current members and pensioners;
2. Funding calls – which are contributions in respect of each participating employer's share of any funding shortfalls that arise; and
3. Retrenchment increments – which are additional contributions to cover the increase in liability arising from retrenchments.

Employer Contributions

Regular Contributions

On the basis of the results of the 2019 interim 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 2019, this rate was 9.5% of members' salaries (9.5% in 2018/2019). This rate will increase in line with the SG increases.

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 (the funded resignation or retirement benefit is calculated as the VBI multiplied by the benefit).

Funding Calls

The Fund is required to comply with the superannuation prudential standards. Under the superannuation prudential standard SPS 160, the Fund is required to target full funding of its vested benefits. There may be circumstances where:

- A fund is in an unsatisfactory financial position at an actuarial investigation (i.e. its vested benefit index (VBI) is less than 100% at the date of the actuarial investigation); or
- A fund's VBI is below its shortfall limit at any time other than at the date of the actuarial investigations.

If either of the above occur, the fund 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. There may be circumstances where APRA may approve a period longer than three years.

The Fund monitors its VBI on a quarterly basis and the Fund has set the Defined Benefit category's 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 [Employer name]) are required to make an employer contribution to cover the shortfall. The methodology used to allocate the shortfall was agreed in 1997 to fairly and reasonably apportion the shortfall between the participating employers.

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.

The pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund are based on:

- The service periods of all active members split between the active members pre-1 July 1993 and post-30 June 1993 service period, and
- The pensioner (including fixed term pension) liabilities which are allocated to the pre-1993 period.

The pre-1 July 1993 component of the shortfall is apportioned between the participating employers based on the employer's share of the total participating employer payroll at 30 June 1993.

The post-30 June 1993 component of the shortfall is apportioned between the participating employers based on the employer's share of the total participating employer payroll 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. In the unlikely event that the Fund is wound up and there is a surplus in the Fund, the surplus cannot be applied for the benefit of the defined benefit employers where there are on-going defined benefit obligations. The surplus would be transferred to the fund accepting those defined benefit obligations (including the lifetime pension obligations) of the Fund.

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.

Retrenchment Increments

During 2019/20, Council was not required to make payments to the Fund in respect of retrenchment increments (\$nil in 2018/19). Council's liability to the Fund as at 30 June 2020, for retrenchment increments, accrued interest and tax is nil (\$nil in 2018/19).

The 2019 interim actuarial investigation surplus amounts

An actuarial investigation is conducted annually for the Defined Benefit category of which Council is a contributing employer. Generally, a full actuarial investigation 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 the last full actuarial investigation was conducted as at 30 June 2017.

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

	2019	2017
	\$m	\$m
- A VBI Surplus	151.3	69.8
- A total service liability surplus	233.4	193.5
- A discounted accrued benefits surplus	256.7	228.8

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

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

The discounted accrued benefit surplus means that the current value of the assets in the Fund's Defined Benefit category exceeds the value of benefits payable in the future but accrued in respect of service to 30 June 2019.

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

The 2020 triennial actuarial investigation

A triennial actuarial investigation will be 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

Accrued benefits

The Fund's liability for accrued benefits was determined in accordance with the Australian Accounting Standards. Since the year ended 30 June 2017, the relevant accounting standard has been AASB 1056 - Superannuation entities.

	30 June 2019	30 June 2018
	(interim)	(interim)
	\$m	\$m
Net Market Value of Assets	2,293	2,338
Accrued Benefits	2,037	2,089
Difference between Assets and Accrued Benefits	<u>256</u>	<u>249</u>
Vested Benefits (Minimum sum which must be paid to	<u>2,142</u>	<u>2,206</u>

The financial assumptions used to calculate the Accrued Benefits for the Defined Benefit category of the Fund were:

	30 June 2019	30 June 2018
Net investment returns	6.0% pa	6.0% pa
Salary information	3.5% pa	3.5% pa
Price inflation (CPI)	2.0% pa	2.0% pa

9.4 Change in Accounting Estimate

Reassessment of Accumulated Depreciation for Roads class

As part of the revaluation of Infrastructure assets during the year, Council reassessed the Accumulated Depreciation based on the asset's useful life and their current condition. Previous revaluations assessed Accumulated Depreciation on the basis of the age of the asset taken from its original construction or major reconstruction date; under the new methodology, the model takes into account recent renewal programs, returning those assets to perfect health and deteriorating them from the date of their renewal.

The use of condition data is considered to offset the reliability of the often estimated date of construction and provide an improved and more reliable estimate of remaining useful life which is based upon recent and current observations of condition.

The change in calculation methodology resulted in assets which, under the age method had completed or nearly completed their useful lives to recalculate their remaining useful lives based on condition, with the average remaining useful life for these assets increasing to 25 years and resulting in a reduction to the opening Accumulated Depreciation of \$4.7 million.

Depreciation of Heritage Assets

As part of the desktop revaluation of Heritage Buildings during the year, Council reassessed its position on their useful lives, previously considered not to have a limited useful life and therefore not depreciated.

Available data indicates that a limited useful life of between 50 to 250 years is a more appropriate useful life over which to depreciate these assets and depreciation has been calculated following the revaluation date of 31st March 2020. This estimate change will result in an annual depreciation expense of \$0.15 million over the life of the assets.

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

There was no impact of transition to the new standards on retained earnings at 1 July 2019, as summarised in the following table:

	2019 \$'000
Retained earnings at 30 June 2019	892,911
Retained earnings at 1 July 2019	<u>892,911</u>

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	-	2,017	2,017
	<u>-</u>	<u>2,017</u>	<u>2,017</u>
Liabilities			
Lease liability - current	-	(712)	(712)
Lease liability - non-current	-	(1,305)	(1,305)
	<u>-</u>	<u>(2,017)</u>	<u>(2,017)</u>