

Devonport City Council

**ANNUAL FINANCIAL REPORT
For the Year Ended 30 June 2020**

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Statement of Comprehensive Income

		Budget 2020 \$'000	Actual 2020 \$'000	Actual 2019 \$'000
	Note			
Income from continuing operations				
Recurrent income				
Rates and service charges	4	28,642	28,907	27,976
Fees and charges	5	5,681	5,460	5,852
Grants	6	2,644	2,372	2,586
Contributions - cash	7	36	24	19
Investment revenue from TasWater	8	1,089	546	1,018
Other investment revenue	9	1,219	852	1,063
Share of profit of associates accounted for by the equity method	23	372	1,146	1,539
Other income	10	1,139	1,137	1,105
Total recurrent income		40,822	40,444	41,158
Capital items				
Capital grants received specifically for new or upgraded assets	6	4,057	2,505	1,504
Contributions - non-monetary assets	7	0	8	510
Net loss on the disposal of property, infrastructure, plant and equipment	16	(304)	(626)	(819)
Capital works completed on assets not owned by Council	17	0	(93)	0
Derecognition of assets	18	0	(1,320)	(2,885)
Total capital items		3,753	474	(1,690)
Total income from continuing operations		44,575	40,918	39,468
Expenses from continuing operations				
Employee benefits	11	12,332	12,506	11,964
Materials and services	12	15,541	15,232	15,395
Depreciation and amortisation	13	9,750	10,624	9,574
Finance costs	14	1,731	2,054	3,611
Other expenses	15	995	1,339	1,202
Total expenses from continuing operations		40,349	41,755	41,746
Result from continuing operations		4,226	(837)	(2,278)
Net result for the year		4,226	(837)	(2,278)
Other comprehensive income				
Items that will not be reclassified to surplus or deficit				
Fair value adjustments on equity investment assets	22	0	(23,239)	12,683
Net asset revaluation increment / (decrement) - Council	33	0	33,537	2,017
Net asset revaluation increment / (decrement) - Associates	23	0	72	21
Total other comprehensive income		0	10,370	14,721
Total comprehensive result		4,226	9,533	12,443

Statement of Financial Position as at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Current Assets			
Cash and cash equivalents	19	13,730	15,966
Trade and other receivables	20	2,358	7,578
Other assets	21	200	306
Available for sale assets	24.1	513	1,337
Total current assets		16,801	25,187
Non-Current Assets			
Trade and other receivables	20	364	24
Other assets	21	0	268
Investment in TasWater	22	76,789	100,028
Investments in associates	23	8,191	7,234
Property, infrastructure, plant and equipment	24	513,904	477,943
Right-of-use assets	25	812	0
Capital work in progress	26	9,895	4,311
Total non-current assets		609,955	589,808
TOTAL ASSETS		626,756	614,995
Current Liabilities			
Trade and other payables	27	3,099	2,379
Interest bearing liabilities	28	1,804	1,804
Provisions	30	2,244	2,309
Lease liabilities	31	52	0
Contract liabilities	32	2,206	0
Total current liabilities		9,405	6,492
Non-Current Liabilities			
Interest bearing liabilities	28	48,213	50,017
Other Financial Liabilities	29	2,882	2,499
Provisions	30	325	350
Lease liabilities	31	761	0
Total non-current liabilities		52,181	52,866
TOTAL LIABILITIES		61,586	59,358
NET ASSETS		565,170	555,637
Equity			
Asset revaluation reserve - Council	33	352,395	318,858
Asset revaluation reserve - Associates	33	1,661	1,589
Other reserves	34	392	23,631
Accumulated surplus	33	210,722	211,559
TOTAL EQUITY		565,170	555,637

DEVONPORT CITY COUNCIL

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Statement of Changes in Equity

2020		Asset Revaluation Reserve - Council Note 33 (i) \$'000	Asset Revaluation Reserve - Associate Note 33 (ii) \$'000	Accumulated Surplus Note 33 (iii) \$'000	Other Reserves Note 34 \$'000	Total \$'000
Balance at beginning of year		318,858	1,589	211,559	23,631	555,637
Net result for the year		0	0	(837)	0	(837)
Other comprehensive income		33,537	72	0	(23,239)	10,370
Balance at end of year		352,395	1,661	210,722	392	565,170

2019		Asset Revaluation Reserve - Council Note 33 (i) \$'000	Asset Revaluation Reserve - Associate Note 33 (ii) \$'000	Accumulated Surplus Note 33 (iii) \$'000	Other Reserves Note 34 \$'000	Total \$'000
Balance at beginning of year		316,841	1,568	213,837	10,948	543,194
Net result for the year		0	0	(2,278)	0	(2,278)
Other comprehensive income		2,017	21	0	12,683	14,721
Balance at end of year		318,858	1,589	211,559	23,631	555,637

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities :			
Rates and other user charges		33,454	33,463
Net GST refund/(payment)		1,215	2,958
Interest received		366	428
Contributions - cash		24	19
Government grants and subsidies		2,464	2,586
Other receipts		1,132	441
Payments to suppliers and employees		(29,648)	(29,967)
Other payments		(875)	(1,326)
Net cash flows provided by operating activities	39	8,132	8,602
Cash flows from investing activities :			
Payments for non current assets		(13,662)	(21,406)
Proceeds from sale of non current assets		1,514	3,299
Capital grants		4,219	1,504
Investment revenue from Taswater		546	1,727
Dividend from Associate		261	335
Other investments		642	513
Finance costs paid		(1,671)	(1,716)
Loans to community organisations		(361)	4
Net cash used in investing activities		(8,512)	(15,740)
Cash Flows from financing activities :			
Proceeds from borrowings		0	7,661
Repayment of lease liabilities (principal repayments)		(52)	0
Repayment of borrowings		(1,804)	(999)
Net cash provided by financing activities		(1,856)	6,662
Net increase / (decrease) in cash and cash equivalents		(2,236)	(476)
Cash and cash equivalents at beginning of the financial year		15,966	16,442
Cash and cash equivalents at end of the financial year	19	13,730	15,966

Reporting Entity

- (a) The Devonport City Council was established in 1908 and is a body corporate with perpetual succession and a common seal. Council's main office is located at 137 Rooke Street, Devonport.
- (b) The purpose of the Council is to:
- provide for health, safety and welfare of the community;
 - represent and promote the interests of the community;
 - provide for the peace, order and good government in the municipality.

1 Statement of accounting policies

(a) Basis of accounting

These financial statements are a general purpose financial report that consists of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and accompanying notes. The general purpose financial report complies with Australian Accounting Standards and the *Local Government Act 1993 (LGA1993) (as amended)*. Council has determined that it does not have profit generation as a prime objective. Consequently, where appropriate, Council has elected to apply options and exemptions within accounting standards that are applicable to not-for-profit entities.

All amounts are presented in Australian dollars and unless stated, have been rounded to the nearest thousand dollars.

This financial report has been prepared on an accrual and going concern basis. This financial report has been prepared under the historical cost convention, except where specifically stated.

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

All entities controlled by Council that have material assets or liabilities, such as special committees of management, and material subsidiaries or joint ventures, have been included in this financial report. Where relevant, all transactions between these entities and Council have been eliminated in full.

(b) Judgements and assumptions

In the application of Australian Accounting Standards, Council is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Council has made no assumptions concerning the future that may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period. Judgements made by Council that have significant effects on the financial report are disclosed in the relevant notes as follows:

Employee entitlements

Assumptions are utilised in the determination of Council's employee entitlement provisions. These assumptions are discussed in Note 31.

Defined benefit superannuation fund obligations

Actuarial assumptions are utilised in the determination of Council's defined benefit superannuation fund obligations. These assumptions are discussed in Note 35.

Fair Value of Property Plant & Equipment

Assumptions and judgements are utilised in determining the fair value of Council's property, plant and equipment including useful lives and depreciation rates. These assumptions are discussed in Note 1(g) and Notes 24 and 45.

Investment in water corporation

Assumptions utilised in the determination of Council's valuation of its investment in TasWater are discussed in Note 22.

1 Statement of accounting policies (continued)

(c) Adoption of new and amended accounting standards

In the current year, Council has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. These include:

(i) AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities

Council adopted AASB15 and AASB1058 using the modified retrospective method of transition, with the date of initial application of 1 July 2019. In accordance with the provisions of this transition approach, Council recognised the cumulative effect of applying these new standards as an adjustment to opening Accumulated surpluses at the date of initial application, i.e., 1 July 2019. Consequently, the comparative information presented has not been restated and continues to be reported under the previous standards on revenue and income. In addition, Council has applied the practical expedients and elected to apply these standards retrospectively only to contracts and transactions that were not completed contracts at the date of initial application, i.e., as at 1 July 2019

As Council has applied the modified retrospective approach, it has applied the practical expedient method described in AASB15.C5(c) for all contract modifications that occurred before application date. In doing so Council did not retrospectively restate the contract for those modifications in accordance with AASB15.20-21. Instead, Council reflected the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

- Identifying the satisfied and unsatisfied performance obligations
- Determining the transaction price
- Allocating the transaction price to the satisfied and unsatisfied performance obligation.

Grants received to construct non-financial assets controlled by Council will be recognised as a liability, and subsequently recognised progressively as revenue as Council satisfies its performance obligations under the grant.

Grants that are not enforceable and/or not sufficiently specific, will not qualify for deferral, and continue to be recognised as revenue as soon as they are controlled. Council receives several grants for which there are no sufficiently specific performance obligations, for example the Commonwealth Financial Assistance Grants. These grants are and will continue to be recognised as revenue upfront assuming no change to the current grant arrangements.

Council currently presents unexpended grant income received in note 6.

Council will apply the standard from 1 July 2019 using a retrospective approach with cumulative catch-up with an adjustment to Accumulated Surpluses for the difference in accounting treatment on initial adoption.

(ii) AASB 1058 Income of Not-for-Profit Entities

This standard is applicable to annual reporting periods beginning on or after 1 January 2019.

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contributions. The timing of income recognition under AASB 1058 depends on whether a transaction gives rise to a liability or other performance obligation, or a contribution by owners, related to an asset (such as cash or another asset) received.

AASB 1058 applies when Council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the asset is principally to enable Council to further its objectives. In cases where Council enters into other transactions, Council recognises and measures the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. AASB 116 Property, Plant and Equipment).

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council (i.e. an in-substance acquisition of a non-financial asset), Council recognises a liability for the excess of the fair value of the transfer over any related amounts recognised. Council will recognise income as it satisfies its obligations under the transfer, similar to income recognition in relation to performance obligations under AASB 15 as discussed above.

Council has elected not to recognise 'Peppercorn Leases' at 30 June 2020. The assessment undertaken considered the whether Council could identify the asset subject to the lease, the application of control over the asset, the consideration paid for the lease, the term of the lease, the value of the leased asset and the application of an exemption.

1 Statement of accounting policies (continued)

AASB 1058 also encompasses non-contractual statutory income such as rates, taxes and fines. Under AASB 1058, income is recognised when the taxable event has occurred. There will be no change to the way Council currently accounts for prepaid rates as Council currently defers revenue from prepaid rates until the commencement of the applicable rating period and recognises prepaid rates as a financial liability, in line with the pending accounting standard.

AASB 1058 requires the recognition of Volunteer services where they would have been purchased if not donated and the fair value of those services can be reliably measured. It is estimated that the value of volunteer services is \$140,000 per annum, however they have not been recognised as they would not have been purchased if they had not been donated.

Council will apply the standard from 1 July 2019 using a retrospective approach with cumulative catch-up with an adjustment to Accumulated Surpluses for the difference in accounting treatment on initial adoption.

(iii) AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019.

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

Council has applied this standard from 1 July 2019 using a retrospective approach (partial) with cumulative catch-up. This does not require Council to restate comparative figures, but does require the presentation of both qualitative and quantitative disclosures for affected items, along with a corresponding adjustment to the opening balance of Accumulated surpluses for transitional effects of re-measurement.

AASB 16 has resulted in most of Council's operating leases being brought onto the statement of financial position. There are limited exceptions relating to peppercorn leases, short-term leases and low-value assets which are disclosed in notes 28 and 31.

The calculation of the lease liability has taken into account appropriate discount rates, assumptions about the lease term, and increases in lease payments. A corresponding right to use assets has been recognised, which has been amortised over the term of the lease. Rent expense is no longer shown. The profit and loss impact of the leases has been through amortisation and interest charges. Council's current operating lease expenditure is shown at Notes 13 and 14. In the Statement of Cash Flows lease payments have been shown as cash flows from financing activities instead of operating activities.

a) Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in AASB 117 and Interpretation 4.

b) Impact of lessee accounting

i) Former operating leases

AASB 16 changes how Council accounts for leases previously classified as operating leases under AASB 17

Applying AASB 16, for all leases, Council:

- a) Recognises right-of-use of assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the Statement of cash flows.

1 Statement of accounting policies (continued)

Lease incentives (e.g rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted into the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), Council has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. These expenses are presented as 'Low-value leases' in note 12.

ii) Former finance leases

AASB 16 requires that Council recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117. This change did not have a material effect on the Council's financial statements.

iii) Lessor accounting

Lessor accounting under AASB 16 remains largely unchanged. For finance leases, the lessor recognises a receivable equal to the net investment in the lease. Lease receipts from operating leases are recognised as income either on a straight-line basis or another systematic basis where appropriate. However, AASB 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under AASB 16, an intermediate lessor accounts for the head lease and sub-lease as two-separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under AASB 117).

Transition

On transition to AASB16, Council recognised additional right-of-use assets and additional lease liabilities, recognising the difference in Accumulated surpluses. The impact on transition is summarised below.

1 July 2019	Note	\$'000
Right-of-use assets	25	865
Lease liabilities	31	(865)
Accumulated surpluses		-

As a lessee, the weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on the date of initial application was 1%. Leases accounted for under AASB 16 relate to 3 parcels of land leased from Crown Land previously disclosed as Rental Expense.

Operating lease commitments disclosed as at 30 June 2019	-
Crown leases previously disclosed as Rental Expense, calculated with reference to the term of the lease, annual repayments and annual discount rate of 1%	865
Finance lease liabilities recognised as at 30 June 2019	865
Lease liability recognised as at 1 July 2019	865

1 Statement of accounting policies (continued)

(d) Pending Accounting Standards

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods. Council's assessment of the impact of the relevant new standards and interpretations is set out below.

(l) AASB 2017-5 Amendments to Australian Accounting Standards - Effect Date of Amendments to AASB 10 and AASB 128 and Editorial Correction, applicable to annual reporting periods beginning on or after 1 January 2022.

These amendments address and acknowledge inconsistency between the requirements of AASB 10 and those in AASB 128 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Council's investment in Dulverton Regional Waste Management Authority (DRWMA) is classified as an investment in an associate. As Council does not anticipate making a sale or contribution of assets to DRWMA the amendments to this standard are not expected to have any impact.

All other Australian accounting standards and interpretations with future effective dates are not applicable to Council's activities.

(e) Allocation between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being Council's operational cycle, or if Council does not have an unconditional right to defer settlement of a liability for at least 12 months after the reporting date.

(f) Taxation

Council is exempt from all forms of taxation except Fringe Benefits Tax, Payroll Tax and the Goods and Services Tax.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a net basis.

(g) Impairment of non-financial assets

At each reporting date, 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 to sell 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 Statement of Profit or Loss and Other Comprehensive Income, unless the asset is carried at the revalued amount in which case, the impairment loss is recognised directly against the revaluation reserve 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. For non-cash generating assets of Council such as roads, drains, public buildings and the like, value in use is represented by the deprival value of the asset approximated by its written down replacement cost.

(h) Rounding

Unless otherwise stated, amounts in the financial report have been rounded to the nearest thousand dollars.

2 Functions / activities

(a) Council's functions and activities

Revenue, expenses and assets have been attributed to the following functions :

Programs	Revenue		Expenses	Surplus/(deficit) for Year	Assets
	Grants	Other			
	2020 \$'000	2020 \$'000	2020 \$'000	2020 \$'000	2020 \$'000
Corporate	2,221	27,531	9,822	19,930	67,703
Community, Cultural & Recreation	173	1,397	8,219	(6,649)	24,462
Parking	0	2,410	2,024	386	22,269
Economic Development	0	57	781	(724)	11,651
Roads	2,350	(361)	7,409	(5,420)	137,566
Stormwater	0	(507)	2,144	(2,651)	85,156
Waste Management	0	4,685	4,747	(62)	2,528
Parks & Gardens	133	89	4,617	(4,395)	183,681
Buildings	0	(72)	360	(432)	87,333
Infrastructure Administration	0	124	80	44	4,297
Regulatory Services	0	688	1,552	(864)	110
TOTAL	4,877	36,041	41,755	(837)	626,756

2019 Restated

Programs	Revenue		Expenses	Surplus/(deficit) for Year	Assets
	Grants	Other			
	2019 \$'000	2019 \$'000	2019 \$'000	2019 \$'000	2019 \$'000
Corporate	2,479	28,655	9,386	21,748	113,048
Community, Cultural & Recreation	114	1,055	7,433	(6,264)	5,353
Parking	0	2,283	1,927	356	22,452
Economic Development	1,000	(1,766)	2,551	(3,317)	62,713
Roads	450	(327)	7,398	(7,275)	134,060
Stormwater	0	(70)	2,164	(2,234)	78,079
Waste Management	0	4,364	4,132	232	1,563
Parks & Gardens	47	370	4,607	(4,190)	162,296
Buildings	0	0	368	(368)	32,181
Infrastructure Administration	0	120	393	(273)	3,163
Regulatory Services	0	694	1,387	(693)	87
TOTAL	4,090	35,378	41,746	(2,278)	614,995

(b) Reconciliation of Assets from note 2 with the Statement of Financial Position at 30 June:

	2020 \$'000	2019 \$'000
Current assets	16,801	25,187
Non-current assets	609,955	589,808
	626,756	614,995

2 Functions / activities

(c) - Council's programs and activities

The activities relating to the Programs in Note 2 (a) are as follows

CORPORATE

This Program includes the following activities

Executive Management
Receptions & Functions
Communication
Emergency Management
Corporate Services
Governance
Property Management
Customer Services
Records Management
Elected Members Support
Human Resource Management
Payroll Services
Information Technology
Accounting & Finance
Corporate Revenue

COMMUNITY, CULTURAL AND RECREATION

This Program includes the following activities

Community Development
Community Financial Assistance
paranple Arts Centre
paranple Convention Centre
Recreational Development
Devonport Aquatic Centre
Devonport Recreation Centre
East Devonport Recreation Centre
Marketing & Events
Bass Strait Maritime Centre
Home Hill

ECONOMIC DEVELOPMENT

This Program includes the following activities

LIVING CITY Project
Economic Development

PARKING

Parking

ROADS

This Program includes the following activities

Roads Maintenance

STORMWATER

This Program includes the following activities

Stormwater Maintenance

WASTE MANAGEMENT

This Program includes the following activities

Waste Management Operations

PARKS & GARDENS

This Program includes the following activities

Parks & Open Space Maintenance
Cemetery Operations

BUILDINGS

This Program includes the following activities

Building Maintenance

INFRASTRUCTURE ADMINISTRATION

This Program includes the following activities

Project Management
Engineering Services
Plant Services

REGULATORY SERVICES

This Program includes the following activities

Town Planning & Development
Building Surveying Services
Plumbing Assessment & Inspections
Environmental Health Services
Animal Control
Emergency Management

3 Significant business activities

The operating capital and competitive neutrality costs of the Council's significant business activities:

2020			
	Parking	Waste Management	paranaple Arts Centre and Convention Centre*
	\$'000	\$'000	\$'000
Operating Statement			
Revenue			
Fees and charges	1,467	4,597	630
Other	575	88	75
Grants and contributions	0	0	92
Total revenue	2,042	4,685	797
Expenses - Direct			
Employee costs	278	605	1,155
Materials and services	818	4,087	1,271
Levies and taxes	265	3	62
Total expenses (before depreciation)	1,361	4,695	2,488
Capital costs			
Depreciation expense	324	52	1,064
Opportunity cost of capital	758	69	683
(Gain) / loss on sale of non-current assets	(367)	0	0
	715	121	1,747
Calculated surplus / (deficit)	(34)	(131)	(3,438)
Income Tax Equivalent Rate 30%			
Income tax equivalent	0	0	0
Total fully attributed costs	2,076	4,816	4,235

3 Significant business activities (cont.)

Operating Statement

Revenue

Fees and charges
Other
Grants and contributions
Total revenue

Expenses - Direct

Employee costs
Materials and services
Levies and taxes
Total expenses (before depreciation)

Capital costs

Depreciation expense	
Opportunity cost of capital	3.37%
(Gain) / loss on sale of non-current assets	

Calculated surplus / (deficit)

Income Tax Equivalent Rate 30%

Income tax equivalent
Total fully attributed costs

2019		
Parking	Waste Management	paranaple Arts Centre and Convention Centre
\$'000	\$'000	\$'000
1,852	4,273	468
693	91	89
0	0	86
2,545	4,364	643
331	448	1,173
725	3,628	1,118
178	3	36
1,233	4,079	2,326
350	53	411
740	52	569
263	0	171
1,353	105	1,151
(41)	181	(2,834)
0	54	0
2,586	4,238	3,477

Accounting policy

Council is required to report the operating, capital and competitive neutrality costs in respect of each significant business activity undertaken by the Council. Council's disclosure is reconciled above. Council has determined, based upon materiality, that Parking, Waste Management, the paranaple Art Centre and the paranaple Convention Centre are considered significant business activities. Competitive neutrality costs include notional costs i.e. income tax equivalent, rates and loan guarantees. In preparing the information disclosed in relation to significant business activities, the following assumptions have been applied:

- the opportunity cost of capital is calculated at 3.39% (2018/19 3.37%) of assets; and
- income tax equivalents are calculated using the company tax rate

4 Rates and service charges

Council uses Assessed Annual Value (AAV) as the basis of valuation, for rating purposes, of all properties within the municipal area. AAV is an assessment of the indicative rental value of a property for a 12 month period or a 4% minimum of capital value, at a specific date and in accordance with legislation. The Valuer-General determines the AAV under the *Valuation of Land Act 2001*.

	2020 \$'000	2019 \$'000
General rates	21,902	21,347
Penalty income from overdue rates and charges	93	110
Waste management rates & charges	3,939	3,703
Fire Service Levy	2,973	2,816
Total rates and service charges	28,907	27,976

The date of the last general revaluation of land for rating purposes within the municipal area was 1 July 2014, and the valuation was first applied in the rating year commencing 1 July 2015.

Accounting Policy under AASB 15 and AASB 1058 - applicable from 1 July 2019

Council recognises revenue from rates and annual charges for the amount it is expected to be entitled to at the beginning of the rating period to which they relate, or when the charge has been applied. Rates and charges in advance are recognised as a financial liability until the beginning of the rating period to which they relate.

Accounting Policy under AASB 118 and AASB 1004 - applicable for 2019 comparative

Rate income is recognised as revenue when Council obtains control over the assets comprising receipt. Control over assets acquired from rates is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

	2020 \$'000	2019 \$'000
5 Fees and charges		
Admission charges	96	94
Animal registrations	90	89
Cemetery fees	194	227
Certificate charges	183	184
Development fees	400	422
Equipment hire fees	39	20
Facility hire	337	337
Fines	388	490
Licences	72	72
Parking fees	1,467	1,852
Property leases & rental	955	1,084
Sales of goods	581	411
Waste management fees	658	570
Total fees and charges	5,460	5,852

Refer to Note 43 for the aging analysis of contractual receivables.

Accounting Policy applicable under AASB 15 and AASB 1058 - applicable from 1 July 2019

Parking fees and fines are recognised when or as the performance obligation is completed, or when the taxable event has been applied and Council has an unconditional right to receive payment.

Council recognises revenue from all other fees and charges when or as the performance obligation is completed and the customer receives the goods/services being provided.

Accounting Policy applicable for 2019 comparative

Fees and fines

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. A provision for impairment is recognised when collection in full is no longer likely. Aged infringement debtors are forwarded to the Monetary Penalties Enforcement Service for collection on Council's behalf, and recorded as an expense at that time. Any amounts recovered by the Monetary Penalties Enforcement Service are recorded as income when received.

Property leases and rentals

Rents are recognised as revenue when the payment is due or the payment is received, whichever first occurs. Rent payments received in advance are recognised as a liability until they are due.

Operating leases as lessor

Council leases properties at market rental values and, usually where tenants are not for profit entities such as community or sporting organisation, at subsidised or peppercorn rentals as part of its community support objectives.

All lease revenue is recorded on an accruals basis for the actual rental receivable. Subsidies and incentives are not quantified or separately recorded.

All leased properties are recognised at fair value (refer to note 24).

Sale of goods

Sale of goods are recognised as revenue when the product or service has been provided.

6 Grants

	2020 \$'000	2019 \$'000
Grants - Recurrent		
Commonwealth Government Financial Assistance Grants - General Purpose	1,021	1,138
Commonwealth Government Financial Assistance Grants - Roads	1,098	1,284
State Government - Grant to demolish Maternity Hospital building		0
Arts	92	80
Community projects	82	27
Roads	79	57
Total recurrent grants	2,372	2,586
Capital grants received specifically for new or upgraded assets		
Roads to Recovery	507	222
Black Spot Program	1,198	137
Community Projects	133	7
State Government - Road Projects	232	91
State Government - Bus Stop Infrastructure	430	0
Electric Vehicle Charging Station	5	0
Urban Renewal - 'LIVING CITY' Project	0	1,000
Parks & Open Spaces	0	47
Total capital grants	2,505	1,504
Total grants	4,877	4,090

Accounting Policy under AASB 15 and AASB 1058 - applicable from 1 July 2019

Council recognises untied grant revenue and those without performance obligations when received. In cases where funding includes specific performance obligations or is to acquire or construct a recognisable non-financial asset, a liability is recognised for funds received in advance and recognises income as obligations are fulfilled.

The performance obligations are varied based on the agreement, but include improvements to existing infrastructure to cater for additional female sporting participants under the 'Level the Playing Field' funding initiative, construction of bus shelters, arts programs and community events.

Each performance obligation is considered to ensure that the revenue recognition reflects the transfer of control and within grant agreements there may be some performance obligations where control transfers at a point in time and others which have continuous transfer of control over the life of the contract. Where control is transferred over time, generally the input methods being either costs or time incurred are deemed to be the most appropriate methods to reflect the transfer of benefit.

For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project as there is no profit margin. For acquisition of assets, the revenue is recognised when the asset is acquired and controlled by the Council.

6 Grants (continued)

	2020 \$'000	2019 \$'000
Conditions on grants		
Non-reciprocal grants which were obtained on the condition that they be expended for specified purposes or in a future period, but which are not yet expended in accordance with those conditions, are as follows:		
Unexpended at the close of the previous reporting period	1,229	1,075
Less: expended during the current period from revenues recognised in previous reporting periods		
Financial Assistance Grants	(1,229)	(1,075)
Plus: amounts recognised as revenues in this reporting period but not yet expended in accordance with the conditions		
Financial Assistance Grants	1,089	1,229
Plus: amounts recognised as a Contract Liability as per note 32		
Infrastructure	1,734	
Community & Cultural	49	
Unexpended at the close of this reporting period	2,872	1,229
Net increase (decrease) in non-reciprocal grant revenues for the year:	1,643	154

Accounting Policy under AASB 1004 - applicable for 2019 comparative

The Australian Commonwealth Government provides untied Financial Assistance Grants to Council for general purposes use and the provision of local roads. Previously in accordance with AASB 1004: *Contributions*, Council recognised these grants as revenue when it received the funds and obtained control.

Grant income - recurrent and capital

Grant income is recognised as revenue when Council obtains control over the assets comprising the receipt. Control over granted assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and are valued at their fair value at the date of transfer.

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

Unreceived grants over which Council has control are recognised as receivables.

	2020 \$'000	2019 \$'000
7 Contributions		
Cash		
Training contributions	18	0
Sundry	6	24
Developer Contribution	0	(5)
Total	24	19
Non- monetary assets		
Parks and Open Space	0	199
Roads	0	179
Stormwater	8	127
Cultural & Heritage	0	5
Total	8	510

Accounting Policy under AASB 15 - applicable from 1 July 2019

Council recognises contributions without performance obligations when received. In cases where the contributions are for a specific purpose to acquire or construct a recognisable non-financial asset, a liability for funds received in advance and income recognised as obligations are fulfilled.

Accounting Policy under AASB 1004 - applicable for 2019 comparative

Contributions are recognised as revenue when Council obtains control over the assets comprising the receipt.

Revenue is recognised when Council obtains control of the contribution or the right to receive the contribution, it is probable that the economic benefits comprising the contribution will flow to Council and the amount of the contribution can be measured reliably. Control over granted assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and are valued at their fair value at the date of transfer.

Non-monetary contributions (including developer contributions) with a value in excess of the recognition thresholds, are recognised as revenue and as non-current assets.

	2020 \$'000	2019 \$'000
8 Investment revenue from TasWater		
Dividend revenue	458	573
Tax equivalent	88	372
Guarantee fee	0	73
Total investment revenue from TasWater	546	1,018

Accounting Policy

Dividend revenue is recognised when Council's right to receive payment is established and it can be reliably measured.

9 Other investment revenue

Interest received from investments	321	449
Dulverton tax equivalent	531	614
Total other investment revenue	852	1,063

Accounting Policy

Interest is recognised progressively as it is earned.

Tax equivalent revenue is recognised when Council's right to receive payment is established and it can be reliably measured.

10 Other income

Commission	176	186
Recoverables	409	404
Miscellaneous	552	515
Total Other revenue	1,137	1,105

Other income is recognised progressively as it is earned.

Income treated as other income includes recovered utility charges and insurance claim refunds.

	2020 \$'000	2019 \$'000
11 Employee benefits		
Total wages and salaries	9,580	8,964
Annual and long service leave entitlements	1,106	1,164
Superannuation (Note 35)	1,279	1,198
Workers compensation and payroll tax	889	854
	<u>12,854</u>	<u>12,180</u>
Other employee related expenses	<u>160</u>	<u>130</u>
	13,014	12,310
Less amounts capitalised	<u>(508)</u>	<u>(346)</u>
	<u>12,506</u>	<u>11,964</u>

Accounting Policy

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably.

Employee benefits include, where applicable, entitlements to wages and salaries, annual leave, sick leave, long service leave, superannuation and any other post-employment benefits.

12 Materials and services

Advertising, printing & other office costs	198	269
Computer services and maintenance	686	737
Consultants	208	563
Contractors	5,511	5,768
General - services & materials	1,393	1,310
Low-value leases	89	0
Insurance	325	299
Levies & taxes	3,824	3,519
Memberships - organisations	285	293
Plant expenses	591	619
Professional services	216	110
Telephone & postage services	157	210
Utilities	<u>1,749</u>	<u>1,698</u>
	<u>15,232</u>	<u>15,395</u>

Accounting Policy

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably.

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

13 Depreciation

	2020 \$'000	2019 \$'000
<i>Infrastructure</i>		
Parks and open space	742	698
Buildings	2,975	2,293
Plant	574	562
Furniture and fittings	708	350
Roads	4,200	4,355
Stormwater	1,358	1,302
Cultural and heritage	14	14
	<u>10,571</u>	<u>9,574</u>
<i>Right-of-use assets</i>		
Right-of-use assets	<u>53</u>	<u>0</u>
Total depreciation and amortisation	<u>10,624</u>	<u>9,574</u>

Accounting Policy

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably.

Buildings, land improvements, plant and equipment, infrastructure and other assets having limited useful lives are systematically depreciated over their useful lives in a manner which reflects consumption of the service potential embodied in those assets. Right-of-use assets are amortised over the lease term. Estimates of remaining useful lives and residual values are made on a regular basis and 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 remaining values and a separate depreciation rate is determined for each component.

Land, artworks and 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. Major depreciation and amortisation periods used are listed below and are consistent with the prior year unless otherwise stated:

	Basis of Depreciation	Useful Life
Land	Not depreciated	Unlimited life
Parks and Open Space	Straight line	2 - 100 years
Buildings	Straight line	20 - 135 years
Plant	Straight line	2 - 50 years
Furniture and Fittings	Straight line	1 - 50 years
Roads	Straight line	15 - 100 years
Stormwater	Straight line	15 - 100 years
Cultural and Heritage	Majority not depreciated	5 years - Unlimited life
Right-of-use assets	Straight line	Term of lease

	2020 \$'000	2019 \$'000
14 Finance costs		
Borrowing fees and charges	0	75
Interest - borrowings	1,663	1,641
Interest - lease liabilities	8	0
Market Value Movement in Interest Rate Swaps	383	1,895
	2,054	3,611

Accounting Policy

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably.

Finance costs are expensed as incurred using the effective interest method. Council has entered into interest rate swaps to protect it from adverse changes in interest rates over time. Council is recognising the movements in the swaps through the Statement of Comprehensive Income.

15 Other expenses

General expenses	423	245
Bank fees	73	86
Bad and doubtful debts	242	212
Councillors' remuneration	270	260
Grants and community benefits	331	399
	1,339	1,202

Audit fees are included in general expenses. Audit fees including travel expenses paid or payable to the Tasmanian Audit Office to audit the financial statements for 2019/20 total \$45,720 (2018/19: \$53,533). Other audit services performed were the audits relating to the grant acquittal for Roads to Recovery funding 2019/20: \$1,550 (2018/19: \$1,250).

Councillors' remuneration represents allowances payable in accordance with Section 340A of the *Local Government Act 1993*, Regulation 42 of the *Local Government (General) Regulations 2005* and Council's "Payment of Councillor Allowances, Expenses and Provision of Facilities Policy".

Accounting Policy

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably.

2020
\$'000

2019
\$'000

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

Proceeds from sale	1,514	22,685
Written down value of assets disposed	<u>(2,140)</u>	<u>(23,504)</u>
	<u>(626)</u>	<u>(819)</u>

For more information on net gain / (loss on disposal) see Note 24.

Accounting Policy

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits related to a decrease in asset or an increase of a liability has arisen that can be measured reliably.

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

17 Capital works completed on assets not owned by Council

Capital works on assets not owned by Council	<u>(93)</u>	<u>0</u>
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During the year Council carried out construction works on State Government road assets, including traffic signals on the corner of Formby Road and Best Street.

18 Derecognition of assets

Derecognition of Infrastructure assets	<u>(1,320)</u>	<u>(2,885)</u>
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Council derecognised two parcels of Crown land relating to the Mersey Bluff Caravan Park and the Abel Tasman Caravan Park on 1 July, 2019. Council had recognised the land as assets in accordance with AASB 116 as it was determined that Council enjoyed the economic benefits of ownership and Council had control over the land without having direct ownership. Council has entered into long term leases with the Crown in relation to these parcels of land. From 1 July, 2019, the assets have been restated as Right-of-use assets in accordance with AASB16.

To enable the waterfront stage of the LIVING CITY Masterplan to progress, in 2018/19 Council demolished the building located at 20-26 Best St. and decommissioned the adjacent carpark, resulting in a loss on derecognition of \$2.9M.

	2020 \$'000	2019 \$'000
19 Cash and cash equivalents		
Cash at bank and on hand	1,507	1,565
Investments	12,223	14,401
	13,730	15,966
Council's cash and cash equivalents are subject to a number of internal and external restrictions that limit amounts available for discretionary or future use. These include:		
- Grants received in advance (Note 6)	(2,872)	(1,229)
- Leave provisions (Note 30)	(2,569)	(2,660)
- Trust funds and deposits (Note 38)	(163)	(141)
Restricted Funds	(5,604)	(4,030)
Total unrestricted cash and cash equivalents	8,126	11,936

Accounting Policy

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits at call, and other highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts.

Restricted funds

- i) includes refundable deposits held in trust by Council for completion of specific purposes
- ii) represents grant funding received in advance until specific performance obligations required under funding arrangements are completed.

	2020 \$'000	2019 \$'000
20 Trade and other receivables		
(i) Current receivables		
Rates	602	93
Infringement debtors	68	69
Sundry debtors	1,294	6,923
Planning & health debtors	42	18
Provision for expected credit loss	(55)	(128)
Net GST receivable	90	156
Loans and advances	25	4
Accrued revenue	292	443
Total current receivables	2,358	7,578
(ii) Non-current receivables		
Loans and advances	364	24
Total non-current receivables	364	24
Reconciliation of movement in expected credit loss		
Carrying amount at 1 July	128	
Increase/(decrease) in provision recognised in profit or loss	(67)	
Carrying amount at 30 June	61	
Reconciliation of movement in expected credit loss		
Carrying amount at 30 June 2018 under AASB 139		0
Increase/(decrease) in provision recognised in profit or loss		128
Carrying amount at 30 June		128

Accounting Policy

Trade receivables that do not contain a significant financing component are measured at amortised cost, which represents their transaction value. Impairment is recognised on an expected credit loss (ECL) basis. When determining whether the credit risk has increased significantly since initial recognition, and when estimating the ECL, Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience, an informed credit assessment and forward-looking information. Council receives a report of Sundry Debtor balances in excess of \$200 that have been outstanding for longer than 90 days at 30 June. For rates debtors, Council takes the view that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. Council maintains a Sundry Debtor Management Policy which outlines the approach to debtor collection and management.

2020
\$'000

2019
\$'000

20 Trade and other receivables (continued)

Sundry Debtors at 30 June 2019

The paranaple Centre was constructed under a development agreement with the State Government. The building has been strata titled into 3 Lots, of which the State Government owns Lot 1 and a share of the associated common areas. As part of the consideration for Lot 1, the former Library situated at 19-23 Oldaker Street was transferred to Council. Council recognised the value of the land and buildings at the Valuer Generals adjusted capital value of \$6.36M. As the title had not yet transferred, Council included this amount at 30 June 2019 as a Sundry Debtor.

Rates paid in advance at 30 June 2019 totalled \$431,651 and have been offset against Rates debtors shown above. Rates paid in advance are shown as a Contract Liability at Note 32 at 30 June 2020.

	2020 \$'000	2019 \$'000
21 Other assets		
(ii) Current assets		
Prepayments	200	226
Leasehold incentives	0	80
	200	306
(ii) Non-current assets		
Leasehold incentives	0	268
Total non-current other assets	0	268
Total other assets	200	574

Accounting Policy

Prepayments are expenses paid in advance. The portion of the expense not consumed in the accounting period is treated as a current asset.

Direct costs incurred in obtaining a lease such as leasehold incentives are accounted for as an asset and recognised as an expense over the lease term on the same basis as the lease income.

	2020 \$'000	2019 \$'000
22 Investment in TasWater		
Opening Balance	100,028	87,345
Fair Value adjustments on available-for-sale assets	0	0
Fair value adjustments on equity investment assets	(23,239)	12,683
Total investment in TasWater	76,789	100,028

Council has derived returns from TasWater as disclosed at Note 8.

Accounting Policy

As Council's investment in TasWater is held for long-term strategic purposes, Council has elected under AASB 9: *Financial Instruments* to irrevocably classify this equity investment as designated as fair value through other comprehensive income. Subsequent changes in fair value on designated investments in equity instruments are recognised in other comprehensive income (for fair value reserve, refer Note 34) and not reclassified through the profit or loss when derecognised. Dividends associated with the equity investments are recognised in profit and loss when the right of payment has been established and it can be reliably measured. Fair value was determined by using Council's ownership interest against the water corporation's net asset value at balance date. At 30 June 2020, Council holds a 5.32% ownership interest in TasWater (2019, 5.38%) which is based on Schedule 2 of the Corporation's Constitution which reflects the Council's voting rights.

2020
\$'000

2019
\$'000

23 Investments in associates

Investments in associates accounted for by the equity method are as follows:

Dulverton Regional Waste Management Authority	<u>8,191</u>	<u>7,234</u>
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Dulverton Regional Waste Management Authority

Dulverton Regional Waste Management Authority is a Joint Authority established under the *Local Government Act 1993* (as amended). Further information is provided in Note 40.

Council's ownership interest in the Authority at 30 June 2020 was 43.45% (43.45% in 2019).

Reconciliation

Reconciliation of the carrying amount at the beginning and end of the current and previous period is set out below:

Authority's profit/(loss) before tax	3,488	4,884
Add: Prior year adjustment		
Less: Authority's tax expense	<u>(847)</u>	<u>(1,343)</u>
Authority's profit/(loss) after tax	<u>2,641</u>	<u>3,541</u>
Council's equity interest	43.45%	43.45%
Share of profit after tax	<u>1,146</u>	<u>1,539</u>

	2020 \$'000	2019 \$'000
23 Investments in associates (continued)		
Movement in carrying value of investment		
Carrying value of investment at start of year	7,234	6,009
Share of profit after tax	1,146	1,539
Dividend received	(261)	(335)
Share of asset revaluation	72	21
Carrying value of investment at end of year	8,191	7,234

The Authority's assets, liabilities and revenue for the relevant financial years were:

Total Assets	34,948	29,810
Total Liabilities	16,097	13,160
Revenue	11,451	12,693

The investment value in Dulverton Regional Waste Management Authority recognised in the 2020 financial year is based on draft financial results, as provided to Council for inclusion in its financial report. Any final adjustments will be recognised by Council in the 2021 financial year.

Accounting Policy

Council's investment in associates is accounted for by the equity method as Council has the ability to influence rather than control the operations of the entity. The investment is initially recorded at the cost of acquisition and adjusted thereafter for post-acquisition changes in Council's share of the net assets of the entity. Council's share of the financial result of the entity is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

	2020 \$'000	2019 \$'000
24 Property, infrastructure, plant and equipment		
Summary		
at cost	15,042	13,828
Less: Accumulated depreciation	(8,132)	(7,552)
	6,910	6,276
at fair value as at 30 June	809,075	755,299
Less: Accumulated depreciation	(302,081)	(283,632)
	506,994	471,667
Total	513,904	477,943
(a) (i) Land		
at fair value	166,664	147,090
Freehold land is comprised of the following :		
Parks, Reserves & General land	71,492	63,096
Other land (including under infrastructure)	95,172	83,994
	166,664	147,090
(ii) Parks and open space		
at fair value	27,549	25,547
Less : Accumulated depreciation on improvements	(11,595)	(10,537)
	15,954	15,010
(iii) Buildings		
at fair value	147,561	140,257
Less: Accumulated depreciation	(48,744)	(45,640)
	98,817	94,617
(iv) Plant		
at cost	8,095	7,626
Less: Accumulated depreciation	(4,453)	(4,566)
	3,642	3,060
(v) Furniture and fittings		
at cost	6,947	6,202
Less: Accumulated depreciation	(3,679)	(2,986)
	3,268	3,216
(vi) Total cultural and heritage assets		
at fair value	5,212	5,535
Less: Accumulated depreciation	(195)	(182)
	5,017	5,353

	2020 \$'000	2019 \$'000
24 Property, infrastructure, plant and equipment (continued)		
(vii) Total infrastructure assets		
at fair value	462,089	436,870
Less: Accumulated depreciation	<u>(241,547)</u>	<u>(227,273)</u>
	<u>220,542</u>	<u>209,597</u>
Infrastructure assets comprise:		
Roads	135,405	131,910
Stormwater	<u>85,137</u>	<u>77,687</u>
	<u>220,542</u>	<u>209,597</u>
Total net value of non current assets	<u>513,904</u>	<u>477,943</u>

Information relating to the determination of Fair Value for each relevant asset class is included at Note 45.

DEVONPORT CITY COUNCIL

Notes to the Financial Report

For the year ended 30 June 2020

24 Property, plant and equipment (continued)

Reconciliation of property, infrastructure, plant and equipment

2020										
Asset values										
Note Ref.	Land \$'000	Parks and Open Space \$'000	Buildings \$'000	Plant \$'000	Furniture and Fittings \$'000	Roads* \$'000	Stormwater \$'000	Cultural and Heritage \$'000	Total \$'000	
Carrying Amount at Beginning of Reporting Period	147,090	25,547	140,257	7,626	6,202	298,966	137,904	5,535	769,127	
Additions at Cost	1,047	1,131	5,700	1,284	189	4,753	1,521	0	15,625	
Contributed assets at valuation	0	0	0	0	0	0	8	0	8	
Disposals	(2,164)	83	(1,953)	(816)	556	(2,376)	(867)	0	(7,537)	
Revaluations in period	20,155	790	3,269	0	0	7,638	14,543	(324)	46,071	
Available for sale assets	(195)	0	(2,145)	0	(25)	0	0	0	(2,365)	
Available for sale assets prior year	1,019	0	2,145	0	25	0	0	0	3,189	
Rounding	(2)	(2)	2	1	0	(1)	0	1	(1)	
Internal transfers & adjustments	(286)	0	286	0	0	0	0	0	0	
Total asset value	166,664	27,549	147,561	8,095	6,947	308,980	153,109	5,212	824,117	
Accumulated depreciation										
Opening balance	0	10,537	45,640	4,566	2,986	167,056	60,217	182	291,184	
Depreciation provided in period	0	742	2,975	574	708	4,200	1,358	14	10,571	
Written off on disposals	0	(34)	(935)	(688)	(17)	(1,970)	(433)	0	(4,077)	
Adjustment on asset revaluation	0	353	1,063	0	0	4,289	6,829	0	12,534	
Available for sale assets	0	0	(1,827)	0	(24)	0	0	0	(1,851)	
Available for sale assets prior year	0	0	1,827	0	24	0	0	0	1,851	
Rounding	0	(3)	1	1	2	0	1	(1)	1	
Internal transfers	0	0	0	0	0	0	0	0	0	
Carrying Amount at End of Reporting Period	0	11,595	48,744	4,453	3,679	173,575	67,972	195	310,213	
Total written down value 30 June 2020	166,664	15,954	98,817	3,642	3,268	135,405	85,137	5,017	513,904	

* Roads asset class includes Bridge assets with a total asset value of \$4,057,923 and a written down value of \$1,783,333 at 30 June 2020.

DEVONPORT CITY COUNCIL

Notes to the Financial Report

For the year ended 30 June 2020

24 Property, plant and equipment (continued)

Reconciliation of property, infrastructure, plant and equipment

2019		Note Ref.	Land \$'000	Parks and Open Space \$'000	Buildings \$'000	Plant \$'000	Furniture and Fittings \$'000	Roads \$'000	Stormwater \$'000	Cultural and Heritage \$'000	Total \$'000
Asset values											
Opening balance at valuation											
Additions at cost											
Contributed assets at valuation											
Disposals											
Revaluations in period											
Available for sale assets											
Available for sale assets prior year											
Internal transfers											
Total asset value			147,090	25,547	140,257	7,626	6,202	298,966	137,904	5,535	769,127
Accumulated depreciation											
Opening balance			0	9,657	44,229	4,582	3,538	162,370	57,489	168	282,033
Adjusted opening balance			0	9,657	44,229	4,582	3,538	162,370	57,489	168	282,033
Depreciation provided in period			14	0	698	2,293	562	4,355	1,302	14	9,574
Written off on disposals			17, 19	0	(102)	(2,036)	(578)	(2,162)	(216)	0	(5,878)
Adjustment on asset revaluation			0	283	1,619	0	0	2,476	1,642	0	6,020
Available for sale assets			0	0	(1,827)	0	(24)	0	0	0	(1,851)
Available for sale assets prior year			0	1	1,269	0	11	5	0	0	1,286
Internal transfers			0	0	93	0	(105)	12	0	0	0
Carrying Amount at End of Reporting Period			0	10,537	45,640	4,566	2,986	167,056	60,217	182	291,184
Total written down value 30 June 2019			147,090	15,010	94,617	3,060	3,216	131,910	77,687	5,353	477,943

24 Property, infrastructure, plant and equipment (continued)

Accounting Policy

Acquisition and Recognition

Acquisitions of assets are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

Assets acquired as part of the LIVING CITY project have been accounted for under AASB 116 *Property, Plant and Equipment* and not AASB 140 *Investment Property*. AASB 140 allows not for profit organisations to account for assets purchased for strategic purposes under AASB 116.

Property, infrastructure, land and equipment received in the form of contributions, are recognised as assets and revenues at fair value by Council valuation where that value exceeds the recognition thresholds for the respective asset class. Fair value is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

The asset capitalisation threshold adopted by Council varies by class, as detailed below. Assets valued at less than the specified threshold are charged to the Statement of Profit or Loss and Other Comprehensive Income in the year of purchase (other than where they form part of a group of similar items which are material in total).

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

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

	Threshold (\$)
Land	NA
Parks and Open Space	2,000
Buildings	5,000
Plant	1,000
Furniture and Fittings	1,000
Cultural and Heritage	NA
Infrastructure Assets	
- Roads	5,000
- Stormwater	2,000

24 Property, infrastructure, plant and equipment (continued)

Revaluation

Council has adopted the following valuation bases for its non-current assets:

Land	fair value
Parks and Open Space	fair value
Buildings	fair value
Plant	cost
Furniture and Fittings	cost
Cultural and Heritage	fair value
Roads	fair value
Stormwater	fair value

Subsequent to the initial recognition of assets, non-current physical assets, other than plant, equipment and office furniture, are measured at their fair value in accordance with AASB 116 *Property, Plant & Equipment* and AASB 13 *Fair Value Measurement*. At balance date, Council reviewed the carrying value of the individual classes of assets measured at fair value to ensure that each asset class materially approximated its fair value. Where the carrying value materially differed from the fair value at balance date the class of asset was revalued.

Recognition and measurement of assets

In addition, Council undertakes a formal revaluation of land, buildings, and infrastructure assets on a regular basis to ensure valuations represent fair value. The valuation is performed either by experienced Council officers or independent experts.

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 on an asset result in changes to the permissible or practical highest and best use of the asset. Further details regarding the fair value hierarchy are disclosed at Note 45.

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.

2020
\$'000

2019
\$'000

24.1 Assets held for sale

Assets held for sale

Internal transfer from Land	195	1,019
Internal transfer from Buildings	317	317
Internal transfer from Furniture & Fittings	1	1
Internal transfer from Parks & Open Spaces		0
Internal transfer from Roads		0

513

1,337

Impairment adjustment

0

0

Total

513

1,337

Council is in the process of selling the following property;

- The former location of the Visitor Information Centre at 92 Formby Road is surplus to Council's needs and Council has determined that it will sell the property. It has been placed with real estate agents and is expected to be sold within one year. The land is valued at the lower of carrying value and fair value less cost to sell.

Accounting policy

A non-current asset held for sale (including disposal groups) is measured at the lower of its carrying amount and fair value less costs to sell, and is not subject to depreciation. Non-current assets, disposal groups and related liabilities 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.

25 Right-of-use assets

Right-of-use assets

Property

Gross carrying amount

Balance at 1 July 2019	0
Adoption of AASB 16	865
Balance at 30 June 2020	865

Accumulated amortisation

Balance at 1 July 2019	0
Adoption of AASB 16	
Amortisation	53
Balance at 30 June 2020	53

Net book value at 30 June 2020

812

25 Right-of-use assets (continued)

Accounting policy

Leases - Council as Lessee - applicable from 1 July 2019

In contracts where Council is a lessee, Council recognises a right-of-use asset and a lease liability at the commencement date of the lease, unless the short-term or low-value exemption is applied. Refer to note 31 for details on accounting policy of lease liability.

A right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability adjusted for any lease payments made before the commencement date (reduced by lease incentives received), plus initial direct costs incurred in obtaining the lease and an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

All right-of-use assets are measured as described in the accounting policy for property, infrastructure, plant and equipment in Note 24. Also, Council applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the aforesaid note.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that Council expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

	2020 \$'000	2019 \$'000
26 Capital work in progress - at cost		
Parks and Open Space	1,063	196
Buildings	167	254
LIVING CITY Project	5,830	1,216
Plant	46	25
Furniture and Fittings	609	78
Roads	2,161	2,150
Stormwater	19	392
	9,895	4,311

Accounting Policy

Capital work in progress is accounted for at cost until projects are completed.

27 Trade and other payables

Trade creditors & accruals	2,868	2,054
Income in advance	68	184
Trust funds	163	141
Total trade and other payables	3,099	2,379

Accounting policy

Liabilities are recognised for amounts to be paid in the future for goods and services provided to Council as at balance date whether or not invoices have been received. General creditors are unsecured, not subject to interest charges and are normally settled within 30 days of invoice receipt. Due to the impact of COVID-19, Council has agreed to pay creditors within 14 days of invoice receipt to assist local businesses with cash flow during this emergency period. Further information on Trust Funds are disclosed in Note 38.

	2020 \$'000	2019 \$'000
28 Interest bearing liabilities		
Current		
Borrowings – secured	<u>1,804</u>	<u>1,804</u>
Non-current		
Borrowings – secured	<u>48,213</u>	<u>50,017</u>
	<u>50,017</u>	<u>51,821</u>
Loan Movements		
Opening balance	51,821	45,159
Loans raised	0	7,661
Repayments	<u>(1,804)</u>	<u>(999)</u>
Book value at period end	<u>50,017</u>	<u>51,821</u>
The maturity profile for Council's borrowings is:		
Not later than one year	1,804	1,804
Later than one year and not later than five years	48,213	7,216
Later than five years	<u>0</u>	<u>42,801</u>
	<u>50,017</u>	<u>51,821</u>

Construction of the paranapple Centre was completed in 2018/19 and subsequently the construction loan was finalised and a principal and interest type loan was established. Council's loans are secured by a floating charge over rates income and a mortgage over properties within the LIVING CITY development.

28 Interest bearing liabilities (continued)

Accounting Policy

The borrowing capacity of Council is limited by the *Local Government Act 1993*. Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition these liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Profit or Loss and Comprehensive Income over the period of the liability using the effective interest method.

Operating leases as lessee

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Council leases several parcels of Crown land under lease agreements with the State Government. These leases, in general, do not reflect commercial arrangements, are long term and have minimal lease payments. Crown land is recognised as an asset in the Statement of Financial Position and carried at fair value when Council establishes that (i) it has control over the land and (ii) it will derive economic benefits from it.

29 Other Financial Liabilities	2020 \$'000	2019 \$'000
Derivative Financial Instruments	<u>2,882</u>	<u>2,499</u>

Accounting Policy

Council has entered into interest rate swaps to protect it from adverse changes in interest rates over time. Council is recognising the movements in the swaps through the Statement of Comprehensive Income. Details of the fair value of the swaps are included in Note 45. The movement is driven by a reduction in interest rates. The impact on expenses is disclosed at Note 14.

30 Provisions

Current

Employee entitlements:

Annual leave and other leave

Long service leave

2020
\$'000

2019
\$'000

1,096

1,072

1,148

1,237

2,244

2,309

Non-current

Employee entitlements:

Long service leave

325

350

325

350

Total provisions

2,569

2,659

Included in the above employee entitlements balances is an allowance for on costs amounting to \$178,444 (2019: \$184,756)

As at 30 June 2020, Devonport City Council had 146 full time equivalent employees (143 for 2019)

Accounting Policy

Short term employee benefit obligations

Liabilities for wages and salaries, rostered days off, annual leave and long service leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled, including appropriate on costs such as workers compensation and payroll costs. The liabilities for annual leave and long service leave are recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Statement of Financial Position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Sick leave

No accrual is made for sick leave as Council experience indicates that, on average, sick leave taken in each reporting period is less than the entitlement accruing in that period, and this experience is expected to recur in future reporting periods. Council does not make payment for untaken sick leave.

	2020 \$'000	2019 \$'000
31 Lease liabilities		
Lease liability	<u>813</u>	<u>0</u>
Current	52	0
Non current	761	0

Lease liabilities are secured by the related underlying assets. Future minimum lease payments are as follows:

As at 30 June 2020	Minimum lease payments due						Total \$'000
	Within 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	4-5 years \$'000	more than 5 years \$'000	
Lease payments	59	33	33	33	33	732	923
Finance charges	7	7	7	7	7	75	110
Net present value	52	26	26	26	26	657	813

Accounting policy under AASB 16 - Applicable from 1 July 2019

Leases - Council as Lessee

The lease liability is measured at the present value of outstanding payments that are not paid at balance date, discounted by using the rate implicit in the lease/incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Short term leases and leases of low-value assets

Council has elected not to recognise right-of-use assets and lease liabilities for short-term leases i.e., leases of low-value assets when the value of the leased asset when new is \$10,000 or less. Council recognises the lease payments associated with these leases as expense on a straight-line basis over the lease of the term.

	2020 \$'000	2019 \$'000
32 Contract liabilities		
Current		
Rates and charges in advance	400	0
Grants received in advance	1,806	0
	<u>2,206</u>	<u>0</u>
Non-current		
Grants received in advance	0	0
Total contract liabilities	<u>2,206</u>	<u>0</u>

Accounting Policy under AASB 15 and AASB 1058 - applicable from 1 July 2019

Council recognised the following contract liabilities with customers:

i) Rates and charges in advance represents amounts received by Council prior to the commencement of the rating or charging period. Revenue is recognised by council at the beginning of the rating or charge period to which the advance payment relates.

ii) Grants received in advance includes funding for the construction of improvements to existing sporting facilities to accommodate the increased number of female participants. The funds received are under an enforceable contract which require Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue.

iii) Upfront payments of funding are recognised as a contract liability until performance obligations in accordance with AASB 15 are satisfied and recognition criteria are met.

33 Capital and revenue reserves

(i) Asset revaluation reserve - Council

Movements in the asset revaluation reserve were as follows:

Balance at the beginning of year	318,858	316,841
Increment / (decrement) to capital non-current assets at end of period to reflect a change in current fair value:		
Land	20,155	0
Parks & Open Space	437	350
Buildings	2,206	1,537
Roads	3,349	(2,176)
Stormwater	7,714	2,080
Cultural & Heritage	(324)	226
	<u>33,537</u>	<u>2,017</u>
Balance at end of year	<u>352,395</u>	<u>318,858</u>

(ii) Asset revaluation reserve - Associate

Movements in the Asset Revaluation Reserve - Associate were as follows:

Balance at the beginning of year	1,589	1,568
Share of asset revaluation movement - Associate (Note 23)	72	21
Balance at end of year	<u>1,661</u>	<u>1,589</u>

2020
\$'000

2019
\$'000

33 Capital and revenue reserves (continued)

(iii) Accumulated surplus

Movements in the Accumulated surplus as follows:

Balance at beginning of year	211,559	213,837
Surplus / (Deficit)	(837)	(2,278)
Adjustment for rounding		
Balance at end of year	210,722	211,559

Accounting Policy

Asset revaluation reserve

The asset revaluation reserve was established to capture the movements in asset valuations upon the periodic revaluation of Council's assets.

Council's fair value adjustment on equity investment assets represents the share in the equity movement of Dulverton Waste Management.

Accumulated surplus

This represents that part of the Council's net wealth which would not be required to meet immediate requirements or to meet specific future needs. The balance on this account at the end of each financial year shows the amount available to be offset against expenditure in the following year or, if a deficit, the additional amount of revenue needed to be raised in the following year.

34 Other reserves

(a) Fair value reserve

Equity Investment assets

Balance B/Fwd	23,631	10,948
Fair value adjustment on equity investment assets	(23,239)	12,683
Balance as at 30 June	392	23,631

Accounting Policy

Council has to designate its investment in TasWater as an equity investment at fair value through other comprehensive income. Subsequent changes in fair value are reflected in the reserve and will not be reclassified through the profit or loss when derecognised. Equity Investment assets within the Fair value reserve were previously classified as 'Available for sale assets'.

35 Superannuation

Council makes superannuation contributions for a number of its employees to the Quadrant Defined Benefits Fund (the Fund), a sub-fund of the Tasplan Superannuation Fund (Tasplan). The Quadrant Defined Benefits Fund has been classified as a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by employer, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided under paragraph 34 of AASB 119 Employee Benefits, Council does not use defined benefit accounting for these contributions.

For the year ended 30 June 2020 the Council contributed 0% of employees' gross income to the Fund. Assets accumulate in the fund to meet member benefits as they accrue, and if assets within the fund are insufficient to satisfy benefits payable, the Council is required to meet its share of the deficiency.

Rice Warner Pty Ltd undertook the last actuarial review of the Fund at 30 June 2017. The review disclosed that at that time the net market value of assets available for funding member benefits was \$58,940,000, the value of vested benefits was \$51,170,000, the surplus over vested benefits was \$7,770,000, the value of total accrued benefits was \$50,606,000, and the number of members was 134. These amounts relate to all members of the fund at the date of valuation and no asset or liability is recorded in the Tasplan Super's financial statements for Council employees.

The financial assumptions used to calculate the Accrued Benefits for the Fund were:

Net Investment Return	7.0% p.a.
Salary Inflation	4.0% pa
Price Inflation	n/a

The actuarial review concluded that:

1. The value of assets of the Fund was adequate to meet the liabilities of the Fund in respect of vested benefits as at 30 June 2017.
2. The value of assets of the Fund was adequate to meet the value of the liabilities of the Fund in respect of accrued benefits as at 30 June 2017.
3. Based on the assumptions used, and assuming the Employer contributes at the levels described below, the value of the assets is expected to continue to be adequate to meet the value of the liabilities of the Fund in respect of vested benefits at all times during the period up to 30 June 2017.

Given the strong financial position of the Fund, the Actuary recommended that the Council consider a contribution holiday and contribute 0% of salaries from 1 July 2018 to 30 June 2021.

The Actuary will continue to undertake a brief review of the financial position the Fund at the end of each financial year to confirm that the contribution rates remain appropriate. The next full triennial actuarial review of the Fund will have an effective date of 30 June 2020 and is expected to be completed late in 2020.

Council also contributes to other accumulation schemes on behalf of a number of employees, however the Council has no ongoing responsibility to make good any deficiencies that may occur in those schemes.

During the year Council made the required superannuation contributions for all eligible employees to an appropriate complying superannuation fund as required by the *Superannuation Guarantee (Administration) Act 1992*.

As required in terms of paragraph 148 of AASB 119 *Employee Benefits*, Council discloses the following details:

The 2017 actuarial review used the "aggregate" funding method. This is a standard actuarial funding method. The results from this method were tested by projecting future fund assets and liabilities for a range of future assumed investment returns. The funding method used is different from the method used at the previous actuarial review in 2014.

35 Superannuation (continued)

Under the aggregate funding method of financing the benefits, the stability of the Councils' contributions over time depends on how closely the Fund's actual experience matches the expected experience. If the actual experience differs from that expected, the Councils' contribution rate may need to be adjusted accordingly to ensure the Fund remains on course towards financing members' benefits.

In terms of Rule 27.4 of the Tasplan Trust Deed (Trust Deed), there is a risk that employers within the Fund may incur an additional liability when an Employer ceases to participate in the Fund at a time when the assets of the Fund are less than members' vested benefits. Each member of the Fund who is an employee of the Employer who is ceasing to Participate is required to be provided with a benefit at least equal to their vested benefit in terms of Rule 27.4 (b) (A). However there is no provision in the Trust Deed requiring an employer to make contributions other than its regular contributions up to the date of cessation of contributions. This issue can be resolved by the Trustee seeking an Actuarial Certificate in terms of Rule 26.5 identifying a deficit and the Trustee determining in terms of Rule 26.3(c) that the particular employer should make the payment required to make good any shortfall before the cessation of participation is approved.

The application of Fund assets on Tasplan being wound-up is set out in Rule 41.4. This Rule provides that expenses and taxation liabilities should have first call on the available assets. Additional assets will initially be applied for the benefit of the then remaining members and/or their Dependants in such manner as the Trustee considers equitable and appropriate in accordance with the Applicable Requirements (broadly, superannuation and taxation legislative requirements and other requirements as determined by the regulators).

The Trust Deed does not contemplate the Fund withdrawing from Tasplan. However it is likely that Rule 27.4 would be applied in this case (as detailed above).

The Fund is a defined benefit Fund.

The Quadrant Defined Benefits Fund has been classified as a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by employer, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. Thus the Fund is not able to prepare standard AASB119 defined benefit reporting.

During the reporting period the amount of contributions paid to defined benefits schemes was \$0 (2018-19, \$0), and the amount paid to accumulation schemes was (2018-19, \$1,279,469).

During the next reporting period the expected amount of contributions to be paid to defined benefits schemes is \$0, and the amount expected to be paid to accumulation schemes is \$1,277,962.

As reported above, Assets exceeded accrued benefits as at the date of the last actuarial review, 30 June 2017. Moderate investment returns, since that date, make it quite probable that this is still the position. The financial position of the Fund will be fully investigated at the actuarial review as at 30 June 2020.

An analysis of the assets and vested benefits of sub-funds participating in the Scheme, prepared by Rice Warner Pty Ltd as at 30 June 2019, showed that the Fund had assets of \$56.64 million and members' Vested Benefits were \$47.32 million. These amounts represented 0.6% and 0.5% respectively of the corresponding total amounts for Tasplan.

As at 30 June 2019 the fund had 107 members and the total employer contributions and member contributions for the year ending 30 June 2019 were \$1,000,322 and \$221,484 respectively.

	2020 \$'000	2019 \$'000
35 Superannuation (continued)		
Employer contributions to:		
Defined Benefits Fund	0	0
Accumulation Schemes	1,279	1,198
	<u>1,279</u>	<u>1,198</u>

36 Commitments

Expenditure contracted as at 30 June, but not recognised in the financial report as liabilities.
This note is for information only.

Purchase commitments for material supplies & equipment	<u>13,397</u>	<u>1,956</u>
Commitments are payable as follows :		
Not later than 1 year	8,576	1,956
Later than 1 year but not later than 2 years	<u>4,821</u>	<u>0</u>
Total commitments	<u>13,397</u>	<u>1,956</u>

Accounting Policy

Commitments are not recognised in the Statement of Financial Position. Commitments are disclosed in this Note at their nominal value and inclusive of the GST payable.

37 Contingent liabilities

There are no known claims pending against Council which would exceed current insurance arrangements held at 30 June 2020.

Accounting Policy

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

38 Trust funds

Trust deposits	<u>163</u>	<u>141</u>
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Council performs only a custodial role in respect of these monies, and because the monies cannot be used for Council purposes, they are not brought to account in these financial statements as income. Trust monies are invested with a financial institution in an appropriate interest-earning account. The deposits are bearing floating interest rates of 0.65% as at June 30 2020 (2019: 1.65%).

Accounting Policy

Amounts received as tender deposits and retention amounts controlled by Council are recognised as Trust funds until they are returned or forfeited.

	2020 \$'000	2019 \$'000
39 Reconciliation of cash flows from operating activities to surplus / (deficit)		
Surplus / (deficit)	(837)	(2,278)
Depreciation and amortisation	10,571	9,574
Depreciation of right-of-use assets	53	0
Non-cash donations subsidies and contributions	(8)	(510)
Share of profit in associate	(885)	(1,204)
Net (gain) / loss on disposal of assets	626	819
Derecognition of assets	1,320	2,885
Market value movement in fair value swaps	383	1,895
Investing activity		
Capital grants and contributions	(2,505)	(1,504)
Investment revenue from Taswater	(546)	(1,727)
Dividend from Associate	(261)	(335)
Other investments	(642)	(513)
Finance costs paid	1,671	1,716
	<u>9,777</u>	<u>11,095</u>
Changes in operating assets and liabilities :		
(Increase) / decrease in receivables	(1,260)	(89)
(Increase) / decrease in other assets	374	(410)
Increase / (decrease) in payables	168	164
Increase / (decrease) in employee provisions	(90)	120
	<u>(808)</u>	<u>(215)</u>
Net cash inflow from operating activities	<u>8,132</u>	<u>8,602</u>

39.1 Reconciliation of liabilities arising from financing activities

Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Statement of Cash Flows as cash flows from financing activities.

Interest-bearing loans and borrowings

Opening Balance	51,821	45,159
Other movements		
Transfers to / (from) other Government entity		
Changes from financing cash flows:		
Cash Received	0	7,661
Cash Repayments	(1,804)	(999)
Closing Balance	<u>50,017</u>	<u>51,821</u>

2020
\$'000

2019
\$'000

40 Joint Authorities

(i) Dulverton Regional Waste Management Authority

The Council is a partner in the Dulverton Regional Waste Management Joint Authority established under the *Local Government Act 1993* (as amended).

Other partners in the Dulverton Regional Waste Management Joint Authority are the Central Coast, Latrobe, and Kentish Councils.

The primary activity of the Authority is to operate a regional landfill site at Dulverton.
As at 30 June 2020 the ownership share for Devonport was 43.45%.

Value of ownership share

8,191

7,234

(ii) Cradle Coast Authority

The Council is a subscribing member of the Cradle Coast Joint Authority together with Burnie City, Central Coast, Circular Head, Kentish Council, King Island, Latrobe, Waratah-Wynyard and West Coast Councils. No capital subscription is contemplated and operating costs will be provided out of current income by all subscribing Councils.

41 Controlling Authority transactions

Maidstone Park Management Controlling Authority

Total

2020		2019	
Income \$'000	Expenditure \$'000	Income \$'000	Expenditure \$'000
9	18	11	6
9	18	11	6

Council have created Strategic Special Committees and Special Interest Groups to advise on specific areas of interest. These Committees and Groups do not hold assets and liabilities in their own right, they operate in an advisory capacity only.

42 Related party transactions

(i) Responsible Persons

Names of persons holding the position of a Responsible Person at the Council at any time during the year are:

Councillors

A. Rockliff (Mayor)
A. Jarman (Deputy Mayor)
L. Laycock
L. Perry
G. Enniss
L. Murphy
S. Millbourne
P. Hollister
J. Alexiou

General Manager
Deputy General Manager
Executive Manager Corporate Services
Executive Manager People and Finance
Executive Manager City Growth

P. West (6/01/2014 to 25/10/2019), M. Atkins (From 23/12/2019)
M. Atkins (To 22/12/2019), J. Griffith (From 14/02/2020)
J. Griffith (To 13/02/2020)
K. Peebles
M. Skirving (From 30/03/2020)

(ii) Councillor Remuneration

2020	Short term employee benefits				
	Allowances	Vehicles ²	Total Compensation AASB 124	Expenses ³	Total allowances and expenses section 72
	\$	\$		\$	\$
Mayor	71,470	6,339	77,809	3,615	81,424
Deputy Mayor	40,286		40,286	2,933	43,219
Councillor	158,287		158,287	20,533	178,820
Total	270,043	6,339	276,382	27,081	303,463

2019	Short term employee benefits				
	Allowances	Vehicles ²	Total Compensation AASB 124	Expenses ³	Total allowances and expenses section 72
	\$	\$		\$	\$
Mayor	77,298	6,326	83,624	3,835	87,459
Deputy Mayor	38,914		38,914	3,379	42,293
Councillor	143,890		143,890	30,598	174,488
Total	260,103	6,326	266,429	37,812	304,241

1. Superannuation means the contribution to the superannuation fund of the individual.

2. The amount relates to the taxable value of the vehicle for the FBT year.

3. Section 72(1)(b) of the Local Government Act 1993 requires the disclosure of expenses paid to Councillors.

The expenses include a notional parking benefit of \$1,810 per permit per annum

(iii) Key Management Personnel Remuneration

2020	Short term employee benefits			Post employment benefits			Non - monetary benefits ⁷	Total
	Salary ¹	Vehicles ²	Other Allowances and Benefits ³	Super-annuation ⁴	Other long term benefits ⁵	Termination benefits ⁶		
Employee	\$	\$	\$	\$	\$	\$	\$	\$
K.Peebles	97,044	936		23,830			8,217	130,027
M.Skirving	28,846	230		3,606			-	32,682
J.Griffith	159,000	2,442		19,875			16,581	197,898
M.Atkins	221,517	16,125	1,071	24,524			24,003	287,240
P.West	39,528	7,932	317	24,897	37,734	174,026	(145,293)	139,141
Total	545,935	27,665	1,388	96,732	37,734	174,026	(96,492)	786,988

2019	Short term employee benefits			Post employment benefits			Non - monetary benefits ⁷	Total
	Salary ¹	Vehicles ²	Other Allowances and Benefits ³	Super-annuation ⁴	Other long term benefits ⁵	Termination benefits ⁶		
Employee	\$	\$	\$	\$	\$	\$	\$	\$
K.Peebles	91,840	617	-	23,180	-	-	2,733	118,370
J.Griffith	140,000	2,427	-	18,500	-	-	8,074	169,001
M.Atkins	186,391	9,936	1,159	23,299	-	-	3,093	223,877
P.West	244,098	10,982	875	30,238	-	-	9,990	296,183
Total	662,329	23,962	2,034	95,217	-	-	23,888	807,431

1. Gross Salary includes all forms of consideration paid and payable for services rendered and compensated absences during the period.

2. Benefit equates to the taxable value of the provision of a motor vehicle including personal use as per the fringe benefits tax calculation for the FBT year and the market value of parking provided.

3. Other benefits includes all other forms of employment allowances (excludes reimbursements such as travel, accommodation or meals), payments in lieu of leave, and any other compensation paid and payable.

4. Superannuation means the contribution to the superannuation fund of the individual and salary sacrificed amounts.

5. Other long term benefits equals the long service leave paid in the period.

6. Termination benefits include all forms of benefit paid or accrued as a consequence of termination.

7. Other non-monetary benefits include annual and long service leave movements.

42 Related party transactions (continued)

(iv) Remuneration Principles

Councillor

The Councillors receive an allowance from Council in accordance with S340A of the Local Government Act 1993. Regulation 42(2) of the Local Government (General) Regulations 2005 specifies the amount payable to mayors, deputy mayors and Councillors.

Executives

Remuneration levels for key management personnel are set with regard to current market expectations considering the qualifications, skills and experience required for each role.

The employment terms and conditions of senior executives are contained in individual employment contracts and prescribe total remuneration, superannuation, annual and long service leave, vehicle and salary sacrifice provisions. In addition to their salaries, Council also contributes to post-employment superannuation plans on their behalf.

The performance of each senior executive, including the General Manager, is reviewed annually which encompasses a review of their remuneration package. The terms of employment of each senior executive, including the General Manager, contain a termination clause that requires the executive or Council to provide a minimum notice period prior to termination of the contract. Whilst not automatic, contracts can be extended.

(v) Transactions with associates

Council's interests in associates is detailed in note 23.

The following transactions occurred with Dulverton Regional Waste Management Authority (DRWMA). All transactions were subject to normal terms and conditions:

	2020	2019
Commercial office space supplied by Council (subject to lease)	\$ 16,981	\$ 16,782
Special purpose grant received	\$ 9,089	\$ -
Utilities and other sundry reimbursements	\$ 1,446	\$ 1,955
Parking	\$ 3,420	\$ 3,400
Dividend Received	\$ 260,700	\$ 334,565
Cost of transfer of waste to the regional facility maintained by DRWMA	\$ 2,438,637	\$ 2,368,151

At 30 June 2020 Council owed DRWMA \$205,145 for the provision of services at standard commercial terms (2019: \$179,899).

Amounts are on an accruals basis and are inclusive of GST.

(vi) Transactions with related parties

During the period Council entered into the following transactions with related parties:

2020

Nature of the transaction	Amount	Outstanding balance at year end	Terms and conditions
Utility costs for tenanted property*	\$ 15,183	\$ 12,236	Normal trading terms.

2019

Nature of the transaction	Amount	Outstanding balance at year end	Terms and conditions
Removalist Services**	\$ 8,800	\$ 0	Normal trading terms.

*Council rents a property to a company related to a KMP. The utility charges were paid by Council and on-charged to the tenant on normal trading terms.

**Council used the services of a Removalist company which has a member of Councils KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms.

42 Related party transactions (continued)

(vii) Transactions with related parties that have not been disclosed

Most of the entities and people that are related parties of Council live and operate within the municipal area. Therefore, on a regular basis ordinary citizen transactions occur between Council and its related parties. Some examples include:

- payment of rates on a primary residence or commercial property
- dog registration
- use of Council's recreation facilities

Council has not included these types of transactions in its disclosure where they have been made on the same terms and conditions available to the general public.

43 Financial instruments

(a) Accounting policy, terms and conditions

Recognised financial Instruments	Note	Accounting Policy	Terms and conditions				
Financial assets							
Cash and cash equivalents	19	Cash on hand and at bank and short term deposit accounts are valued at face value. Interest is recognised as it accrues.	Cash and deposits returned interest at rates between 1.00% and 2.00% (1.00% and 2.75% in 2018/2019). The weighted average interest rate at balance date was 1.85% (2.54% in 2017/2018).				
Receivables	20	Receivables are carried at face value. A provision for impairment is recognised when there is objective evidence that an impairment loss has occurred. Collectability of overdue accounts is assessed on an ongoing basis.	General debtors are unsecured. Credit terms are based on 30 days. Overdue payments are lodged with a collection agency as and when deemed necessary.				
Financial liabilities							
Payables	27	Liabilities are recognised for amounts to be paid in the future for goods and services provided to Council as at balance date whether or not invoices have been received.	General Creditors are unsecured, not subject to interest charges and are normally settled within relevant trading terms.				
Interest bearing loans	28	Loans are carried at their principal amounts, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and recognised as part of payables. The interest calculation also reflects the finance cost impact of the Interest Rate Swaps to represent Council's total cost of holding interest bearing loans.	Borrowings are secured by way of mortgages over the general rates of the Council and the underlying value of the infrastructure for which the borrowings were obtained. The weighted average interest rate on borrowings is 3.39% (3.37% in 2018/2019).				
Other financial liabilities	29	Interest rate swaps are recognised at the mark to market or fair value amount as determined by a third party. The movement in fair value is recognised as part of finance costs.	The interest rate swaps represent fixed interest charges varying between 2.09% and 2.92% (2.09% and 2.92% in 2018/2019). Terms range between 3 years and 7 years.				
Bank Overdraft	19	Overdrafts are recognised at the principal amount. Interest is charged as an expense as it accrues.	The overdraft is subject to annual review. It is secured by a mortgage over Council's general rates and is repayable on demand. The average interest rate on available overdraft was 6.83% (8.21% in 2018/2019).				
		Available Bank Overdraft Facility at year-end	<table><tr><th>2020</th><th>2019</th></tr><tr><td>\$ 100,000</td><td>\$ 100,000</td></tr></table>	2020	2019	\$ 100,000	\$ 100,000
2020	2019						
\$ 100,000	\$ 100,000						
		Utilised Bank Overdraft Facility at year-end	<table><tr><th>2020</th><th>2019</th></tr><tr><td>\$ 0</td><td>\$ 0</td></tr></table>	2020	2019	\$ 0	\$ 0
2020	2019						
\$ 0	\$ 0						
Corporate credit cards		Credit card balances are recognised at the principal amount. Interest is charged as an expense as it accrues.	The credit card facility is secured by a mortgage over Council's general rates. The balance is paid in full on a monthly basis.				
		Available Credit Card Facility at year-end	<table><tr><th>2020</th><th>2019</th></tr><tr><td>\$ 70,000</td><td>\$ 70,000</td></tr></table>	2020	2019	\$ 70,000	\$ 70,000
2020	2019						
\$ 70,000	\$ 70,000						
		Utilised Credit Card Facility at year-	<table><tr><th>2020</th><th>2019</th></tr><tr><td>\$ 21,790</td><td>\$ 15,670</td></tr></table>	2020	2019	\$ 21,790	\$ 15,670
2020	2019						
\$ 21,790	\$ 15,670						

43 Financial Instruments (continued)

(b) Interest rate risk

The exposure to interest rate risk and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised, at balance date are as follows:

2020	Floating interest rate \$'000	Fixed Interest maturing in:				Total \$'000
		1 year or less \$'000	Between 1 and 5 years \$'000	More than 5 years \$'000	Non-interest bearing \$'000	
Financial assets						
Cash and cash equivalents	13,730	0	0	0	0	13,730
Receivables	0	25	122	242	2,298	2,687
Investment in Water Corporation	0	0		0	76,789	76,789
	13,730	25	122	242	79,087	93,206
Financial liabilities						
Payables	0	0	0	0	2,868	2,868
Other financial liabilities	2,882	0	0	0	0	2,882
Interest bearing liabilities	0	1,804	48,213	0	0	50,017
	2,882	1,804	48,213	0	2,868	55,767
Net financial assets / (liabilities)	10,848	(1,779)	(48,091)	242	76,219	37,439

2019	Floating interest rate \$'000	Fixed Interest maturing in:				Total \$'000
		1 year or less \$'000	Between 1 and 5 years \$'000	More than 5 years \$'000	Non-interest bearing \$'000	
Financial assets						
Cash and cash equivalents	1,966	14,000	0	0	0	15,966
Receivables	0	4	24	0	7,417	7,445
Investment in Water Corporation	0	0		0	100,028	100,028
	1,966	14,004	24	0	107,445	123,439
Financial liabilities						
Payables	0	0	0	0	2,053	2,053
Other financial liabilities	2,499	0	0	0	0	2,499
Interest bearing liabilities	0	1,804	7,216	42,801	0	51,821
	2,499	1,804	7,216	42,801	2,053	56,373
Net financial assets / (liabilities)	(533)	12,200	(7,192)	(42,801)	105,392	67,066

Council has entered into interest rate swaps to protect it from adverse changes in interest rates over time. Council is recognising the movements in the swaps through the Statement of Profit and Loss and Other Comprehensive Income. Council has not elected to apply hedge accounting to the transactions as per AASB 9 *Financial Instruments*. Six swaps are in place at 30 June 2020;

Amount	Date (effective)	Term (Years)	Interest Rate	Line Fee & Margin
\$5,000,000	31/10/2016	5	2.09%	0.96%
\$5,500,000	31/10/2016	7	2.26%	0.96%
\$5,000,000	31/10/2017	7	2.41%	0.96%
\$10,000,000	2/01/2018	3	2.47%	0.96%
\$10,000,000	2/01/2018	5	2.73%	0.96%
\$10,000,000	2/01/2018	7	2.92%	0.96%

As at 30 June 2020 the fixed interest rate on the swaps exceeded the variable rate with the following impact on the market value of the total swaps:

Amount	Date (effective)	Term (Years)	Interest Rate	Impact of Swap
\$5,000,000	31/10/2016	5	2.09%	125,674
\$5,500,000	31/10/2016	7	2.26%	361,206
\$5,000,000	31/10/2017	7	2.41%	444,543
\$10,000,000	2/01/2018	3	2.47%	137,032
\$10,000,000	2/01/2018	5	2.73%	643,971
\$10,000,000	2/01/2018	7	2.92%	1,169,580
Total				2,882,006

43 Financial instruments (continued)

(c) Net fair values

The aggregate net fair values of financial assets and financial liabilities at balance date are as follows:

Financial Instruments

	Total carrying amount as per Statement of Financial Position		Aggregate net fair value	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Financial assets				
Cash and cash equivalents	13,730	15,966	13,730	15,966
Receivables	2,632	7,446	2,632	7,446
Investment in Water Corporation	76,789	100,028	76,789	100,028
Total financial assets	93,151	123,440	93,151	123,440
Financial liabilities				
Payables	2,868	2,054	2,868	2,054
Other Financial Liabilities	2,882	2,499	2,882	2,499
Interest-bearing loans and borrowings	50,017	51,821	50,017	51,821
Total financial liabilities	55,767	56,374	55,767	56,374

(d) Credit Risk

The maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is represented by the carrying amount of those assets as indicated in the Statement of Financial Position.

(e) Risks and mitigation

The risks associated with Council's main financial instruments and the policies for minimising these risks are detailed below.

Market risk

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

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. Interest rate risk arises from interest bearing financial assets and liabilities that are used. Non derivative interest bearing assets are predominantly short term liquid assets. Council's interest rate liability risk arises primarily from long term loans and borrowings at fixed rates which exposes it to fair value interest rate risk.

Council's loan borrowings are sourced from major Australian banks. Overdrafts are arranged with major Australian banks. Council manages interest rate risk on its net debt portfolio by:

- ensuring access to diverse sources of funding;
- reducing risks of refinancing by managing interest rate hedges in accordance with target maturity profiles; and
- setting prudential limits on interest repayments as a percentage of rate revenue.

Council manages the interest rate exposure on its debt portfolio by appropriate budgeting strategies and obtaining approval for borrowings from the Department of Treasury and Finance.

Maturity of interest rate swaps will be staggered to provide for interest rate variations and to also minimise interest rate risk.

Investment of surplus funds is made with approved financial institutions under the *Local Government Act 1993* (as amended). Council manages interest rate risk by adopting an investment policy that ensures:

- conformity with State and Federal regulations and standards;
- capital protection;
- appropriate liquidity;
- diversification by credit rating, financial institution and investment product
- monitoring of return on investment
- benchmarking of returns and comparison with budget.

43 Financial instruments (continued)

(e) Risks and mitigation (continued)

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 its Statement of Financial Position. To help manage this risk Council has:

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

Credit risk arises from Council's financial assets, which comprise cash and cash equivalents, and trade and other receivables. Council's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable policy note.

Council generally trades with recognised, credit worthy third parties, and as such collateral is generally not requested, nor is it Council's policy to securitise its trade and other receivables.

It is Council's policy that some customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their credit rating, financial position, past experience and industry reputation. In addition, receivable balance are monitored on an ongoing basis with the result that Council's exposure to bad debts is not significant.

Council may also be subject to credit risk for transactions which are not included in the Statement of Financial Position, such as when Council provide a guarantee for another party. Details of contingent liabilities are disclosed in note 37.

Ageing of Trade and Other Receivables

At balance date other 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 was:

	2020 \$'000	2019 \$'000
Current (less than 1 year)	2,503	7,256
Past due by over 1 year	46	84
Past due by over 2 years	27	28
Past due by over 3 years	6	19
Past due by over 4 years	50	58
Total Trade & Other Receivables	<u>2,632</u>	<u>7,445</u>

43 Financial instruments (continued)

(e) Risks and mitigation (continued)

Ageing of individually impaired Trade and Other Receivables

At balance date, impaired debtor amounts identified totalled \$55,000 (\$128,333 2018/19). A provision has been raised against debtors at year end of \$55,000 (\$128,333 2018/19). All long outstanding past due amounts have been lodged with Council's debt collectors or are on payment arrangements.

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 on the date;
- it will be forced to sell financial assets at a value which is less than what they are worth; or
- it may be unable to settle or recover a financial asset at all.

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 exposure to liquidity risk is deemed insignificant based on prior periods data and current assessment of risk.

(e) Risks and mitigation (continued)

The table below lists the contractual maturities for financial liabilities.

These amounts represent undiscounted gross payments including both principal and interest amounts.

2020		6 mths or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	>5 years \$'000	Contracted Cash Flow \$'000	Carrying Amount \$'000
Payables		2,868	0	0	0	0	2,868	2,868
Other financial liabilities		0	137	126	2,619	0	2,882	2,882
Interest bearing liabilities		902	902	48,213	0	0	50,017	50,017
Total financial liabilities		3,770	1,039	48,339	2,619	0	55,767	55,767

2019		6 mths or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	>5 years \$'000	Contracted Cash Flow \$'000	Carrying Amount \$'000
Payables		2,054	0	0	0	0	2,054	2,054
Other financial liabilities		0	0	0	322	282	604	2,499
Interest bearing liabilities		1,470	1,460	2,888	8,428	60,145	74,391	51,821
Total financial liabilities		3,524	1,460	2,888	8,750	60,427	77,049	56,374

43 Financial Instruments (continued)

(f) Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the Council believes the following movements are 'reasonably possible' over the next 12 months (base rates are sourced from Reserve Bank of Australia):

- A parallel shift of + 1% and -1% in market interest rates (AUD)

The table below discloses the impact on net operating result and equity for each category of financial instruments held by Council at year-end, if the above movements were to occur.

2020			Interest Rate Risk			
			-1%		+1%	
			-100 basis points		+100 basis points	
	2020 \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	
Financial assets:						
Cash and cash equivalents	13,730	(137)	(137)	137	137	
Receivables	389	0	0	4	4	
Financial liabilities:						
Other financial liabilities	2,882	(29)	(29)	29	29	
Interest bearing liabilities	50,017	500	500	(500)	(500)	

2019			Interest Rate Risk			
			-1%		+1%	
			-100 basis points		+100 basis points	
	2019 \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	
Financial assets:						
Cash and cash equivalents	15,966	(160)	(160)	160	160	
Receivables	28	0	0	0	0	
Financial liabilities:						
Other financial liabilities	2,499	(25)	(25)	25	25	
Interest bearing liabilities	51,821	518	518	(518)	(518)	

43 Financial instruments (continued)

(g) Fair Value Hierarchy

The table below analyses financial instruments carried at fair value by valuation method.

The different levels have been defined as follows:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices)
- Level 3 inputs for the asset or liability that are not based on observable market data

30 June 2020
Investment equity asset
Derivative financial liabilities

Level 1	Level 3	Total
0	76,789	76,789
0	2,882	2,882

30 June 2019
Investment equity asset
Derivative financial liabilities

Level 1	Level 3	Total
0	100,028	100,028
0	2,499	2,499

There were no transfers between Level 1 and Level 2 during the period.

Reconciliation of Level 3 fair value movements:

Opening Balance

Fair Value adjustments on Available-for-Sale Assets

Fair value adjustments on equity investment assets

Closing Balance

2020 \$'000	2019 \$'000
100,028	87,345
0	0
(23,239)	12,683
76,789	100,028

44 Management indicators**Benchmark****2020**
\$'000**2019**
\$'000**2018**
\$'000**2017**
\$'000**(a) Underlying surplus or deficit**

Recurrent income* less		40,584	41,004	40,542	39,773
Recurrent expenditure**		42,381	42,565	39,034	38,548
Underlying surplus/(deficit)	0	(1,797)	(1,561)	1,508	1,225

The intent of the underlying result is to show the outcome of a council's normal or usual day to day operations.

Council has reported an underlying deficit for the 2020 year, which is below the benchmark of a breakeven result. In response to COVID-19, Council took steps to provide assistance to the Devonport community. This assistance package included waiving parking fees for a number of months, waiving penalties for late payment of the final rates instalment due in April 2020, waiving winter sports ground charges for user groups and providing rental relief for commercial tenants in accordance with the State Government guidelines. These measures had an impact on the result for 2020. In addition to these measures, TasWater advised that it would not pay a final dividend to owner Councils for 2020 which alone resulted in a loss of revenue of \$546,000.

* Recurrent income excludes income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature. The total excludes the prepaid 2020/21 Financial Assistance Grant of \$1,089,000 received in June 2020 and includes the prepaid 2019/20 Financial Assistance Grant of \$1,229,000 received in June 2019.

** Recurrent expenditure includes loss on disposal of property, plant & equipment of \$626,000 and additional depreciation on a number of buildings constructed as part of LIVING CITY Stage 1.

(b) Underlying surplus ratio

<u>Underlying surplus or deficit</u>		<u>(1,797)</u>	<u>(1,561)</u>	<u>1,508</u>	<u>1,225</u>
Recurrent income		40,584	41,004	40,542	39,773
Underlying surplus ratio	0%	-4.43%	-3.81%	3.72%	3.08%

This ratio serves as an overall measure of financial operating effectiveness

The ratio reflects Council's goal to break-even and is reasonably consistent with the benchmark for the period reported.

(c) Net financial liabilities

Liquid assets less		16,088	23,544	17,571	17,535
total liabilities*		61,586	59,358	54,168	26,819
Net financial liabilities	0	(45,498)	(35,814)	(36,597)	(9,284)

This measure shows whether Council's total liabilities can be met by its liquid assets. An excess of total liabilities over liquid assets means that, if all liabilities fell due at once, additional revenue would be needed to fund the shortfall.

Property purchases and construction in relation to the LIVING CITY project have been funded by borrowings. At 30 June 2020 the balance of these loans totalled \$42,154,026 (2018 \$43,596,705).

44 Management indicators (continued)	Benchmark	2020 \$'000	2019 \$'000	2018 \$'000	2017 \$'000
(d) Net financial liabilities ratio					
<u>Net financial liabilities</u>		(45,498)	(35,814)	(36,597)	(9,284)
Recurrent income*	0% -(50%)	40,584	41,004	40,542	39,773
Net financial liabilities ratio %		(112.11%)	(87.34%)	(90.27%)	(23.34%)

This ratio indicates the net financial obligations of Council compared to its recurrent income.

The result over the reported period is outside the benchmark, and reflects the higher level of borrowings in recent years in relation to the LIVING CITY project. As stated above, Council actively manage debt levels and repayment schedules through the Long Term Financial Plan.

(e) Asset consumption ratio

An asset consumption ratio has been calculated in relation to each asset class required to be included in the long-term strategic asset management plan of Council.

<i>Parks and open space</i>					
<u>Depreciated replacement cost</u>		15,954	13,671	13,671	14,620
Gross replacement cost		27,549	23,301	23,301	23,806
Asset consumption ratio %	40-60%	58%	59%	59%	61%
<i>Buildings</i>					
<u>Depreciated replacement cost</u>		98,817	61,989	61,989	50,526
Gross replacement cost		147,561	106,218	106,218	93,320
Asset consumption ratio %	40-60%	67%	58%	58%	54%
<i>Roads</i>					
<u>Depreciated replacement cost</u>		135,405	133,816	133,816	129,021
Gross replacement cost		308,980	296,226	296,226	285,192
Asset consumption ratio %	40-60%	44%	45%	45%	45%
<i>Stormwater</i>					
<u>Depreciated replacement cost</u>		85,137	74,346	74,346	69,622
Gross replacement cost		153,109	131,116	131,116	117,962
Asset consumption ratio %	40-60%	56%	57%	57%	59%

This ratio indicates the level of service potential available in Council's existing asset base.

Council have set a benchmark for this ratio of between 40% and 60% in the Long Term Financial Plan. The result for all categories is within this range, however a result closer to 60% suggests that Council has sufficient service capacity remaining in these asset classes.

44 Management indicators (continued)		Benchmark	2020 \$'000	2019 \$'000	2018 \$'000	2017 \$'000
(f)	Asset renewal funding ratio					
An asset renewal funding ratio has been calculated in relation to each asset class required to be included in the long-term strategic asset management plan of Council.						
<i>Parks and open space</i>						
	<u>Projected capital funding outlays**</u>		2,361	2,361	2,776	3,677
	Projected capital expenditure funding***		9,871	9,871	9,401	8,508
	Asset renewal funding ratio %	90-100%	24%	24%	30%	43%
<i>Buildings</i>						
	<u>Projected capital funding outlays**</u>		9,218	9,218	8,480	7,989
	Projected capital expenditure funding***		4,700	4,700	4,700	4,700
	Asset renewal funding ratio %	90-100%	196%	196%	180%	170%
<i>Roads</i>						
	<u>Projected capital funding outlays**</u>		35,225	35,225	34,669	35,544
	Projected capital expenditure funding***		36,916	36,916	36,283	34,351
	Asset renewal funding ratio %	90-100%	95%	95%	96%	103%
<i>Stormwater</i>						
	<u>Projected capital funding outlays**</u>		7,778	7,778	6,681	5,955
	Projected capital expenditure funding***		313	313	315	235
	Asset renewal funding ratio %	90-100%	2485%	2485%	2121%	2534%

Council are continuing to renew stormwater assets at a greater rate than required in the Asset Management Plans.

** Projected capital funding outlays per the long term financial plan.

*** Value of projected capital expenditure funding for an asset identified in Council's long-term strategic asset management plan.

This ratio measures Council's capacity to fund future asset replacement requirements, by comparing the budgeted renewal expenditure to the projected capital expenditure requirements in the Asset Management Plans. This ratio should be considered over a longer period of time, at least 10 years to assess if Council is adequately funding the renewal of its assets. Council adopted a Financial Management Strategy in June 2019 which included a Long Term Financial Plan to 30 June 2029. That Plan included data that demonstrated Council has, on average over the 10 year life of the Plan, provided funding to renew assets in accordance with the Asset Management Plans.

The Asset Management Plans were prepared in 2011 and are currently being updated. Since 2011, Council staff have reviewed and extended the lives of Road and Stormwater assets. A progressive condition assessment for all asset classes is currently underway and this information will be reflected in the updated Asset Management Plans.

This ratio is not subject to audit.

44 Management indicators (continued)	Benchmark	2020 \$'000	2019 \$'000	2018 \$'000	2017 \$'000
(g) Asset sustainability ratio					
Capex on replacement/renewal of existing assets		7,135	4,014	5,026	5,581
Annual depreciation expense		10,624	9,574	8,427	8,393
Asset sustainability ratio %	60-100%	67%	42%	60%	66%

This ratio calculates the extent to which Council is maintaining operating capacity through renewal of the asset base.

Council has experienced a period of investment in new assets and this is reflected in the result for this indicator in the period reported. Council will continue to monitor its performance through the Long Term Financial Plan and manage assets in accordance with the Asset Management Plans.

	Capital renewal expenditure	Capital new expenditure	Total Capital Expenditure Cash Flow
By Asset Class:			
Land	0	0	0
Parks and Open Space*	1,247	4,133	5,380
Buildings*	179	229	408
Plant	1,301	0	1,301
Furniture and Fittings	396	288	684
Roads	3,836	1,681	5,517
Stormwater	176	196	372
Total	7,135	6,527	13,662

* The categories above includes \$3,146,171 in relation to LIVING CITY.

45 Fair Value Measurements

Council measures and recognises the following assets at fair value on a recurring basis:

- Investment in water corporation
- Property, infrastructure, plant and equipment
 - Land
 - Buildings
 - Roads, including footpaths and cycleways
 - Stormwater
 - Parks & open space
 - Cultural & heritage

Council also has assets measured at fair value on a non-recurring basis as a result of being reclassified as assets held for sale. These assets are disclosed in note 24.1. A description of the valuation techniques and the inputs used to determine the fair value these assets is included below under the heading 'Assets held for sale'.

Council measures other financial liabilities at fair value on a recurring basis.

(a) Fair Value Hierarchy

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

Level 1	Unadjusted quoted prices in active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3	Unobservable inputs for the asset or liability.

The table below shows the assigned level for each asset and liability held at fair value by the Council.

The table presents the Council's assets measured and recognised at fair value at 30 June 2020.

The fair value of the assets are determined using valuation techniques which maximise the use of observable data, where it is available and minimise the use of entity specific estimates. If one or more of the significant inputs is not based on observable market data, the asset is included in level 3. This is the case for Council infrastructure assets, which are of a specialist nature for which there is no active market of similar or identical assets. These assets are valued using a combination of observable and unobservable inputs.

As at 30 June 2020

	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements					
Investment in water corporation	22	0	0	76,789	76,789
Land	24	0	166,664	0	166,664
Buildings	24	0	51,747	47,070	98,817
Roads, including footpaths and cycleways	24	0	0	135,405	135,405
Stormwater	24	0	0	85,137	85,137
Parks & open space	24	0	0	15,954	15,954
Cultural and heritage	24	0	5,017	0	5,017
Other financial liabilities	29	(2,882)	0	0	(2,882)
		(2,882)	223,428	360,355	580,901
Non - recurring fair value measurements					
Assets held for sale	24.1	513	0	0	513
		513	0	0	513
Total fair value measurements		(2,369)	223,428	360,355	581,414

45 Fair Value Measurements (cont.)

As at 30 June 2019

	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements					
Investment in water corporation	22	0	0	100,028	100,028
Land	24	0	145,903	0	145,903
Buildings	24	0	74,112	19,325	93,437
Roads, including footpaths and cycleways	24	0	0	131,904	131,904
Stormwater	24	0	0	77,687	77,687
Parks & open space	24	0	0	15,008	15,008
Cultural and heritage	24	0	5,121	0	5,121
Other financial liabilities	29	(2,499)	0	0	(2,499)
		(2,499)	225,136	343,952	566,589
Non - recurring fair value measurements					
Assets held for sale	24.1	1,336	0	0	1,336
		1,336	0	0	1,336

Transfers between levels of the hierarchy

Council's policy is to recognise transfers in and out of the fair value hierarchy levels at the end of the reporting period.

(b) Highest and best use

In accordance with AASB 13, all assets are valued at their highest and best use.

(c) Valuation techniques and significant inputs used to derive fair values

Investment in water corporation

Refer to note 22 and 45 for detail of valuation techniques used to derive fair values.

Land

Land fair values were determined by the office of the Valuer General during the year ended 30 June 2015 and revalued at 30 June 2020 using the adjustment factor provided by the Office of the Valuer-General. Land Under Roads was required to be revalued at 30 June 2020 and therefore in Accordance with AASB 116, the entire asset class was revalued. Level 2 valuation inputs were used to value land in freehold title as well as land used for special purposes, which is restricted in use under current planning provisions.

Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square metre.

Land under roads

All land under roads is calculated based on the applicable land area recorded by Council and the land values provided by the Valuer General in 2020. The most significant input into this valuation approach is price per square metre.

Land under roads has been categorised as either urban residential land or rural land in accordance with Council data. The relevant square metre rates have then been applied to the land area.

45 Fair Value Measurements (cont.)

Buildings

Where there is a market for Council building assets, fair value has been determined by applying the statutory values assigned by the office of the Valuer General during the year ended 30 June 2015 and subsequent adjustment factors. Fair value has been derived from the sales prices of comparable properties after adjusting for differences in key attributes such as property size. The most significant input into this valuation approach is price per square metre. These buildings have been classified as level 2 in the Table above.

Council completed construction of the paranapple centre, Providore Place and market square and the CBD car park in 2019. Given the recent construction, fair value for these assets has been determined to be indexed construction cost. Following completion of the paranapple centre, the sale of level 1 of the building to the State government was completed. The sale price agreed did not differ materially from the construction cost of the assets disposed of. As the construction costs have been indexed at 30 June 2020 and the useful lives attributed to the assets are based on unobservable estimates, the buildings have been classified as level 2 in the Table.

Where Council buildings are of a specialist nature (e.g. public amenities) and there is no active market for the assets, fair value has been determined on the basis of replacement with a new asset having similar service potential. The gross current values have been derived from reference to market data for recent projects and costing guides. Construction costs applicable to these assets have been indexed using appropriate independent construction indexes. These buildings have been classified as level 3 in the Table above.

In determining the level of accumulated depreciation, significant building assets have been disaggregated into components which exhibit useful lives. Allowance has been made for the typical asset life cycle and renewal treatments of each component.

While the unit rates based on square metres can be supported by market evidence (level 2), the estimates of useful life that are used to calculate accumulated depreciation comprise unobservable inputs (level 3). Where these other inputs are significant to the valuation the overall valuation has been classified as level 3.

Buildings subject to indexation, were indexed at 30 June 2020 by 2.5%. This rate represents a 5 year average of a number of construction indexes for both Tasmania and Australia and with reference to the Council Cost index as determined by LGAT each year. This rate has been determined after acknowledging the uncertainty of the impact of COVID-19 on the Australian and Tasmanian economy. All other buildings were indexed in 2019 using the adjustment factor issued by the office of the Valuer-General.

Infrastructure assets

All Council infrastructure assets were fair valued using written down current replacement cost (CRC). This valuation comprises the asset's gross replacement cost (GRC) less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. Council first determined the gross cost of replacing the full service potential of the asset and then adjusted this amount to take account of the expired service potential of the asset.

CRC was measured by reference to the lowest cost at which the gross future economic benefits of the asset could currently be obtained in the normal course of business. The resulting valuation reflects the cost of replacing the existing economic benefits based on an efficient set of modern equivalent assets to achieve the required level of service output.

The unit rates (labour and materials) and quantities applied to determine the GRC of an asset or asset component were generally based on a "Brownfield" assumption meaning that the GRC was determined as the cost of replacement with a new asset excluding components that may not need to be replaced, such as earthworks.

The level of accumulated depreciation for infrastructure assets was determined based on the age of the asset and the useful life adopted by Council for the asset type. Depreciation is applied on a straight line basis. Estimated useful lives are disclosed in Note 14.

The calculation of CRC involves a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made by qualified and experienced staff, different judgements could result in a different valuation.

45 Fair Value Measurements (continued)

The methods for calculating CRC are described under individual asset categories below.

Roads, including footpaths & cycleways

A full valuation of road infrastructure was undertaken by Council staff effective 30 June 2019. Council categorises its road infrastructure into urban and rural roads and then further sub-categorises these into sealed and unsealed roads. Urban and rural roads are generally managed in segments from intersection to intersection. All road segments are then componentised into formation, pavement and seal (where applicable). Council assumes that environmental factors such as soil type, climate and topography are consistent across each segment. Council also assumes a segment is designed and constructed to the same standard and uses a consistent amount of labour and materials. Pavements constructed post 1993 have longer asset lives as they require more stringent quality assurance on material selection and pavement design.

CRC is based on the road area multiplied by a unit price; the unit price being an estimate of labour and material inputs, services costs, and overhead allocations. Council uses known pavement thickness for most assets and applies a 350mm default when unknown. For internal construction estimates, material and services prices are based on existing supplier contract rates or supplier price lists and labour wage rates are based on Council's Enterprise Agreement (EA). Where construction is outsourced, CRC is based on the average of completed similar projects over the last few years. Road assets were indexed by 2.5% at 30 June 2020.

Stormwater

A full valuation of stormwater infrastructure was undertaken by Council staff effective 30 June 2020. Similar to roads, drainage assets are managed in segments; pits and pipes being the major components.

Consistent with roads, Council assumes that environmental factors such as soil type, climate and topography are consistent across each segment and that a segment is designed and constructed to the same standard and uses a consistent amount of labour and materials for each pipe depth.

CRC is based on the unit price for the component type. For pipes, the unit price is multiplied by the asset's length. The unit price for pipes is based on the construction material (including pipe diameter) as well as the depth the pipe is laid.

Parks & Open Space

A full valuation of parks & open space was undertaken by Council staff effective 30 June 2018. The asset class is reviewed between valuations and indexed as required. Parks & Open Space assets were indexed by 2.5% at 30 June 2020.

Cultural & Heritage

The valuation of Council's art collection was determined by D. Bett, an independent art valuer, as at 4 November 2011. The art collection is indexed annually using the rates determined by the independent valuer. This asset class also includes the sailing vessel, *Julie Burgess* that was revalued by an independent valuer during the year. The remainder of the Bass Strait Maritime collection and public art assets were not revalued during the year as the amount is considered immaterial.

45 Fair Value Measurements (continued)

Other financial liabilities

Refer to note 45 for detail of valuation techniques used to derive fair values.

Assets held for sale

Assets classified as held for sale during the reporting period were valued at the lower of carrying amount or fair value less costs to sell at the time of reclassification. Market value was used to determine fair value.

(e) Changes in fair value measurements

The changes in assets and liabilities with recurring fair value measurements are detailed in Note 24 and 43. Transfers between level 1, 2 or 3 measurements that relate to non - recurring fair value measurements are detailed in the table below.

	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements					
Land	24	0	(195)	0	(195)
Buildings	24	0	(318)	0	(318)
		0	(513)	0	(513)
Non - recurring fair value measurements					
Assets held for sale	24.1	513	0	0	513
		513	0	0	513
		513	(513)	0	0

(f) Valuation processes

Council's valuation policies and procedures are determined by the Asset Management Team which includes the City Engineer and Executive Manager People & Finance. Policies are then reviewed by the Senior Management Group before referral to the Executive Leadership Team. They are reviewed every 2 years or sooner to reflect changes in accounting treatment. Revaluation Guidelines are prepared each year and reviewed by the Asset Management Team. The Guidelines are referred to the Audit Panel for review and comment and ultimately to Council.

Council's current policies for the valuation of property, infrastructure, plant and equipment and investment in water corporation are set out in Note 22 and 24.

(g) Assets and liabilities which are not measured at fair value, but for which fair value is disclosed

Council has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in other notes. (refer Note 45)

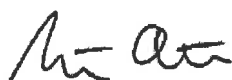
The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature (level 2).

DEVONPORT CITY COUNCIL

Notes to the Financial Report For the year ended 30 June 2020

Certification of the Financial Report

The financial report presents fairly the financial position of the Devonport City Council as at 30 June 2020, the results of its operations for the year then ended and the cash flows of the Council, in accordance with the *Local Government Act 1993* (as amended), Australian Accounting Standards (including interpretations) and other authoritative pronouncements issued by the Australian Accounting Standards Board.



Matthew Atkins
GENERAL MANAGER

Dated: 29 September 2020.