

**Yarra City Council
ANNUAL FINANCIAL REPORT
For the Year Ended 30 June 2018**

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Certification of the Financial Report

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

Angelica Marshall
CFO and Principal Accounting Officer

5 September 2018
Richmond

In our opinion the accompanying financial statements presents fairly the financial transactions of Yarra City Council for the year ended 30 June 2018 and the financial position of the Council as at that date.

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

On 4 September 2018, we were authorised by the Council to certify the financial report in its final form on behalf of the Council.

Daniel Nguyen
Mayor

5 September 2018
Richmond

Misha Coleman
Deputy Mayor

5 September 2018
Richmond

Vijaya Vaidyanath
Chief Executive Officer

5 September 2018
Richmond

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Comprehensive Income Statement For the Year Ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Income			
Rates and charges	2.1	105,008	101,482
Statutory fees and fines	2.2	31,909	26,929
User fees	2.3	30,194	27,582
Grants - operating	2.4	11,489	13,178
Grants - capital	2.4	1,406	3,160
Contributions and reimbursements	2.5	6,950	5,888
Net gain or (loss) on disposal of property, infrastructure, plant and equipment	2.6	2,230	563
Other income	2.7	2,265	1,897
Total Income		<u>191,451</u>	<u>180,679</u>
Expenses			
Employee costs	3.1	80,695	78,003
Materials and services	3.2	61,995	60,218
Depreciation and amortisation	3.3	21,074	20,347
Bad and doubtful debts	3.4	4,200	2,392
Borrowing costs	3.5	2,007	1,605
Other expenses	3.6	611	608
Total Expenses		<u>170,582</u>	<u>163,173</u>
Surplus/(deficit) for the year		20,869	17,506
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation increment/(decrement)	5.2	219,307	44
Total Comprehensive Result		<u>240,176</u>	<u>17,550</u>

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

Balance Sheet As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	4.1	51,086	22,152
Other financial assets	4.1	-	12,000
Trade and other receivables	4.1	15,857	14,197
Inventories	4.2	107	128
Other assets	4.2	1,014	371
Total current assets		<u>68,064</u>	<u>48,848</u>
Non-current assets			
Investments in associates and joint ventures	5.3	235	235
Property, infrastructure, plant and equipment	5.2	1,906,883	1,685,039
Total non-current assets		<u>1,907,118</u>	<u>1,685,274</u>
TOTAL ASSETS		<u>1,975,182</u>	<u>1,734,122</u>
LIABILITIES			
Current liabilities			
Trade and other payables	4.3	9,281	10,149
Trust funds and deposits	4.3	10,906	8,569
Interest-bearing loans and borrowings	4.4	1,176	1,133
Provisions	4.5	13,209	12,582
Total current liabilities		<u>34,572</u>	<u>32,434</u>
Non-current liabilities			
Interest-bearing loans and borrowings	4.4	43,691	44,867
Provisions	4.5	1,398	1,484
Other Liabilities	4.3	230	225
Total non-current liabilities		<u>45,319</u>	<u>46,576</u>
TOTAL LIABILITIES		<u>79,891</u>	<u>79,010</u>
NET ASSETS		<u>1,895,291</u>	<u>1,655,112</u>
EQUITY			
Accumulated surplus		616,607	598,774
Reserves	8.1	1,278,684	1,056,339
TOTAL EQUITY		<u>1,895,291</u>	<u>1,655,112</u>

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

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

2018		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserves \$'000	Other Reserves \$'000
Balance at beginning of the financial year		1,655,112	598,773	1,035,678	20,661
Surplus/(deficit) for the year		20,869	20,869	-	-
Net asset revaluation increment/(decrement)	8.1	219,307	-	219,307	-
Transfers to other reserves	8.1	-	(4,806)	-	4,806
Transfers from other reserves	8.1	-	1,771	-	(1,771)
Balance at end of the financial year		1,895,291	616,607	1,254,985	23,696

2017		Total \$'000	Accumulated Surplus \$'000	Revaluation Reserves \$'000	Other Reserves \$'000
Balance at beginning of the financial year		1,637,561	581,748	1,035,634	20,179
Surplus/(deficit) for the year		17,506	17,506	-	-
Net asset revaluation increment/(decrement)	8.1	44	-	44	-
Transfers to other reserves	8.1	-	(3,869)	-	3,869
Transfers from other reserves	8.1	-	3,388	-	(3,388)
Balance at end of the financial year		1,655,112	598,773	1,035,678	20,661

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

Statement of Cash Flows For the Year Ended 30 June 2018

	Notes	2018 Inflows/ (Outflows) \$'000	2017 Inflows/ (Outflows) \$'000
Cash flows from operating activities			
Rates and charges		104,115	100,846
Statutory fees and fines		32,117	27,566
User fees		32,043	29,306
Government grants - operating		11,562	13,377
Government grants - capital		1,406	3,161
Contributions and reimbursements		7,114	6,004
Interest received		866	-
Trust funds and deposits received		14,682	14,200
Other receipts		3,581	1,642
Employee costs		(76,189)	(77,064)
Materials and services		(80,607)	(78,609)
Trust funds and deposits repaid		(14,682)	(14,199)
Net GST refund		5,443	6,759
Net cash provided by/(used in) operating activities		41,453	32,988
Cash flows from investing activities			
Payments for property, infrastructure, plant and equipment	5.2	(24,096)	(34,187)
Proceeds from sale of property, plant and equipment		2,715	818
Net cash provided by/(used in) investing activities		(21,381)	(33,369)
Cash flows from financing activities			
Finance costs		(2,007)	(1,511)
Proceeds from borrowings		-	13,500
Repayment of borrowings		(1,133)	-
Net cash provided financing activities		(3,140)	11,989
Net increase/(decrease) in cash and cash equivalents		16,934	11,608
Cash and cash equivalents at the beginning of the financial year		34,152	22,544
Cash and cash equivalents at the end of the financial year	4.1	51,086	34,152
Restrictions on cash assets	4.1		

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 2018

	2018	2017
	\$'000	\$'000
Property		
Buildings	6,738	15,053
Total buildings	<u>6,738</u>	<u>15,053</u>
Total property	<u>6,738</u>	<u>15,053</u>
Plant and equipment		
Plant, machinery and equipment	1,892	1,440
Fixtures, fittings and furniture	-	145
Computers and telecommunications	1,750	2,231
Library books	596	662
Total plant and equipment	<u>4,238</u>	<u>4,478</u>
Infrastructure		
Roads	6,407	6,639
Footpaths and cycleways	1,282	3,157
Drainage	1,364	1,324
Recreational, leisure and community facilities	6,768	3,389
Waste management	108	115
Parks, open space and streetscapes	214	124
Other infrastructure	12	-
Total infrastructure	<u>16,155</u>	<u>14,747</u>
Total capital works expenditure	<u>27,131</u>	<u>34,279</u>
Represented by:		
New asset expenditure	4,323	10,958
Asset renewal expenditure	21,588	20,096
Asset upgrade expenditure	1,220	3,225
Total capital works expenditure	<u>27,131</u>	<u>34,279</u>

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

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

Introduction

The City of Yarra was established by an Order of the Governor in Council on 22 June 1994 and is a body corporate. The Council's main office is located at 333 Bridge Road Richmond.

Statement of Compliance

These financial statements are a general purpose financial report that consists of a Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, Statement of Capital Works and notes accompanying these financial statements. The general purpose financial report complies with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, the *Local Government Act 1989*, and the *Local Government (Planning and Reporting) Regulations 2014*.

Significant Accounting Policies

(a) Basis of Accounting

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

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

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

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% or \$250K 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 are those adopted by Council on 1 August 2017. The Budget was based on assumptions that were relevant at the time of adoption of the Budget. Council sets guidelines and parameters for revenue 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 2017/18 \$'000	Actual 2017/18 \$'000	Variance \$'000 Fav/(Unfav)	Variance % Fav/(Unfav)	Ref
Revenues from ordinary activities					
Rates and charges	105,158	105,008	(150)	(0.14)	1.1
Statutory fees and fines	28,534	31,909	3,375	11.83	1.2
User fees	27,064	30,194	3,130	11.56	1.3
Reimbursements	1,640	1,384	(256)	(15.61)	1.4
Grants - operating	12,023	11,489	(534)	(4.44)	1.5
Grants - capital	1,195	1,406	211	17.66	1.6
Contributions	4,300	5,566	1,266	29.44	1.7
Net gain (loss) on disposal of non current assets	300	2,230	1,930	643.45	1.8
Other income	1,207	2,265	1,058	87.65	1.9
Total revenues	181,421	191,451	10,030	5.53	
Expenses from ordinary activities					
Employee costs	80,639	80,695	(56)	(0.07)	
Materials and services	66,511	61,995	4,516	6.79	1.10
Bad and doubtful debts	2,010	4,200	(2,190)	(108.96)	1.11
Depreciation	20,664	21,074	(410)	(1.98)	1.12
Borrowing costs	2,139	2,007	132	6.17	
Other expenses	574	611	(37)	(6.51)	
Total expenses	172,537	170,582	1,955	1.13	
Surplus/(Deficit) for the year	8,884	20,869	11,985	134.90	

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

Note 1 Performance against budget

(i) Explanation of material variations

Ref	Item	Explanation
1.1	Rates and charges	Rates and charges are unfavourable to budget by \$0.15M (0.14%) mainly due to lower supplementary rate income raised for the year than expected.
1.2	Statutory fees and fines	Parking Revenue is favourable to budget by \$3.38M (11.83%) mainly due to additional infringements raised for the year and also higher court recovery costs than expected.
1.3	User Fees	User Fees are favourable to budget by \$3.13M (11.56%) due to additional town planning application fees and construction and enforcement activity undertaken during the year. Child care fees were favourable and remained ahead of budget expectation for the year.
1.4	Reimbursements	Reimbursements were unfavourable to budget by \$0.26M (15.61%) which is mainly due to lower than expected construction development reinstatement recovery for the year but expenditure was also lower than expected.
1.5	Grants - operating	Operating Grants were unfavourable to budget by \$0.53M (4.44%) which is mainly due to recognition of expected grant reductions relating to Home Care and Commonwealth program adjustment for the NDIS (National Disability Insurance Scheme). Income is to be reduced for prior year payments received from Government. Additional grant income was also received in 2017/18 as advance payment from the Victorian Grants Commission (VGC) for 50% (\$999k) of the 2018/19 grants program. This funding will need to be carried over into 2018/19.
1.6	Grants - capital	Capital Grants favourable to budget by \$0.21M (17.66%) mainly due to the 50% advance payment of \$193K from VGC for the local roads component funding for 2018/19. This funding will need to be carried over into 2018/19.
1.7	Contributions	Contributions are \$1.27M (29.44%) favourable compared to budget mainly due to higher than expected developer contributions for development projects received for the year. These contributions are transferred to the Open Space Reserve for future use on open space projects.
1.8	Net gain (loss) on disposal of non current assets	Net gain (loss) on disposal of non current assets is \$1.93M (643.45%) favourable compared to budget mainly due to sales of Rights of Way undertaken during the year. There were also motor vehicle sales and trade-ins programmed during the year.
1.9	Other Income	Other Income is favourable to budget by \$1.06M (87.65%) due to additional income received for non-voter penalties following the Council elections. Additional income was also received from interest on investments which is Council's working capital funds invested with banking institutions. Additional income was received for land tax objections but additional expenditure was incurred processing claims.
1.10	Materials and Services	Materials and services costs are favourable to budget by \$4.52M (6.79%) mainly due to lower than anticipated consultant expenditure, as well as a saving for insurance premiums and also contract savings for open space maintenance works following contract renegotiation.
1.11	Bad and doubtful debts	Bad and doubtful debts were unfavourable to budget by \$2.19M (108.96%) due to additional parking infringements being raised for the year, and a focus on debt management during 2017/18. Collection is still pursued through the court system.
1.12	Depreciation	Depreciation was unfavourable to budget by \$0.41M (1.98%) due to higher than anticipated capital works capitalisation of assets from the previous year.

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

Note 1 Performance against budget

1.2 Capital Works

	Budget 2017/18 \$'000	Actual 2017/18 \$'000	Variance \$'000 Fav/(Unfav)	Variance % Fav/(Unfav)	Note
Property					
Buildings	7,574	6,738	836	11.04	2.1
Total buildings	7,574	6,738	836	11.04	
Total property	7,574	6,738	836	11.04	
Plant and equipment					
Plant, machinery and equipment	1,867	1,892	(25)	(1.34)	
Computers and telecommunications	3,207	1,750	1,457	45.43	2.2
Library projects	590	596	(6)	(1.02)	
Total plant and equipment	5,664	4,238	1,426	25.18	
Infrastructure					
Roads	8,396	7,098	1,298	15.46	2.3
Lanes	842	732	110	13.06	
Transport	872	612	260	29.82	2.4
Waste management	60	108	(48)	(80.00)	
Parks, open space and streetscapes	8,066	6,768	1,298	16.09	2.5
Street Furniture	330	290	40	12.12	
Retail Strips	730	321	409	56.03	2.6
Other infrastructure	506	226	280	55.34	2.7
Total infrastructure	19,802	16,155	3,647	18.42	
Total capital works expenditure	33,040	27,131	5,909	17.88	
Represented by:					
New asset expenditure	6,666	4,323	2,343	35.15	
Asset renewal expenditure	25,835	21,588	4,247	16.44	
Asset upgrade expenditure	539	1,220	(681)	(126.35)	
Total capital works expenditure	33,040	27,131	5,909	17.88	

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

Note 1 Performance against budget

(i) Explanation of material variations

Material Variance Explanation

Note	Item	Explanation
2.1	Buildings	Buildings are \$0.84M (11.04%) below budget. Whilst completing 97% of budgeted projects, savings were achieved in expenditure at the Fitzroy Town Hall roof works project coupled with some project deferrals to 2018/19.
2.2	Computers and Telecommunications	Computers and telecommunications are \$1.46M (45.43%) below budget due to deferred expenditure for information systems projects and carry over to 2018/19.
2.3	Roads	Roads assets are \$1.3M (15.46%) below budget mainly due to project deferrals and carry over into 2018/19.
2.4	Transport	Transport assets are \$0.26M (29.82%) below budget mainly due to the carry over of the Wellington St Bike Lane project although additional project expenditure was incurred on Black Spot Safety and Safe Speeds projects.
2.5	Parks, open space and streetscapes	Parks, open space and streetscapes assets are \$1.3M (16.09%) below budget mainly due to the deferral of the Rushall Reserve shared path project and other project savings.
2.6	Retail Strips	Retail Strip assets are \$0.41M (56.03%) below budget mainly due to deferred projects and project savings.
2.7	Other Infrastructure	Other Infrastructure assets are \$0.28M (55.34%) below budget which relate to priority projects expenditure allocated elsewhere in the capital program and some project deferrals.

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

Note 2 Funding for the delivery of our services

Note 2.1 Rates and charges	2018	2017
	\$'000	\$'000

Council uses Net Annual Value (NAV) as the basis of valuation of all properties within the municipal district. The NAV of a property is its imputed rental value.

The valuation base used to calculate general rates for 2017/18 was \$2,544 million (2016/17 \$2,509 million) with the increase in the rate base resulting from the return of supplementary valuations for properties constructed and/or building works completed since the return of the previous general revaluation of land for rating purposes as at 1 January 2016.

The 2017/18 rate in the NAV dollar was 4.091118 cents. The 2016/17 rate in the NAV dollar was 4.0109 cents.

Residential	74,953	72,255
Commercial	22,206	20,701
Industrial	6,574	7,098
Supplementary rates and rate adjustments	776	1,028
Garbage bin charge	52	50
Interest on rates	447	351
Total rates and charges	<u>105,008</u>	<u>101,482</u>

A general revaluation of land for rating purposes within the municipal district was undertaken as at 1 January 2016 and was first applied to the rating period commencing 1 July 2016.

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

Rate income has increased compared to the previous year mainly due to the specified rate cap increase of 2.5% but also due to supplementary rates raised during the year which has seen residential property classification increases and a reduction in commercial properties.

Note 2.2 Statutory fees and fines

Infringements & costs	20,546	15,803
PERIN court recoveries	3,575	2,197
Fees - parking meters/ticket machines	5,902	7,133
Permits	1,886	1,796
Total statutory fees and fines	<u>31,909</u>	<u>26,929</u>

Note 2.3 User fees

Leisure centres and golf course fees	10,218	9,657
Child care/children's program fees	3,063	3,207
Town planning fees	3,496	2,879
Registration fees	1,508	1,344
Pre schools	841	647
Aged services fees	218	209
Road occupation permit fees	3,597	2,566
Library fees and fines	95	102
Footpath advertising & display	739	694
Building services fees	217	224
Valuation fees/supplementary charges	339	522
Kerb market fees	254	232
Land information certificates	143	116
Local laws fines	968	922
Rent*	1,734	1,773
Permits - Bins and Skips	172	152
After School Program	157	153
Vacation Care Program	115	144
Report and Consent Fees	160	135
Road Inspection Fees	891	719
Hall hire	489	471
Asset Protection Permits	215	197
Signs and goods permit fees	300	176
Other fees and charges	265	341
Total user fees	<u>30,194</u>	<u>27,582</u>

* In 2016/17 Rent was reclassified from Other Income to User fees

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

Note 2.4 Funding from other levels of government	2018	2017
	\$'000	\$'000
Government grants were received in respect of the following:		
Summary of grants		
Commonwealth funded grants	9,514	11,406
State funded grants	3,381	4,932
Total Grants Received	12,895	16,338
Operating Grants		
Recurrent - Commonwealth Government		
Victoria Grants Commission - general purpose	1,988	2,714
Family Services	4,541	4,529
Aged Services - Home Care Services	1,727	957
Other	67	-
Recurrent - State Government		
Aged Services Assessment and Planning	862	2,920
School crossing supervisors	313	219
Library	696	626
Maternal and child health	611	584
Community safety	92	249
Other	52	66
Total recurrent operating grants	10,949	12,865
Non-recurrent - Commonwealth Government		
Environmental planning/Waste	185	45
Non-recurrent - State Government		
Community health	10	32
Family and children	185	96
Other	160	197
Total non-recurrent operating grants	540	370
Total operating grants	11,489	13,234
Capital grants		
Recurrent - Commonwealth Government		
Victoria Grants Commission - local roads	386	567
Roads to recovery	382	506
Recurrent - State Government		
Road Safety	169	-
Total recurrent capital grants	937	1,073
Non-recurrent - Commonwealth Government		
Buildings	-	170
Plant, machinery and equipment	32	92
Roads - Black Spot funding	77	1,769
Other	130	-
Non-recurrent - State Government		
Roads	230	-
Total non-recurrent capital grants	469	2,031
Total capital grants	1,406	3,104
Total grants	12,895	16,338

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

	2018	2017
	\$'000	\$'000
Note 2.5 Monetary contributions and reimbursements		
Resort and recreation fees*	4,806	3,870
Road reinstatements	273	262
Reimbursements Legal Fees	127	358
Recycling	434	557
Road maintenance/works (other)	362	309
Open space planning	237	-
Planning development	275	-
Park rental	222	365
Other reimbursements	214	167
Total monetary contributions and reimbursements	<u>6,950</u>	<u>5,888</u>

* Resort and recreation fees received during the year and not spent are transferred to reserves pursuant to section 18 of the Subdivision Act 1988, (Resort and Recreation Reserve) (Note 8.1).

Note 2.6 Net gain/(loss) on disposal of non-current assets**Plant & Equipment**

Proceeds from sale of assets	300	878
Written down value of assets sold/disposed	<u>(82)</u>	<u>(323)</u>
Profit/(loss) on sale/disposal of property, plant and equipment	<u>218</u>	<u>555</u>

Roads - Right of way

Proceeds from sale of assets	2,415	34
Written down value of assets sold/disposed	<u>(403)</u>	<u>(26)</u>
Profit/(loss) on sale/disposal of property, plant and equipment	<u>2,012</u>	<u>8</u>

Summary

Proceeds from sale of assets	2,715	912
Written down value of assets sold/disposed	<u>(485)</u>	<u>(349)</u>
Profit/(loss) on sale/disposal of property, plant and equipment	<u>2,230</u>	<u>563</u>

Note 2.7 Other income

Interest	866	375
Victorian Electoral Commission fines	227	340
Hall Hire	98	95
Waste Management	167	156
Venues and events	57	-
Recreational Services	-	210
Strategic Planning	92	67
Early Years Unit	43	69
Disadvantaged Accessibility	102	96
Leisure Services	84	35
Financial Accounting	95	70
Valuations	193	-
Other	241	384
Total other income	<u>2,265</u>	<u>1,897</u>

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

Note 3 The cost of delivering services	2018	2017
	\$'000	\$'000
Note 3.1(a) Employee Costs		
Wages and salaries	58,732	58,349
WorkCover	700	914
Casual staff	4,489	3,504
Superannuation	5,968	5,749
Fringe benefits tax	230	441
Other	10,576	9,045
Total employee costs	<u>80,695</u>	<u>78,003</u>
Note 3.1(b) Superannuation		
Council made contributions to the following funds:		
Defined benefit fund		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	641	462
Employer contributions - other funds	-	-
	<u>641</u>	<u>462</u>
Employer contributions payable at reporting date.	-	-
Accumulation funds		
Employer contributions to Local Authorities Superannuation Fund (Vision Super)	2,417	3,022
Employer contributions - other funds	2,910	2,265
	<u>5,327</u>	<u>5,287</u>
Employer contributions payable at reporting date.	-	-
Refer to note 8.3 for further information relating to Council's superannuation obligations.		
Note 3.2 Materials and services		
Materials and services	22,343	21,879
Contract payments	20,917	20,578
Building maintenance	4,049	4,554
General maintenance	3,937	3,198
Utilities	3,461	3,214
Information technology	3,269	2,721
Insurance	1,605	1,327
Consultants	2,414	2,747
Total materials and services	<u>61,995</u>	<u>60,218</u>

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

	2018	2017
	\$'000	\$'000
Note 3.4 Bad and doubtful debts		
Parking infringement debtors	4,107	2,392
Other debtors	93	-
Total bad and doubtful debts	<u>4,200</u>	<u>2,392</u>

Movement in provisions for doubtful debts

Balance at the beginning of the year
 New Provisions recognised during the year
 Amounts
 Amounts
 Balance at end of year

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

Note 3.5 Borrowing costs

Interest - on borrowings	<u>2,007</u>	<u>1,605</u>
Total borrowing costs	<u>2,007</u>	<u>1,605</u>

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

Note 3.6 Other expenses

Auditors' remuneration - VAGO - audit of the financial statements, performance statement and grant acquittals	78	72
Auditors' remuneration - Internal	229	214
Councillors' allowances	304	295
Other	-	28
Total other expenses	<u>611</u>	<u>608</u>

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

Note 4 Our financial position

	2018	2017
	\$'000	\$'000

Note 4.1 Financial assets

(a) Cash and cash equivalents

Cash at bank	2,075	1,142
Cash on hand	11	10
Term deposit investments*	49,000	21,000
Total cash and cash equivalents	<u>51,086</u>	<u>22,152</u>

*In 2017/18 \$0m (2016/17 \$12m) of term deposit investments were reclassified to other financial assets in accordance with Australian Accounting Standard 139 .

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

Trust funds and deposits (note 4.3)	11,136	8,794
Public open space / parking reserves (note 8.1b)	3,596	561
Total restricted funds	<u>14,732</u>	<u>9,355</u>
Total unrestricted cash and cash equivalents	<u>36,354</u>	<u>12,797</u>

Intended allocations

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

- Cash held to fund carried forward capital works	2,954	3,959
- Trade and other payables	-	335
Total funds subject to intended allocations	<u>2,954</u>	<u>4,294</u>

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

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

(b) Other financial assets

Term deposits	-	12,000
Total financial assets	<u>-</u>	<u>12,000</u>

(c) Trade and other receivables

Current

Rates debtors	5,385	4,492
Parking infringement debtors	31,883	26,869
Provision for doubtful debts - parking infringements	(26,172)	(22,029)
Other debtors	3,615	3,867
Provision for doubtful debts - other debtors	(793)	(973)
Workcover	171	171
GST recoverable from ATO	1,768	1,800
	<u>15,857</u>	<u>14,197</u>

(a) Ageing of Receivables

At balance date trade and other receivables debtors representing financial assets were past due but not impaired. These amounts relate to a number of independent customers for whom there is no recent history of default. The ageing of the Council's trade & other receivables (excluding statutory receivables) was:

Current and past due by up to 30 days	3,759	3,172
Past due between 31 and 180 days	1,145	1,153
Past due between 181 and 365 days	1,946	570
Past due by more than 1 year	3,601	4,809
Total trade & other receivables	<u>10,451</u>	<u>9,704</u>

(b) Movement in provisions for doubtful debts

Balance at the beginning of the year	23,002	20,849
New Provisions recognised during the year	4,200	2,392
Amounts already provided for and written off as uncollectible	(237)	(239)
Balance at end of year	<u>26,965</u>	<u>23,002</u>

	2018	2017
Note 4.2 Non-financial assets	\$'000	\$'000
(a) Inventories		
Merchandise	104	122
General	3	6
Total inventories	<u>107</u>	<u>128</u>
<p>Inventories held for distribution are measured at cost, adjusted when applicable for any loss of service potential. All other inventories, including land held for sale, are measured at the lower of cost and net realisable value. Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.</p>		
(b) Other assets		
Accrued income - Government grants and interest income	371	169
Prepayments - vehicle registrations and software support	643	202
Total other assets	<u>1,014</u>	<u>371</u>

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

	2018 \$'000	2017 \$'000
Note 4.3 (a) Trade and other payables		
Trade creditors	5,370	7,848
Superannuation	40	40
Accrued expenses	3,871	2,261
Total trade and other payables	<u>9,281</u>	<u>10,149</u>
(b) Trust funds and deposits		
Current		
Drainage works deposits	30	29
Leased Properties	29	29
Refundable deposit	5,126	3,243
Other refundable deposits	205	214
Income in advance	181	147
	<u>5,571</u>	<u>3,662</u>
Fire services levy	5,335	4,907
	<u>10,906</u>	<u>8,569</u>
Non-current		
Other Liabilities	230	225
Total trust funds and deposits	<u>11,136</u>	<u>8,794</u>

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.

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

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.

Fire Service Levy - Council is the collection agent for the 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.

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

Note 4.4 Interest-bearing loans and borrowings

	2018 \$'000	2017 \$'000
Current		
Loans - secured*	1,176	1,133
Non-current		
Loans - secured*	43,691	44,867
Total interest-bearing loans and borrowings	<u>44,867</u>	<u>46,000</u>
The maturity profile for Council's borrowings* and other liabilities is as follows:		
Not later than one year	1,176	1,275
Later than one year and not later than five years	37,674	37,762
Later than five years	6,017	6,963
	<u>44,867</u>	<u>46,000</u>

* Borrowings are secured by way of mortgages over the general rates of Council.

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

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

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

Note 4.5 Provisions

	Employee \$ '000		
2018			
Balance at beginning of the financial year	14,066		
Additional provisions	1,263		
Amounts used	(721)		
Change in the discounted amount arising because of time and the effect of any change in the discount rate	-		
Balance at the end of the financial year	14,608		
2017			
Balance at beginning of the financial year	14,187		
Additional provisions	305		
Amounts used	(426)		
Change in the discounted amount arising because of time and the effect of any change in the discount rate	-		
Balance at the end of the financial year	14,066		
		2018	2017
		\$'000	\$'000
Current			
Current provisions expected to be wholly settled within 12 months			
Annual leave	3,864	4,079	
TOIL	84	58	
Long service leave (Notes 1(g))	526	1,058	
Unfunded Superannuation Liability			
Current provisions expected to be wholly settled after 12 months			
Annual leave	1,222	971	
Long service leave (Notes 1(g))	7,513	6,416	
Total current provisions	<u>13,209</u>	<u>12,582</u>	
Non-current			
Long service leave (Notes 1(g))	1,398	1,484	
	<u>1,398</u>	<u>1,484</u>	
LSL representing less than 7 years of continuous service is measured at present value.			
Aggregate carrying amount of employee entitlements			
Current	13,209	12,582	
Non-current	1,398	1,484	
Total provisions	<u>14,607</u>	<u>14,066</u>	
Sum of full-time equivalent staff numbers	667	666	

The following assumptions were adopted in measuring the present value of long term employee benefits

Weighted average increase in employee costs	2.0%	4.0%
Weighted average discount rates	2.45%	1.88%
Weighted average settlement period	5 years	5.65 years

Note 4.6 Financing facilities

Bank overdraft	10,000	10,000
Purchasing cards	343	500
Total facilities	<u>10,343</u>	<u>10,500</u>
Used purchasing card facilities	(154)	(21)
Unused facilities	<u>10,189</u>	<u>10,479</u>

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

Note 4.7 Commitments

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

2018	Not later than 1 year (\$ '000)	Later than 1 year and not later than 2 years (\$ '000)	Later than 2 years and not later than 5 years (\$ '000)	Later than 5 years (\$ '000)	Total (\$ '000)
Operating					
Street cleaning services	2,884	4,760	7,140	-	14,784
Garbage collection and recycling	6,351	12,703	31,755	-	50,809
Open space management	4,524	9,048	13,572	-	27,144
Information systems & technology	3,106	3,199	3,285	-	9,590
Insurances	1,432	-	-	-	1,432
Cleaning contracts for Council buildings	1,386	1,441	-	-	2,827
Home Care	1,833	1,889	-	-	3,722
Capital					
Construction works	6,850	-	-	-	6,850
Total*	28,366	33,040	55,752	-	117,158

* Contract commitments for 2017/18 onwards include Council contracts for known lump sum contract amounts.

2017	Not later than 1 year (\$ '000)	Later than 1 year and not later than 2 years (\$ '000)	Later than 2 years and not later than 5 years (\$ '000)	Later than 5 years (\$ '000)	Total (\$ '000)
Operating					
Street cleaning services	2,884	2,971	9,458	6,788	22,101
Garbage collection and recycling	8,176	8,421	26,810	19,240	62,647
Open space management	5,660	5,834	18,595	-	30,089
Information systems & technology	3,106	3,199	3,285	-	9,590
Insurances	1,189	-	-	-	1,189
Cleaning contracts for Council buildings	1,476	1,520	1,613	-	4,609
Family Services	1,245	1,283	-	-	2,528
Home Care	1,833	1,889	-	-	3,722
Capital					
Construction works	1,127	-	-	-	1,127
Total	26,696	25,117	59,761	26,028	137,602

Operating lease commitments	2018	2017
	\$'000	\$'000

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

Not later than one year	1,226	1,173
Later than one year and not later than five years	231	1,405
Later than five years	-	-
	<u>1,457</u>	<u>2,578</u>

Note 5 Assets we manage**Note 5.1 Non-current assets classified as held for sale**

Motor Vehicles held for sale at cost	-	-
Total non-current assets held for resale	<u>-</u>	<u>-</u>

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

Note 5.2 Property, infrastructure, plant and equipment

Summary of property, infrastructure, plant and equipment

	At Fair Value							WDV
	30 June 2017	Acquisitions	Contributions	Revaluation	Depreciation	Disposal	Transfers	30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land	828,933	1,289	-	175,113	-	-	-	1,005,335
Buildings	198,775	8,672	-	(3,803)	(2,794)	(474)	-	200,375
Plant and Equipment	26,867	8,247	-	27	(5,512)	(108)	-	29,522
Infrastructure	627,368	9,114	-	47,970	(12,767)	(219)	(70)	671,396
Work in progress	3,096	255	-	-	-	-	(3,096)	255
	1,685,039	27,577	-	219,307	(21,074)	(801)	(3,166)	1,906,883
Summary of Work in Progress	Opening WIP	Additions	Transfers	Write Offs	Closing WIP			
Buildings	2,018	24	(2,018)	-	24			
Plant and Equipment	178	185	(178)	-	185			
Infrastructure	900	46	(900)	-	46			
Total	3,096	255	(3,096)	-	255			

Class of Asset	2018	
	Periods	Threshold limit
Land	Nil	Nil
Land under roads acquired after 30 June 2008	Nil	Nil
Buildings	100 years	10,000
Land improvements	Nil	10,000
Heritage assets	100 years	Nil
Plant & machinery	7-10 years	500
Furniture, equipment & computers	3-10 years	500
Library books	6-7 years	Nil
Library audio and visual	4 years	Nil
Roads - substructure	120 years	50,000
- seal	20 years	15,000
Footpaths - substructure	75 years	25,000
- seal	30 years	15,000
Kerb and channel	50 years	25,000
Drains	120 years	25,000
Bridges	120 years	25,000
Lanes - substructure	120 years	50,000
- seal	50 years	15,000
Mobile garbage bins/recycling crates	10 years	500
Irrigation & sprinkler systems	10 years	500
Street furniture	20 years	500
Parks & gardens furniture & equipment	20 years	500
Playground equipment	10 years	500

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

a) Property

	Land - specialised	Land - non specialised	Land improvements	Total Land	Heritage Buildings	Buildings - specialised	Buildings - non specialised	Building Improvements	Leasehold Improvements	Total Buildings	Work In Progress	Total Property
At fair value 1 July 2017	734,166	83,902	10,865	828,933	-	279,407	-	-	-	257,132	2,018	1,088,083
Accumulated depreciation at 1 July 2017	-	-	-	-	-	(80,632)	-	-	-	(78,258)	-	(78,258)
	734,166	83,902	10,865	828,933	-	198,775	-	-	-	198,775	2,018	1,029,726
Movements in fair value												
Acquisition of assets at fair value	-	-	1,289	1,289	-	8,672	-	-	-	8,672	24	9,985
Revaluation increments (decrements)	175,113	-	-	175,113	-	(4,164)	-	-	-	(4,164)	-	170,949
Fair value of assets disposed	-	-	-	-	-	(474)	-	-	-	(474)	-	(474)
Transfers	-	-	-	-	-	-	-	-	-	-	(2,018)	(2,018)
	175,113	-	1,289	176,402	-	4,034	-	-	-	4,034	(1,994)	178,442
Movements in accumulated depreciation												
Depreciation and amortisation	-	-	-	-	-	(2,794)	-	-	-	(2,794)	-	(2,794)
Revaluation increments (decrements)	-	-	-	-	-	361	-	-	-	361	-	361
	-	-	-	-	-	(2,433)	-	-	-	(2,433)	-	(2,433)
At fair value 30 June 2018	909,279	83,902	12,154	1,005,335	-	283,441	-	-	-	283,441	24	1,288,800
Accumulated depreciation at 30 June 2018	-	-	-	-	-	(83,065)	-	-	-	(83,065)	-	(83,065)
	909,279	83,902	12,154	1,005,335	-	200,375	-	-	-	200,375	24	1,205,735

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

(b) Plant and equipment

	Heritage plant and equipment	Motor Vehicles	Plant, machinery and equipment	Irrigation and sprinkler systems	Street furniture	Parks and gardens furniture and equipment	Playground equipment	Fencing	Mobile garbage bins/recycling crates	Computers and Mobile Phones	Office furniture and equipment	Library books	Work In Progress	Total plant and equipment
At fair value 1 July 2017	4,745	7,148	7,497	1,579	15,941	8,535	1,215	2,096	2,855	16,800	11,797	7,489	178	87,875
Accumulated depreciation at 1 July 2017	(241)	(4,677)	(3,908)	(1,546)	(11,926)	(6,343)	(1,021)	(1,796)	(2,350)	(12,281)	(9,477)	(5,263)	-	(60,829)
	4,504	2,471	3,589	33	4,015	2,192	194	300	505	4,518	2,320	2,226	178	27,045
Movements in fair value														
Acquisition of assets at fair value	130	895	257	557	1,096	2,345	395	58	152	1,581	185	596	185	8,432
Revaluation increments (decrements)	-	-	-	-	-	37	-	-	-	-	-	-	-	37
Fair value of assets disposed	-	(725)	-	-	-	-	-	-	-	-	-	-	-	(725)
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	(178)	(178)
	130	170	257	557	1,096	2,382	395	58	152	1,581	185	596	7	7,566
Movements in accumulated depreciation														
Depreciation and amortisation	(47)	(750)	(695)	(7)	(361)	(229)	(48)	(52)	(72)	(2,218)	(471)	(561)	-	(5,512)
Revaluation increments (decrements)	-	-	-	-	-	(10)	-	-	-	-	-	-	-	(10)
Accumulated depreciation of disposals	-	617	-	-	-	-	-	-	-	-	-	-	-	617
	(47)	(133)	(695)	(7)	(361)	(239)	(48)	(52)	(72)	(2,218)	(471)	(561)	-	(4,905)
At fair value 30 June 2018	4,875	7,318	7,754	2,136	17,037	10,917	1,610	2,154	3,007	18,381	11,982	8,085	185	95,441
Accumulated depreciation at 30 June 2018	(289)	(4,810)	(4,603)	(1,553)	(12,288)	(6,582)	(1,069)	(1,848)	(2,422)	(14,500)	(9,948)	(5,823)	-	(65,734)
	4,587	2,508	3,151	583	4,749	4,335	541	305	585	3,881	2,034	2,261	185	29,706

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

(c) Infrastructure

	Roads	Footpaths and cycleways	Drainage	Kerb and channel	Bridges	Lanes	Trees and Tree Infrastructure	Off street car parks	Other Infrastructure	Work In Progress	Total Infrastructure
At fair value 1 July 2017	364,241	123,305	106,335	137,852	5,146	89,151	7,318	-	-	900	834,248
Accumulated depreciation at 1 July 2017	(86,259)	(24,128)	(47,869)	(29,190)	(2,500)	(16,033)	-	-	-	-	(205,980)
	<u>277,982</u>	<u>99,177</u>	<u>58,466</u>	<u>108,662</u>	<u>2,646</u>	<u>73,118</u>	<u>7,318</u>	<u>-</u>	<u>-</u>	<u>900</u>	<u>628,268</u>
Movements in fair value											
Acquisition of assets at fair value	4,532	1,705	1,144	1,733	-	-	-	-	-	46	9,160
Revaluation increments (decrements)	49,880	17,297	-	(3,238)	-	(776)	-	-	-	-	63,163
Fair value of assets disposed	(145)	-	-	-	-	(128)	-	-	-	-	(273)
Transfers	-	-	-	-	-	-	-	-	-	(900)	(900)
	<u>54,267</u>	<u>19,002</u>	<u>1,144</u>	<u>(1,505)</u>	<u>-</u>	<u>(904)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(854)</u>	<u>71,150</u>
Movements in accumulated depreciation											
Depreciation and amortisation	(5,414)	(2,481)	(1,035)	(2,757)	(51)	(1,030)	-	-	-	-	(12,767)
Revaluation increments (decrements)	(12,400)	(3,682)	-	741	-	148	-	-	-	-	(15,193)
Accumulated depreciation of disposals	54	-	-	-	-	-	-	-	-	-	54
Transfers	(70)	-	-	-	-	-	-	-	-	-	(70)
	<u>(17,829)</u>	<u>(6,163)</u>	<u>(1,035)</u>	<u>(2,016)</u>	<u>(51)</u>	<u>(882)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,976)</u>
At fair value 30 June 2018	418,507	142,307	107,479	136,347	5,146	88,247	7,318	-	-	46	905,398
Accumulated depreciation at 30 June 2018	(104,088)	(30,291)	(48,904)	(31,206)	(2,551)	(16,915)	-	-	-	-	(233,956)
	<u>314,419</u>	<u>112,016</u>	<u>58,575</u>	<u>105,141</u>	<u>2,595</u>	<u>71,332</u>	<u>7,318</u>	<u>-</u>	<u>-</u>	<u>46</u>	<u>671,442</u>

Notes to the Financial Report for the Year Ended 30 June 2018**Property, infrastructure, plant and equipment (continued)***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.

Land under roads

Council recognises land under roads it controls at fair value.

Depreciation and amortisation

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

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

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

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

Depreciation periods used are listed below 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

Valuations of land and buildings were undertaken by Westlink Consulting under the supervision of William J Graham, City Valuer, A.V.L.E (Vals), Qualified Valuer. The valuation of buildings was replacement cost less accumulated depreciation and was first applied as at 30 June 2018. The valuation of land is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where building 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 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.

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

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

	Level 1	Level 2	Level 3	Date of Valuation
Land - Non specialised	-	178,455	-	June 2018
Land - Specialised	-	-	826,880	June 2018
Buildings - Specialised	-	-	200,375	June 2018
Total	-	178,455	1,027,255	

Definition of Land and Buildings Levels 1,2 and 3 - as per note 1(e) fair value measurement

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.

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

Property, infrastructure, plant and equipment (continued)

Valuation of infrastructure

Valuation of infrastructure assets - Roads, Footpaths, Lanes, Kerb and Channel - was undertaken by Jim Vokolos, B.Eng (Civil), Qualified Engineer. The valuations are at replacement costs less accumulated depreciation and were first applied as at 30 June 2018.

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

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

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

	Level 1	Level 2	Level 3	Date of Valuation
Roads	-	-	314,419	June 2018
Bridges	-	-	2,595	June 2013
Footpaths, Lanes and Kerb and Channel	-	-	288,489	June 2018
Drainage	-	-	58,575	June 2015
Trees	-	-	7,318	June 2004
Total	-	-	671,396	

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 15% and 30%. The market value of land varies significantly depending on the location of the land and the current market conditions. Currently land values range between \$600 and \$6,000 per square metre.

Specialised buildings are valued using a depreciated replacement cost technique. Significant unobservable inputs include the current replacement cost and remaining useful lives of buildings. Current replacement costs is calculated on a square metre basis and ranges from \$185 to \$25,000 per square metre. The remaining useful lives of buildings are determined on the basis of the current condition of buildings and are currently at 100 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of buildings are sensitive to changes in expectations or requirements that could either shorten or extend the useful lives of buildings.

Infrastructure assets are valued based on the depreciated replacement cost. Significant unobservable inputs include the current replacement cost and remaining useful lives of infrastructure. The remaining useful lives of infrastructure assets are determined on the basis of the current condition of the asset and vary from 20 years to 120 years. Replacement cost is sensitive to changes in market conditions, with any increase or decrease in cost flowing through to the valuation. Useful lives of infrastructure are sensitive to changes in use, expectations or requirements that could either shorten or extend the useful lives of infrastructure assets.

	2018 \$'000	2017 \$'000
5.3 Investments in associates, joint arrangements and subsidiaries		
Council's carrying value (at cost) of investment in Regional Kitchens P/L, incorporating RFK P/L (Trading as Community Chef)	230	230
Municipal Association Purchasing Scheme (Procurement Australia)	5	5
Total investments	<u>235</u>	<u>235</u>

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

Note 6 People and Relationships

6.1 Council and key management remuneration

(a) Related Parties

Parent entity

Yarra City Council is the parent entity

Subsidiaries and Associates

Interests in subsidiaries and associates are detailed in note 5.3.

(b) Key Management Personnel

Accounting Standard AASB124 requires the disclosure of related party relationships and transactions in all Councils. Key Management Personnel (KMP) are one type of related parties that Council is required to include in its note disclosure.

Details of persons holding the position of Councillor or other members of key management personnel at any time during the year are:

Councillors		
Cr Daniel Nguyen (Mayor)		27 November 2017 - 30 June 2018
Cr Daniel Nguyen		1 July 2017 - 26 November 2017
Cr Amanda Stone (Mayor)		1 July 2017 - 26 November 2017
Cr Amanda Stone		27 November 2017 - 30 June 2018
Cr Misha Coleman (Deputy Mayor)		27 November 2017 - 30 June 2018
Cr Misha Coleman		1 July 2017 - 26 November 2017
Cr Danae Bosler		1 July 2017 - 30 June 2018
Cr Jackie Fristacky		"
Cr Stephen Jolly		"
Cr Mike McEvoy		"
Cr Mi-Lin Chen Yi Mei		"
Cr James Searle		"

Chief Executive Officer & other Key Management Personnel

Chief Executive Officer	Vijaya Vaidyanath
Director Corporate Business & Finance	Andrew Day
Director Community Wellbeing	Lucas Gosling
Director City Works & Assets	Chris Leivers
Director Planning & Placemaking	Bruce Phillips
Assistant Director Planning and Place Making	Jane Waldock
Group Manager People Culture & Community	Fred Warner
Group Manager CEO's Office	Ivan Gilbert

	2018	2017
Total number of Councillors*	9	14
Chief Executive Officer and other Key Management Personnel	8	9
Total Key Management Personnel	<u>17</u>	<u>23</u>

(c) Remuneration of Key Management Personnel

	2018	2017
	\$,000	\$,000
Total remuneration* of key management personnel was as follows:		
Short-term benefits	2,483	2,727
Long-term benefits	410	449
Termination benefits	-	-
Total	<u>2,893</u>	<u>3,176</u>

* Short and long term benefits for KMP include any leave liability and fringe benefits tax.

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

6.1 Council and key management remuneration (continued)

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

	2018 No	2017 No
\$1 - \$9,999	-	4
\$10,000 - \$19,999	-	5
\$20,000 - \$29,999	7	4
\$50,000 - \$59,999	1	-
\$60,000 - \$69,999	1	1
\$180,001 - \$189,999	-	1
\$190,000 - \$199,999	1	2
\$200,000 - \$209,999	3	1
\$230,000 - \$239,999	-	1
\$250,000 - \$259,999	1	1
\$260,000 - \$269,999	2	2
\$350,000 - \$359,999	1	1
	<u>17</u>	<u>23</u>

Key management personnel (KMP) include the current 9 councillors, the CEO and the Executive Management Team.

** Total remuneration includes salary, superannuation and councillor reimbursement allowance but no leave liability.

(d) Senior Officer Remuneration

A Senior Officer is an officer of Council, other than Key Management Personnel, who has management responsibilities and whose total annual remuneration exceeds \$147,000:

<i>Income range:</i>	2018 No.	2017 No.
\$147,000 - \$149,999	-	1
\$150,000 - \$159,999	4	1
\$160,000 - \$169,999	5	5
\$170,000 - \$179,999	6	5
\$180,000 - \$189,999	1	2
\$190,000 - \$199,999	-	-
\$240,000 - \$249,999	1	-
	<u>17</u>	<u>14</u>
	\$'000	\$'000
Total remuneration for the reporting year for Senior Officers included above, amounted to:	2,932	2,546

(e) Other officer remuneration

Other officers whose annual remuneration exceeds \$147,000:

<i>Income range:</i>	2017 No.	2016 No.
\$147,000 - \$149,999	2	10
\$150,000 - \$159,999	5	6
\$160,000 - \$169,999	2	3
\$170,000 - \$179,999	1	-
\$190,000 - \$199,999	1	-
\$200,000 - \$209,999	1	-
	<u>12</u>	<u>19</u>
	\$'000	\$'000
Total remuneration for the reporting year for other officers included above, amounted to:	1,957	2,883

Other officer remuneration may include overtime and/or on-call allowances.

6.2 Related party disclosure

(a) Transactions with related parties

During the period Council did not enter into transactions with related parties.

(b) Outstanding balances with related parties

There were no balances outstanding at the end of the reporting period in relation to transactions with related parties.

(c) Loans to/from related parties

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

(d) Commitments to/from related parties

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

Notes to the Financial Report for the Year Ended 30 June 2018**Note 7 Managing uncertainties****7.1 Contingent liabilities and contingent assets****(a) arising from Public Liability**

As a local authority we manage parks, reserves, roads, and other land holdings and, as a result, receive potential claims arising from incidents which occur on land managed by Council. There are a number of outstanding claims against Council in this regard. Council carries \$600 million of public liability insurance and an excess of \$50,000 on this policy in 2017/18. Therefore, the maximum liability of Council in any single claim is the extent of its excess. The primary insurer is LMI Insurance. There are no claims of which Council is aware which would fall outside the terms of Council's policy.

(b) arising from Professional Indemnity

As a local authority with statutory regulatory responsibilities, including the responsibility of issuing permits and approvals, Council receives potential claims for damages arising from actions of Council or its officers. Council carries \$600 million of professional indemnity insurance and an excess of \$50,000 on this policy in 2017/18. Therefore, the maximum liability of Council in any single claim is the extent of its excess. The primary insurer is LMI Insurance. There are no instances or claims of which Council is aware which would fall outside the terms of Council's policy.

(c) arising from Legal Matters

The Council is presently involved in several confidential legal matters, which are being conducted through Council's solicitors. This includes a legal matter involving the Metropolitan Fire and Emergency Services Board (MFESB) and Council concerning possible soil contamination issues at the Burnley Depot site.

As these matters are yet to be finalised, and the financial outcomes are unable to be reliably estimated, no allowance for these contingencies have been made in the final report

7.2 Change in accounting standards

The following new AAS's have been issued that are not mandatory for the 30 June 2018 reporting period. Council has assessed these pending standards and has identified the following potential impacts will flow from the application of these standards in future reporting periods.

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

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

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

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

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

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

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

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

Leases (AASB 16) (applies 2019/20)

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

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

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

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

7.3 Financial instruments

(a) Objectives and policies

The Council's principal financial instruments comprise cash assets, term deposits, receivables (excluding statutory receivables), payables (excluding statutory payables) and bank borrowings. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument is disclosed in Note 1 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 our financial instruments will fluctuate because of changes in market prices. The Council's exposures to market risk is primarily through interest rate risk with only immaterial exposure to other price risks and no exposure to foreign currency risk.

Interest rate risk

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

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

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

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

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

(c) Credit risk.

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on some financial assets included in our balance sheet. To help manage this risk:

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

We may also be subject to credit risk for transactions which are not included in the balance sheet, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 7.1(b).

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

(d) Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements or we will not have sufficient funds to settle a transaction when required, we 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 in the face of the balance sheet and the amounts related to financial guarantees disclosed in Note 7.1(c), and is deemed insignificant based on prior periods' data and current assessment of risk.

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

With the exception of borrowings, all financial liabilities are expected to be settled within normal terms of trade. Details of the maturity profile for borrowings are disclosed at Note 4.4.

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

(e) Sensitivity disclosure analysis

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

- A parallel shift of + 2% and -1% in market interest rates (AUD) from year-end rate.

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.

Notes to the Financial Report for the Year Ended 30 June 2018**7.4 Fair value measurement***Fair value hierarchy*

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

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

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

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

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

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

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

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

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

Revaluation

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

Fair value valuations are determined in accordance with a valuation hierarchy. Changes to the valuation hierarchy will only occur if an external change in the restrictions or limitations of use of an asset result in changes to the permissible or practical highest and best use of the asset. In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis ranging from 2 to 3 years. The valuation is performed either by experienced council officers or independent experts.

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

Impairment of assets

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

7.5 Events occurring after balance date

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

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

Note 8 Other matters

8.1 Reserves	Balance at beginning of Year	Increment (decrement)	Balance at end of Year
(a) Asset revaluation reserves	\$'000	\$'000	\$'000
2018			
Property			
Land	620,737	175,113	795,850
Buildings	46,546	(3,804)	42,742
Heritage buildings	2,860	-	2,860
	670,143	171,309	841,452
Infrastructure			
Road Substructure	119,478	37,480	156,958
Road Seal	10,693	-	10,693
Footpaths Substructure	40,701	13,615	54,316
Footpaths Seal	28,770	-	28,770
Drains	3,609	-	3,609
Bridges	1,000	-	1,000
Lane Substructure	16,236	(627)	15,609
Lane Seal	45,636	-	45,636
Kerb and channel	99,355	(2,497)	96,858
Open space	0	27	27
Trees	13	-	13
Art, Heritage and Culture	44	-	44
	365,535	47,998	413,533
Total Asset revaluation reserves	1,035,678	219,307	1,254,985

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

2017**Property**

Land	620,737	-	620,737
Buildings	46,546	-	46,546
Heritage buildings	2,860	-	2,860
	670,143	-	670,143

Infrastructure

Road Substructure	119,478	-	119,478
Road Seal	10,693	-	10,693
Footpaths Substructure	40,701	-	40,701
Footpaths Seal	28,770	-	28,770
Drains	3,609	-	3,609
Bridges	1,000	-	1,000
Lane Substructure	16,236	-	16,236
Lane Seal	45,636	-	45,636
Kerb and channel	99,355	-	99,355
Trees	13	-	13
Art, Heritage and Culture	0	44	44
	365,491	44	365,535

Total Asset revaluation reserves

	1,035,634	44	1,035,678
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	Balance at beginning of Year	Transfer to accumulated surplus	Transfer from accumulated surplus	Balance at end of Year
(b) Other reserves	\$'000	\$'000	\$'000	\$'000
2018				
Statutory Reserves				
Resort and recreation (a)	482	(1,771)	4,806	3,517
Parking (b)	79	-	-	79
Total Statutory Reserves	561	(1,771)	4,806	3,596
General Reserves				
General reserve (b)	20,100	-	-	20,100
Total General Reserves	20,100	-	-	20,100
Total Other Reserves	20,661	(1,771)	4,806	23,696
2017				
Statutory Reserves				
Resort and recreation (a)	-	(3,388)	3,870	482
Parking (b)	79	-	-	79
Total Statutory Reserves	79	(3,388)	3,870	561
General Reserves				
General reserve (c)	20,100	-	-	20,100
Total General Reserves	20,100	-	-	20,100
Total Other reserves	20,179	(3,388)	3,870	20,661

(a) Resort and Recreation reserve relates to contributions received as Public Open Space Levies pursuant to the provisions of Section 18 of the *Subdivision Act 1988*. The reserve will be used to fund eligible open space capital works projects. In 2017/18 the following projects and amounts were acquitted from the Public Open Space Reserve:

Construction of a new local park - Charles St	\$724K
George Knott Reserve works	\$576K
Merri Creek Trail - Coulson Reserve Path	\$287K
Darling Gardens - Playground	\$184K
Total	\$1.771M

(b) Parking reserve relates to contributions received in lieu of the provision of parking spaces required for property developments. This reserve will be used in the provision of additional car parking spaces as required.

(c) General reserve relates to unrestricted Council expenditure for a range of possible capital works projects which may include open space projects as assessed with each annual budget process into the future. These are currently not cashed backed.

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

8.2 Reconciliation of cash flows from operating activities to surplus/(deficit)	2018	2017
	\$'000	\$'000
Surplus/(deficit) for the year	20,869	17,506
Depreciation	21,074	20,347
Finance costs	2,007	1,605
(Profit)/loss on disposal of non current assets (refer to Note 2.6)	(2,230)	(563)
Change in assets and liabilities:		
(Increase)/decrease in receivables	(1,660)	(1,397)
(Increase)/decrease in other assets	(643)	1,072
Increase/(decrease) in payables	(867)	(7,614)
Increase/(decrease) in other liabilities	2,341	2,151
(Increase)/decrease in inventories	20	2
Increase/(decrease) in employee benefits	542	(121)
Net cash provided by/(used in) operating activities	41,452	32,988

8.3 Superannuation

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

Accumulation

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

Defined Benefit

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

Funding arrangements

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

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

Net investment returns	6.5% pa
Salary information	3.5% pa
Price inflation (CPI)	2.5% pa.

Vision Super has advised that the estimated VBI at [quarter end] was [insert the latest VBI advised by Vision Super]%. The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2017 actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

Notes to the Financial Report for the Year Ended 30 June 2018**Employer Contributions****Regular Contributions**

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

Funding calls

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

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including Council) are required to make an employer contribution to cover the shortfall. Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's Defined Benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up. If there is a surplus in the Fund, the surplus cannot be returned to the participating employers. In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

2017 triennial actuarial investigation surplus amounts

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

A VBI surplus of \$69.8 million

A total service liability surplus of \$193.5 million.

A discounted accrued benefits surplus of \$228.8 million.

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2017. Council was notified of the 30 June 2017 VBI during August 2017.

2018 interim actuarial investigation

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