# SOUTHERN **METROPOLITAN** **REGIONAL** COUNCIL

# AGENDA PAPERS

# SPECIAL MEETING OF COUNCIL

**THURSDAY 13 DECEMBER 2021**
**11.00am**

**SOUTHERN METROPOLITAN REGIONAL COUNCIL**
**9 Aldous Place BOORAGOON**

**Our Purpose:** *We deliver innovative and sustainable waste management solutions*

*On behalf of our Participant Local Governments*

Dear Members

In accordance with section 5.25(1)(g) of the Local Government Act 1995, the SMRC gives notice that a Special Meeting of the Southern Metropolitan Regional Council to be held at the Southern Metropolitan Regional Council, 9 Aldous Place, Booragoon commencing at **11.00am on Monday 13 December 2021** for the following purposes:

1. Auditors Report for the year ended 30 June 2021

**Tim Youé**
**CHIEF EXECUTIVE OFFICER**

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|---|---|---|
| **1.** | **DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS**<br>“We respectfully acknowledge the traditional owners of the land on which this meeting is taking place today – the Nyungar people of Western Australia and pay our respects to their elders past and present”. | |
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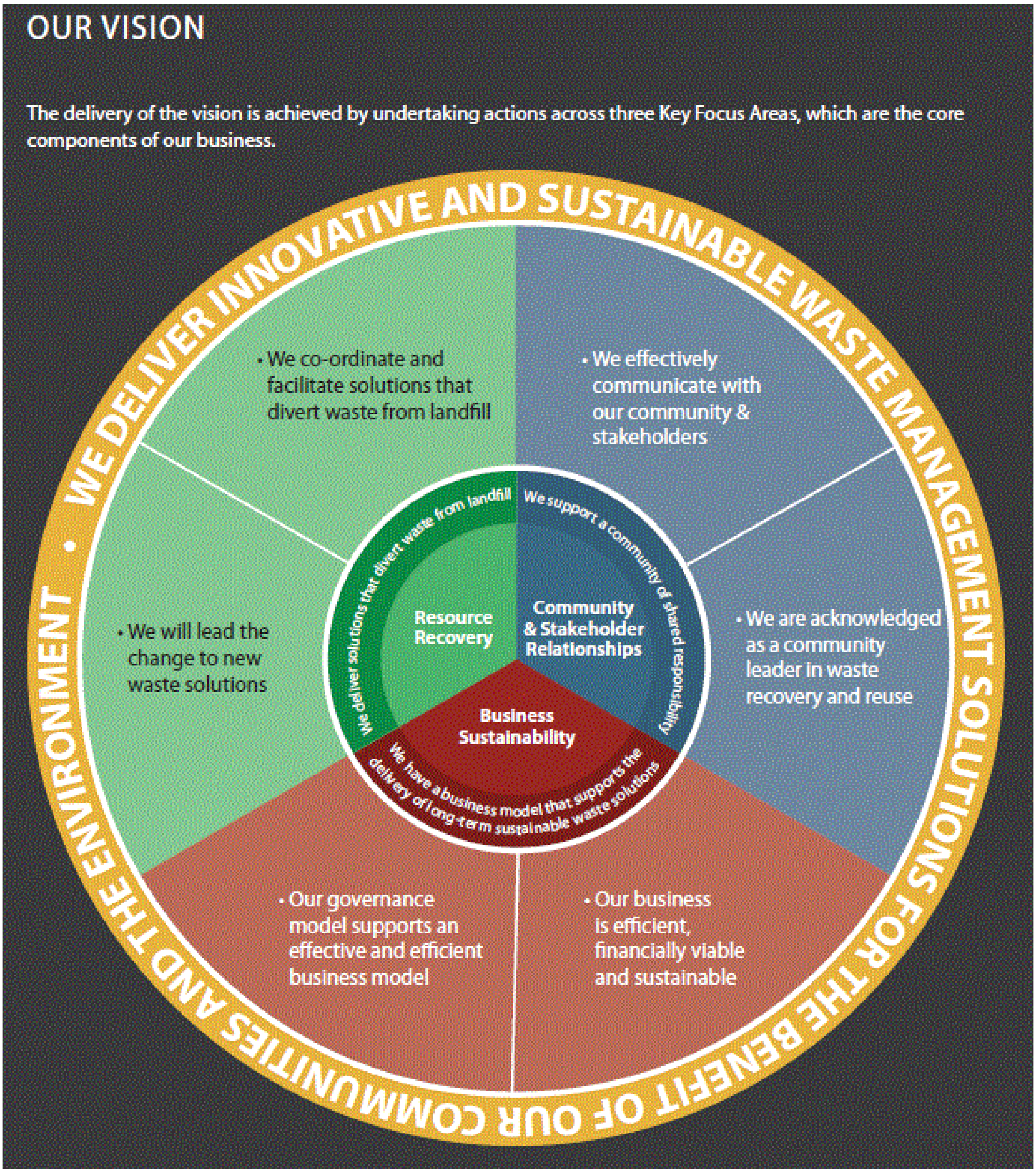
# Corporate Business Plan

This Corporate Business Plan is an internal business planning tool that translates Council priorities into operations within the resources available. It represents the activation of the Southern Metropolitan Regional Council's (SMRC) Strategic Community Plan. The Strategic Community Plan articulates the long-term vision, aspirations, and strategic priorities of SMRC's key stakeholders.

## Our Vision

The delivery of the vision is achieved by undertaking actions across three Key Focus Areas, which are the core components of our business.



| | |
|---|---|
| **REPORT NO** | **9.1** |
| **SUBJECT** | **AUDITORS REPORT FOR THE YEAR ENDED 30 JUNE 2021** |
| **REPORTING OFFICER** | C Wiggins, Executive Manager Corporate Services |
| **RESPONSIBLE OFFICER** | T Youé, Chief Executive Officer |
| **EMPLOYEE INTEREST** | Nil |
| **DATE OF REPORT** | 10 December 2021 |
| **FILE REFERENCE** | FD: Corporate Finance/Audit |
| **ATTACHMENTS** | 1. Auditors closing report on the annual statements<br>2. Final Management Letter –Financial Audit<br>3. Final Management Letter – A Financial Audit<br>4. Final Management Letter – B IT Review<br>5. Southern Metropolitan Regional Council Annual Financial Report for the year ended 30 June 2021<br>6. SMRC Annual Financial Highlights and Results as presented in the Annual Report<br>7. Accounting Policy No 2.1 |

**THE AUDITORS (RSM AND OAG) WILL BE ATTENDING THE COUNCIL MEETING TO PRESENT THEIR DRAFT REPORT.**

**COUNCIL RESOLUTION**
**21.12-01 MOVED: CR SECONDED: CR**

**CEO RECOMMENDATION:**

1. **THE STATUTORY AUDITOR'S REPORT AND MANAGEMENT REPORT RECEIVED FROM OFFICE OF THE AUDITOR GENERAL FOR WESTERN AUSTRALIA FOR THE YEAR ENDED 30 JUNE 2021 BE RECEIVED.**
2. **THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021 BE RECEIVED.**
3. **THE REVISED ACCOUNTING POLICES NO 2.1 BE ADOPTED.**

**VOTING REQUIREMENT**
Simple Majority.

**PURPOSE OF REPORT**

To present to the Council the Independent Auditor's report for the year ended 30 June 2021 and the financial performance of the SMRC for the period ending 30 June 2021.

**NATURE OF COUNCIL'S ROLE IN THE MATTER:**

**Advocative**
Not applicable

**Executive**
The role of the Council is to accept the Auditors report and ensure the CEO responds to any matters raised in the management letter or audit report in accordance with the *Local Government Act 1995* and regulations.

**Legislative**

1. The annual financial report is to contain matters prescribed in FM regulations 36.

2. The annual financial report is to be prepared for the preceding financial year by 30 September each year and submitted to its auditor. (LGA s6.4). (the draft report was forwarded to our auditor on 16 September 2021).

3. After the annual financial report has been audited in accordance with the Act the CEO is to sign and append to the report a declaration in the form of Form 1.

   A copy of the annual financial report of a local government is to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report. (FM regs 51)

4. The auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to — (LGA s7.9(1))
   (a) the mayor or president; and
   (b) the CEO of the local government; and
   (c) the Minister.

5. Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the persons specified in section 7.9(1) with the auditor's report. (FM reg 10.4)

6. A local government must — (LGA s7.12A (4))
   a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and

   b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.

7. Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website. (LGA s7.12A(5)

8. The Local Government Act 1995 (s5.53) requires Regional Councils to prepare an annual report for the financial year ending 30 June, by 31 December each year.

   (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

**IMPLICATIONS TO CONSIDER:**

**Consultative:**
Consult with Auditors.

**Strategic relevance:**

| | |
|---|---|
| **Key Result Area 2** | **Business Sustainability** |
| **Objective 2.4** | Our business is financially viable and sustainable |

**Policy related:**
Accounting Policies

**Financial:**
Auditors Fee as per budget provision.

**Legal and statutory:**
The Local Government Act 1995 and regulations.

**Risk related:**
Compliance Risk related.

**BACKGROUND**
The Local Government Amendment (Auditing) Act 2017 was proclaimed in October 2017, giving the Auditor General the mandate to audit local governments and regional councils.

The Act allows the Auditor General to take on responsibility for the annual financial audits of local governments as existing audit contracts expire.

Since 2019/20 the Auditor General has been responsible for conducting a statutory financial audit for the SMRC and has appointed RSM Australia as its contractor to undertake the audit on its behalf.

The auditor is to audit the statutory accounts and annual financial statements of the Local Government.

**REPORT**

Representatives from the Office of the Auditor General and RSM will present their audit report to the Council meeting.

The reports consist of: (refer attachments)

1. Auditors closing report on the annual statements
2. Final Management Letter –Financial Audit
3. Final Management Letter – A Financial Audit
4. Final Management Letter – B IT Review
5. Southern Metropolitan Regional Council Annual Financial Report for the year ended 30 June 2021
6. SMRC Annual Financial Highlights and Results as presented in the Annual Report
7. Accounting Policy No 2.1

In summary, the Auditor recommend to the Auditor General that an unqualified audit opinion is issued on the financial statements.

The Auditor has issued three management letters during the audit, noting seven moderate rating and three minor rated findings in our financial and IT controls. Management comments and actions are noted in the letters.

The regional council's financial position reports a surplus of $9.1 million with the details referred to the highlights and results report included in the Annual Report and attachments.

# SOUTHERN METROPOLITAN REGIONAL COUNCIL

**Audit Closing Report**

**30 June 2021 Financial Statements**

Office of the Auditor General
Serving the Public Interest

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

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# 1 EXECUTIVE SUMMARY

## 1.1 Purpose of the Closing Report

The primary purpose of this Audit Closing Report is to brief the Southern Metropolitan Regional Council (**Council**) on the results of our substantially completed audit of the 30 June 2021 financial statements. This report should be read in conjunction with our Audit Planning Memorandum (**APM**) provided to the Council on 24 March 2021.

## 1.2 Scope and approach

There have been no changes to the audit scope or approach set out in the APM.

## 1.3 Key deliverables

### 1.3.1 Annual financial statements audit report

The Auditor General is required to issue an opinion on the financial statements of the Council for the year ended 30 June 2021. In accordance with section 7.9(1) of the *Local Government Act 1995* (**LG Act**), the audit report will be addressed to the Chairman, with a copy being forwarded to the Chief Executive Officer (**CEO**) and the Minister for Local Government.

We will recommend to the Auditor General that an unqualified audit opinion is issued on the financial statements (refer section 2.1).

### 1.3.2 Report on other legal and regulatory requirements

The Auditor General is also required by regulation 10(3) of the *Local Government (Audit) Regulations 1996* to report:

- Any matters indicating non-compliance with Part 6 of the LG Act or the *Local Government (Financial Management) Regulations 1996* (**Financial Management Regulations**) or applicable financial controls;
- Any material matters indicating significant adverse trends in the financial position or the financial management practices;
- Whether all required information and explanations were obtained during the audit;
- Whether audit procedures were satisfactorily completed; and
- Whether the Asset Consumption Ratio and the Asset Renewal Ratio, disclosed in the notes to the financial statements, were supported by verifiable information and reasonable assumptions.

During the audit we did not identify any significant matters that require reporting under regulation 10(3) of the *Local Government (Audit) Regulations 1996* (refer section 2.3).

### 1.3.3 Management letters

Two moderate finding was identified during the 2020/21 preliminary audit.

Five Moderate and two minor findings identified during the 2019/20 Information systems audit

One Minor finding was identified during the 2020/21 final audit.

## 1.4 Matters of significance

In accordance with section 24(1) of the *Auditor General Act 2006*, the Auditor General is required to report to Parliament on matters arising out of the performance of the Auditor General's functions that are, in the opinion of the Auditor General, of such significance as to require reporting.

We confirm that no such matters came to our attention during our audit work.

## 1.5 COVID-19

We concur with the Council's assessment that there is no significant impact on the financial statements or operations due to COVID-19 pandemic.

## 1.6 Independence

The audit methodology of RSM Australia requires that we conduct a regular evaluation of our independence. We have fully satisfied ourselves that we do not have any actual or perceived conflict of interest.

### 1.7 Our appreciation

We wish to express our thanks for the co-operation shown by the Council's finance team during the audit.

## 2 AUDIT COMPLETION

### 2.1 Statutory financial statements and audit opinion

We have completed the audit fieldwork on the statutory financial statements of the Council for the year ended 30 June 2021.

The financial statements are general purpose financial report prepared in accordance with the LG Act, accompanying regulations and, to the extent that they are not inconsistent with the LG Act, Australian Accounting Standards.

We have discussed all significant auditing and accounting issues with management, and these have been satisfactorily resolved and are discussed in this report. The audit and assurance procedures are designed to support the audit and assurance opinions and they cannot be expected to identify all weaknesses or inefficiencies in the Council's systems and working practices.

Based on the evidence, which has been assessed during our audit, we expect to conclude that the financial statements of the Council:

(i) Are based on proper accounts and records; and

(ii) Fairly represent, in all material respects, the results of the operations of the Council for the year ended 30 June 2021 and its financial position at the end of that period in accordance with the LG Act and, to the extent that they are not inconsistent with the LG Act, Australian Accounting Standards.

We will recommend to the Auditor General that an unqualified opinion is issued on the financial statements.

### 2.2 Report on other legal and regulatory requirements

As a result of our procedures, nothing has come to our attention, within the scope of the audit, to indicate non-compliance with relevant legal and regulatory requirements.

### 2.3 Management letter – control weaknesses

Our audit approach involves the use of a rotation approach when planning our test of controls. Consequently, not all control cycles are subject to testing and only certain transaction cycles are in audit scope each year. We performed key management control testing over the revenue cycle. In addition, we tested general IT controls to the extent described in section 9.

Based on our testing, the following control weaknesses were identified during the preliminary and final audit stages:

### 2.3.1 Prior period audits

Four significant findings and Nine moderate findings were reported during the prior year audit:

| Financial audit Findings | Rating | Status |
|---|---|---|
| 1. Regional Resource Recovery Centre failure of sale adjustments | Significant | Resolved |
| 2. Assessment of new accounting standards 15, 1058 and 16 | Significant | Resolved |
| 3. Segregation of duties: purchasing function | Significant | Resolved |
| 4. Failure to update price rates in SynergySoft system on a timely manner | Moderate | Resolved |
| 5. Backdating of purchase orders | Moderate | Resolved |
| 6. Indicators of significant adverse trends identified | Significant | Resolved |
| 7. Excess leave management | Moderate | Resolved |
| **Information system specific findings** | **Rating** | **Status** |
| 8. Network user access management | Moderate | Open |
| 9. SynergySoft user access management | Moderate | Open |
| 10. Business continuity management | Moderate | Open |
| 11. IT governance and strategy | Moderate | Open |
| 12. Cyber vulnerability management | Moderate | Open |
| 13. IT change management | Moderate | Open |

### 2.3.2 2020/21 preliminary audit

Two moderate findings were identified during the 2020/21 preliminary audit:

| Financial audit Findings | Rating |
|---|---|
| 1. Critical spares held as inventory | Moderate |
| **Information system specific findings** | **Rating** |
| 2. IT policies and procedures | Moderate |
| **Prior year findings remaining open** | |
| 3. IT strategy and governance | Moderate |
| 4. Synergy soft user access management | Moderate |
| 5. Vulnerability assessment management | Moderate |

| | |
|---|---|
| 6. Physical and environmental security | Moderate |
| 7. IT change management | Moderate |
| 8. Business continuity management | Minor |
| 9. Network user access management processes | Minor |

### 2.3.3 2020/21 final audit

One minor finding was identified during the 2020/21 final audit:

| Financial audit Findings | Rating |
|---|---|
| 1. Evidence of formal agreement for gate fee rates charged to customer | Minor |

## 2.4 Compliance with laws and regulations

We have reviewed the Council's controls to manage the risk of systemic failure to comply with relevant laws and regulations. We also reviewed Council and other relevant committee minutes of meetings throughout the year to identify any recorded non-compliance with relevant laws and regulations.

As a result of our procedures nothing has come to our attention, within the scope of the audit, to indicate non-compliance with relevant laws and regulations.

## 2.5 Unadjusted audit differences

There were no unadjusted audit differences noted during the audit.

## 2.6 Summary of audit adjustments

Four audit adjustments were processed by the Council during the course of the final audit.

| Entry | Account Description | Debit ($) | Credit ($) |
|---|---|---|---|
| 1 | Container deposit scheme income (income) | 61,585 | |
| | Gate fees (income) | | 61,585 |
| | *Being the reclassification between income categories.* | | |
| 2 | Container deposit scheme expenses (expense) | 1,760,176 | |
| | Container deposit scheme income (income) | | 1,760,176 |
| | Accrued income (asset) | 506,007 | |
| | Accrued expenses (liability) | | 506,007 |
| | *Being the recognition of gross container deposit scheme income and expenses.* | | |

| | | | |
|---|---|---|---|
| 3 | Leasehold improvements (asset)<br>Accumulated depreciation (asset)<br>Loss on disposal of asset (expense)<br><br>*Being adjustment for WCF roof disposal* | <br>46,608<br>626,438 | 673,046 |
| 4 | Leasehold improvements (asset)<br>Accumulated depreciation (asset)<br>Loss on disposal of asset (expense)<br><br>*Being adjustment for WCF roof refurbishment costs capitalised* | 2,488,539 | <br>172,331<br>2,316,208 |

### 2.7 Subsequent events

Management has represented that, other than those matters disclosed in the financial statements, there are no significant subsequent events between the end of the financial year and the date of this Audit Closing Report, which may significantly impact the results of the operations and the state of affairs of the Council for the financial year.

### 2.8 Contingent liabilities and commitments

Management has represented to us that, other than those matters disclosed in the financial statements, there are no other outstanding or pending litigation, contingent liabilities or commitments.

We have received and reviewed the solicitors' confirmations and, except for those matters detailed in the notes to the financial statements, we have not become aware of any other material contingent liabilities, pending litigation or commitments.

### 2.9 Environmental matters

The Regional Resource Recovery Centre (RRRC) land is owned by City of Canning – lot 78 Bannister road Canning Vale which is recorded on the DWER Contaminated Sites Database.

The Council has no contaminated sites or liability to report as at 30 June 2021.

Based on our work within the scope of our engagement, nothing came to our attention to indicate the key controls around contaminated sites are ineffective.

### 2.10 Outstanding audit matters

The audit opinion is subject to the finalisation of our audit process. The key matters still outstanding are:

a) Our final review of the financial statements;

b) Our receipt of the signed management representation letter; and

c) Our performance of subsequent events review up to date the audit report is issued.

## 3 NEW ACCOUNTING STANDARD ADOPTED IN THE CURRENT YEAR

### *3.1 AASB 1059 Service Concession Arrangements: Grantors*

The Council adopted AASB 1059 (effective from 1 July 2020) which sets out how public sector entities that grant concessions to private sector operators for the delivery of specified public services should treat those grants. The grantor must recognise a service concession asset, measured at current replacement cost, when it controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price, and when the grantor retains an interest in the asset at the end of the arrangement. It must also recognise a related service concession liability, which will usually be treated as unearned revenue, and recognised as income over the life of the concession.

The Council has assessed there is no impact of AASB 1059 upon implementation of the standard.

## 4 AMENDMENTS TO LOCAL GOVERNMENT FINANCIAL MANAGEMENT REGULATIONS

### 4.1 Regulation 44- Fees etc. to council members, information about in annual financial report

Amendments to regulation 44 requires information about fees, expenses and allowances paid to council members, the mayor or the president to be included in the annual financial report commencing from the year ended 30 June 2021. The amendment provides clarity that itemised information is required for each council member and mayor or president, rather than total figures. We have audited the Council's disclosure at Note 22, and we conclude that the Council has correctly applied the requirements of the regulation and made appropriate disclosures in the notes to the financial statements.

## 5 AREAS OF AUDIT EMPHASIS

As mentioned in the APM, our audit focus was on those areas where we assessed there to be a significant risk of material misstatement in the financial statements. We designed and performed procedures to be able to conclude, with reasonable assurance, whether each significant risk area is free from material misstatement. The following is a summary of the significant risk balances for the past three financial years:

| Significant risk area | 30 June 2021 $'000 | 30 June 2020 $'000 | 30 June 2019 $'000 |
|---|---|---|---|
| **Revenue recognition** | | | |
| ▪ Operating grants, subsidies and contributions | 5.317 | 4,647 | 1,705 |
| ▪ Fees and charges | 23,394 | 20,802 | 21,335 |
| ▪ Trade and other receivables | 2,780 | 3,187 | 1,502 |
| **Procurement** | | | |
| ▪ Materials and contracts | 13,524 | 11,840 | 14,464 |
| ▪ Property, plant and equipment (additions) | 4,596 | 1,244 | 132 |
| **Fixed assets** | | | |
| ▪ Property, plant and equipment | 27,176 | 27,305 | 19,296 |

The outcome of our audit procedures for each high-risk material area is summarised in the following table:

| High-risk area | Key risks | Free from material misstatement |
|---|---|---|
| **Revenue recognition**<br>▪ Operating grants, subsidies and contributions<br>▪ Fees and charges<br>▪ Trade and other receivables | Fees and charges revenue is material and is high-risk due to the multifaceted method of calculation, the high dependency on information systems and the significant regulatory compliance regime.<br>Compliance with *AASB 15 and AASB 1058* can be complex and requires detailed analysis of contracts and appropriate application of revenue recognition policies.<br>Calculation and recording of the expected credit loss provision in accordance with *AASB 9 Financial Instruments* can be complex and is subject to estimation. | ✓ |
| **Procurement**<br>▪ Materials and contracts<br>▪ Property, plant and equipment (additions) | These expenditure items are a significant risk due to the materiality of the amounts, the different cost allocation methods, the strict and complex requirements of the Council's purchasing policy and the risk of management override of controls. | ✓ |
| **Fixed assets**<br>▪ Property, plant and equipment | Property, plant and equipment are material assets in the Statement of Financial Position.<br>Removal of regulation 16 and compliance with the new regulation 17A of the Financial Management Regulations can be complex and require some material adjustments to the carrying value of these assets and associated asset revaluation reserves.<br>Effective from 1 July 2018, regulation 17A(5) of the Financial Management Regulations provides that an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under $5,000. | ✓ |

## 6 OTHER CRITICAL DISCLOSURES IN THE FINANCIAL STATEMENTS

We also audited the following critical disclosures in the financial statements by verifying the underlying calculations and auditing the evidence to support the amounts disclosed:

| Critical disclosure | Key risks | Comply with accounting standards |
|---|---|---|
| Related party | Disclosures of key management personnel remuneration and related party transactions are not in accordance with AASB 124 *Related Party Disclosures*. | ✓ |
| Financial ratios | The underlying data is incomplete or inaccurate and the calculations of the ratios are incorrect and not in accordance with Financial Management Regulations. | ✓ |

# 7 FRAUD RISK

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial statements because of fraud and error. To address our responsibilities relating to fraud, we designed and implemented audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud. Procedures and the results of our testing are detailed below:

## 7.1 Management override of control

Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Management override can occur in areas such as journal entries, accounting estimates and judgements.

Based on our work, nothing has come to our attention to indicate that the Council does not have proper processes and controls to manage the risk of management override of controls and that material key estimates and judgments are properly assessed and brought to account. Our audit did not detect any instances of fraud due to management override of controls.

## 7.2 Element of unpredictability

We also incorporated an element of unpredictability in our audit procedures to address the risk of Council staff, who are familiar with the normal audit procedures, being more able to conceal fraudulent activity.

During our audit work, nothing came to our attention to suggest any indication of fraud.

## 7.3 Fraud incidences during the audit

We have made enquiries of the Council, the CEO and management regarding whether they have knowledge of any incidences of material fraud during the financial year. Based on our enquiries and other audit procedures, we did not become aware of any incidences of misconduct or fraud which would have a material impact on the financial statements.

# 8 INFORMATION SYSTEM AUDIT

The Council's financial management information system is classified by the audit team as 'complex'. Audit also determined that the information system general controls are critical to the processing of financial transactions and the preparation of the financial statements. Due to these circumstances, the audit team included an information system audit specialist (**ISAS**) to assess the risk of material misstatement imposed by the Information Technology (**IT**) environment.

The ISAS obtained an understanding of the information system, including the related business processes, relevant to financial reporting, including how the information system captures events and conditions, other than transactions, that are significant to the financial statements. The ISAS also tested general IT controls around system access and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements.

As a result of the ISAS' procedures, we identified and reported a number of control weakness in the audit management letter (refer to section 2.3)

# 9 NEW ACCOUNTING STANDARDS APPLICABLE IN FUTURE YEARS

There are no new accounting standards, which would materially impact the Council's financial statements in future financial years. We reviewed and concur with the Council's disclosures in the notes to the financial statements regarding new accounting standards.

# 10 MATTERS RELATING TO FUTURE AUDIT

Based on our discussion with the Council's management, there are no matters that will be materially relevant for the 30 June 2021 financial statement audit.

RSM

**SOUTHERN METROPOLITIAN REGIONAL COUNCIL**

**PERIOD OF AUDIT: 1 JULY 2020 TO 30 JUNE 2021**

**FINDINGS IDENTIFIED DURING THE FINAL AUDIT**

| INDEX OF FINDINGS | RATING | | |
|---|---|---|---|
| | **Significant** | **Moderate** | **Minor** |
| **Findings identified in the current audit** | | | |
| 1. Evidence of formal agreement for gate fee rates charged to customer | | | ✓ |

## KEY TO RATINGS

The ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We consider these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

**Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.

**Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

**Minor** - Those findings that are not of primary concern but still warrant action being taken.

**SOUTHERN METROPOLITIAN REGIONAL COUNCIL**

**PERIOD OF AUDIT: 1 JULY 2020 TO 30 JUNE 2021**

**FINDINGS IDENTIFIED DURING THE FINAL AUDIT**

### 1. Evidence of formal agreement for gate fee rates charged to customer

**Finding:**

During our testing of gate fees revenue, we identified one instance (sample population 21) without formal documentation of agreed rates to be charged.

**Rating: Minor**

**Implication:**

Without formal documentation in place, incorrect rates may be charged to the customer.

**Recommendation:**

The Council should document a formal agreement for all customers (except those paying fees as per the approved budget) and record the agreements effectively to ensure correct rates are charged.

**Management comment:**

*In this one instance an informal verbal agreement was established, these agreements are usually followed by a letter or email to document the process.*
*Unfortunately, that did not happen on this occasion.*
*A review of all current charge rates will be undertaken to ensure the correct documentation is in place. Going forward all new charge rates will be formalised by the Corporate Services Manager.*

**Responsible position**: *Corporate Services Manager*

**Completion date:** *Ongoing*

**SOUTHERN METROPOLITAN REGIONAL CENTRE (SMRC)**

**PERIOD OF AUDIT: 1 JULY 2020 TO 30 JUNE 2021**

**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

| INDEX OF FINDINGS | RATING | | |
|---|---|---|---|
| | **Significant** | **Moderate** | **Minor** |
| **Findings identified in the current audit** | | | |
| **1.1** Critical spares held as inventory | | ✓ | |

## KEY TO RATINGS

The ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

**Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.

**Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

**Minor** - Those findings that are not of primary concern but still warrant action being taken.

**SOUTHERN METROPOLITAN REGIONAL CENTRE (SMRC)**

**PERIOD OF AUDIT: 1 JULY 2020 TO 30 JUNE 2021**

**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

## 1. Critical spares held as inventory

**Finding**

During our review of the inventory on hand, we noted critical spares relating to the operation of the Regional Resource Recovery Centre (RRRC) plant were classified as inventory. As per AASB 116, critical spares should be capitalised as part of the plant and equipment and depreciated over the useful life of the part when put into use.

**Rating: Moderate**

**Implication**
There is a risk that inventory would be overstated and ultimately the expenses recognised in the financial statements.

**Recommendation**
SMRC should develop policies and procedures as required to ensure the appropriate accounting treatment of critical spares.

**Management comment**
The critical spares held as inventory as on 30 June 2021 are being reviewed in line with the accounting standards.

SMRC's accounting policies relating to critical spares will be revised accordingly.

**Responsible Person:** Corporate Services Manager
**Completion Date:** 30/09/2021

**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021**

**FINDINGS IDENTIFIED DURING THE AUDIT**

| INDEX OF FINDINGS | RATING | | |
|---|---|---|---|
| | **Significant** | **Moderate** | **Minor** |
| **Findings identified in the current audit** | | | |
| 1. IT policies and procedures | | ✓ | |
| **Matters outstanding from prior year audit** | | | |
| 2. IT strategy and governance | | ✓ | |
| 3. Synergy soft user access management | | ✓ | |
| 4. Vulnerability assessment management | | ✓ | |
| 5. Physical and environmental security | | ✓ | |
| 6. IT change management | | ✓ | |
| 7. Business continuity management | | | ✓ |
| 8. Network user access management processes | | | ✓ |

## KEY TO RATINGS

The ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We consider these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

**Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.

**Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

**Minor** - Those findings that are not of primary concern but still warrant action being taken.

## 1. IT policies and procedures

### Finding

Formally endorsed and up to date policies / procedures / guidelines / governance documents help staff to support management expectations and governance structures of SMRC.

We identified SMRC did not have formal policies or procedures defined for the following key IT functional areas:

- Disaster Recovery Plan (DRP)
- Data classification policy
- Incident management policy.

**Rating: Moderate**

### Implication

There is a risk that informal or missing policies / procedures / governance documents may not be able to support the needs of the Council and staff may not be fulfilling management expectations.

### Recommendation

SMRC should:

- Develop, approve, and publish policies / procedures / governance documents including a DRP, data classification policy, and incident management policy, and ensure these documents are appropriately governed
- Periodically review and update policies / procedures / governance documents following any relevant internal or external changes.

### Management comment

Due to resource limitations the recommendations are to be reported to the next Audit & Risk Committee and Participant Local Governments for resource planning.

**Responsible Person:** Executive Manager Corporate Services
**Completion Date:** October 2021 Audit & Risk Committee Meeting

## 2. IT strategy and governance

### 2021 Status

The issues identified relating to IT Governance noted in the 2020 finding remain unresolved.

In addition to this, we noted that SMRC does not have an IT steering committee in place to govern, direct and monitor IT strategic and operational initiatives.

### 2020 Finding

Appropriate and defined IT governance structures and processes enable alignment with business strategies and efficiently manage/monitor outsourced IT systems.

We identified the following issues relating to IT Governance during our audit:

- SMRC does not have an up to date or current IT strategic or operational plan which is aligned to the overall business strategy. The previous three-year IT strategy were defined for the period 2015 to 2018, however this strategy has not been updated to reflect the current and future state strategy of SMRC
- SMRC has outsourced the management of key business systems and IT infrastructure to a third-party service provider, Network IT. We identified that the IT services contract between Network IT and SMRC has ended on 30 June 2017 and has not been formally reviewed or renewed by management.

### Rating: Moderate

### Implication

Without appropriate and defined IT governance structures and processes SMRC may not be able to:

- Effectively align IT with business strategies, increasing the risk of sub-optimal achievement in relation to business plans and initiatives
- Efficiently manage, monitor, and ensure effective outsourced IT systems requirements, functionality, and availability.

### Recommendation

SMRC should:

- Regularly review and update its IT strategic and operational plans to ensure that business and operational objective is achieved
- Ensure that outsourced service contracts are regularly reviewed and formally endorsed to ensure contract terms are relevant and business requirements are delivered by outsourced providers as required
- Consider establishing an IT steering committee to ensure clear alignment with SMRC's overall business and operational objectives and requirements.

### Management Comment

Due to resource limitations the recommendations are to be reported to the next Audit & Risk Committee and Participant Local Governments for resource planning

**Responsible Person:** Executive Manager Corporate Services
**Completion Date:** October 2021 Audit & Risk Committee Meeting

## 3. Synergy soft user access management processes

### 2021 Status

We identified that SMRC was unable to obtain audit trails for the purpose of user access management reviews. We acknowledge that, upon discussion with their software vendor, SMRC has now enabled audit logging so is capable of performing user access reviews during the next audit period.

We found the following deficiencies in the management of the finance system:

- 1 out of the 5 new user accounts was created without the appropriate approval.

### 2020 Finding

Ensuring appropriate and authorised access to the SMRC's IT systems and/or information maintains the confidentiality, integrity and availability of information.

We found the following deficiencies in the management of the finance system:

- No process exists to perform periodic user access reviews to ensure user access privileges are appropriate and that segregation of duties exists
- 1 user account was created without formal request or approval
- 3 out of 34 user accounts were still active after the staff termination date
- No process exists to review and manage generic user accounts. We identified 12 generic accounts where the need or purpose of these accounts could not be determined
- SMRC does not have access to the users maintained in the Synergy Soft Universe database and therefore cannot manage or review database user accounts.

### Rating: Moderate

### Implication

Without appropriate user access management controls in place there is an increased risk of inappropriate or unauthorised access to SMRC's IT systems and/or information. This could impact the confidentiality, integrity, and availability of SMRC's information.

### Recommendation

SMRC should:

- Ensure the formal application account creation process and policy are followed consistently
- Ensure the formal application account management and review process and policy are followed consistently
- Regularly review and monitor user access to the application to ensure it is still appropriate and needed. Appropriate records of these reviews should be retained, and accounts not needed should be removed or disabled.

### Management comment

A Policy will be developed to address the process of new, modified, terminated and reviews of user accounts

**Responsible Person:** Executive Manager Corporate Services

**Completion Date:** Policy to be reported to Audit & Risk Committee October 2021

## 4. Vulnerability assessment management

### 2021 Status

We identified that the 2020 findings remain unresolved, as described under the “2020 Finding” section.

### 2020 Finding

Effective vulnerability management policies and procedures assist the SMRC to maintain an effective secure cyber posture.

We found that:

- SMRC does not have formal vulnerability management policies, processes or procedures in place to outline the requirement to conduct regular vulnerability assessments
- There is no documented policy or process in place to ensure that system updates and security patches to known vulnerabilities are installed consistently and regularly.

**Rating: Moderate**

### Implication

Without effective vulnerability management policies, processes and procedures in place, there is an increased risk that SMRC will not be able to maintain an effective and secure cyber security posture. This could lead to potential cyber breaches, downtime, loss or exposure of critical systems or information.

### Recommendation

SMRC should define, document, and implement vulnerability management policies, processes, and procedures. These should include the requirement for periodic security testing, vulnerability assessments and processes to mitigate identified security weaknesses or improvements.

### Management comment

The internal audit program approved by the Audit & Risk Committee includes a vulnerability assessment

**Responsible Person:** Executive Manager Corporate Services

**Completion Date:** 31 October 2021

## 5. Physical and environmental security

**2021 Status**

The 2020 finding remains unresolved due to the aspects noted below not being addressed.

**2020 Finding**

Appropriate controls to manage the physical and environmental controls, reduce the risk of inappropriate, unauthorised access and potential failure of critical hardware to support key infrastructure or systems.

We found the following deficiencies in the physical and environmental security management of the data centre located at SMRC:

- SMRC does not have a documented and approved data centre policy or procedure to outline physical and environmental requirements for data locations
- SMRC's data centre has not been associated with any certifications of compliance with international good practise standards / frameworks / guidelines
- No fire drills are conducted
- No data centre access management process is in place
- No video or camera surveillance system is in place
- No process or procedure is in place for the transfer of back-up tapes
- No Environmental Control monitoring system is in place to control and monitor environmental controls
- No uninterrupted power supply or alternative power backup systems is in place.

**Rating: Moderate**

**Implication**

Without appropriate controls in place to manage the physical and environmental controls, there is an increased risk of inappropriate, unauthorised access and potential failure of critical hardware to support key infrastructure or systems. This could impact the confidentiality, integrity, and availability of SMRC's systems or information.

**Recommendation**

SMRC should:

- Develop and implement Data Centre Management policies and procedures
- Investigate and implement appropriate physical security measures to protect the data centre against unauthorised access and damage
- Investigate and implement appropriate environmental measures to protect physical sites and the data centre against environmental threats and damage.

**Management comment**

Due to resource limitations the recommendations are to be reported to the next Audit & Risk Committee and Participant Local Governments for resource planning

**Responsible Person:** Executive Manager Corporate Services

**Completion Date:** October 2021 Audit & Risk Committee Meeting

## 6. Change management processes

**2021 Status**

The 2020 finding remains unresolved due to the aspects noted below not being addressed.

**2020 Finding**

Formalised change management procedures define how changes to IT systems should be adequately tested, recorded, and authorised.

We identified that SMRC has no formal documented change management framework, process or policy for system and IT infrastructure changes to ensure that changes are appropriately requested, reviewed, approved, and analysed.

**Rating: Moderate**

**Implication**

There is a risk that without formalised change management control procedures, changes made to IT systems may not be adequately tested, recorded, and authorised. The availability or security of IT systems could be compromised should a change negatively impact them.

**Recommendation**

SMRC should implement formal change management controls, policies, and processes to ensure:

- Changes are appropriately reviewed, approved, and have a risk and impact analysis performed
- Release and back out plans are defined for promoting new versions into production
- That the test environment reflects the production environment as appropriate and that the test environment is isolated
- User Acceptance Testing (UAT) and stress tests are performed
- Access to make changes into production are segregated from development personnel and restricted to authorised users
- Post-implementation reviews are performed and documented as required.

**Management comment**

Due to resource limitations the recommendations are to be reported to the next Audit & Risk Committee and Participant Local Governments for resource planning

**Responsible Person:** Executive Manager Corporate Services

**Completion Date:** October 2021 Audit & Risk Committee Meeting

## 7. Business continuity management

**2021 Status**

We noted that disaster recovery testing was not performed during the audit period.

**2020 Finding**

Appropriate business continuity arrangements support the ability to recover critical services in a timely manner, in line with business requirements.

We found that:

- Business Continuity Plan (BCP) was last reviewed in January 2018 and the BCP procedure was last reviewed in February 2019
- ICT backup requirements standard was last reviewed in June 2019 and was not endorsed by management
- The 6 monthly backup and restoration testing was not performed as required by the ICT backup requirements standard.

**Rating: Minor**

**Implication**

Without appropriate continuity arrangements, SMRC may not be able to recover critical services in a timely manner, in line with business requirements. This could affect SMRC in providing key operations and business functions to its internal and external clients.

**Recommendation**

SMRC should:

- Regularly review and update its Business Continuity Plan (BCP). This plan should be regularly tested, and the results of these tests should be recorded, and actions taken to improve the plan where necessary
- Review, authorise and implement an appropriate IT DRP that meets the SMRC's recovery requirements. To help maintain the effectiveness of the IT DRP it should be regularly reviewed and appropriately tested. The IT DRP tests should be used to confirm key IT systems and services can be recovered in accordance with the agreed recovery requirements
- Review and endorse the backup and recovery testing standard and perform regular backup and restore testing as required.

**Management comment**

Due to resource limitations the recommendations are to be reported to the next Audit & Risk Committee and Participant Local Governments for resource planning.

**Responsible Person:** Executive Manager Corporate Services

**Completion Date:** October 2021 Audit & Risk Committee Meeting

## 8. Network user access management

### 2021 Status

During our audit we identified that there is still no defined process to review and manage generic user accounts.

We also identified one generic user account allocated to an individual that had not been picked up through existing user access reviews and requires further investigation.

### 2020 Finding

Appropriate network user access management controls in place mitigate the risk of inappropriate or unauthorised access to SMRC's IT systems and/or information.

During our audit we found the following issues with network and remote user access management:

➢ **Network user account management:**

- Regular network user access reviews are not performed
- 2 out of 3 network user accounts were created without formal request or approval
- 39 out of 111 active network accounts have not logged into the system in the last 6 months
- 3 out of 34 terminated user accounts were still active after the staff termination date.
- We identified that:
  - 1 user has logged into the system after termination date
  - 1 user was still active during our review after being terminated in April 2020
- No process exists to review and manage generic user accounts. We identified 13 generic network accounts where the need or purpose of these accounts could not be determined.

➢ **Remote user account management:**

- 1 sampled remote user account was created without formal request or approval.

**Rating: Minor**

### Implication

Without appropriate user access management controls in place there is an increased risk of inappropriate or unauthorised access to SMRC's IT systems and/or information. This could impact the confidentiality, integrity, and availability of SMRC's information.

### Recommendation

SMRC should:

- Ensure that the requirement for periodic review of generic user accounts is formally documented in policy
- Regularly review and monitor user access, including generic user accounts with access to the network to ensure it is still appropriate and needed. Appropriate records of these reviews should be retained, and accounts not needed should be removed or disabled.
- Implement a process ensure that generic user accounts are provisioned, reviewed, and terminated.

**Management Comment**

A Policy will be developed to address the process for undertaking reviews.

The SMRC currently has no formal policy, the audit finding notes we have no defined process, however it must be noted we undertake reviews in practice as noted below:

The Executive Manager Corporate Services and SMRC's Outsourced network provider has undertaken the following reviews:

1. 30/09/2020 Review folder permissions for Staff User folders
2. 02/11/2020 AD user list update and checking password expires against all accounts.
3. 03/12/2020 AD user list review and updates
4. 04/02/2021 AD Report Review and Password expiry
5. 14/04/2021 Review active users and update of Microsoft 365 licenses assigned to users.
6. 21/05/2021 Review active users and update Microsoft 365 licences assigned to users.
7. 11/08/2021 Review Active directory file sizes and data archiving

**Responsible Person:** Executive Manager Corporate Services

**Completion Date:** Policy to be developed by October 2021 Audit & Risk Committee Meeting

**SOUTHERN METROPOLITAN REGIONAL COUNCIL**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2021**

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## COMMUNITY VISION

We deliver innovative and sustainable waste management solutions for the benefit of our communities and the environment.


Principal place of business:
9 Aldous Place
Booragoon WA 6154

**SOUTHERN METROPOLITAN REGIONAL COUNCIL**
**FINANCIAL REPORT**
**FOR THE YEAR ENDED 30 JUNE 2021**

*Local Government Act 1995*
*Local Government (Financial Management) Regulations 1996*

## STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Southern Metropolitan Regional Council for the financial year ended 30 June 2021 is based on proper accounts and records to present fairly the financial position of the Southern Metropolitan Regional Council at 30 June 2021 and the results of the operations for the financial year then ended in accordance with the Local Government Act 1995 and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Signed on the ____________ day of ____________ 2021

Chief Executive Officer

Tim Youe
Name of Chief Executive Officer

**SOUTHERN METROPOLITAN REGIONAL COUNCIL**
**STATEMENT OF COMPREHENSIVE INCOME**
***BY NATURE OR TYPE***
**FOR THE YEAR ENDED 30 JUNE 2021**

| | NOTE | 2021 Actual $ | 2021 Budget $ | 2020 Actual $ |
|---|---|---|---|---|
| **Revenue** | | | | |
| Operating grants, subsidies and contributions | 2(a) | 5,317,722 | 5,099,408 | 4,647,494 |
| Fees and charges | 2(a) | 23,394,654 | 19,253,515 | 20,801,868 |
| Interest earnings | 2(a) | 37,894 | 73,750 | 100,467 |
| Other revenue | 2(a) | 4,864,179 | 1,827,787 | 9,591 |
| | | 33,614,449 | 26,254,460 | 25,559,420 |
| **Expenses** | | | | |
| Employee costs | 2(b) | (8,424,736) | (8,013,982) | (6,385,116) |
| Materials and contracts | 2(b) | (13,118,858) | (11,887,092) | (11,528,575) |
| Utility charges | 2(b) | (742,848) | (1,073,070) | (1,262,819) |
| Depreciation on non-current assets | 10(b) | (3,862,654) | (2,697,576) | (3,075,608) |
| Interest expenses | 2(b) | (702,177) | (505,500) | (971,498) |
| Insurance expenses | 2(b) | (1,765,890) | (1,974,100) | (1,639,340) |
| Other expenditure | 2(b) | 0 | 0 | 1,596,321 |
| | | (28,617,163) | (26,151,320) | (23,266,635) |
| | | 4,997,286 | 103,140 | 2,292,785 |
| Non-operating grants, subsidies and contributions | 2(a) | 250,000 | 0 | 0 |
| Profit on asset disposals | 10(a) | 16,033 | 0 | 0 |
| (Loss) on asset disposals | 10(a) | (1,661,581) | 0 | 0 |
| (Loss) on revaluation of plant and equipment | 8 | 0 | 0 | (891,378) |
| Reversal of prior year loss on revaluation of plant and equipment | 8 | 0 | 0 | 2,741,453 |
| | | (1,395,548) | 0 | 1,850,075 |
| **Net result for the period** | | **3,601,738** | **103,140** | **4,142,860** |
| **Other comprehensive income** | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | |
| Changes in asset revaluation surplus | 12 | 240,092 | 0 | 2,634,912 |
| **Total other comprehensive income for the period** | | **240,092** | **0** | **2,634,912** |
| **Total comprehensive income for the period** | | **3,841,830** | **103,140** | **6,777,772** |

This statement is to be read in conjunction with the accompanying notes.

## SOUTHERN METROPOLITAN REGIONAL COUNCIL
## STATEMENT OF COMPREHENSIVE INCOME
## *BY PROGRAM*
## FOR THE YEAR ENDED 30 JUNE 2021

| | NOTE | 2021 Actual $ | 2021 Budget $ | 2020 Actual $ |
|---|---|---|---|---|
| **Revenue** | | | | |
| Governance | | 138,054 | 141,407 | 143,898 |
| Community amenities | | 33,476,395 | 26,113,053 | 25,415,522 |
| | | 33,614,449 | 26,254,460 | 25,559,420 |
| **Expenses** | | | | |
| Governance | | (176,387) | (206,407) | (202,148) |
| Community amenities | | (27,738,599) | (25,439,413) | (22,092,989) |
| | | (27,914,986) | (25,645,820) | (22,295,137) |
| **Finance Costs** | 2(b) | | | |
| Governance | | (38,639) | (58,500) | (58,535) |
| Community amenities | | (663,538) | (447,000) | (912,963) |
| | | (702,177) | (505,500) | (971,498) |
| | | 4,997,286 | 103,140 | 2,292,785 |
| Non-operating grants, subsidies and contributions | 2(a) | 250,000 | 0 | 0 |
| Profit on disposal of assets | 10(a) | 16,033 | 0 | 0 |
| (Loss) on disposal of assets | 10(a) | (1,661,581) | 0 | 0 |
| (Loss) on revaluation of plant and equipment | 8 | 0 | 0 | (891,378) |
| Reversal of prior year loss on revaluation of plant and equipment | 8 | 0 | 0 | 2,741,453 |
| | | (1,395,548) | 0 | 1,850,075 |
| **Net result for the period** | | **3,601,738** | **103,140** | **4,142,860** |
| **Other comprehensive income** | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | |
| Changes in asset revaluation surplus | 12 | 240,092 | 0 | 2,634,912 |
| **Total other comprehensive income for the period** | | **240,092** | **0** | **2,634,912** |
| **Total comprehensive income for the period** | | **3,841,830** | **103,140** | **6,777,772** |

This statement is to be read in conjunction with the accompanying notes.

**SOUTHERN METROPOLITAN REGIONAL COUNCIL**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 2021**

| | NOTE | 2021 | 2020 |
|---|---|---|---|
| | | $ | $ |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 3 | 13,053,557 | 10,174,250 |
| Trade and other receivables | 6 | 2,779,952 | 3,187,488 |
| Other financial assets | 5(a) | 3,398,802 | 5,084,059 |
| Inventories | 7 | 1,081,373 | 1,190,166 |
| Other assets | 8 | 1,483,058 | 75,769 |
| **TOTAL CURRENT ASSETS** | | 21,796,742 | 19,711,732 |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Other financial assets | 5(b) | 5,030,389 | 6,629,191 |
| Property, plant and equipment | 9 | 27,175,919 | 27,305,285 |
| Right-of-use assets | 11 | 5,970,644 | 9,182,776 |
| **TOTAL NON-CURRENT ASSETS** | | 38,176,952 | 43,117,252 |
| | | | |
| **TOTAL ASSETS** | | 59,973,694 | 62,828,984 |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 13 | 4,096,418 | 4,564,652 |
| Lease liabilities | 14(a) | 545,035 | 638,765 |
| Borrowings | 15(a) | 3,398,802 | 5,084,059 |
| Employee related provisions | 16 | 749,154 | 708,687 |
| **TOTAL CURRENT LIABILITIES** | | 8,789,409 | 10,996,163 |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | 14(a) | 6,114,756 | 9,110,279 |
| Borrowings | 15(a) | 5,030,389 | 6,629,191 |
| Employee related provisions | 16 | 100,027 | 78,427 |
| Other provisions | 17 | 3,688,970 | 3,606,611 |
| **TOTAL NON-CURRENT LIABILITIES** | | 14,934,142 | 19,424,508 |
| | | | |
| **TOTAL LIABILITIES** | | 23,723,551 | 30,420,671 |
| | | | |
| **NET ASSETS** | | 36,250,143 | 32,408,313 |
| | | | |
| **EQUITY** | | | |
| Retained surplus | | 10,098,346 | 9,911,328 |
| Reserves - cash backed | 4 | 10,716,775 | 7,302,055 |
| Revaluation surplus | 12 | 15,435,022 | 15,194,930 |
| **TOTAL EQUITY** | | 36,250,143 | 32,408,313 |

This statement is to be read in conjunction with the accompanying notes.

## SOUTHERN METROPOLITAN REGIONAL COUNCIL
## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2021

| | NOTE | RETAINED SURPLUS | RESERVES CASH BACKED | REVALUATION SURPLUS | TOTAL EQUITY |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Balance as at 1 July 2019** | | **7,108,598** | **5,961,925** | **12,560,018** | **25,630,541** |
| Comprehensive income | | | | | |
| Net result for the period | | 4,142,860 | 0 | 0 | 4,142,860 |
| Other comprehensive income | 12 | 0 | 0 | 2,634,912 | 2,634,912 |
| Total comprehensive income | | 4,142,860 | 0 | 2,634,912 | 6,777,772 |
| Transfers from reserves | 4 | 3,633,318 | (3,633,318) | 0 | 0 |
| Transfers to reserves | 4 | (4,973,448) | 4,973,448 | 0 | 0 |
| **Balance as at 30 June 2020** | | **9,911,328** | **7,302,055** | **15,194,930** | **32,408,313** |
| Comprehensive income | | | | | |
| Net result for the period | | 3,601,738 | 0 | 0 | 3,601,738 |
| Other comprehensive income | 12 | 0 | 0 | 240,092 | 240,092 |
| Total comprehensive income | | 3,601,738 | 0 | 240,092 | 3,841,830 |
| Transfers to reserves | 4 | (3,414,720) | 3,414,720 | 0 | 0 |
| **Balance as at 30 June 2021** | | **10,098,346** | **10,716,775** | **15,435,022** | **36,250,143** |

This statement is to be read in conjunction with the accompanying notes.

## SOUTHERN METROPOLITAN REGIONAL COUNCIL
## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2021

| | NOTE | 2021 Actual $ | 2021 Budget $ | 2020 Actual $ |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| **Receipts** | | | | |
| Operating grants, subsidies and contributions | | 5,782,147 | 6,822,775 | 4,310,361 |
| Fees and charges | | 23,394,654 | 19,636,254 | 19,452,850 |
| Interest received | | 37,894 | 73,750 | 100,467 |
| Goods and services tax received | | 824,255 | 2,440,000 | 818,029 |
| Other revenue | | 3,476,179 | 1,327,526 | 9,591 |
| | | 33,515,129 | 30,300,305 | 24,691,298 |
| **Payments** | | | | |
| Employee costs | | (8,364,674) | (8,058,980) | (6,396,446) |
| Materials and contracts | | (13,524,098) | (13,131,150) | (11,840,001) |
| Utility charges | | (742,848) | (1,073,070) | (1,262,819) |
| Interest expenses | | (619,818) | (505,500) | (971,498) |
| Insurance paid | | (1,765,890) | (1,974,100) | (1,639,340) |
| Goods and services tax paid | | (809,564) | (2,440,000) | (818,029) |
| | | (25,826,892) | (27,182,800) | (22,928,133) |
| **Net cash provided by (used in) operating activities** | 18 | 7,688,237 | 3,117,505 | 1,763,165 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Payments for financial assets at amortised cost | | 0 | (1,014,642) | 0 |
| Payments for purchase of property, plant & equipment | 9(a) | (4,596,174) | (3,187,000) | (1,243,760) |
| Non-operating grants, subsidies and contributions | 2(a) | 250,000 | 0 | 0 |
| Proceeds from financial assets at amortised cost - term deposits | | 0 | 0 | 1,014,642 |
| Proceeds from sale of property, plant & equipment | 10(a) | 46,812 | 0 | 0 |
| **Net cash provided by (used in) investment activities** | | (4,299,362) | (4,201,642) | (229,118) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Repayment of borrowings | 15(d) | (3,284,059) | (3,284,059) | (3,173,433) |
| Payments for principal portion of lease liabilities | 14(c) | (509,568) | 0 | (389,895) |
| Contributions from Project Participants for loan repayments | | 3,284,059 | 3,284,059 | 3,173,433 |
| **Net cash provided by (used In) financing activities** | | (509,568) | 0 | (389,895) |
| **Net increase (decrease) in cash held** | | 2,879,307 | (1,084,137) | 1,144,152 |
| Cash at beginning of year | | 10,174,250 | 9,769,205 | 9,030,098 |
| **Cash and cash equivalents at the end of the year** | 18 | 13,053,557 | 8,685,068 | 10,174,250 |

This statement is to be read in conjunction with the accompanying notes.

| | | |
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## 1. BASIS OF PREPARATION

The financial report comprises general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities) and Interpretations of the Australian Accounting Standards Board, and the *Local Government Act 1995* and accompanying regulations.

The *Local Government Act 1995* and accompanying Regulations take precedence over Australian Accounting Standards where they are inconsistent.

The *Local Government (Financial Management) Regulations 1996* specify that vested land is a right-of-use asset to be measured at cost. All right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost rather than at fair value. The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which continue to be reported at fair value, as opposed to the vested land which is measured at zero cost. The measurement of vested improvements at fair value is a departure from AASB 16 which would have required the Council to measure any vested improvements at zero cost.

Accounting policies which have been adopted in the preparation of this financial report have been consistently applied unless stated otherwise. Except for cash flow and rate setting information, the financial report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the at fair value of selected non-current assets, financial assets and liabilities.

**THE LOCAL GOVERNMENT REPORTING ENTITY**
All funds through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those funds (for example, loans and transfers between funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears at Note 28 to these financial statements.

**INITIAL APPLICATION OF ACCOUNTING STANDARDS**
During the current year, the Council adopted all of the new and revised Australian Accounting Standards and Interpretations which were compiled, became mandatory and which were applicable to its operations.
These were:
- *AASB 1059 Service Concession Arrangements: Grantors*
- *AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Materiality*

The adoption of these standards had no material impact on the financial report.

**NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE YEARS**
The following new accounting standards will have application to local government in future years:
- *AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current*
- *AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments*
- *AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies or Definition of Accounting Estimates*

It is not expected these standards will have an impact on the financial report.

**CRITICAL ACCOUNTING ESTIMATES**
The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

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 about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## 2. REVENUE AND EXPENSES

### (a) Revenue

#### Grant revenue

Grants, subsidies and contributions are included as both operating and non-operating revenues in the Statement of Comprehensive Income:

| | 2021 Actual | 2021 Budget | 2020 Actual |
|---|---|---|---|
| | $ | $ | $ |
| **Operating grants, subsidies and contributions** | | | |
| Governance | | | |
| Annual member's contributions | 138,054 | 141,407 | 143,898 |
| Community amenities | | | |
| Annual member's contributions | 519,665 | 418,165 | 462,824 |
| Member contributions towards interest | 363,928 | 364,000 | 495,492 |
| Member RRRC contributions | 4,028,085 | 4,000,000 | 1,675,038 |
| Grants | 112,000 | 112,000 | 1,738,000 |
| Other contributions | 155,990 | 63,836 | 132,242 |
| | 5,317,722 | 5,099,408 | 4,647,494 |
| **Non-operating grants, subsidies and contributions** | | | |
| Community amenities | | | |
| Grants | 250,000 | 0 | 0 |
| | 250,000 | 0 | 0 |
| **Total grants, subsidies and contributions** | 5,567,722 | 5,099,408 | 4,647,494 |
| **Fees and charges** | | | |
| Community amenities | | | |
| Gate Fee - Participating member councils | 7,801,175 | 8,444,522 | 12,164,698 |
| Gate Fee - Others | 10,106,627 | 8,343,762 | 5,938,208 |
| Sale of Materials | 4,994,546 | 2,465,231 | 1,781,792 |
| Consultancy fees | 81,844 | 0 | 118,040 |
| Others | 410,462 | 0 | 799,130 |
| | 23,394,654 | 19,253,515 | 20,801,868 |
| **Interest earnings** | | | |
| Interest on reserve funds | 36,249 | 63,750 | 94,404 |
| Other interest earnings | 1,645 | 10,000 | 6,063 |
| | 37,894 | 73,750 | 100,467 |
| **Other revenue** | | | |
| Container deposit scheme | 4,861,146 | 1,827,261 | 0 |
| Other | 3,033 | 526 | 9,591 |
| | 4,864,179 | 1,827,787 | 9,591 |

#### SIGNIFICANT ACCOUNTING POLICIES

**Grants, subsidies and contributions**
Operating grants, subsidies and contributions are grants, subsidies or contributions that are not non-operating in nature.

Non-operating grants, subsidies and contributions are amounts received for the acquisition or construction of recognisable non-financial assets to be controlled by the local government.

**Fees and Charges**
Revenue (other than service charges) from the use of facilities and charges made for local government services, fee for service, sale of goods and administration fees.

**Interest earnings**
Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

## 2. REVENUE AND EXPENSES (Continued)

| (b) Expenses | Note | 2021 Actual | 2021 Budget | 2020 Actual |
|---|---|---|---|---|
| | | $ | $ | $ |
| **Employee costs** | | 8,424,736 | 8,013,982 | 6,385,116 |
| **Materials and contracts** | | | | |
| Auditors remuneration | | | | |
| Audit of the Annual Financial Report | | 26,500 | 35,000 | 22,100 |
| Additional costs relating to the prior year financial audit | | 0 | 0 | 8,000 |
| Other services | | 0 | 5,000 | 12,953 |
| | | 26,500 | 40,000 | 43,053 |
| Advertising & Promotion | | 108,143 | 186,300 | 171,713 |
| Consultants costs | | 406,692 | 479,229 | 452,532 |
| Consumables & process costs | | 155,093 | 265,000 | 124,373 |
| Contracted services | | 147,330 | 111,000 | 225,826 |
| Container deposit scheme | | 1,760,176 | 575,814 | 0 |
| Councillor Sitting Fees | 22 | 50,687 | 51,907 | 62,657 |
| Disposal and transport costs | | 7,088,744 | 6,379,913 | 7,516,467 |
| Equipment hire | | 410,326 | 60,700 | 234,555 |
| IT & Computer Expenses | | 146,529 | 194,545 | 151,901 |
| Licenses | | 30,230 | 30,000 | 27,915 |
| Product transport costs | | 97,528 | 0 | 121,918 |
| Project costs - WCF building cleaning | | 745 | 0 | 441,229 |
| Maintenance expenses - routine | | 2,122,962 | 2,127,390 | 1,672,225 |
| Maintenance expenses - non-routine | | 2,317 | 112,000 | 90,645 |
| Site maintenance | | 373,895 | 419,670 | 389,638 |
| Other costs | | 144,258 | 853,624 | 67,469 |
| Provison for NRV Adjustment of Inventories | 7 | 46,703 | 0 | (265,541) |
| | | 13,118,858 | 11,887,092 | 11,528,575 |
| **Utility charges** | | 742,848 | 1,073,070 | 1,262,819 |
| **Interest expenses (finance costs)** | | | | |
| RRRC loans | | 364,036 | 350,154 | 495,492 |
| Admin building loan | | 38,639 | 58,500 | 58,535 |
| Borrowings | 15(d) | 402,675 | 408,654 | 554,027 |
| Change in Interest accrual on borrowings and on unwinding of discounts | | 81,945 | 82,000 | 83,561 |
| Lease liabilities | 14(c) | 217,557 | 14,846 | 333,910 |
| | | 702,177 | 505,500 | 971,498 |
| **Insurance expenses** | | 1,765,890 | 1,974,100 | 1,639,340 |
| **Other expenditure** | | | | |
| Reversal/(Expense) of Redundancy provision | | 0 | 0 | (1,596,321) |
| | | 0 | 0 | (1,596,321) |

## 2. REVENUE AND EXPENSES

### REVENUE RECOGNITION POLICY

Recognition of revenue is dependant on the source of revenue and the associated terms and conditions associated with each source of revenue and recognised as follows:

| Revenue Category | Nature of goods and services | When obligations typically satisfied | Payment terms | Returns/Refunds/ Warranties | Determination of transaction price | Allocating transaction price | Measuring obligations for returns | Timing of revenue recognition |
|---|---|---|---|---|---|---|---|---|
| Grants, subsidies or contributions for the construction of non-financial assets | Construction or acquisition of recognisable non-financial assets to be controlled by the local government | Over time | Fixed terms transfer of funds based on agreed milestones and reporting | Contract obligation if project not complete | Set by mutual agreement within the funding body | Based on the progress of works to match performance obligations | Returns limited to repayment of transaction price of terms | Output method based on project milestones and/or completion date matched to performance obligations |
| Fees and Charges - waste management entry fees | Waste treatment, recycling and disposal service at disposal sites | Single point in time | Payment in advance at gate or on normal trading terms if credit provided | None | Adopted by council annually | Based on timing of entry to facility | Not applicable | On entry to facility |
| Fees and Charges - memberships | Project Participants Annual Contributions | Over time | Payment in advance (annual/quarterly) | Refund for unused portion on application | Adopted by council annually | Apportioned equally across the access period | Returns limited to repayment of transaction price of terms | Output method over 12 months |
| Fees and Charges - sale of stock | Recovered Recyclable Products | Single point in time | On normal trading terms - credit provided as agreed | Refund for faulty goods/quality/contamination percentages | Set by mutual agreement | Applied fully based on timing of provision/dispatch of the goods (as customer as this is when customer obtains control of goods) | Returns limited to repayment of transaction price of terms | On dispatch of the goods (as customer as this is when customer obtains control of goods) |
| Fees and Charges - sale of carbon credit units | Reduction in Greenhouse gases emissions. | Single point in time | On normal trading terms - credit provided as agreed | None | Set by mutual agreement | Applied fully based on timing of units transfer being completed | Not applicable | On completion of transfer (when the customer obtains control) |
| Other Revenue - Container deposit scheme | Recovered Recyclable Products | Single point in time | Fixed terms transfer of funds based on agreed reporting | None | Set by mutual agreement within the funding body | Based on material type and apportioned over the period | Not applicable | Output method based on project reporting matched to performance obligations |

## 3. CASH AND CASH EQUIVALENTS

| | NOTE | 2021<br>$ | 2020<br>$ |
|---|---|---|---|
| Cash at bank and on hand | | 701,610 | 96,539 |
| Call Deposit | | 4,234,994 | 3,473,549 |
| Term deposits | | 8,116,953 | 6,604,162 |
| **Total cash and cash equivalents** | | 13,053,557 | 10,174,250 |

### Restrictions

The following classes of assets have restrictions imposed by regulations or other externally imposed requirements which limit or direct the purpose for which the resources may be used:

| | | | |
|---|---|---|---|
| - Cash and cash equivalents | | 11,986,662 | 9,119,103 |
| | | 11,986,662 | 9,119,103 |

The restricted assets are a result of the following specific purposes to which the assets may be used:

| | NOTE | 2021 | 2020 |
|---|---|---|---|
| Reserves - cash backed | 4 | 10,716,775 | 7,302,055 |
| Bonds and deposits held | 13 | 1,269,887 | 1,027,913 |
| Unspent grants, subsidies and contributions | | 0 | 789,135 |
| **Total restricted assets** | | 11,986,662 | 9,119,103 |

### SIGNIFICANT ACCOUNTING POLICIES

**Cash and cash equivalents**
Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are reported as short term borrowings in current liabilities in the statement of financial position.

**Restricted assets**
Restricted asset balances are not available for general use by the local government due to externally imposed restrictions. Externally imposed restrictions are specified in an agreement, contract or legislation. This applies to reserves, unspent grants, subsidies and contributions and unspent loans that have not been fully expended in the manner specified by the contributor, legislation or loan agreement.

## 4. RESERVES - CASH BACKED

| | | 2021 Actual Opening Balance | 2021 Actual Transfer to | 2021 Actual Transfer (from) | 2021 Actual Closing Balance | 2021 Budget Opening Balance | 2021 Budget Transfer to | 2021 Budget Transfer (from) | 2021 Budget Closing Balance | 2020 Actual Opening Balance | 2020 Actual Transfer to | 2020 Actual Transfer (from) | 2020 Actual Closing Balance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| (a) | RRRC Contingency & Development Reserve | 5,639,815 | 3,410,461 | 0 | 9,050,276 | 6,395,815 | 2,500,000 | (2,900,000) | 5,995,815 | 4,299,685 | 4,973,448 | (3,633,318) | 5,639,815 |
| (b) | Travel and Conference Reserve | 25,000 | 0 | 0 | 25,000 | 25,000 | 0 | 0 | 25,000 | 25,000 | 0 | 0 | 25,000 |
| (c) | Office Accommodation Reserve | 271,252 | 0 | 0 | 271,252 | 271,252 | 0 | 0 | 271,252 | 271,252 | 0 | 0 | 271,252 |
| (d) | RRRC Restoration Reserve | 1,365,988 | 4,259 | 0 | 1,370,247 | 1,365,988 | 0 | 0 | 1,365,988 | 1,365,988 | 0 | 0 | 1,365,988 |
| | | 7,302,055 | 3,414,720 | 0 | 10,716,775 | 8,058,055 | 2,500,000 | (2,900,000) | 7,658,055 | 5,961,925 | 4,973,448 | (3,633,318) | 7,302,055 |

All reserves are supported by cash and cash equivalents and are restricted within equity as Reserves - cash backed.

In accordance with Council resolutions or adopted budget in relation to each reserve account, the purpose for which the reserves are set aside and their anticipated date of use are as follows:

| | Name of Reserve | Anticipated date of use | Purpose of the reserve |
|---|---|---|---|
| (a) | RRRC Contingency & Development Reserve | Ongoing | to be used to fund shortfalls in operating expenditure, asset renewals and disposals, employment termination provisions and insurance claims below the excess for the Canning Vale RRRC Project. |
| (b) | Travel and Conference Reserve | Ongoing | to be used to fund the requirements for staff and Councillors' travel and Conference attendance. |
| (c) | Office Accommodation Reserve | Ongoing | to be used for funding capital renewal expenditure and non-recurrent maintenance expenditure for the SMRC property located at 9 Aldous Place Booragoon. |
| (d) | RRRC Restoration Reserve | Ongoing | to be used to meet lease obligations resulting from an early termination of the Ground Lease or at the expiry of the Ground Lease. |

## 5. OTHER FINANCIAL ASSETS

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| **(a) Current assets** | | |
| Financial assets at amortised cost | 3,398,802 | 5,084,059 |
| | 3,398,802 | 5,084,059 |
| **Other financial assets at amortised cost** | | |
| Loans recievable - Project Participants | 3,398,802 | 5,084,059 |
| | 3,398,802 | 5,084,059 |
| **(b) Non-current assets** | | |
| Financial assets at amortised cost | 5,030,389 | 6,629,191 |
| | 5,030,389 | 6,629,191 |
| **Financial assets at amortised cost** | | |
| Loans recievable - Project Participants | 5,030,389 | 6,629,191 |
| | 5,030,389 | 6,629,191 |

Loans receivable from Project Participants relate to borrowings disclosed in Note 15(d)

**SIGNIFICANT ACCOUNTING POLICIES**

**Other financial assets at amortised cost**

The Council classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

**Impairment and risk**

Information regarding impairment and exposure to risk can be found at Note 24.

## 6. TRADE AND OTHER RECEIVABLES

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Trade and other receivables | 2,779,952 | 3,187,488 |
| | 2,779,952 | 3,187,488 |

**SIGNIFICANT ACCOUNTING POLICIES**

**Trade and other receivables**
Trade and other receivables include amounts due from gate fees and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Trade receivables are recognised at original invoice amount less any allowances for uncollectible amounts (i.e. impairment). The carrying amount of net trade receivables is equivalent to fair value as it is due for settlement within 30 days.

**Impairment and risk exposure**
Information about the impairment of trade receivables and their exposure to credit risk and interest rate risk can be found in Note 24.

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Classification and subsequent measurement**
Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade receivables are held with the objective to collect the contractual cashflows and therefore measures them subsequently at amortised cost using the effective interest rate method.

Due to the short term nature of current receivables, their carrying amount is considered to be the same as their fair value. Non-current receivables are indexed to inflation, any difference between the face value and fair value is considered immaterial.

## 7. INVENTORIES

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Stock on hand - Fuel | 3,253 | 2,576 |
| Stock on hand - RRRC | 1,245,683 | 869,715 |
| Stock on hand - Finished Goods | 34,960 | 46,023 |
| Provision for Inventory (NRV Adjustment) | (208,523) | (161,820) |
| Transit stock | 6,000 | 433,672 |
| | 1,081,373 | 1,190,166 |

The following movements in inventories occurred during the year:

| | 2021 | 2020 |
|---|---|---|
| **Balance at beginning of year** | 1,190,166 | 299,324 |
| Inventories expensed during the year | (1,075,234) | (499,941) |
| Write down of inventories to net realisable value | (208,523) | (161,820) |
| Reversal of write down of inventories to net realisable value | 161,820 | 427,361 |
| Additions to inventory | 1,013,144 | 1,125,242 |
| **Balance at end of year** | 1,081,373 | 1,190,166 |

**SIGNIFICANT ACCOUNTING POLICIES**

**General**
Inventories are measured at the lower of cost and net realisable value.

**General (Continued)**
Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 8. OTHER ASSETS

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| **Other assets - current** | | |
| Prepayments | 87,243 | 19,861 |
| Accrued income | 1,395,815 | 55,908 |
| | 1,483,058 | 75,769 |

Assets were subsequently re-recognised as Non-current assets.

| | Note | 2021 | 2020 |
|---|---|---|---|
| Prior year assets held for sale | | 0 | 4,400,000 |
| Reversal of prior year impairment | | 0 | 2,741,453 |
| (Loss) on recognition of plant and equipment | | 0 | (891,378) |
| Fair value recognised in Property, Plant & Equipment | 9 | 0 | 6,250,075 |

**SIGNIFICANT ACCOUNTING POLICIES**

**Other current assets**
Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

## 9. PROPERTY, PLANT AND EQUIPMENT

### (a) Movements in Balances

Movement in the balances of each class of property, plant and equipment between the beginning and the end of the current financial year.

| | Land - freehold land and buildings - non-specialised | RRRC Leasehold Improvements - Building Specialised | Total land and buildings | Furniture and equipment | Plant and equipment | Standby Equipment | Information Technology Equipment | Capital work in progress (CWIP) | Total property, plant and equipment |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance at 1 July 2019** | 1,595,387 | 17,647,136 | 19,242,523 | 14,385 | 0 | 0 | 39,075 | 0 | 19,295,983 |
| Additions | 0 | 0 | 0 | 0 | 91,132 | 0 | 9,586 | 1,143,042 | 1,243,760 |
| Revaluation increments / (decrements) transferred to revaluation surplus | 0 | 2,634,912 | 2,634,912 | 0 | 0 | 0 | 0 | 0 | 2,634,912 |
| Depreciation (expense) | (18,500) | (1,604,687) | (1,623,187) | (7,324) | (453,388) | 0 | (35,546) | 0 | (2,119,445) |
| Re-recognition of Plant and equipment | 0 | 0 | 0 | 0 | 6,250,075 | 0 | 0 | 0 | 6,250,075 |
| **Balance at 30 June 2020** | 1,576,887 | 18,677,361 | 20,254,248 | 7,061 | 5,887,819 | 0 | 13,115 | 1,143,042 | 27,305,285 |
| **Comprises:** | | | | | | | | | |
| Gross balance amount at 30 June 2020 | 1,600,000 | 19,450,269 | 21,050,269 | 47,564 | 6,341,207 | 0 | 129,038 | 1,143,042 | 28,711,120 |
| Accumulated depreciation at 30 June 2020 | (23,113) | (772,908) | (796,021) | (40,503) | (453,388) | 0 | (115,923) | 0 | (1,405,835) |
| **Balance at 30 June 2020** | 1,576,887 | 18,677,361 | 20,254,248 | 7,061 | 5,887,819 | 0 | 13,115 | 1,143,042 | 27,305,285 |
| Additions | 0 | 1,838,546 | 1,838,546 | 0 | 2,471,447 | 95,075 | 0 | 191,106 | 4,596,174 |
| (Disposals) | 0 | (626,438) | (626,438) | 0 | (1,065,922) | 0 | 0 | 0 | (1,692,360) |
| Revaluation increments / (decrements) transferred to revaluation surplus | 240,092 | 0 | 240,092 | 0 | 0 | 0 | 0 | 0 | 240,092 |
| Depreciation (expense) | (18,459) | (1,599,291) | (1,617,750) | (7,057) | (1,591,888) | (3,592) | (9,919) | 0 | (3,230,206) |
| Transfers | 0 | 649,993 | 649,993 | 0 | 433,443 | 0 | 0 | (1,126,502) | (43,066) |
| **Balance at 30 June 2021** | 1,798,520 | 18,940,171 | 20,738,691 | 4 | 6,134,899 | 91,483 | 3,196 | 207,646 | 27,175,919 |
| **Comprises:** | | | | | | | | | |
| Gross balance amount at 30 June 2021 | 1,800,000 | 19,450,269 | 21,250,269 | 47,564 | 7,944,499 | 95,075 | 129,038 | 207,646 | 29,674,091 |
| Accumulated depreciation at 30 June 2021 | (1,480) | (510,098) | (511,578) | (47,560) | (1,809,600) | (3,592) | (125,842) | 0 | (2,498,172) |
| **Balance at 30 June 2021** | 1,798,520 | 18,940,171 | 20,738,691 | 4 | 6,134,899 | 91,483 | 3,196 | 207,646 | 27,175,919 |

## 9. PROPERTY, PLANT AND EQUIPMENT (Continued)

### (b) Carrying Value Measurements

| Asset Class | Fair Value Hierarchy | Valuation Technique | Basis of Valuation | Date of Last Valuation | Inputs Used |
|---|---|---|---|---|---|
| **(i) Fair Value** | | | | | |
| Land - freehold land and buildings - non-specialised | Level 2 | Market approach using market value of similar assets adjusted to condition and comparability | Independent Valuation | 1 June 2021 | Observable open market value of assets, condition, comparison and highest and best use |
| Land - freehold land and buildings - non-specialised | Level 2 | Market approach using market value of similar assets adjusted to condition and comparability | Independent Valuation | 1 June 2021 | Observable open market value of assets, condition, comparison and highest and best use |
| **(ii) Cost** | | | | | |
| RRRC Leasehold Improvements - Building Specialised | Level 3 | Cost approach using depreciated replacement cost | Independent Valuation | 30 June 2020 | Cost to reproduce or replace similar assets in new condition, depreciation accrued wear and tear, economic and functional obsolescence |
| Plant and equipment | Level 3 | Cost approach using depreciated replacement cost | Cost Model | 30 June 2020 | Purchase costs and current condition, residual values and remaining useful life assessments inputs |

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information.
If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

Following a change to Local Government (Financial Management) Regulation 17A, plant and equipment type assets (being plant and equipment and furniture and equipment) are to be measured under the cost model, rather than at fair value. This change was effective from 1 July 2019 and represented a change in accounting policy.
Revaluations carried out previously were not reversed as it was deemed fair value approximated cost at the date of change.

## 10. FIXED ASSETS

### SIGNIFICANT ACCOUNTING POLICIES

**Fixed assets**
Each class of fixed assets within either plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Initial recognition and measurement between mandatory revaluation dates**
Assets for which the fair value as at the date of acquisition is under $5,000 are not recognised as an asset in accordance with *Financial Management Regulation 17A (5). These assets are* expensed immediately

Where multiple individual low value assets are purchased together as part of a larger asset or collectively forming a larger asset exceeding the threshold, the individual assets are recognised as one asset and capitalised.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at zero cost or otherwise significantly less than fair value, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets that are land, buildings, infrastructure and investment properties acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework, are recognised at cost and disclosed as being at fair value as management believes cost approximates fair value. They are subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework.

**Revaluation**
The fair value of land, buildings, infrastructure and investment properties is determined at least every five years in accordance with the regulatory framework. This includes buildings and infrastructure items which were pre-existing improvements (i.e. vested improvements) on vested land acquired by the Council.

**AUSTRALIAN ACCOUNTING STANDARDS - INCONSISTENCY**

**Revaluation (Continued)**
At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A (2)* which requires land, buildings, infrastructure, investment properties and vested improvements to be shown at fair value.

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

**Vested improvements from 1 July 2019**
The measurement of vested improvements at fair value in accordance with *Local Government (Financial Management) Regulation 17A(2)(iv)* is a departure from AASB 16 which would have required the Council to measure the vested improvements as part of the related right-of-use assets at zero cost.

Refer to Note 11 that details the significant accounting policies applying to leases (including right-of-use assets).

## 10. FIXED ASSETS

### (a) Disposals of Assets

| | 2021 Actual Net Book Value | 2021 Actual Sale Proceeds | 2021 Actual Profit | 2021 Actual Loss | 2020 Actual Net Book Value | 2020 Actual Sale Proceeds | 2020 Actual Profit | 2020 Actual Loss |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| RRRC Leasehold Improvements - Building Specialised | 626,438 | 0 | 0 | (626,438) | 0 | 0 | 0 | 0 |
| Plant and equipment | 1,065,922 | 46,812 | 16,033 | (1,035,143) | 0 | 0 | 0 | 0 |
| | 1,692,360 | 46,812 | 16,033 | (1,661,581) | 0 | 0 | 0 | 0 |

The following assets were disposed of during the year.

| | 2021 Actual Net Book Value | 2021 Actual Sale Proceeds | 2021 Actual Profit | 2021 Actual Loss |
|---|---|---|---|---|
| **Plant and Equipment** | | | | |
| **Community amenities** | | | | |
| Volvo Wheel loader | 9,941 | 24,240 | 14,299 | 0 |
| Volvo Front end loader | 20,838 | 22,572 | 1,734 | 0 |
| Green waste shredder | 14,470 | 0 | 0 | (14,470) |
| Mustang mobile trommel | 36,546 | 0 | 0 | (36,546) |
| Fans variable speed drive | 11,715 | 0 | 0 | (11,715) |
| Excel Twin ram baler | 149,290 | 0 | 0 | (149,290) |
| MRF Plant | 823,122 | 0 | 0 | (823,122) |
| | 1,065,922 | 46,812 | 16,033 | (1,035,143) |
| **RRRC Leasehold Improvements - Building Specialised** | | | | |
| **Community amenities** | | | | |
| WCF Building Roof refurbishment | 626,438 | 0 | 0 | (626,438) |
| | 626,438 | 0 | 0 | (626,438) |
| | 1,692,360 | 46,812 | 16,033 | (1,661,581) |

## 10. FIXED ASSETS

### (b) Depreciation

| | 2021 Actual | 2021 Budget | 2020 Actual |
|---|---|---|---|
| | $ | $ | $ |
| Land - freehold land and buildings - non-specialise | 18,459 | 25,000 | 18,500 |
| RRRC Leasehold Improvements - Building Specialised | 1,599,291 | 1,604,668 | 1,604,687 |
| Furniture and equipment | 7,057 | 0 | 7,324 |
| Plant and equipment | 1,591,888 | 1,061,184 | 453,388 |
| Standby Equipment | 3,592 | 6,724 | 0 |
| Information Technology Equipment | 9,919 | 0 | 35,546 |
| Right-of-use assets - plant and equipment | 0 | 0 | 22,797 |
| Right-of-use assets - RRRC Ground Lease | 632,448 | 0 | 933,366 |
| | 3,862,654 | 2,697,576 | 3,075,608 |

#### SIGNIFICANT ACCOUNTING POLICIES

**Depreciation**
The depreciable amount of all fixed assets including buildings but excluding freehold land and vested land, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise.

**Depreciation rates**
Typical estimated useful lives for the different asset classes for the current and prior years are included in the table below:

| Asset Class | Useful life |
|---|---|
| Computer Equipment | 1 to 3 years |
| Furniture and equipment | 1 to 3 years |
| Standby equipment | 1 to 10 years |
| Plant and equipment | 3 to 6 years |
| Leasehold improvements | 10 years |
| Freehold buildings | 40 years |
| Rights of use (buildings) | Based on remaining lease |
| Right of use (plant and equipment) | Based on remaining lease |

**Depreciation on revaluation**
When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:
(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
(b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

**Amortisation**
All intangible assets with a finite useful life, are amortised on a straight-line basis over the individual asset's useful life from the time the asset is held for use.

The residual value of intangible assets is considered to be zero and the useful life and amortisation method are reviewed at the end of each financial year.

Amortisation is included within Depreciation on non-current assets in the Statement of Comprehensive Income and in the note above.

## 11. LEASES

### Right-of-Use Assets

| Movement in the balance of each class of right-of-use asset between the beginning and the end of the current financial year. | Right-of-use assets - plant and equipment | Right-of-use assets - RRRC Ground Lease | Right-of-use assets Total |
|---|---|---|---|
| | $ | $ | |
| **Balance at 1 July 2019** | 0 | 0 | 0 |
| Additions | 22,797 | 10,116,142 | 10,138,939 |
| Depreciation (expense) | (22,797) | (933,366) | (956,163) |
| **Balance at 30 June 2020** | 0 | 9,182,776 | 9,182,776 |
| Remeasurement of lease laibility (decrements) adjusted to the right-of-use asset | 0 | (2,579,684) | (2,579,684) |
| Depreciation (expense) | 0 | (632,448) | (632,448) |
| **Balance at 30 June 2021** | 0 | 5,970,644 | 5,970,644 |

**RRRC Ground lease**
The RRRC site Lot 77, 78 and 85 Bannister Road Canning Vale (unimproved land) lease term is for 30 years starting from 12 May 2000 and expires on 11 May 2030. An option to renew for a further 20 years until 2050 is yet to be exercised.

Lease repayments are reviewed every five years based on the unimproved land market valuation. A market value was agreed on 11 March 2021, with the lease rental charges to be backdated to 12 May 2020.

The value of the Lease liability and Right-of-use asset include reasonable assumptions and accounting estimates of the expected future market value of the land to determine the future lease repayments.

### SIGNIFICANT ACCOUNTING POLICIES

**Leases**
At inception of a contract, the Council assesses if the contract contains or is a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, a right-of-use asset is recognised at cost and lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Council uses its incremental borrowing rate.

All contracts that are classified as short-term leases (i.e. a lease with a remaining term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Leases for right-of-use assets are secured over the asset being leased.

**Right-of-use assets - valuation**
Right-of-use assets are measured at cost. This means that all right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost (i.e. not included in the statement of financial position). The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which are reported at fair value.

Refer to Note 10 for details on the significant accounting policies applying to vested improvements.

**Right-of-use assets - depreciation**
Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest. Where a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects that the Council anticipates to exercise a purchase option, the specific asset is amortised over the useful life of the underlying asset.

## 12. REVALUATION SURPLUS

| | 2021 Opening Balance | 2021 Revaluation Increment | Total Movement on Revaluation | 2021 Closing Balance | 2020 Opening Balance | 2020 Revaluation Increment | Total Movement on Revaluation | 2020 Closing Balance |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Revaluation surplus - Land - freehold land and buildings - non-specialised | 218,039 | 240,092 | 240,092 | 458,131 | 218,039 | 0 | 0 | 218,039 |
| Revaluation surplus - RRRC Leasehold Improvements - Building Specialised | 14,976,891 | 0 | 0 | 14,976,891 | 12,341,979 | 2,634,912 | 2,634,912 | 14,976,891 |
| | 15,194,930 | 240,092 | 240,092 | 15,435,022 | 12,560,018 | 2,634,912 | 2,634,912 | 15,194,930 |

In accordance with the Council's accounting policies, the Revaluation Surplus cannot be used except for adjustment to fixed assets on their revaluation, disposal or write-off.

## 13. TRADE AND OTHER PAYABLES

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Sundry creditors | 1,759,474 | 2,947,341 |
| Income Received in Advance | 56,889 | 0 |
| Accrued salaries and wages | 114,845 | 118,954 |
| Bonds and deposits held | 1,269,887 | 1,027,913 |
| Payroll Deductions Payable | 2,932 | 828 |
| Accrued Interest | 636 | 1,051 |
| Accrued Expenses | 891,755 | 468,565 |
| | 4,096,418 | 4,564,652 |

**SIGNIFICANT ACCOUNTING POLICIES**

**Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the Council prior to the end of the financial year that are unpaid and arise when the Council becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition

## 14. LEASE LIABILITIES

### (a) Lease Liabilities

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Current | 545,035 | 638,765 |
| Non-current | 6,114,756 | 9,110,279 |
| | 6,659,791 | 9,749,044 |

### (b) Lease details

| | Institution | Interest rate | Term Months |
|---|---|---|---|
| **Community amenities** | | | |
| RRRC Ground Lease | City of Canning | 3.4% | 360 |
| Toyota Hilux | Custom Service Leasing | 2.0% | 16 |
| Volvo Hook Truck | SG Fleet | 2.1% | 12 |
| Forklift Grab & Rotator | Toyota Material Handling | 2.1% | 24 |

### (c) Movements in Balances

| | RRRC Ground Lease | Toyota Hilux | Volvo Hook Truck | Forklift Grab & Rotator | Total Lease Liabilities |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance at 1 July 2019** | 10,116,141 | 1,549 | 12,013 | 9,235 | 10,138,938 |
| Lease Principal Repayments | (367,097) | (1,549) | (12,013) | (9,235) | (389,894) |
| **Balance at 30 June 2020** | 9,749,044 | 0 | 0 | 0 | 9,749,044 |
| Lease Interest Repayments (expense) | (333,818) | (10) | (42) | (40) | (333,910) |
| Remeasurement of lease liability (decrements) adjusted to the right-of-use asset | (2,579,684) | 0 | 0 | 0 | (2,579,684) |
| Lease Principal Repayments | (509,568) | 0 | 0 | 0 | (509,568) |
| **Balance at 30 June 2021** | 6,659,792 | 0 | 0 | 0 | 6,659,792 |
| Lease Interest Repayments (expense) | (217,557) | 0 | 0 | 0 | (217,557) |

### (d) RRRC Ground Lease

Pursuant to the RRRC Ground Lease Agreement, lease repayments are reviewed every five years based on the unimproved land market valuation. A market value was agreed on 11 March 2021, with the lease rental charges to be backdated to 12 May 2020.

The value of the Lease liability and Right-of-use asset include reasonable assumptions and accounting estimates of the expected future market value of the land to determine the future lease repayments.

## 15. INFORMATION ON BORROWINGS

### (a) Borrowings

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Current | 3,398,802 | 5,084,059 |
| Non-current | 5,030,389 | 6,629,191 |
| | 8,429,191 | 11,713,250 |

### (b) Borrowings by Project

The Council has two lending facilities for the following projects:

**The Regional Resource Recovery Centre Loan**

The RRRC Project Participants have guaranteed by way of security, to the Western Australian Treasury Corporation, a charge over its general funds for the share of any outstanding debenture borrowings provided for the RRRC Project.

Project Participants' limit of its share of the loan liability is as follows:

| | 2021 | 2020 | 2021 | 2020 |
|---|---|---|---|---|
| | % | % | $ | $ |
| City of Cockburn (Past Participant) | 44.74% | 44.37% | 2,965,900 | 4,398,509 |
| Town of East Fremantle | 3.07% | 3.09% | 203,516 | 306,319 |
| City of Fremantle | 12.16% | 12.21% | 806,110 | 1,210,408 |
| City of Melville | 40.03% | 40.33% | 2,653,665 | 3,998,014 |
| | | | 6,629,191 | 9,913,250 |

**Administration Building (9 Aldous Place, Booragoon) Loan**

The SMRC Participants have guaranteed by way of security, to the Western Australian Treasury Corporation, a charge over its general funds for the share of any outstanding debenture borrowings provided for the SMRC Administration building at 9 Aldous Place, Booragoon. WA 6154.

Participants' limit of its share of the loan liability is as follows:

| | 2021 | 2020 | 2021 | 2020 |
|---|---|---|---|---|
| | % | % | $ | $ |
| Town of East Fremantle | 4.21% | 4.24% | 75,780 | 76,320 |
| City of Fremantle | 16.68% | 16.76% | 300,240 | 301,680 |
| City of Kwinana | 24.20% | 23.64% | 435,600 | 425,520 |
| City of Melville | 54.91% | 55.36% | 988,380 | 996,480 |
| | | | 1,800,000 | 1,800,000 |

### (c) Undrawn Borrowing Facilities

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| **Credit Standby Arrangements** | | |
| Credit card limit | 176,000 | 155,000 |
| Credit card balance at balance date | (369) | (22,385) |
| **Total amount of credit unused** | 175,631 | 132,615 |
| **Loan facilities** | | |
| Loan facilities - current | 3,398,802 | 5,084,059 |
| Loan facilities - non-current | 5,030,389 | 6,629,191 |
| Lease liabilities - current | 545,035 | 638,765 |
| Lease liabilities - non-current | 6,114,756 | 9,110,279 |
| **Total facilities in use at balance date** | 15,088,982 | 21,462,294 |

**SIGNIFICANT ACCOUNTING POLICIES**

**Financial liabilities**

Financial liabilities are recognised at fair value when the Council becomes a party to the contractual provisions to the instrument.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**Borrowing costs**

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

**Risk**

Information regarding exposure to risk can be found at Note 24.

## 15. INFORMATION ON BORROWINGS

### (d) Repayments - Borrowings

| Particulars | Loan Number | Institution | Interest Rate | Actual Principal 1 July 2020 | 30 June 2021 Actual New Loans | 30 June 2021 Actual Principal repayments | 30 June 2021 Actual Interest repayments | 30 June 2021 Actual Principal outstanding | Budget Principal 1 July 2020 | 30 June 2021 Budget New Loans | 30 June 2021 Budget Principal repayments | 30 June 2021 Budget Interest repayments | 30 June 2021 Budget Principal outstanding | Actual Principal 1 July 2019 | 30 June 2020 Actual Principal repayments | 30 June 2020 Actual Interest repayments | 30 June 2020 Actual Principal outstanding |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **General purpose funding** | | | | | | | | | | | | | | | | | |
| **Office Accommodation** | | | | | | | | | | | | | | | | | |
| | 2-6 | WATC | 2.55% | 1,800,000 | 0 | (1,800,000) | (29,233) | 0 | 1,800,000 | 0 | (1,800,000) | (29,302) | 0 | 1,800,000 | 0 | (58,535) | 1,800,000 |
| Loan No 2-6 Refinanced | 2-7 | WATC | 1.00% | 0 | 1,800,000 | 0 | (9,514) | 1,800,000 | 0 | 1,800,000 | 0 | (15,352) | 1,800,000 | 0 | 0 | 0 | 0 |
| **Community amenities** | | | | | | | | | | | | | | | | | |
| **RRRC Project** | | | | | | | | | | | | | | | | | |
| | 3-73 | WATC | 4.71% | 316,916 | 0 | (100,733) | (15,399) | 216,183 | 316,916 | 0 | (100,733) | (15,402) | 216,183 | 413,041 | (96,125) | (20,603) | 316,916 |
| | 3-74 | WATC | 4.10% | 1,208,225 | 0 | (384,037) | (58,710) | 824,188 | 1,208,225 | 0 | (384,038) | (58,719) | 824,187 | 1,574,694 | (366,469) | (78,546) | 1,208,225 |
| | 3-76 | WATC | 4.00% | 359,337 | 0 | (115,045) | (15,179) | 244,292 | 359,337 | 0 | (115,045) | (15,182) | 244,292 | 469,893 | (110,556) | (20,351) | 359,337 |
| | 3-80 | WATC | 3.98% | 490,563 | 0 | (190,417) | (20,149) | 300,146 | 490,563 | 0 | (190,417) | (20,154) | 300,146 | 673,587 | (183,024) | (28,670) | 490,563 |
| | 3-81 | WATC | 3.98% | 864,678 | 0 | (335,634) | (35,514) | 529,044 | 864,678 | 0 | (335,634) | (35,522) | 529,044 | 1,187,280 | (322,602) | (50,534) | 864,678 |
| | 3-83 | WATC | 3.99% | 404,021 | 0 | (129,424) | (16,976) | 274,597 | 404,021 | 0 | (129,424) | (16,979) | 274,597 | 528,407 | (124,386) | (22,782) | 404,021 |
| | 3-85 | WATC | 4.38% | 606,605 | 0 | (193,365) | (27,548) | 413,240 | 606,605 | 0 | (193,365) | (27,551) | 413,240 | 791,728 | (185,123) | (36,934) | 606,605 |
| | 3-87 | WATC | 3.72% | 465,699 | 0 | (149,522) | (18,393) | 316,177 | 465,699 | 0 | (149,522) | (18,396) | 316,177 | 609,785 | (144,086) | (24,716) | 465,699 |
| | 3-89 | WATC | 3.17% | 793,232 | 0 | (256,107) | (27,413) | 537,125 | 793,232 | 0 | (256,107) | (27,419) | 537,125 | 1,041,379 | (248,147) | (36,899) | 793,232 |
| | 3-90 | WATC | 3.17% | 608,973 | 0 | (196,616) | (20,729) | 412,357 | 608,973 | 0 | (196,616) | (20,735) | 412,357 | 799,478 | (190,505) | (28,205) | 608,973 |
| | 3-96 | WATC | 2.47% | 241,463 | 0 | (78,514) | (6,725) | 162,949 | 241,463 | 0 | (78,514) | (6,727) | 162,949 | 318,068 | (76,605) | (9,181) | 241,463 |
| | 3-98 | WATC | 2.64% | 716,957 | 0 | (232,725) | (21,044) | 484,232 | 716,957 | 0 | (232,725) | (21,050) | 484,232 | 943,639 | (226,682) | (28,707) | 716,957 |
| | 3-99 | WATC | 2.64% | 729,849 | 0 | (236,910) | (21,422) | 492,939 | 729,849 | 0 | (236,910) | (21,429) | 492,939 | 960,605 | (230,756) | (29,223) | 729,849 |
| | 3-100 | WATC | 2.66% | 776,783 | 0 | (252,094) | (22,937) | 524,689 | 776,783 | 0 | (252,094) | (22,944) | 524,689 | 1,022,282 | (245,499) | (31,287) | 776,783 |
| | 3-101 | WATC | 2.66% | 1,019,241 | 0 | (330,780) | (30,096) | 688,461 | 1,019,241 | 0 | (330,780) | (30,094) | 688,461 | 1,341,367 | (322,126) | (41,052) | 1,019,241 |
| | 3-102 | WATC | 1.39% | 310,708 | 0 | (102,136) | (5,694) | 208,572 | 310,708 | 0 | (102,135) | (5,697) | 208,573 | 411,450 | (100,742) | (7,802) | 310,708 |
| | | | | 11,713,250 | 1,800,000 | (5,084,059) | (402,675) | 8,429,191 | 11,713,250 | 1,800,000 | (5,084,059) | (408,654) | 8,429,191 | 14,886,683 | (3,173,433) | (554,027) | 11,713,250 |
| Less: Refinanced | | | | 0 | (1,800,000) | 1,800,000 | 0 | 0 | 0 | (1,800,000) | 1,800,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | 11,713,250 | 0 | (3,284,059) | (402,675) | 8,429,191 | 11,713,250 | 0 | (3,284,059) | (408,654) | 8,429,191 | 14,886,683 | (3,173,433) | (554,027) | 11,713,250 |

* WA Treasury Corporation

WATC stands for Western Australian Treasury Corporation
The interest rates stated above exclude the Guarantee fees payable to WATC.
The interest repayments include the Guarantee fees paid.

## 16. EMPLOYEE RELATED PROVISIONS

| | Provision for Annual Leave | Provision for Long Service Leave | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Opening balance at 1 July 2020** | | | |
| Current provisions | 254,358 | 454,329 | 708,687 |
| Non-current provisions | 0 | 78,427 | 78,427 |
| | 254,358 | 532,756 | 787,114 |
| | | | |
| Additional provision | 266,568 | 80,343 | 346,911 |
| Amounts used | (244,737) | (45,977) | (290,714) |
| Increase in the discounted amount arising because of time and the effect of any change in the discounted rate | 6,161 | (291) | 5,870 |
| **Balance at 30 June 2021** | 282,350 | 566,831 | 849,181 |
| | | | |
| **Comprises** | | | |
| Current | 282,350 | 466,804 | 749,154 |
| Non-current | 0 | 100,027 | 100,027 |
| | 282,350 | 566,831 | 849,181 |

| | 2021 | 2020 |
|---|---|---|
| **Amounts are expected to be settled on the following basis:** | $ | $ |
| Less than 12 months after the reporting date | 749,154 | 708,687 |
| More than 12 months from reporting date | 70,261 | 67,774 |
| Expected reimbursements from other WA local governments | 29,766 | 10,653 |
| | 849,181 | 787,114 |

Timing of the payment of current leave liabilities is difficult to determine as it is dependent on future decisions of employees. Expected settlement timings are based on information obtained from employees and historical leave trends and assumes no events will occur to impact on these historical trends.

**SIGNIFICANT ACCOUNTING POLICIES**

**Employee benefits**

The Council's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**Short-term employee benefits**

Provision is made for the Council's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Council's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

**Other long-term employee benefits**

Long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at

**Other long-term employee benefits (Continued)**

rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Council's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Council does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

**Provisions**

Provisions are recognised when the Council has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

## 17. OTHER PROVISIONS

| | Make good provision for lease | Total |
|---|---|---|
| | $ | $ |
| **Opening balance at 1 July 2020** | | |
| Non-current provisions | 3,606,611 | 3,606,611 |
| | 3,606,611 | 3,606,611 |
| Increase in the discounted amount arising because of time and the effect of any change in the discounted rate | 82,359 | 82,359 |
| **Balance at 30 June 2021** | 3,688,970 | 3,688,970 |
| **Comprises** | | |
| Non-current | 3,688,970 | 3,688,970 |
| | 3,688,970 | 3,688,970 |

**Make Good Provision for Lease**
The Council has identified the need for a provision in relation to the decommissioning and restoration (make good) provisions of the lease for the land upon which its operations are based.

Provisions of this nature are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate reflective of current market assessments of the time value of money and risks specific to the liability.

This estimated expenditure required to restore the land to its original condition has been capitalised in accordance with AASB 116. These costs are amortised over the shorter of the term of the lease or the remaining useful life of the assets.

Any increase in the provision due to the passage of time, is recognised in profit or loss as a finance (interest) cost.

## 18. NOTES TO THE STATEMENT OF CASH FLOWS

### Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash and cash equivalents, net of outstanding bank overdrafts. Cash at the end of the reporting period is reconciled to the related items in the Statement of Financial Position as follows:

| | 2021 Actual | 2021 Budget | 2020 Actual |
|---|---|---|---|
| | $ | $ | $ |
| Cash and cash equivalents | 13,053,557 | 8,685,068 | 10,174,250 |

### Reconciliation of Net Cash Provided By Operating Activities to Net Result

| | 2021 Actual | 2021 Budget | 2020 Actual |
|---|---|---|---|
| Net result | 3,601,738 | 103,140 | 4,142,860 |
| Non-cash flows in Net result: | | | |
| Provision for Redundancy | 0 | 0 | (1,596,321) |
| Inventory Write Down | (208,523) | 0 | (161,820) |
| Depreciation on non-current assets | 3,862,654 | 2,697,576 | 3,075,608 |
| (Profit)/loss on sale of asset | 1,645,548 | 0 | 0 |
| Reversal of loss on revaluation of fixed assets | 0 | 0 | (1,850,075) |
| Changes in assets and liabilities: | | | |
| (Increase)/decrease in receivables | 407,536 | 1,605,845 | (1,685,665) |
| (Increase)/decrease in other assets | (1,407,289) | 977,327 | 17,093 |
| (Increase)/decrease in inventories | 108,793 | 105,882 | (890,842) |
| Increase/(decrease) in payables | (216,646) | (2,469,172) | 746,477 |
| Increase/(decrease) in provisions | 144,426 | 96,907 | (34,150) |
| Non-operating grants, subsidies and contributions | (250,000) | 0 | 0 |
| Net cash from operating activities | 7,688,237 | 3,117,505 | 1,763,165 |

## 19. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Community amenities | 59,973,694 | 62,828,984 |
| | 59,973,694 | 62,828,984 |

## 20. CONTINGENT LIABILITIES

### SMRC v Alloy Pipe Specialists

The Council has an ongoing case relating to a supply contract for equipment repairs, Divinity Nominees Pty Ltd t/as Alloy and Pipe Specialists has agreed in principle to settle its claim against the Council on a 'walk-away' each bear own costs basis. To resolve this matter, a settlement deed is to be signed by the parties or wait for the case to be placed on the inactive cases list in mid-October 2021. The Council is holding funds towards its costs.

### Contaminated Sites

The Regional Resource Recovery Centre (RRRC) land is owned by the City of Canning Lot 78 Bannister Road Canning Vale which is recorded on the DWER Contaminated Sites database.

The Council has no contaminated sites or liability to report.

Other than the above matter, there are no other contingent liabilities as on 30 June 2021.
(Nil as on 30 June 2020)

## 21. CAPITAL AND LEASING COMMITMENTS

### (a) Capital Expenditure Commitments

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Contracted for: | | |
| - capital expenditure projects | 345,700 | 1,381,773 |
| | 345,700 | 1,381,773 |
| Payable: | | |
| - not later than one year | 345,700 | 1,381,773 |

### (b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the accounts (short term and low value leases).

| | 2021 | 2020 |
|---|---|---|
| Payable: | $ | $ |
| - not later than one year | 11,231 | 13,550 |
| | 11,231 | 13,550 |

**SIGNIFICANT ACCOUNTING POLICIES**

**Leases**
Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Council, are classified as finance leases.

Finance leases are capitalised recording an asset and a liability at the lower of the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

**Leases (Continued)**
Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

## 22. RELATED PARTY TRANSACTIONS

### Elected Members Remuneration

| | 2021 Actual | 2021 Budget | 2020 Actual |
|---|---|---|---|
| **Councillor Doug Thompson** | $ | $ | $ |
| Meeting fees | 11,880 | 11,879 | 13,199 |
| Chairman allowance | 15,047 | 15,047 | 16,719 |
| Other allowances | 0 | 306 | 1,167 |
| | 26,927 | 27,232 | 31,085 |
| **Councillor Stephen Kepert** | | | |
| Meeting fees | 7,920 | 7,920 | 5,280 |
| Other allowances | 0 | 305 | 0 |
| | 7,920 | 8,225 | 5,280 |
| **Councillor Cliff Collinson** | | | |
| Meeting fees | 7,920 | 7,920 | 8,800 |
| Other allowances | 0 | 305 | 1,167 |
| | 7,920 | 8,225 | 9,967 |
| **Councillor Wendy Cooper** | | | |
| Meeting fees | 7,920 | 7,920 | 8,800 |
| Other allowances | 0 | 305 | 1,167 |
| | 7,920 | 8,225 | 9,967 |
| **Councillor Clive Robartson** | | | |
| Meeting fees | 0 | 0 | 3,520 |
| Deputy Chairman allowance | 0 | 0 | 1,672 |
| Other allowances | 0 | 0 | 1,166 |
| | 0 | 0 | 6,358 |
| | 50,687 | 51,907 | 62,657 |

**The following fees, expenses and allowances were paid to council members.**

| | 2021 Actual | 2021 Budget | 2020 Actual |
|---|---|---|---|
| Meeting fees | 35,640 | 35,639 | 39,599 |
| Chairman allowance | 15,047 | 15,047 | 16,719 |
| Deputy Chairman allowance | 0 | 0 | 1,672 |
| Other allowances | 0 | 1,221 | 4,667 |
| | 50,687 | 51,907 | 62,657 |

### Key Management Personnel (KMP) Compensation Disclosure

| The total of remuneration paid to KMP of the Council during the year are as follows: | 2021 Actual $ | 2020 Actual $ |
|---|---|---|
| Short-term employee benefits | 806,910 | 823,125 |
| Post-employment benefits | 118,500 | 109,329 |
| Other long-term benefits | 92,651 | 87,557 |
| Termination benefits | 4,458 | 0 |
| | 1,022,519 | 1,020,011 |

*Short-term employee benefits*
These amounts include all salary, fringe benefits and cash bonuses awarded to KMP except for details in respect to fees and benefits paid to elected members which may be found above.

*Post-employment benefits*
These amounts are the current-year's estimated cost of providing for the Council's superannuation contributions made during the year.

*Other long-term benefits*
These amounts represent long service benefits accruing during the year.

*Termination benefits*
These amounts represent termination benefits paid to KMP (Note: may or may not be *applicable in any given year).*

## 22. RELATED PARTY TRANSACTIONS (Continued)

### Transactions with related parties

Transactions between related parties and the Council are on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

No outstanding balances or provisions for doubtful debts or guaranties exist in relation to related parties at year end.

| The following transactions occurred with related parties: | 2021 Actual $ | 2020 Actual $ |
|---|---|---|
| **Member Councils of SMRC** | | |
| Member Council Contributions and Gate Fees Received | 12,862,935 | 14,960,319 |
| Member Council Contributions for Loan Repayments Received | 3,284,059 | 3,173,433 |
| Paid to Member Councils | (2,755) | (3,437) |
| **Amounts outstanding from related parties:** | | |
| Trade and other receivables - member councils | 1,226,080 | 1,790,356 |

### Related Parties

**The Council's main related parties are as follows:**

*i. Key management personnel*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any elected member, are considered key management personnel.

*ii. Other Related Parties*

An associate person of KMP was employed by the Council under normal employement terms and conditions.

Any entity that is controlled by or over which KMP, or close family members of KMP, have authority and responsibility for planning, directing and controlling the activity of the entity, directly or indirectly, are considered related parties in relation to the Council.

*iii. Entities subject to significant influence by the Council*

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

The SMRC is an Associate of the five local governments (member Councils) formed under the Local Government Act 1995 and an Establishment Agreement. Member Councils pay contributions towards services it receives from the SMRC and contributes towards loan repayments for the assets purchased for these services.

## 23. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS

**REGIONAL RESOURCE RECOVERY CENTRE (RRRC), CANNING VALE**

This project is undertaken on behalf of the SMRC's three participating councils and involves construction and operation of an administration and visitors centre, weighbridge, greenwaste processing and waste composting and recycling facility. Operating revenues is received from gate fees from participants / the private sector and sale of materials. Accounting for this undertaking is in accordance with the Local Government (Financial Management) Amendment Regulations 9 & 45.

| STATEMENT OF COMPREHENSIVE INCOME | 2021 | 2020 |
|---|---|---|
| **Revenues from Ordinary Activities** | $ | $ |
| Education & Marketing | 217,679 | 219,814 |
| RRRC Admin & Weighbridge | 4,131,576 | 136,262 |
| Recycling | 21,117,251 | 10,542,157 |
| Greenwaste | 743,671 | 794,218 |
| Waste Compost | 2,005,468 | 12,005,011 |
| FOGO Operations | 4,023,042 | 0 |
| Business Development | 410,462 | 799,130 |
| Waste Audit Service | 81,844 | 118,040 |
| Contributions for interest on loans | 363,928 | 495,492 |
| Better Bins | 101,500 | 0 |
| FOGO Transition | 25,000 | 8,000 |
| | 33,221,421 | 25,118,124 |
| **Less Expenses from Ordinary Activities** | | |
| Education & Marketing | (252,556) | (306,408) |
| RRRC Admin & Weighbridge | (4,659,115) | (1,567,710) |
| Recycling | (13,104,567) | (7,304,396) |
| Greenwaste | (468,972) | (403,171) |
| Waste Compost | (5,160,280) | (10,814,771) |
| FOGO Operations | (3,303,429) | (2,520,917) |
| Waste Audit Service | (91,408) | (143,995) |
| Better Bins | (90,518) | 0 |
| FOGO Transition | (218,241) | (179,887) |
| | (27,349,086) | (23,241,255) |
| **Add/ (Less): RRRC Revaluation Increment/ (Decrement)** | | |
| RRRC Property | 0 | 1,850,075 |
| **Less: Borrowing Cost Expense** | | |
| RRRC Property | (363,620) | (495,006) |
| **Less: Make Good Provision** | | |
| RRRC Property | (82,359) | (84,047) |
| **Add/ (Less): Other adjustments** | | |
| Provision for NRV | (46,703) | 265,541 |
| Redundancy provision | 0 | 1,084,796 |
| Non-operating grant | 250,000 | 0 |
| Profit/ (Loss) on asset disposals | (1,645,548) | 0 |
| Right-of-use Assets Interest expense | (217,557) | (333,910) |
| **Net Profit or (Loss)** | **3,766,548** | **4,164,318** |

## 23. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS (Continued)

### REGIONAL RESOURCE RECOVERY CENTRE (RRRC), CANNING VALE (Continued)

| STATEMENT OF FINANCIAL POSITION | 2021 | 2020 |
|---|---|---|
| CURRENT ASSETS | $ | $ |
| Cash and cash equivalents | 11,530,580 | 8,490,908 |
| Trade and other receivables | 2,779,952 | 3,187,488 |
| Other financial assets | 3,398,802 | 3,284,059 |
| Inventories | 1,081,373 | 1,190,166 |
| Other assets | 1,476,857 | 71,220 |
| TOTAL CURRENT ASSETS | 20,267,564 | 16,223,841 |
| | | |
| NON-CURRENT ASSETS | | |
| Other financial assets | 5,030,389 | 6,629,191 |
| Property, plant and equipment | 25,377,399 | 25,721,674 |
| Right of use assets | 5,970,644 | 9,182,776 |
| TOTAL NON-CURRENT ASSETS | 36,378,432 | 41,533,641 |
| | | |
| TOTAL ASSETS | 56,645,996 | 57,757,482 |
| | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | 3,987,951 | 4,441,506 |
| Lease liabilities | 545,035 | 638,765 |
| Borrowings | 3,398,802 | 3,284,059 |
| Employee related provisions | 330,319 | 281,742 |
| TOTAL CURRENT LIABILITIES | 8,262,107 | 8,646,072 |
| | | |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities | 6,114,756 | 9,110,279 |
| Borrowings | 5,030,389 | 6,629,191 |
| Employee related provisions | 87,442 | 69,545 |
| Other provisions | 3,688,970 | 3,606,611 |
| TOTAL NON-CURRENT LIABILITIES | 14,921,557 | 19,415,626 |
| | | |
| TOTAL LIABILITIES | 23,183,664 | 28,061,698 |
| | | |
| NET ASSETS | **33,462,332** | **29,695,784** |
| | | |
| EQUITY | | |
| Opening Balance | 29,695,784 | 22,896,554 |
| Retained Surplus/(Deficit) for year | 3,766,548 | 4,164,318 |
| Fair value adjustment to Non-Current assets | 0 | 2,634,912 |
| TOTAL EQUITY | **33,462,332** | **29,695,784** |

## 24. FINANCIAL RISK MANAGEMENT

This note explains the Council's exposure to financial risks and how these risks could affect the Council's future financial performance.

| Risk | Exposure arising from | Measurement | Management |
|---|---|---|---|
| Market risk - interest rate | Long term borrowings at variable rates | Sensitivity analysis | Utilise fixed interest rate borrowings |
| Credit risk | Cash and cash equivalents, trade receivables, financial assets and | Aging analysis Credit analysis | Diversification of bank deposits, credit limits. Investment policy |
| Liquidity risk | Borrowings and other liabilities | Rolling cash flow forecasts | Availability of committed credit lines and borrowing facilities |

The Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by the finance area under policies approved by the Council. The finance area identifies, evaluates and manages financial risks in close co-operation with the operating divisions. Council have approved the overall risk management policy and provide policies on specific areas such as investment policy.

### (a) Interest rate risk

**Cash and cash equivalents**

The Council's main interest rate risk arises from cash and cash equivalents with variable interest rates, which exposes the Council to cash flow interest rate risk. The Council does not have any Short term overdraft facilities.

Excess cash and cash equivalents are invested in fixed interest rate term deposits which do not expose the Council to cash flow interest rate risk. Cash and cash equivalents required for working capital are held in variable interest rate accounts and non-interest bearing accounts. Carrying amounts of cash and cash equivalents at the 30 June and the weighted average interest rate across all cash and cash equivalents and term deposits held disclosed as financial assets at amortised cost are reflected in the table below.

| | Weighted Average Interest Rate | Carrying Amounts | Fixed Interest Rate | Variable Interest Rate | Non Interest Bearing |
|---|---|---|---|---|---|
| | % | $ | $ | $ | $ |
| **2021** | | | | | |
| Cash and cash equivalents | 0.24% | 13,053,557 | 12,351,947 | 0 | 701,610 |
| **2020** | | | | | |
| Cash and cash equivalents | 0.65% | 10,174,250 | 10,077,711 | 0 | 96,539 |

**Sensitivity**

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Impact of a 1% movement in interest rates on profit and loss and equity* | 130,536 | 101,743 |

* Holding all other variables constant

**Borrowings**

Borrowings are subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. The Council manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation. The Council does not consider there to be any interest rate risk in relation to borrowings. Details of interest rates applicable to each borrowing may be found at Note 15(d).

## 24. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Credit risk

***Trade and Other Receivables***
The Council's major receivables comprise gate fees, sale of materials and charges. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Council manages this risk by monitoring outstanding debt and employing debt recovery policies.

Credit risk on some fees and charges is minimised by the Council by obtaining bank guarantees as a security.
The Council is also able to charge interest on overdue debts at higher than market rates, which further encourages payments of charges and gate fees.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

The Council applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables.

The expected loss rates are based on the payment profiles of fees and charges over a period of 36 months before 1 July 2020 or 1 July 2021 respectively and the corresponding historical losses experienced within this period.
Historical credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors

Based on the above, the loss allowance as at 30 June 2021 and 30 June 2020 was determined as nil for trade receivables and Financial assets at amortised cost - Loans receivable - Project Participants.

The loss allowance as at 30 June 2021 and 30 June 2020 was determined as follows for trade receivables.

| | Current | More than 1 year past due | More than 2 years past due | More than 3 years past due | Total |
|---|---|---|---|---|---|
| **30 June 2021** | | | | | |
| Trade and other receivables | | | | | |
| Expected credit loss | 0.00% | 0.00% | 0.00% | 0.00% | |
| Gross carrying amount | 1,832,320 | 818,660 | 44,132 | 84,840 | 2,779,952 |
| **30 June 2020** | | | | | |
| Trade and other receivables | | | | | |
| Expected credit loss | 0.00% | 0.00% | 0.00% | 0.00% | |
| Gross carrying amount | 2,910,564 | 101,772 | 11,424 | 163,729 | 3,187,489 |

The loss allowance as at 30 June 2021 and 30 June 2020 was determined as follows for Financial assets at amortised costs - Loans receivable - Project Participants.

| | Non-current | Current | More than 30 days past due | More than 60 days past due | Total |
|---|---|---|---|---|---|
| **30 June 2021** | | | | | |
| Financial assets at amortised costs - Loans receivable - Project Participants | | | | | |
| Expected credit loss | 0.00% | 0.00% | 0.00% | 0.00% | |
| Gross carrying amount | 5,030,389 | 3,398,802 | 0 | 0 | 8,429,191 |
| **30 June 2020** | | | | | |
| Financial assets at amortised costs - Loans receivable - Project Participants | | | | | |
| Expected credit loss | 0.00% | 0.00% | 0.00% | 0.00% | |
| Gross carrying amount | 6,629,191 | 5,084,059 | 0 | 0 | 11,713,250 |

## 24. FINANCIAL RISK MANAGEMENT (Continued)

### (c) Liquidity risk

#### Payables and borrowings

Payables and borrowings are both subject to liquidity risk – that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. The Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can be extended and if required.

The contractual undiscounted cash flows of the Council's payables and borrowings are set out in the liquidity table below. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Due within 1 year | Due between 1 & 5 years | Due after 5 years | Total contractual cash flows | Carrying values |
|---|---|---|---|---|---|
| **2021** | $ | $ | $ | $ | $ |
| Payables | 4,096,418 | 0 | 0 | 4,096,418 | 4,096,418 |
| Borrowings | 3,645,663 | 5,127,030 | 0 | 8,772,693 | 8,429,191 |
| Lease liabilities | 545,035 | 3,487,294 | 2,627,463 | 6,659,792 | 6,659,791 |
| | 8,287,116 | 8,614,324 | 2,627,463 | 19,528,903 | 19,185,400 |
| **2020** | | | | | |
| Payables | 4,564,652 | 0 | 0 | 4,564,652 | 4,564,652 |
| Borrowings | 5,477,373 | 6,944,150 | 0 | 12,421,523 | 11,713,250 |
| Lease liabilities | 638,765 | 4,066,762 | 5,043,517 | 9,749,044 | 9,749,044 |
| | 10,680,790 | 11,010,912 | 5,043,517 | 26,735,219 | 26,026,946 |

## 25. MEMBERS WITHDRAWAL FROM THE SMRC

### (a) City of Canning's withdrawal from the SMRC

Pursuant to a resolution of the City of Canning on 19 February 2009, the City of Canning, as a Participant under the Establishment Agreement and Project Agreements, gave notice of its intention to withdraw from the SMRC effective from 30 June 2010. In line with the Agreements the City of Canning withdrew from SMRC with effect from that date.

A settlement agreement in September 2012 was agreed between the remaining Participants and the City of Canning to allow the City of Canning to separate its share of the RRRC outstanding loans resulting in a separate loan agreement with the Western Australian Treasury Corporation.

The loan liability was reduced by terminating loans amounting to $43,440,979, which included the share of the City of Canning and replacing loans that do not have a share of the City of Canning's liability amounting to $31,286,786.

RRRC Project Agreement states that the assets acquired from borrowings are to be valued only when the borrowings are fully repaid. The appropriate share of City of Canning in these assets is valued at current book values. The share of City of Canning in these assets is still shown as a part of Equity as the City of Canning is not currently entitled for the amount as per the RRRC Project Agreement.

### (b) City of Rockingham 's withdrawal from the SMRC

Pursuant to a resolution of the City of Rockingham on 27 April 2011, the City of Rockingham, as a Participant under the Establishment Agreement and Office Accommodation Project Agreement, gave a notice of its intention to withdraw from the SMRC effective from 30 June 2012. In line with the Agreements, the City of Rockingham withdrew from SMRC on 30 June 2012.

## 25. MEMBERS WITHDRAWAL FROM THE SMRC (Continued)

### (c ) City of Cockburn's withdrawal from the SMRC

Pursuant to a resolution of the City of Cockburn on 9 June 2016, the City of Cockburn as a participant under the RRRC Project Agreement, has given notice of its intention to withdraw from the RRRC Project effective from 30 June 2017. In accordance with the RRRC Project Agreement, the SMRC prepared an amended business plan of the RRRC Project having regard to the effect of the withdrawal. The amended business plan was adopted by the SMRC on 19 April 2018.

The City of Cockburn’s proportional loan liability at note 15.(b) for the RRRC Project will continue to be paid by the City of Cockburn.

Pursuant to a resolution of the City of Cockburn on 10 May 2018, the City of Cockburn, as a Participant under the Establishment Agreement and Office Accommodation Project Agreement, gave a notice of its intention to withdraw from the SMRC effective from 30 June 2019. In line with the Agreements, the City of Cockburn withdrew from SMRC on 30 June 2019.

The City of Cockburn will no longer have a proportional loan liability for the Administration Building at note 15.(b) from 1 July 2019.

### (d) City of Kwinana's withdrawal from the SMRC

Pursuant to a resolution of the City of Kwinana on 24 June 2020, the City of Kwinana, as a Participant under the Establishment Agreement and Office Accommodation Project Agreement, gave a notice of its intention to withdraw from the SMRC effective from 30 June 2021. In line with the Office Accommodation Project, SMRC will prepare an amended business plan for the project having regard to the effect of the withdrawal and will arrive at amount payable or receivable from the City. This withdrawal is not expected to have a significant impact on the operations or on the financial position of the SMRC.

## 26. RRRC ISSUES

### RRRC Licence

In April 2016, the Department of Environment Regulation amended our operating licence for the Regional Resource Recovery Centre by extending the expiry date till 30 March 2033. SMRC is complying with all the conditions and believes that the licence will be renewed when it is due for renewal.

## 27. EVENTS SUBSEQUENT TO THE REPORTING DATE

### SMRC Re-branding

On the 5 August 2021 the Council resolved to change the name of the organisation to Resource Recovery Group replacing the existing name of Southern Metropolitan Regional Council and the associated logo. In order to formally change the name, it needs to be incorporated into the review of the Establishment Agreement and once finalised, requires approval of the Minister. In the interim the SMRC is able trade with the new name and logo and maintain the name SMRC for formal documents and other matters until this occurs.

There have been no significant transactions or events of a material and unusual nature that have arisen since the end of the reporting date, likely to affect the operations, the results of operations or state of affairs of the Council except for the SMRC Re-branding and members withdrawal from the SMRC as disclosed above and in in note 25 of the financial statements.

## 28. TRUST FUNDS

The Council does not have any trust funds on hand as at 30 June 2021 (As at 30 June 2020 - Nil)

## 29. OTHER SIGNIFICANT ACCOUNTING POLICIES

**a) 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 Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

**b) Current and non-current classification**
The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle. In the case of liabilities where the Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current or non-current based on the Council's intentions to release for sale.

**c) Rounding off figures**
All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar. Amounts are presented in Australian Dollars.

**d) Comparative figures**
Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

When the Council applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements that has a material effect on the statement of financial position, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

**e) Budget comparative figures**
Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the original budget estimate for the relevant item of disclosure.

**f) Superannuation**
The Council contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Council contributes are defined contribution plans.

**g) Fair value of assets and liabilities**
Fair value is the price that the Council would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

**h) Fair value hierarchy**
AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

**Level 1**
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

**Level 2**
Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3**
Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

**Valuation techniques**
The Council selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Council are consistent with one or more of the following valuation approaches:

**Market approach**
Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

**Income approach**
Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

**Cost approach**
Valuation techniques that reflect the current replacement cost of the service capacity of an asset.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Council gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

**i) Impairment of assets**
In accordance with Australian Accounting Standards the Council's cash generating non-specialised assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

For non-cash generating specialised assets that are measured under the revaluation model ,such as roads, drains, public buildings and the like, no annual assessment of impairment is required. Rather AASB 116.31 applies and revaluations need only be made with sufficient regulatory to ensure the carrying value does not differ materially from that which would be determined using fair value at the end of the reporting period.

## 30. ACTIVITIES/PROGRAMS

| REGIONAL PURPOSE | Statement of Objective |
|---|---|
| | The regional purposes for which the Regional Local Government is established are:<br>(a) to plan, coordinate and implement the removal, processing, treatment and disposal of waste for the benefit of the communities of the participants;<br>(b) to influence local, state and federal governments in the development of regional waste management policies and legislation.<br><br>The objectives of the Regional Local Government shall be:<br>(a) without loss being incurred by the Regional Local Government, to carry out the regional purposes so that services and facilities are provided to the consumer at a reasonable cost and with due regard for community needs;<br>(b) to reduce the quantity of waste disposed at landfill sites in accordance with targets set by the Regional Local Government.<br><br>The Council operations as disclosed in this report encompass the following service orientated programs. |

Council operations as disclosed in these financial statements encompass the following service orientated activities/programs.

| PROGRAM NAME AND OBJECTIVES | ACTIVITIES |
|---|---|
| **GOVERNANCE** | |
| | Administration and operation facilities and services to Members of Council, other costs that relate to tasks of assisting the member councils and the public on matters which do not concern specific council services. In accordance with legislative changes effective 1 July 1997, the General Administration costs have been allocated to the various programs of the Council to reflect the true cost of the services provided. |
| **COMMUNITY AMENITIES** | |
| | To provide environmentally friendly waste management facilities to consumers at a competitive cost, mindful of community requirements, whilst aiming to greatly reduce the quantity of waste disposed at landfill sites. This includes the Regional Resource Recovery Centre at Canning Vale which is a Major Commercial Business Undertaking, |

## 31. FINANCIAL RATIOS

| | 2021 Actual | 2020 Actual | 2019 Actual |
|---|---|---|---|
| Current ratio | 1.31 | 1.06 | 1.58 |
| Asset consumption ratio | 0.90 | 0.94 | 0.75 |
| Asset renewal funding ratio | 1.00 | 1.00 | - |
| Asset sustainability ratio | 1.18 | 0.40 | 0.03 |
| Debt service cover ratio | 1.44 | 2.20 | (0.86) |
| Operating surplus ratio | 0.10 | 0.17 | (0.41) |
| Own source revenue coverage ratio | 1.11 | 1.02 | 0.71 |

The asset renewal program for the year 2019 was not reported as a result of the assets held for sale.

The Debt service cover ratio, Operating surplus ratio & Own source revenue coverage ratio for the year 2019 and 2020 disclosed above is distorted by items of significant expense totalling $2,741,453 in 2019 relating to the impairment loss and $1,850,075 in 2020 relating to the reversal of impairment loss and loss on recognition of plant and equipment in 2020. The impairment loss on revaluation of asset held for sale are in accordance with AASB 136 Impairment of Assets and Financial Management Regulations 17A (refer to Note 8 & 9(a) for further details). This amount has been included in the ratio calculations above.

If the Impairment loss on revaluation of asset held for sale in 2019 and the reversal of impairment and the loss on recognition of plant and equipment in 2020 are considered to be "one-off" and non-cash in nature and, if these are ignored, the following Ratios would have been shown as below:

| | 2020 | 2019 |
|---|---|---|
| Debt service cover ratio | 1.70 | (0.19) |
| Operating surplus ratio | 0.10 | (0.29) |
| Own source revenue coverage ratio | 0.95 | 0.77 |

The above ratios are calculated as follows:

| | |
|---|---|
| Current ratio | $\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$ |
| Asset consumption ratio | $\frac{\text{depreciated replacement costs of depreciable assets}}{\text{current replacement cost of depreciable assets}}$ |
| Asset renewal funding ratio | $\frac{\text{NPV of planned capital renewal over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$ |
| Asset sustainability ratio | $\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation}}$ |
| Debt service cover ratio | $\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$ |
| Operating surplus ratio | $\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$ |
| Own source revenue coverage ratio | $\frac{\text{own source operating revenue}}{\text{operating expense}}$ |

# Financial Results & Highlights

# Highlights

- Operating revenues for the year is $8.0 million higher than the prior corresponding period due to receiving recycling from 10 metropolitan local governments for 11 months on a short-term contingency arrangement and 9 months of container for change revenue.
- Total operating revenue is $34 million less expenses of $29 million resulting in a net surplus of $5 million. The EBITDA result of $9.1 million adds back depreciation. $3.4 million was transferred to reserves with the remaining surplus earmarked for future years as subsidies towards participants' contributions
- Grants received from the state government amount to $362,000 towards non-operating expenditure.
- Cash reserves balance increased by $3.4 million, to a closing balance of $10.7 million.
- RRRC loan debt reduced by $3.3 million during the year, to a closing balance of $8.4 million, payable in the next two years.
- Net Assets and equity increased by $3.8 million attributed to a net surplus result of $5.1 million less loss on asset disposals $1.3 million.

# Financial Results & Highlights

# Results

| | YTD ACTUAL Jun-21 ($M) | YTD ACTUAL Jun-20 ($M) | CHANGE |
|---|---|---|---|
| REVENUES | $33.6 | $25.6 | $8.0 |
| EXPENSES | $28.6 | $23.3 | $5.3 |
| NET RESULT | $5.0 | $2.3 | $2.7 |
| ADD BACK: DEPRECIATION | $3.9 | $3.1 | $0.8 |
| ADD NON-OPERATING GRANT | $0.2 | $0.0 | $0.2 |
| ADD/ LESS: REDUNDANCY PROVISION | | -$1.6 | $1.6 |
| ADD/ LESS: REVAL. LOSS/ REVERSAL | | -$1.9 | $1.9 |
| RESULT (EBITDA) | $9.1 | $1.9 | $7.2 |
| CASH IN BANK | $13.1 | $10.2 | $2.9 |
| RESERVES | $10.7 | $7.3 | $3.4 |
| OUTSTANDING LOANS | $8.4 | $11.7 | -$3.3 |
| NET ASSETS | $36.2 | $32.4 | $3.8 |

**1. Statement of Comprehensive Income**

**1.1 Revenue**

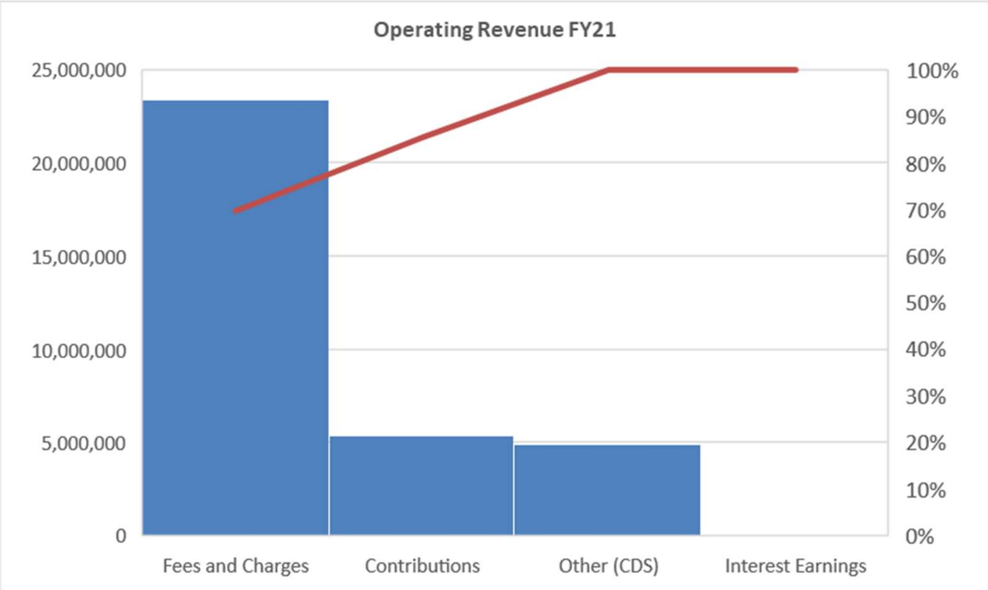
The 2020/21 total operating revenue is $33.6 million ($25.6M FY 20)

The increase compared to the previous year relates to the following: $8.0M

- Grants and Contributions $0.7M
- Fees and Charges $2.5M
- Other Revenue (CDS) $4.8M
- Total $8.0M

2

# Financial Results & Highlights




### 1.2 Expenditure

The 2020/21 total operating expenditure is $28.6 million ($23.3M FY 20)

The increase compared to the previous year relates to the following: $7.2M

| | |
|---|---|
| • Employee costs | $2.1M |
| • Materials and contracts | $1.6M |
| • Power | ($0.5M) |
| • Depreciation | $0.8M |
| • Interest Expense | ($0.3M) |
| • Insurance | $0.1M |
| • Employee redundancy provision (Net) | $1.6M |
| • Revaluation of plant & equipment (Net) | $1.8M |
| • Total | $7.2M |

The employee redundancies provision and revaluation of plant & equipment relates to last financial year.

### 1. 3 Net Result for the Year

Whilst the financial statements show a net result surplus of $3.6 million. The following is an explanation for the surplus.

The **EBITDA** is an alternative internal measure for reporting a net result. Applying EBITDA, the net result is a surplus of $9.1 million (see table below).

Reconciling our financial results

# Financial Results & Highlights

| Measure | Underlying (EBITDA) |
|---|---|
| | EBITDA stands for: Earnings before interest, taxes, depreciation & amortisation. |
| Why do we use this | Underlying EBITDA is a key alternative performance measure that management uses internally to assess the financial performance by removing expenses that are irrelevant in understanding actual financial results for the year ended. |
| Adjustment | FY21 / FY20<br>Net Result: $3.6 M / $4.2 M<br>Add back depreciation: $3.9 M / $3.1 M<br>Add back loss on asset disposals: $1.6 M<br><br>Less reversal of employee redundancies provision & revaluation of assets held for sale: $0.0M / ( $3.5 M) |
| Result | **EBITDA** **$9.1 M** **$3.8 M** |

**2. Statement of Financial Position**

2.1 **Cash** (note 3) $13 million ($10.2 million FY 20) is represented by $1 million untied, $10.7 million reserves & $1.3 million bonds & deposits.

2.2 **Other financial assets** $3.4 million & $5 million (note 5) refers to the outstanding borrowings repaid by Participants.

2.3 **Other Assets** $1.5 million (note 8) refers to revenue from the Container for Change scheme for the June quarter.

2.4 **Right of Use Assets** (note 11) refers to the RRRC ground lease. The change in value compared to last year is a remeasurement of the value of the Lease liability and Right-of-use asset with reasonable assumptions and accounting estimates.

2.5 **Lease Liabilities** (note 14) (current & non-current liabilities) is $6.6 million ($9.7 million FY20), reduced for the reasons stated in Right of Use Assets.

2.6 **Borrowings** (note 15) balance (current & non-current liabilities) is $8.4 million ($11.7 million FY 20), made up of the following two project loans;

- RRRC Project outstanding balance of $6.6 million ($9.9 million FY 20) and;
- Office Accommodation Project, Office building in Booragoon $1.8 million ($1.8 million FY 20).

No new loans were raised during the year. RRRC project loans repaid during the year amounted to $3.3 million ($3.2 million FY 20). The RRRC Project borrowings will be fully repaid by 30 June 2023.

2.7 The Council's **net assets and total equity** is $36.2 million ($32.4 million FY 20). The increase of $3.8 million is attributed to net surplus result $5.1 million less loss on asset disposals $1.3 million.

# Financial Results & Highlights

3. **Statement of Changes in Equity**

3.1 The **retained surplus** balance as at 30 June 2021 is $10.1 million ($9.9 million FY20). The explanation for the increase of $0.2 million is below;

- The net surplus result from the statement of comprehensive income of $3.6 million.
- Net amount of ($3.4 million) is transferred to the cash backed reserves.

3.2 The **cash-backed reserve** balance as at 30 June 2021 increased by $3.4 million to $10.7 million ($7.3 million FY20).

The reserve accounts are for the purposes of funding the asset renewal program, contingency & development initiatives, insurance, restoration costs associated with the RRRC lease conditions and provision for travel and conferences.

3.3 The **revaluation surplus** as at 30 June 2021 is $15.4 million ($15.2 million FY 20). The increase relates to a revaluation of the Booragoon office from $1.6 to $1.8 million.

**4. Statement of Cash Flows**

4.1 The **net increase in the cash balances** of $2.9 million is attributed to the following cash receipts and payments during the year.

4.2 The **cash receipts from operations** is $33.5 million ($24.7 million FY 20). This resulted in $8.8 million higher than the prior corresponding period due to receiving recycling from 10 metropolitan local governments for 11 months on a short-term contingency arrangement and 9 months of container for change revenue.

4.3 The **cash payments for operations** is $25.8 million ($22.9 million FY 20). The increase corresponds to the additional tonnes received for processing.

This resulted in a **net cash surplus from operating activities** of $7.7 million (surplus of $1.8 million FY 20).

4.4 The **cash used in investing activities** is $4.2 million ($0.2 million FY 20). The amount refers to capital expenditure.

4.5 The **cash balance at the end of the financial year** has increased by $2.9 million to $13 million ($10.1 million FY20).

## 1.0 STATEMENT

The Southern Metropolitan Regional Council is committed to effective financial practices and achieves this through adherence to the current *Local Government Act 1995*, the *Local Government (Financial Management) Amendment Regulations* and the appropriate Australian Accounting Standards.

## 2.0 SCOPE

This Policy applies to all employees involved in accounting or financial functions.

## 3.0 OBJECTIVE

To provide a framework for the financial management and significant accounting policies of the Southern Metropolitan Regional Council.

To comply with Australian Accounting Standards, the Local Government Act 1995 and the Local Government (Financial Management) Amendment Regulations.

## 4.0 ROLES & RESPONSIBILITIES

**Chief Executive Officer**

The Chief Executive Officer is responsible for ensuring that structures and processes are in place for employees to comply with the relevant Regulations and Accounting Standards in the course of their work.

## 5.0 CONTENT

### 5.1 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been adopted in the preparation of this financial report are:

#### 5.1.1 BASIS OF PREPARATION

The financial report comprises general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities) and Interpretations of the Australian Accounting Standards Board, and the *Local Government Act 1995* and accompanying regulations.

The *Local Government Act 1995* and accompanying Regulations take precedence over Australian Accounting Standards where they are inconsistent. The *Local Government (Financial Management) Regulations 1996* specify that vested land is a right-of-use asset to be measured at cost. All right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost rather than at fair value. The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which continue to be reported at fair value, as opposed to the vested land which is measured at zero cost. The measurement of vested improvements at fair value is a departure from AASB 16 which would have required the Council to measure any vested improvements at zero cost.

Accounting policies which have been adopted in the preparation of this financial report have been consistently applied unless stated otherwise. Except for cash flow and rate setting information, the report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

**Critical Accounting Estimates**

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

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 about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**The Local Government Reporting Entity**

All funds which the ~~Southern Metropolitan Regional~~ Council controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those funds (for example, loans and transfers between funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears at Note ~~26~~ 27 to these financial statements.

### 5.1.2 REVENUE

**Revenue Recognition**

Recognition of revenue is dependant on the source of revenue and the associated terms and conditions associated with each source of revenue and recognised as per appendix 1.

**Grants, subsidies and contributions**

Operating grants, subsidies and contributions are grants, subsidies or contributions that are not non-operating in nature.

Non-operating grants, subsidies and contributions are amounts received for the acquisition or construction of recognisable non-financial assets to be controlled by the local government.

**Interest earnings**

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

**Fees and Charges**

Revenue (other than service charges) from the use of facilities and charges made for local government services, fee for service, sale of goods and administration fees.

**5.1.3 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of

~~**5.1.3 CASH AND CASH EQUIVALENTS (continued)**~~

changes in value and bank overdrafts. Bank overdrafts are reported as short term borrowings in current liabilities in the statement of financial position.

**Restricted assets**

Restricted asset balances are not available for general use by the local government due to externally imposed restrictions. Externally imposed restrictions are specified in an agreement, contract or legislation. This applies to reserves, unspent grants, subsidies and contributions and unspent loans that have not been fully expended in the manner specified by the contributor, legislation or loan agreement.

**5.1.4 RESERVES**

All reserves are supported by cash and cash equivalents and are restricted within equity as Reserves - cash backed.

a) RRRC Contingency & Development Reserve
to be used to fund shortfalls in operating expenditure, asset renewals and disposals, employment termination provisions and insurance claims below the excess for the Canning Vale RRRC Project.

b) Travel and Conference Reserve
to be used to fund the requirements for staff and Councillors' travel and Conference attendance.

c) Office Accommodation Reserve
to be used for funding capital renewal expenditure and non-recurrent maintenance expenditure for the SMRC property located at 9 Aldous Place Booragoon.

d) RRRC Restoration Reserve
to be used to meet lease obligations resulting from an early termination of the Ground Lease or at the expiry of the Ground Lease.

**5.1.5 OTHER FINANCIAL ASSETS**

**Other financial assets at amortised cost**

The Council classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

**5.1.~~4~~6 TRADE AND OTHER RECEIVABLES**

Trade and other receivables include amounts due from gate fees and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Trade receivables are recognised at original invoice amount less any allowances for uncollectible amounts (i.e. impairment). The carrying amount of net trade receivables is equivalent to fair value as it is due for settlement within 30 days.

**Impairment ~~of trade receivables~~ and risk exposure**

Expected credit losses expense is recognised as the movement in the allowance for impairment of receivables. The allowance for impairment of receivables is measured at the lifetime expected credit losses at each reporting date. The Council has established provision matrix that is based on its historic credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

**Classification and subsequent measurement**

Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade receivables are held with the objective to collect the contractual cashflows and therefore measures them subsequently at amortised cost using the effective interest rate method.

Due to the short term nature of current receivables, their carrying amount is considered to be the same as their fair value. Non-current receivables are indexed to inflation, any difference between the face value and fair value is considered immaterial.

**5.1.~~5~~7 INVENTORY**

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**5.1.~~6~~ 8 OTHER CURRENT ASSETS**

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

**5.1.~~7~~ 9 NON-CURRENT ASSETS HELD FOR SALE**

Assets are classified as held for sale where the carrying amount will be recovered through a sale rather than continuing use and the asset is available for immediate sale with a sale being highly probable.

Non-current assets classified as held for sale are valued at the lower of the carrying amount and fair value less costs to sell.

The fair value of land and buildings was determined using the sales comparison approach using comparable properties in the area. This is a level 2 measurement as per the fair value hierarchy set out in Note 32(h).

### 5.1.~~8~~10 FINANCIAL ASSETS AT AMORTISED COST

The Council classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

**Financial assets at fair value through profit and loss**

The Council classifies the following financial assets at fair value through profit and loss:

- debt investments which do not qualify for measurement at either amortised cost or fair value through other comprehensive income.
- equity investments which the Council has not elected to recognise fair value gains and losses through other comprehensive income.

### 5.1.~~9~~11 FIXED ASSETS

Each class of fixed assets within either plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Initial recognition and measurement between mandatory revaluation dates**

Assets for which the fair value as at the date of acquisition is under $5,000 are not recognised as an asset in accordance with *Financial Management Regulation 17A (5)*. These assets are expensed immediately.

Where multiple individual low value assets are purchased together as part of a larger asset or collectively forming a larger asset exceeding the threshold, the individual assets are recognised as one asset and capitalised.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at zero cost or otherwise significantly less than fair value, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets that are land, buildings and infrastructure acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework, are recognised at cost and disclosed as being at fair value as management believes cost approximates

~~**5.1.9 FIXED ASSETS (continued)**~~

fair value. They are subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework.

**Revaluation**

The fair value of land, buildings and infrastructure is determined at least every five years in accordance with the regulatory framework. This includes buildings and infrastructure items which were pre-existing improvements (i.e., vested improvements) on vested land acquired by the Council.

At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A (2)* which requires land, buildings and infrastructure to be shown at fair value.

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

**Vested improvements from 1 July 2019**
The measurement of vested improvements at fair value in accordance with Local Government (Financial Management) Regulation 17A(2)(iv) is a departure from AASB 16 which would have required the Council to measure the vested improvements as part of the related right-of-use assets at zero cost. Refer to Note 11 that details the significant accounting policies applying to leases (including right-of-use assets).

**Depreciation**
The depreciable amount of all fixed assets including buildings but excluding freehold land, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise.

**Depreciation rates**
Typical estimated useful lives for the different asset classes for the current and prior years are included in the table below:

| **Asset Class** | **Useful life** |
|---|---|
| Computer equipment | 1 to 3 years |
| Furniture and equipment | 1 to ~~5~~ 3 years |
| Plant and equipment | 3 to 6 years |
| Leasehold improvements | 10 years |
| Freehold buildings | 40 years |
| Right of use (buildings) | Based on the remaining lease |
| Right of use (plant and equipment) | Based on the remaining lease |

**Depreciation on revaluation**
When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:
~~**5.1.9 FIXED ASSETS (continued)**~~

~~**Depreciation on revaluation (continued)**~~

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

(b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

**Amortisation**
All intangible assets with a finite useful life, are amortised on a straight-line basis over the individual asset's useful life from the time the asset is held for use.

The residual value of intangible assets is considered to be zero and the useful life and amortisation method are reviewed at the end of each financial year.

Amortisation is included within Depreciation on non-current assets in the Statement of Comprehensive Income and in the note ~~above~~of the financial report.

~~**Capitalisation Threshold**~~
~~Expenditure on items of furniture, computer and electronic equipment, vehicles, mobile plant and equipment under $5,000 and fixed plant and equipment, building and infrastructure under $10,000 is not capitalised. Rather, it is recorded on an asset inventory listing.~~

**5.1.~~10~~ 12 LEASES (RIGHT-OF-USE ASSETS)**
At inception of a contract, the Council assesses if the contract contains or is a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, a right-of-use asset is recognised at cost and lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Council uses its incremental borrowing rate.

All contracts that are classified as short-term leases (i.e. a lease with a remaining term of 12 months or less) and leases of low value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Leases for right-of-use assets are secured over the asset being leased.

**Right-of-use assets - valuation**
Right-of-use assets are measured at cost. This means that all right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost (i.e. not included in the statement of financial position). The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which are reported at fair value.

~~5.1.10 LEASES (RIGHT-OF-USE ASSETS) (continued)~~

**Right-of-use assets - depreciation**

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest. Where a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects that the Council anticipates to exercise a purchase option, the specific asset is amortised over the useful life of the underlying asset.

**5.1.~~11~~ 13 TRADE AND OTHER PAYABLES**

Trade and other payables represent liabilities for goods and services provided to the Council prior to the end of the financial year that are unpaid and arise when the Council becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

**5.1.~~12~~14 FINANCIAL LIABILITIES**

Financial liabilities are recognised at fair value when the Council becomes a party to the contractual provisions to the instrument.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**5.1.~~13~~ 15 BORROWING COSTS**

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

**5.1.~~14~~ 16 EMPLOYEE BENEFITS**

The Council's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**Short-term employee benefits**

Provision is made for the Council's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave.

Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Council's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

~~5.1.14 EMPLOYEE BENEFITS (Continued)~~

**Other long-term employee benefits**

~~The Council's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.~~

Long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Council's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Council does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

**5.1.~~15~~ 17 PROVISIONS**

Provisions are recognised when the Council has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Specifically, the Council has identified the need for a provision in relation to the decommissioning and restoration (make good) provisions of the lease for the land upon which its operations are based.

Provisions of this nature are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The discount rate used to determine the present value is a pre-tax rate reflective of current market assessments of the time value of money and risks specific to the liability.

This estimated expenditure required to restore the land to its original condition has been capitalised in accordance with AASB 116. These costs are amortised over the shorter of the term of the lease or the remaining useful life of the assets.

Any increase in the provision due to the passage of time, is recognised in profit or loss as a finance (interest) cost.

~~Recognition and Treatment:~~
~~AASB 116 and Interpretation 1 establish how the provision is recognised and the treatment in relation to it.~~

**5.1.~~16~~18 LEASES**
Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Council are classified as finance leases.

Finance leases are capitalised recording an asset and a liability at the lower of the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

**5.1.19 RELATED PARTY**
***Short-term employee benefits***
These amounts include all salary, fringe benefits and cash bonuses awarded to KMP except for details in respect to fees and benefits paid to elected members which may be found above.

***Post-employment benefits***
These amounts are the current-year's estimated cost of providing for the Council's superannuation contributions made during the year.

***Other long-term benefits***
These amounts represent long service benefits accruing during the year.

***Termination benefits***
These amounts represent termination benefits paid to KMP (Note: may or may not be applicable in any given year).

***i. Key management personnel***
Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any elected member, are considered key management personnel.

***ii. Other Related Parties***
An associate person of KMP was employed by the Council under normal employement terms and conditions.

Any entity that is controlled by or over which KMP, or close family members of KMP, have authority and responsibility for planning, directing and controlling the activity of the entity, directly or indirectly, are considered related parties in relation to the Council.

***iii. Entities subject to significant influence by the Council***
An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

The SMRC is an Associate of the five local governments (member Councils) formed under the Local Government Act 1995 and an Establishment Agreement. Member Councils pay contributions towards services it receives from the SMRC and contributes towards loan repayments for the assets purchased for these services.

## 5.1.20 FINANCIAL RISK MANAGEMENT

The Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by the finance area under policies approved by the Council. The finance area identifies, evaluates and manages financial risks in close co-operation with the operating divisions. Council have approved the overall risk management policy and provide policies on specific areas such as investment policy.

### a) Interest rate risk

**Cash and cash equivalents**
The Council's main interest rate risk arises from cash and cash equivalents with variable interest rates, which exposes the Council to cash flow interest rate risk. The Council does not have any Short term overdraft facilities.

Excess cash and cash equivalents are invested in fixed interest rate term deposits which do not expose the Council to cash flow interest rate risk. Cash and cash equivalents required for working capital are held in variable interest rate accounts and non-interest bearing accounts. Carrying amounts of cash and cash equivalents at the 30 June and the weighted average interest rate across all cash and cash equivalents and term deposits held disclosed as financial assets at amortised cost are reflected in the financial report.

**Sensitivity**
Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

**Borrowings**
Borrowings are subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. The Council manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation. The Council does not consider there to be any interest rate risk in relation to borrowings. Details of interest rates applicable to each borrowing may be found in the financial report.

## b) Credit risk

### Trade and Other Receivables

The Council's major receivables comprise gate fees, sale of materials and charges. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Council manages this risk by monitoring outstanding debt and employing debt recovery policies.

Credit risk on some fees and charges is minimised by the Council by obtaining bank guarantees as a security. The Council is also able to charge interest on overdue debts at higher than market rates, which further encourages payments of charges and gate fees.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

The Council applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables.

The expected loss rates are based on the payment profiles of fees and charges over a period of 36 months before 1 July 2020 or 1 July 2021 respectively and the corresponding historical losses experienced within this period. Historical credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors

Based on the above, the loss allowance as at 30 June 2021 and 30 June 2020 was determined as nil for trade receivables and Financial assets at amortised cost - Loans receivable - Project Participants.

## c) Liquidity risk

### Payables and borrowings

Payables and borrowings are both subject to liquidity risk – that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. The Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can be extended and if required.

The contractual undiscounted cash flows of the Council's payables and borrowings are set out in the liquidity table in the financial report. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

## 5.2 OTHER SIGNIFICANT ACCOUNTING POLICIES

### a) 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 Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

### b) Current and non-current classification

The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle. In the case of liabilities where the Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current or non-current based on the Council's intentions to release for sale.

### c) Rounding off figures

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar. Amounts are presented in Australian Dollars.

### d) Comparative figures

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

When the Council  applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements that has a material effect on the statement of financial position, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

### e) Budget comparative figures

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the original budget estimate for the relevant item of disclosure.

### f) Superannuation

The Council contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Council contributes are defined contribution plans.

### g) Fair value of assets and liabilities

Fair value is the price that the Council would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

**g) Fair value of assets and liabilities (continued)**
As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

**h) Fair value hierarchy**
AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

**Level 1**
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

**Level 2**
Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3**
Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

**Valuation techniques**
The Council selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Council are consistent with one or more of the following valuation approaches:

**h) Fair value hierarchy (continued)**

**Market approach**

Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

**Income approach**

Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

**Cost approach**

Valuation techniques that reflect the current replacement cost of the service capacity of an asset.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Council gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

**i) Impairment of assets**

In accordance with Australian Accounting Standards the Council's cash generating non-specialised assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

For non-cash generating specialised assets that are measured under the revaluation model, such as roads, drains, public buildings and the like, no annual assessment of impairment is required. Rather AASB 116.31 applies and revaluations need only be made with sufficient regularity to ensure the carrying value does not differ materially from that which would be determined using fair value at the end of the reporting period.

**j) Rates**

The Council does not levy rates. Accordingly, the rating statement and information as required by the Local Government Act (Financial Management Regulations) has not been presented in these financial reports.

**k) Participants Contribution**

The Participants contributions towards the Regional Resource Recovery Centre (RRRC) is treated as an equity contribution. The Participants Equity is also credited when loans are taken which are guaranteed by SMRC or RRRC participants. The corresponding liability of participants is shown as a receivable.

However, when loans are repaid by the Council without seeking funds from the project participants, the receivables and equity are reduced by the amount of loans repaid.

### 5.2.1 OTHER ACCOUNTING POLICIES

**Reporting Revenue and Expenditure by Nature and Type**

For the purposes of reporting all revenue and expenses on “nature and type” as required by the Australian Accounting Standard 27, and the Local Government (Financial Management) Regulations 1996, the following categories have been adopted as the reporting policy of this regional Council:

**Operating Revenue**

Grants and Subsidies – operating
Grants and Subsidies – non-operating
Contributions Reimbursements & Donations
Profit on Asset Disposals
Fees and Charges
Interest Earnings
Other Revenue

**Operating Expenses**

Employee Costs
Materials and Contracts
Utilities (gas, electricity, water, etc)
Depreciation on non-current assets
Loss on Asset Disposals
Interest
Insurance
Other

**Capitalisation of Assets**

Expenditure of a capital nature is recognised as an asset if the threshold value exceeds:

| | |
|---|---|
| Furniture and Equipment | $5,000 |
| Computer & Electronic Equipment | $5,000 |
| Motor Vehicles, Mobile Plant and Equipment | $5,000 |
| Standby Equipment | $10,000 |
| Fixed Plant and Equipment | $10,000 |
| Buildings and improvements | $10,000 |
| Infrastructure | $10,000 |

Note: where assets with an individual cost of less than the amounts specified above are not capitalised, control of them is exercised by recording them in the asset register with a zero value.

**Asset Classifications**

Furniture and Equipment
Computer and Electronic Equipment
Motor Vehicles
Light Plant & Equipment
Heavy Plant
Standby Equipment
Buildings
Leasehold Improvements

**Depreciation**

Depreciation of assets be charged direct to the appropriate general ledger account for each sub-programme.

That it be a policy of Council to use the straight-line method for the depreciation of assets.

**Provision for Leave**

Liability for annual leave and long service leave entitlements is expensed to provision accounts. When an employee takes long service leave, the expense is charged directly to the provision account.

**Provision for Leave**

Liability for annual leave and long service leave entitlements is expensed to provision accounts. When an employee takes long service leave, the expense is charged directly to the provision account.

Provisions include calculations for on-costs (workers comp & super).

| | Entitlement | Probability Factor |
|---|---|---|
| 0 < 1 year | 1.3 weeks | 10% |
| 1 < 2 years | 2.6 weeks | 15% |
| 2 < 3 years | 3.9 weeks | 25% |
| 3 < 4 years | 5.2 weeks | 40% |
| 4 < 5 years | 6.5 weeks | 60% |
| 5 < 6 years | 7.8 weeks | 80% |
| 6 < 7 years | 9.1 weeks | 90% |
| 7 < 8 years | 10.4 weeks | 100% |
| 9 < 10 years | 11.7 weeks | 100% |
| 10 + years | 13 weeks | 100% |

**Provision for Make Good**

At the end of the lease term, SMRC is required to restore the land upon which the RRRC is situated to its original condition. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

Estimated costs have been capitalised as part of the carrying value of leasehold improvements and are amortised over the shorter of the term of the lease or the remaining useful life of the assets.

## 5.3 INITIAL APPLICATION OF AUSTRALIAN ACCOUNTING STANDARDS

During the current year, the Council adopted all of the new and revised Australian Accounting standards and Interpretations which were compiled, became mandatory and which were applicable to its operations.

These were:

- AASB 1059 Service Concession Arrangements: Grantors
- AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Materiality

The adoption of these standards had no material impact on the financial report.

~~During the current year, the Council adopted all of the new and revised Australian Accounting Standards and Interpretations which were compiled, became mandatory and which were applicable to its operations.~~

~~**AASB 15: Revenue from Contracts with Customers**~~

~~The Council adopted AASB 15 Revenue from Contracts with Customers (issued December 2014) on 1 July 2019 resulting in changes in accounting policies. In accordance with the transition provisions AASB 15, the Council adopted the new rules retrospectively with the cumulative effect of initially applying these rules recognised on 1 July 2019.~~

~~Considering that there is no ongoing and continuing performance obligations of the transactions entered by the Council while transferring a promised good or service to a customer, there is no financial impact.~~

~~**AASB 1058: Income For Not-For-Profit Entities**~~

~~The Council adopted AASB 1058 Income for Not-for-Profit Entities (issued December 2016) on 1 July 2019 which will result in changes in accounting policies. In accordance with the transition provisions AASB 1058, the Council adopted the new rules retrospectively with the cumulative effect of initially applying AASB 1058 recognised at 1 July 2019. Comparative information for prior reporting periods was not restated in accordance with AASB 1058 transition requirements.~~

~~No financial impact when considering the nature of the transactions entered by the Council.~~

~~Refer to Note 2(a) for new revenue recognition accounting policies as a result of the application of AASB 15 and AASB 1058.~~

~~**AASB 16: Leases**~~

~~The Council adopted AASB 16 retrospectively from 1 July 2019 which resulted in changes in accounting policies. In accordance with the transition provisions of AASB 16, the Council has applied this Standard to its leases retrospectively, with the cumulative effect of initially applying AASB16 recognised on 1 July 2019. In applying AASB 16, under the specific transition provisions chosen, the Council will not restate comparatives for prior reporting periods.~~

~~In applying AASB 16 for the first time, the Council will use the following practical expedient permitted by the standard.~~

~~- The exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.~~

## ~~5.4 AMENDMENTS TO LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996~~

~~The *Local Government (Financial Management) Regulations 1996* take precedence over Australian Accounting Standards. Prior to 1 July 2019, *Financial Management Regulation 16* arbitrarily prohibited a local government from recognising as assets Crown land that is a public thoroughfare, i.e. land under roads, and land not owned by but under the control or management of the local government, unless it is a golf course, showground, racecourse or recreational facility of State or regional significance. Consequently, some assets pertaining to vested land, including land under roads acquired on or after 1 July 2008, were not recognised in previous financial reports of the Council. This was not in accordance with the requirements of AASB 1051 *Land Under Roads* paragraph 15 and AASB 116 *Property, Plant and Equipment* paragraph 7.~~

~~From 1 July 2019, the Council has applied AASB 16 Leases which requires leases to be included by lessees in the statement of financial position. Also, the *Local Government (Financial Management) Regulations 1996* have been amended to specify that vested land is a right-of-use asset to be measured at cost. All right-of-use assets (other than vested improvements) under zero cost concessionary leases are measured at zero cost (i.e. not included in the statement of financial position) rather than at fair value. The exception is vested improvements on concessionary land leases such as roads, buildings or other infrastructure which continue to be reported at fair value, as opposed to the vested land which is measured at zero cost. The measurement of vested improvements at fair value is a departure from AASB 16 which would have required the Council to measure any vested improvements at zero cost.~~

~~The Council has accounted for the removal of the vested land values associated with vested land previously recognised by removing the land value and associated revaluation reserve as at 1 July 2019. The comparative year amounts have been retained as AASB 16 does not require comparatives to be restated in the year of transition.~~

~~Therefore, the departure from AASB 1051 and AASB 16 in respect of the comparatives for the year ended 30 June 2019 remains.~~

## 5.5 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS FOR APPLICATION IN FUTURE YEARS

The following new accounting standards will have application to local government in future years:
- AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current
- AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments
- AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies or Definition of Accounting Estimates

It is not expected these standards will have an impact on the financial report.

~~The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Council.~~

~~On 1 July 2020 the following new accounting standards are to be adopted:~~
- ~~*AASB 1059 Service Concession Arrangements: Grantors*~~
- ~~*AASB 2018-7 Amendments to Australian Accounting Standards - Materiality*~~

~~*AASB 1059 Service Concession Arrangements: Grantors* is not expected to impact the financial report.~~

~~Specific impacts of *AASB 2018-7 Amendments to Australian Accounting Standards - Materiality*, have not been identified.~~

## APPENDIX 1 – REVENUE RECOGNITION

| Revenue Category | Nature of goods and services | When obligations typically satisfied | Payment terms | Returns/Refunds/ Warranties | Determination of transaction price | Allocating transaction price | Measuring obligations for returns | Timing of revenue recognition |
|---|---|---|---|---|---|---|---|---|
| Grants, subsidies or contributions for the construction of non-financial assets | Construction or acquisition of recognisable non-financial assets to be controlled by the local government | Over time | Fixed terms transfer of funds based on agreed milestones and reporting | Contract obligation if project not complete | Set by mutual agreement with the funding body | Based on the progress of works to match performance obligations | Returns limited to repayment of transaction price of terms | Output method based on project milestones and/or completion date matched to performance obligations |
| Fees and charges - waste management entry fees | Waste treatment, recycling and disposal service at disposal sites | Single point in time | Payment in advance at gate or on normal trading terms if credit provided | None | Adopted by council annually | Based on timing of entry to facility | Not applicable | On entry to facility |
| Fees and charges - memberships | Project Participants Annual Contributions | Over time | Payment in advance (annual/quarterly) | Refund for unused portion on application | Adopted by council annually | Apportioned equally across the access period | Returns limited to repayment of transaction price of terms | Output method over 12 months |
| Fees and charges - sale of stock | Recovered Recyclable Products | Single point in time | On normal trading terms - credit provided as agreed | Refund for faulty goods/ quality/ contamination percentages | Set by mutual agreement | Applied fully based on timing of provision/ dispatch of the goods (as customer as this is when customer obtains control of goods) | Returns limited to repayment of transaction price of terms | On dispatch of the goods (as customer as this is when customer obtains control of goods) |

| Revenue Category | Nature of goods and services | When obligations typically satisfied | Payment terms | Returns/Refunds/ Warranties | Determination of transaction price | Allocating transaction price | Measuring obligations for returns | Timing of revenue recognition |
|---|---|---|---|---|---|---|---|---|
| Grants, subsidies or contributions for the construction of non-financial assets | Construction or acquisition of recognisable non-financial assets to be controlled by the local government | Over time | Fixed terms transfer of funds based on agreed milestones and reporting | Contract obligation if project not complete | Set by mutual agreement within the funding body | Based on the progress of works to match performance obligations | Returns limited to repayment of transaction price of terms | Output method based on project milestones and/or completion date matched to performance obligations |
| Fees and Charges - waste management entry fees | Waste treatment, recycling and disposal service at disposal sites | Single point in time | Payment in advance at gate or on normal trading terms if credit provided | None | Adopted by council annually | Based on timing of entry to facility | Not applicable | On entry to facility |
| Fees and Charges - memberships | Project Participants Annual Contributions | Over time | Payment in advance (annual/quarterly) | Refund for unused portion on application | Adopted by council annually | Apportioned equally across the access period | Returns limited to repayment of transaction price of terms | Output method over 12 months |
| Fees and Charges - sale of stock | Recovered Recyclable Products | Single point in time | On normal trading terms - credit provided as agreed | Refund for faulty goods/quality/contamination percentages | Set by mutual agreement | Applied fully based on timing of provision/dispatch of the goods (as customer as this is when customer obtains control of goods) | Returns limited to repayment of transaction price of terms | On dispatch of the goods (as customer as this is when customer obtains control of goods) |
| Fees and Charges - sale of carbon credit units | Reduction in Greenhouse gases emissions. | Single point in time | On normal trading terms - credit provided as agreed | None | Set by mutual agreement | Applied fully based on timing of units transfer being completed | Not applicable | On completion of transfer (when the customer obtains control) |
| Other Revenue - Container deposit scheme | Recovered Recyclable Products | Single point in time | Fixed terms transfer of funds based on agreed reporting | None | Set by mutual agreement within the funding body | Based on material type and apportioned over the period | Not applicable | Output method based on project reporting matched to performance obligations |

## 6.0 REFERENCES & REVIEW

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|---|---|---|
| **Statutory Compliance** | ▪ Local Government Act 1995 | |
| **Organisational Compliance** | ▪ Local Government Regulations<br>▪ International & Australian Accounting Standards<br>▪ Audited Financial Statements | |
| **Approved by** | Regional Council | |
| **Next Revision Date** | October 202~~1~~2 | |
| **Related Documents** | Annual Financial Report | |
| **Policy Administration** | **Responsible Officer** | **Review Cycle** |
| Corporate (Finance) | Executive Manager Corporate Services | Biennial |
| **Risk Rating** | Organisational Risk Register – Risk | |
| **Location of document** | SMRC Website – Members Area<br>Staff Intranet | |

## 7.0 DOCUMENT CONTROL REGISTER

| Date | Review | No. | Author | Resp Officer | Council |
|---|---|---|---|---|---|
| 2000 | Original | 1 | MAF | MAF | 27/07/00 |
| 2001 | Review | 2 | MAF | MAF | 26/07/01 |
| 2002 | Review | 3 | MAF | MAF | 25/07/02 |
| 2003 | Review | 4 | MAF | MAF | 20/11/03 |
| 2004 | Review | 5 | MAF | MAF | 25/11/04 |
| 2005 | Review | 6 | MAF | MAF | |
| 2007 | Review | 7 | MAF | MAF | 22/11/07 |
| 2008 | Review | 8 | ACCTNT | MAF | 27/11/08 |
| 2010 | Review | 9 | ACCTNT | MAF | 25/11/10 |
| 2014 | Review | 10 | EMCS | EMCS | 28/08/2014 |
| 2016 | Review | 11 | FM | EMCS | 30/06/2016 |
| 2018 | Review | 12 | FM | EMCS | 16/08/2018 |
| 2019 | Review | 13 | CSM | EMCS | 17/10/2019 |
| 2020 | Review | 14 | CSM | EMCS | 04/12/2020 |
| 2021 | Review | 15 | CSM | EMCS | |