



**2009-2010 Annual Report**



The sculpture is a tall, vertical structure made of rusted metal. It features a stylized human figure with a head that is a bird or animal head. The figure's body is composed of several vertical metal plates, and its arms are represented by thin, curved metal rods. The head is a dark, rusted metal shape with a beak-like protrusion. The sculpture is set against a clear blue sky.

350  
BARRISTER RD  
20

Woolworths Supermarket  
Woolworths Supermarket



# Contents

---

The SMRC at a glance	2
Chairman's Report	5
Regional Councillors	6
SMRC Senior Staff	8
Chief Executive Officer's Report	9
Our Vision, Purpose and Principles	10
Stakeholder Relationships	10
Notice by a Participant of an Intention to Withdraw from the SMRC	10
Resource Recovery	11
Climate Change	12
Organisational Capability	13
National Competition Policy	14
Regulatory Review	14
Disability Access and Inclusion Plan	15
Financial Reports and Independent Audit Reports	17

## Notes:

In this annual report, the abbreviation SMRC is used to describe the Southern Metropolitan Regional Council and RRRC for the Regional Resource Recovery Centre.

A carbon dioxide equivalent (CO<sub>2</sub>-e) is a distinct measure for describing how much global warming a given type of greenhouse gas may cause, using the functionally equivalent amount or concentration of carbon dioxide as the reference.

# The SMRC at a glance

The Southern Metropolitan Regional Council (SMRC) is a community enterprise representing seven local councils south of Perth, Western Australia, including Canning\*, Cockburn, East Fremantle, Fremantle, Kwinana, Melville and Rockingham, and their local communities.

A statutory Western Australian local government authority in its own right, the SMRC is responsible for planning, developing, coordinating and implementing sustainable waste management solutions and greenhouse gas abatement programs and is committed to finding solutions that benefit the environment and reduce climate change. In 1998, the SMRC adopted a regional waste management strategy that led to the creation of a waste collection system.

The Regional Resource Recovery Centre (RRRC), designed to recover 85% of household waste, was built and became operational in 2005. The multi-million dollar facility is the largest in Australia and designed to recover resources from the region's domestic waste stream in the most effective manner possible.

On 1 June 2009 the RRRC suffered a devastating fire, which destroyed the materials recycling centre. Contingency arrangements to maintain this vital community service were put in place immediately and plans to rebuild the centre have already commenced.

\*Canning Council has announced its intention to withdraw from the Regional Council effective 30 June 2010.

## The SMRC's member councils:

- City of Canning
- City of Cockburn
- Town of East Fremantle
- City of Fremantle
- Town of Kwinana
- City of Melville
- City of Rockingham

Land area: 656km  
Households: 160,000  
Population: 384,000  
(Census 2006)

## Enabling Legislation

The SMRC became a regional local government on October 30, 1991, pursuant to the Local Government Act 1960. By virtue of the transitional provisions of the Local Government Act 1995, it is constituted as a regional local government under that Act. On April 22, 1998, the constitution was replaced by an establishment agreement made between the participants and approved by the Minister for Local Government. A regional local government has the same general function of a local government, including its legislative and executive functions, except as stated in section 3.66 of the Local Government Act 1995.

## SMRC Structure

The SMRC comprises one elected councillor from each of the member councils. It holds ordinary meetings throughout the year, with special meetings called from time to time. A Chairperson is elected by members for a term of two years. Each councillor has equal voting rights, except the Chairperson who may exercise a second vote in the event of a tie.

## Committees established and appointed by the council are:

### Audit Committee

The Audit Committee meets quarterly and is made up of Regional Councillors and members of the public. Its purpose is to review the audit function and performance and risk management processes.

### Public Relations Committee

The Public Relations Committee was created to review, consider and discuss the SMRC's communication strategy. It is made up of Regional Councillors and holds regularly scheduled meetings throughout the year, calling additional meetings as needed.

### CEO Performance Committee

The CEO Performance Committee reviews the performance of the chief executive officer. This committee is made up of all Councillors and meets as needed during the year.

The SMRC has a number of community and officer advisory groups, including:

### **Regional Executive Group**

The Regional Executive Group consists of the SMRC's Chief Executive Officer and one senior officer responsible for waste management services from each of the member councils' senior management group. This committee provides technical advice and communication networking for participating councils and the Regional Council. Its role is to review all technical matters relating to the RRRC for consideration by the Regional Council.

### **Operational Waste Managers Group**

Consisting of operational waste managers, this group meets regularly to facilitate resources and information sharing, and to undertake joint inter-council projects such as waste audits and the Regional Landfill Airspace Study.

### **Climatewise Officers' Group**

Comprising officers from each of the SMRC's member councils, this group is responsible for implementing the Climatewise program within each of the local councils. The group initiated the Regional Community Greenhouse Strategic Plan and Regional Greenhouse Gases Project – both tasked with the crucial goal of reducing greenhouse gas.

### **Finance Managers' Group**

The Finance Manager's Group comprises executive officers from each of the SMRC's member councils' corporate and financial divisions. The group meets to review the SMRC's financial affairs budget and strategic direction.

### **SMRC Community Advisory Group**

The SMRC Community Advisory Group (CAG) is made up of interested community members from the Perth Southern Metropolitan Region. The CAG has an independent Chairman, and Deputy Chair. No Regional Council elected members or staff are members of the CAG. The CAG's role is to be a "critical friend" to the SMRC, advising the Regional Council on community concerns and feedback concerning the activities of the SMRC, and the RRRC and Climatewise projects.

Anyone interested in contacting the CAG or wishing to join the group is welcome to contact the CAG on [smrccag@gmail.com](mailto:smrccag@gmail.com).

The SMRC is represented on a number of external committees and industry associations including:

Municipal Waste Advisory Council  
Forum of Regional Councils  
Waste Management Association of Australia





# Chairman's Report



My fellow Councillors are a dedicated, experienced group. I thank them for putting their trust in me with my election to Chair of the Regional Council in October 2009.

The past year has seen the Regional Council return to a focus on stakeholder engagement and our core business providing a reliable and sustainable alternative waste treatment service to our member councils and the regional community.

In an effort to renew our focus on our stakeholders, Deputy Chair Cr Richard Smith and I have met with each of our member councils, as well as State and Federal government representatives from around the south metro region. This work was an important opportunity for us to listen to our stakeholders' concerns as well as inform them of the latest achievements of the Regional Council.

In August 2009, the Regional Council hosted a stakeholder briefing with Member Councils, and representatives of the Department of Environment and Conservation, Department of Health, and the SMRC's legal advisors. This important session strengthen the bond between the Regional Council and our member councils, providing the facts concerning the Regional Resource Recovery Centre (RRRC).

In March 2010, we had the opportunity to meet with the WA Minister for Environment and local parliamentarians at the RRRC. This provided an important opportunity to improve relations with the State Government and demonstrate improvements at the facility.

With the creation of the SMRC Community Advisory Group (CAG), we have another channel for feedback from the community to the Regional Council. Representatives from the CAG will have a direct role in the development of our strategic plan in 2010 – 2011, a further demonstration of our renewed focus on core business and stakeholder engagement.

In partnership with the community and our member councils we have worked together in 2009 – 2010 to see recycling continues as we diverted more of the community's waste from landfill, at the RRRC.

In 2009 – 2010, the Regional Council's Climatewise project continued to provide innovative and award-winning programs to help the community reduce greenhouse gas emissions and live more sustainability. Over the past year we began applying this expertise to assist our Member Councils identify the risks and develop solutions for the effects of climate change.

Regional Councillors feel great regret that Canning Council resolved to withdraw from the Regional Council as of the 30 June 2010. The City of Canning has made a significant contribution in the formation of the Regional Council and as a partner in establishing the RRRC in Canning Vale. Canning Council was a founding member of the Southern Metropolitan Regional Council in 1998 and its predecessor the South West Metropolitan Regional Waste Management Council, in 1991.

During the development and planning of the RRRC, Canning's Regional Councillors, then Chief Executive Officer and Manager for Engineering and Technical Services were crucial to the establishment of this pioneering undertaking in waste management, at the time one of the largest, if not the largest, undertaking by any Local Government in Western Australia.

Working for a more sustainable community, reducing waste sent to landfill and harmful greenhouse gas emissions requires Local Councils to work together in partnerships such as the SMRC.

I am proud of the work of the Regional Council over the past year. My fellow Councillors and I look forward to serving our Member Councils and the regional community in 2010 – 2011.

## **Cr Tony Romano**

Chairman

# Regional Councillors



## **Chair Cr Tony Romano, City of Cockburn**

A relative newcomer to the SMRC, Cr Romano has been a Cockburn City Councillor for over four years. Cr Romano brings with him many years of commercial experience, having worked in and held a number of senior positions in the financial services industry over the past 30 years. He continues to serve on a number of committees and boards both in the commercial and not-for-profit sectors. Cr Romano's business knowledge and experience are an extra value he brings to the Regional Council.



## **Cr Graham Barry, City of Canning (till 30 June 2010)**

Cr Barry, who is married with three daughters, has lived in the Bentley/St James area for over 45 years. He is involved with a number of community groups and affiliations such as Rotary, Western Australian Veterans' Support Group, Disabilities Service Advisory Group and Boronia Pre-release Centre for Women (Community Engagement and Advisory Group). Cr Barry believes in accountability and transparency in Local Government with service to ratepayers and residents a key and integral component. He is committed to strong, fair and equitable representation for all residents.



## **Deputy Chair Cr Richard Smith, City of Rockingham**

A past Mayor of the City of Rockingham, Cr Richard Smith has a growing interest in the issue of waste management, recycling, climate change and the need to strive for zero waste in the future, prompting him to commit dedicated time to the SMRC. He believes regional cooperation, supporting the SMRC is the only option for sustainable waste management within our growing communities.



## **Cr Doug Thompson, City of Fremantle**

Cr Thompson has served on Fremantle City Council for 20 years and represented Fremantle on the SMRC since 1994. He was instrumental in testing options for best practice waste minimisation at the City of Fremantle and believes that working towards environmental waste solutions is the most important issue for local government today. Throughout his time on the Council, he has made a significant contribution in facilitating cooperation between councils to achieve this end.

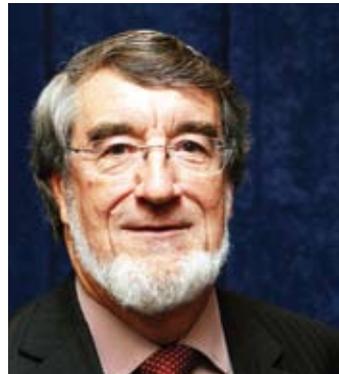


**Cr Sandra Lee,  
Town of Kwinana**

Cr Lee has served the Town of Kwinana since 2005 and became an SMRC member in 2007. She has a strong interest and commitment to public health, particularly in the areas of waste management, environmental health and community education. With landfill facilities reaching full capacity, she believes waste generated by society should be processed and recycled to produce sustainable outcomes to help reduce the impact on the earth's natural resources. Cr Lee recognises the important role the SMRC plays in recycling various materials and developing environmentally sustainable solutions.

**Cr Richard Olson,  
Town of East Fremantle**

Cr Olson joined the Regional Council in 2009 as the representative of the Town of East Fremantle. Cr Olson serves the community in many areas including professionally as part of the management team with the Town of Mosman Park. Cr Olson is currently serving as President of the Cottesloe Surf Life Saving Club. Cr Olson believes through regional partnerships, such as the SMRC, local government can make great progress towards a more sustainable community, especially in the area of alternative waste treatment and diverting waste from landfill.



**Cr Clive Robartson,  
OAM, City of Melville**

Cr. Robartson is a former Chairman and Deputy Chairman of the SMRC. He has served on the City of Melville Council for over 20 years and has extensive Local Government experience.

A former President of the Western Australian Local Government Association (WALGA) and long term member and Chairman of the Municipal Waste Advisory Council (MWAC), he has represented Local Government on many State and Federal committees that include the WA Waste Advisory Board, Perth Region Natural Resource Management Council, State Standards Panel, Australian Landcare Council and the Australian Local Government Association.

Cr Robartson recognised many years ago that domestic waste could be a valuable resource if collected, separated and marketed appropriately. He has been a strong advocate of the SMRC's regional waste management strategy.

# SMRC Senior Staff

**Mr Stuart McAll**

Chief Executive Officer

**Mr Brendan Doherty**

Manager Engineering Services

**Mr Chris Wiggins**

Manager Administration & Finance

**Mr Tim Youe**

Manager Business Development

**Mr Chuck Ellis**

Manager Communications

**Mr Mike Pennington**

Manager Operations RRRC



SMRC Staff (left to right) Brenden Doherty, Neil Husbands, Chris Wiggins, Mike Pennington, Stuart McAll, Tim Youe, and Chuck Ellis.



# Chief Executive Officer's Report



In 2009 – 2010 the SMRC began the process of recovering from the loss of the materials recovery facility in June 2009, and preparing for the departure of Canning Council from the regional partnership. While working on these challenges, the SMRC continued to provide reliable services to our member councils, customers and the regional community with a number of significant achievements over the past year.

Improvements in odour management have led to a reduction in complaints over the last year. The implementation of the new odour management system at the RRRC's waste composting facility was completed in accordance with a very tight schedule. Independent testing has shown that the facilities bio-filters' emissions have been reduced to 260 odour units which is almost half of our target of 500 odour units.

We have developed new procedures and equipment to reduce the volume of odour emitted from the bio-filters whilst ensuring the facility has no fugitive emissions. This was developed to ensure the facility had little to no impact on the amenity of the near by community over the Christmas Summer holidays. The work has proved very successful and has led to the design of variable speed drives on the bio-filter fans (to be installed in 2010 – 2011). This will provide the SMRC with greater protection from odour emissions impacting on our neighbours during the difficult weather conditions while reducing power consumption at the facility.

By improving our operations on site, and working with industry, we have improved our overall diversion rate of waste from landfill, continuing to be well above the state average diversion rate and working towards the State Government's goal of zero waste to landfill by 2020.

With the financial assistance of the WA Waste Authority, we have procured a new compost turner. Bringing this new machine into operation at the facility has resulted in greater control of compost quality and improved odour management on site.

Working with our industry partner, Nutrarich, has resulted in the production of high quality compost made from organic household waste. The final compost product is currently being used in agriculture, as well as finding new uses in local council parks and gardens, and as a saw dust replacement for cleaning up spills.

The SMRC's Climatewise team completed a year long project to identify the risks to local government from climate change and developed an adaptation action plan. This has been a great achievement for the member councils, which all have coastal or river front areas susceptible to the effects of a changing climate. The process involved risk identification, analysis and prioritization which required rigorous stakeholder consultation.

The last year saw the development of an amended business plan as a result of the pending withdrawal of the City of Canning from the SMRC (effective 30 June 2010). This plan shows that the development of the materials recovery facility is strategically critical to the future financial viability of the RRRC. The amended business plan shows that with the new material recovery facility, the repayment of all outstanding loans will be achieved with the creating of a substantial reserve fund by 2023, the end date for the RRRC project.

Finally, I would like to thank the Regional Councillors and SMRC staff for their hard work and continuing dedication, endurance and positive outlook throughout this year.

## **Mr Stuart McAll**

Chief Executive Officer

# Our Vision, Purpose and Principles

# Stakeholder Relationships

The SMRC's 2007 – 2012 strategic plan (revised in 2008 – 2009) remains at the forefront of growing social and economic expectations for sustainable waste management solutions. The plan was developed in consultation with the SMRC's member councils, the Regional Executive Group and SMRC staff.

Our **vision** is to be innovators in waste recovery. Our **purpose** is to provide sustainable solutions in resource recovery and climate change. Our business will be guided by the following **principles**:

- Employee value
- Innovative solutions
- Community-driven outcomes
- Forward-thinking
- Best economic value
- Integrity
- Responsiveness

Our key areas of focus are:

- Stakeholder Relationships
- Resource Recovery
- Climate Change
- Organisational Capability

The four areas encompass the triple bottom line of environmental (resource recovery, climate change and research), social (stakeholder relationships) and economic (organisational capability).

The SMRC undertook a renewed focus on stakeholder engagement in 2009 – 2010, with more effective communication with elected members and staff from the SMRC's member councils.

The SMRC reinvigorated stakeholder engagement began with a briefing for the SMRC member councils briefing in August 2009 with representatives of the Department of Environment and Conservation (DEC), Department of Health (DoH), and the SMRC's legal advisors. This important session strengthened the bond between the Regional Council and member councils, proving the facts concerning the RRRRC.

In March 2010, the SMRC had the opportunity to meet with the WA Minister for Environment and State parliamentarians at the RRRRC. This provided an important opportunity to improve relations with State Government and demonstrate improvements at the facility.

In 2009 – 2010, the Chair, Deputy Chair and CEO conducted a series of meetings with parliamentarians from around the region, and made presentations to member councils.

## Notice by a Participant of an Intention to Withdraw 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 the SMRC effective from that date.



# Resource Recovery

The SMRC is a manufacturing and service organisation. In 2009 – 2010 the RRRC produced over 100,000 tonnes of products made up of compost, mulches, and Greenhouse Friendly abatement credits, commonly known as “carbon credits” and processed over 100,000 tonnes of the community's waste.

During the past year the RRRC's environmental management system was submitted for accreditation under the stringent requirements of the International Organization for Standardization's ISO 14001:2004 Standard.

When the RRRC was first built, the SMRC made a number of commitments, as part of the facility's Ministerial approval, to care for the land, air and water on site. The RRRC's environmental management system provides the procedures for carrying out these commitments.

The RRRC's is expected to received confirmation the environmental management system meeting ISO 14001:2004 early in 2010 – 2011, confirming the RRRC is operating to the best international standards.

The RRRC's waste composting facility generated approximately 70,000 tonnes CO<sub>2</sub>e of greenhouse gas abatement in 2009 – 2010 under the Federal Government's Greenhouse Friendly scheme (the Greenhouse Friendly

program will conclude on 30 June 2009 with final verification of abatement for 2009 – 2010 expected in November 2010). By diverting waste from landfill the waste composting facility prevents the release of harmful greenhouse gases.

In making the application to the Federal Department of Climate Change for abatement credits, the SMRC takes into account both the greenhouse emissions prevented by the waste composting facility and those generated by the operations of the facility arriving at a net figure of approximately 70,000 tonnes of greenhouse gas abatement in 2009-2010.

Significant work was undertaken by the SMRC in preparing a new strategic plan for the future of the RRRC and creating relevant key performance indicators (KPIs) for the facility. The strategic plan and KPIs are expected to be adopted by the Regional Council in 2010 – 2011 and will direct the future efforts of the SMRC to continue to divert the community's waste from landfill with sustainable alternative waste treatment facilities such as the RRRC.

In 2009 – 2010, the SMRC continued to divert the community's waste from landfill with the operations of the RRRC, achieving the following results.

## Waste Recovered 2005 – 2010

	2005 - 2006	2006 - 2007	2007 - 2008	2008 - 2009	2009 - 2010	5 year average
	Tonnes/yr	Tonnes/yr	Tonnes/yr	Tonnes/yr	Tonnes/yr	Tonnes/yr
<b>MSW</b>	81,093	74,244	91,863	87,774	86,069	84,209
<b>Bio-solids</b>	1,530	800	2,082	1,946	42	1,280
<b>Recyclables</b>	43,086	47,008	51,353	34,173	N/A	N/A
<b>Green waste</b>	27,581	29,021	29,463	19,319	19,956	25,068
<b>Total</b>	<b>153,290</b>	<b>151,074</b>	<b>174,761</b>	<b>143,211</b>	<b>106,067</b>	
<b>Waste Saved from Landfill</b>	<b>97,010</b>	<b>99,593</b>	<b>113,879</b>	<b>88,695</b>	<b>66,989</b>	<b>93,233</b>
<b>% sent to landfill</b>	<b>36.7%</b>	<b>34.1%</b>	<b>34.8%</b>	<b>38.1%</b>	<b>36.8%</b>	<b>36%</b>

**NB: Recyclables not processed by SMRC during 2009-2010**

In February 2010 the Regional Council adopted the materials recovery facility business plan and resolved to rebuild the much needed facility at the RRRC.



# Climate Change

The SMRC's Climatewise ® regional project has had another successful year of delivering programs and activities on behalf of member councils in the Southern Metropolitan Region. The diversification of climate change activities beyond mitigation and face to face behaviour change activities reflects the reduction of Federal and State funding opportunities for climate change and the changing concerns of the climate change sector.

## Major projects undertaken

Fostering Sustainable Energy Practices in Homes (Climate Actions) (Government Office of WA)	Helping residents improve energy efficiency and reduce Greenhouse Gases (GHG)
Local Adaptation Pathways Programme (Australian Government Department of Climate Change)	Supporting SMRC councils to adapt to climate change through participating in context setting, risk assessment and adaptation option identification.
Living Smart	Educating the community on sustainable lifestyle and reduce GHG

## Living Smart Program Extension

SMRC continues to manage the day-to-day operations of Living Smart. It also participates in decision-making along with its fellow founders Murdoch University and the City of Fremantle.

The SMRC Living Smart programme and principles continue to generate interest with new audiences. The Department of Transport Living Smart Households programme has engaged with 4,000 households, agreed an ongoing coaching/ goal setting approach with 96% of these and registered interest in attending Living Smart courses from 994 households.

## Local Adaptation Pathways Programme

This program is aimed to identify the risks for the Climatewise ® member councils associated with the climate change and implement a risk management process. This would cover the member councils' major operation areas including planning and development, management of natural resources, and health and environment. It would also develop an adaptation plan which would detail the most plausible risks and develop treatment plans to suit member councils' decision making process.

## Production of Home Energy Assessment Toolkits

The Climatewise ® team developed and produced 15 toolkits for its member councils this year. In addition, it has produced 23 toolkits for non-member councils. The toolkit helps households to improve energy efficiency and thermal performance at home. Householders conduct their own do-it-yourself home energy assessment. The toolkit features a 'How to guide' and range of energy monitoring and assessment tools. The toolkits can be borrowed from the local library. The following table details their loan rate for each Council.

## Climate Actions

In addition to concluding delivery of the Climate Actions programme an award ceremony was held in March 2010. This celebrated the achievements of Climate Actions participants who had made significant reduction in their energy use in their homes. Cllr Tony Romano, SRMC chair opened the awards ceremony and Mr Peter Abetz MLA, member for Southern River presented the awards.

## Cottesloe Business Climate Actions

Climatewise ® delivered its successful ClimateActions project to 10 businesses in the Cottesloe area. The focus was to reduce greenhouse gas emissions through energy efficiency, sustainability and waste management strategies. An estimated 116.3 tonnes of CO<sub>2</sub> –e was saved.

# Organisational Capability

## Financial Results

(for the year ended 30 June 2010)

Operating revenue of \$20.7 million resulting in a net operating surplus of \$1.2 million recorded before depreciation and reserve transfers. An amount of \$1.2 million was transferred to Plant Reserve.

SMRC has net assets of \$56.6 million. This includes a working capital surplus of \$15.8 million, of which includes \$11 million towards the depreciated asset value for the MRF destroyed by fire in June 2009.

The balance in the reserve accounts is approx \$2 million a decrease from last year of \$0.8 million used for planned capital replacements.

The outstanding loan balance for the RRRC project was \$51.3 million and Office Accommodation Project of \$1.8 million. New loans raised during the year total \$5.7 million towards the capital program. Due to incomplete capital expenditure an unspent loan balance of \$2.4 million will be brought forward to 2010 – 2011.

## Plan for the Future

The plan was postponed due to a number of factors effecting the strategic directions of the SMRC. The SMRC will review its Strategic Plan during 2010 – 2011.

## Employees

The annual employee satisfaction survey reported 70% of employees were satisfied or very satisfied with their employment at the SMRC. This compares with 60% last year.

## Employees' Remuneration

The number of employees, in bands of \$10,000 that received an annual cash salary of \$100,000 or more:

Salary Range \$	2009 - 2010	2008 - 2009
190,000 - 199,999	1	-
180,000 - 189,999	-	1
140,000 - 149,999	1*	-
130,000 - 139,999	-	-
120,000 - 129,999	1	2
110,000 - 119,999	1	-
100,000 - 109,999	2	3
<b>Total</b>	<b>6</b>	<b>6</b>
* incl LSL cash payout		
Number of Employees		
The number of full-time and part-time employees as at the balance date.	64	65





## National Competition Policy

Clause 7 of the Competition Principles Agreement sets out Local Government's responsibilities under the National Competition Policy. The clause deals with competitive neutrality, structural reform of public monopolies and regulation review.

Application of Competitive Neutrality Principles For significant business activities (business activities where annual income exceeds \$200,000) Local Government is required to undertake a cost-benefit analysis to evaluate whether or not competitive neutrality principles should apply. The analysis must take into account all the quantitative and qualitative costs and benefits, which may include economic, social and environmental criteria. Where it is judged that the benefits of implementing competitive neutrality outweigh the costs, then the Local Government must impose costs that the private sector would be required to pay (i.e. payroll tax, Commonwealth & State taxes, debt guarantee fees and other regulatory requirements imposed on private but not government bodies).

The Regional Council has one significant business activity – Regional Resource Recovery Centre (RRRC). The centre meets the “public benefit test” in respect to “user pay charges” and the provision of services is beneficial to the regional community.

## Regulatory Review

Under clause 7 of the Competition Principles Agreement Local Governments are required to review their Local Laws. The intention of this clause is to ensure existing Local Laws set by Local Governments do not restrict competition unless there are benefits to the community as a whole. The Southern Metropolitan Regional Council adopted its Standing Orders Local Law on 27 November 2008 and meets the principles of Clause 7.

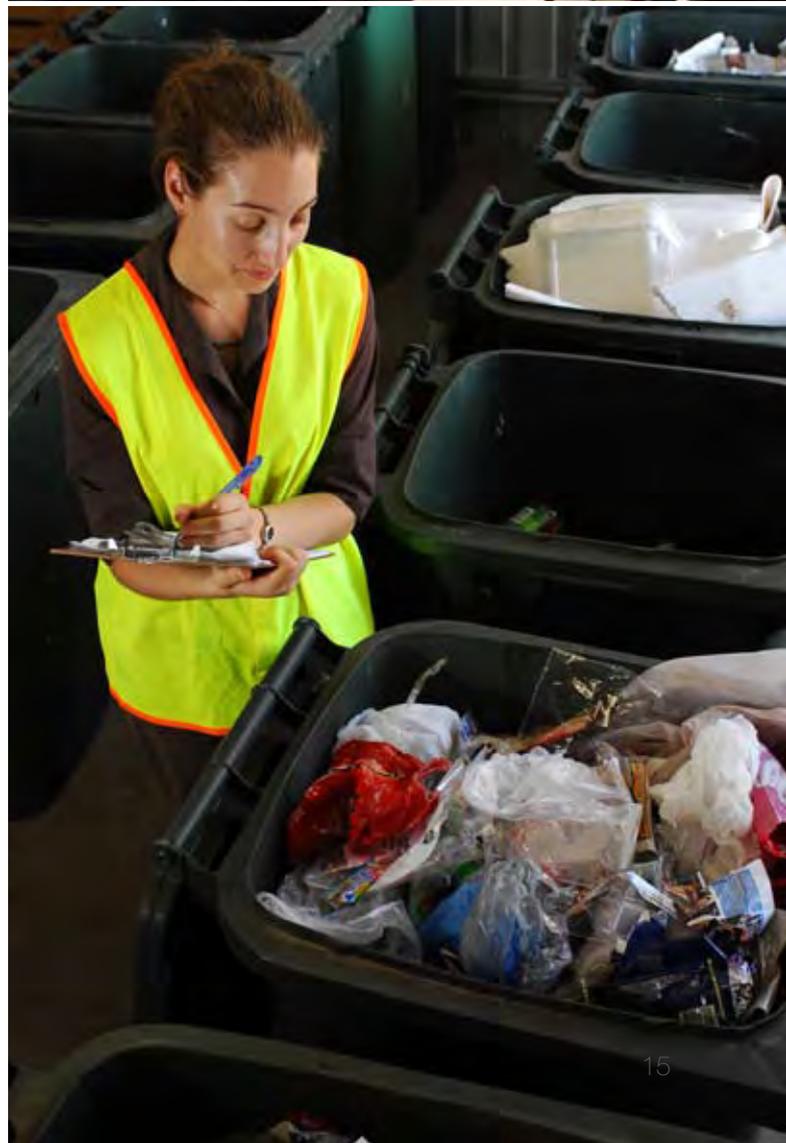
## Record-Keeping Plans

Principal 6 of the State Records Commission of WA Standard 1/2001 (Record Keeping Plans) refers to compliance requirements by the Regional Council.

- A Record Keeping Plan for the SMRC was submitted (2/3/2004) and approved by the State Records Commission (7/10/2004).
- Digitization by scanning all hard copy historic and current documentation to the requirements of the SRO to the organisation's server commenced during this period.
- In 2009 SMRC purchased Keyword for Councils and is currently using those parts of the Thesaurus for the titling of administrative records that are relevant to its operations. The SMRC will continue to develop a thesaurus for file titling based on Keyword for Councils which will be fully implemented in due course.
- Ensure that all staff are aware of their recordkeeping responsibilities and compliance with the Recordkeeping Plan by;
  - Formal induction at the beginning of employment
  - Ongoing support and education for Staff
  - Policy and procedure updates/reviews
  - Elected Members annual awareness of Recordkeeping responsibilities
- Independent internal audits are conducted every three years

## Disability Access and Inclusion Plan

Regional Local Governments are not required to prepare a plan in accordance with S29 of the Disability Services Act 1993.





**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 being the annual financial report and supporting notes and other information for the financial year ended 30 June 2010 are in my opinion properly drawn up to present fairly the financial position of the Southern Metropolitan Regional Council at 30 June 2010 and the results of the operations for the financial year then ended in accordance with the Australian Accounting Standards and comply with the provisions of the Local Government Act 1995 and Regulations under that Act.

Signed on the 5 November 2010



Stuart McAll

Chief Executive Officer

Southern Metropolitan Regional Council  
Statement of Comprehensive Income By Nature or Type for the year ended 30 June 2010

	Note	2010 \$	2010 Budget \$	2009 \$
<b>REVENUE</b>				
Operating Grants, Subsidies and Contributions	22	5,295,091	6,402,765	6,178,805
Fees and Charges	23	15,212,537	15,207,754	18,537,846
Interest Earnings	2(a)	120,792	90,046	215,778
Other Revenues		75,349	55,549	-
		<u>20,703,769</u>	<u>21,756,114</u>	<u>24,932,429</u>
<b>EXPENSES</b>				
Employee Costs		(4,557,315)	(4,776,240)	(5,959,898)
Materials and Contracts		(9,310,614)	(9,102,379)	(12,766,502)
Utility Charges		(1,882,310)	(1,915,591)	(1,716,772)
Depreciation on Non-current Assets	2(a)	(3,802,684)	(3,704,284)	(4,400,207)
Interest Expenses	30	(3,256,797)	(3,380,812)	(3,269,277)
Insurance Expenses		(582,276)	(554,347)	(406,077)
		<u>(23,391,996)</u>	<u>(23,433,653)</u>	<u>(28,518,733)</u>
		(2,688,227)	(1,677,539)	(3,586,304)
Non Operating Grants, Subsidies and Contributions	22	-	-	11,933,330
Fair value adjustments to financial assets at fair value through profit or loss	4	-	-	(224,500)
Profit on Asset Disposals	25	65,000	-	27,991
Loss on Asset Disposals	25	(1,174,443)	-	(11,035,590)
<b>NET RESULT</b>		<b>(3,797,670)</b>	<b>(1,677,539)</b>	<b>(2,885,073)</b>
<b>Other Comprehensive Income</b>				
Changes on revaluation of non-current assets		-	-	-
<b>Total Other Comprehensive Income</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>(3,797,670)</b>	<b>(1,677,539)</b>	<b>(2,885,073)</b>

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 2010

	Note	2010 \$	2010 Budget \$	2009 \$
<b>REVENUE</b>				
Governance	2(a)	451,945	451,945	449,672
Community Amenities		<u>20,316,824</u>	<u>21,304,169</u>	<u>36,444,078</u>
		20,768,769	21,756,114	36,893,750
<b>EXPENSES EXCLUDING FINANCE COSTS</b>				
Governance	2(a)	(499,223)	(496,945)	(492,159)
Community Amenities		<u>(20,810,419)</u>	<u>(19,555,896)</u>	<u>(36,017,387)</u>
		(21,309,642)	(20,052,841)	(36,509,546)
<b>FINANCE COSTS</b>				
Governance	30	(116,820)	(116,820)	(116,820)
Community Amenities		<u>(3,139,977)</u>	<u>(3,263,992)</u>	<u>(3,152,457)</u>
		(3,256,797)	(3,380,812)	(3,269,277)
<b>NET RESULT</b>		<u>(3,797,670)</u>	<u>(1,677,539)</u>	<u>(2,885,073)</u>
<b>Other Comprehensive Income</b>				
Changes on revaluation of non-current assets		-	-	-
<b>Total Other Comprehensive Income</b>		-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>(3,797,670)</u>	<u>(1,677,539)</u>	<u>(2,885,073)</u>

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

Southern Metropolitan Regional Council  
Statement of Financial Positions for the year ended 30 June 2010

	Note	2010 \$	2009 \$
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	3	4,889,237	2,979,015
Investments	4	450,000	450,000
Trade and Other Receivables	5	18,842,725	21,638,404
Inventories	6	240,931	549,908
<b>TOTAL CURRENT ASSETS</b>		<u>24,422,893</u>	<u>25,617,327</u>
<b>NON-CURRENT ASSETS</b>			
Other Receivables	5	49,672,333	44,688,673
Property, Plant and Equipment	7	40,981,712	41,302,542
<b>TOTAL NON-CURRENT ASSETS</b>		<u>90,654,045</u>	<u>85,991,215</u>
<b>TOTAL ASSETS</b>		<u><b>115,076,938</b></u>	<u><b>111,608,542</b></u>
<b>CURRENT LIABILITIES</b>			
Trade and Other Payables	8	4,883,029	4,988,483
Current portion of Long-term Borrowings	9	3,457,296	5,881,398
Provisions	10	352,331	387,562
<b>TOTAL CURRENT LIABILITIES</b>		<u>8,692,656</u>	<u>11,257,443</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term Borrowings	9	49,672,333	44,688,673
Provisions	10	102,213	72,334
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>49,774,546</u>	<u>44,761,007</u>
<b>TOTAL LIABILITIES</b>		<u><b>58,467,202</b></u>	<u><b>56,018,450</b></u>
<b>NET ASSETS</b>		<u><b>56,609,736</b></u>	<u><b>55,590,092</b></u>
<b>EQUITY</b>			
Retained Surplus		46,370,227	44,526,643
Reserves - Cash / Investment backed	11	1,982,917	2,806,857
Reserves - Asset Revaluation	12	8,256,592	8,256,592
<b>TOTAL EQUITY</b>		<u><b>56,609,736</b></u>	<u><b>55,590,092</b></u>

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 2010

	Note	Retained Surplus	Reserve - Cash / Investment Backed	Asset Revaluation Reserve	Total Equity
		\$	\$	\$	\$
<b>Balance as at 1 July 2008</b>		<b>45,165,366</b>	<b>1,879,744</b>	<b>11,388,979</b>	<b>58,434,089</b>
Net Result		(2,885,073)	-	-	(2,885,073)
Total Other Comprehensive Income		-	-	-	-
Transfer on Disposal of Assets	12	3,132,387	-	(3,132,387)	-
Participants Contributions for the year (New Loans)	1 (u)	870,000	-	-	870,000
Loans repaid from Equity	1 (u)	(828,924)	-	-	(828,924)
Transfer from / (to) Reserves		(927,113)	927,113	-	-
<b>Balance as at 30 June 2009</b>		<b>44,526,643</b>	<b>2,806,857</b>	<b>8,256,592</b>	<b>55,590,092</b>
Net Result		(3,797,670)	-	-	(3,797,670)
Total Other Comprehensive Income		-	-	-	-
Participants Contributions for the year (New Loans)	1 (u)	5,700,000	-	-	5,700,000
Loans repaid from Equity	1 (u)	(882,686)	-	-	(882,686)
Transfer from / (to) Reserves		823,940	(823,940)	-	-
<b>Balance as at 30 June 2010</b>		<b>46,370,227</b>	<b>1,982,917</b>	<b>8,256,592</b>	<b>56,609,736</b>

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 2010

	Note	2010 \$	2010 Budget \$	2009 \$
<b>Cash Flows From Operating Activities</b>				
<b>Receipts</b>				
Operating Grants, Subsidies and Contributions		4,656,883	6,402,765	4,128,511
Fees and Charges		16,164,204	15,477,051	18,727,623
Interest Earnings		107,712	90,046	227,073
Goods and Services Tax		2,173,877	3,000,000	2,498,047
Other Revenues		75,349	55,549	-
		<u>23,178,025</u>	<u>25,025,411</u>	<u>25,581,254</u>
<b>Payments</b>				
Employee Costs		(4,537,210)	(4,801,240)	(5,941,709)
Materials and Contracts		(9,602,906)	(9,448,204)	(11,689,619)
Utility Charges		(1,882,310)	(1,915,591)	(1,716,772)
Interest Expenses		(3,260,132)	(3,380,812)	(3,265,933)
Insurance Expenses		(582,276)	(554,347)	(406,077)
Goods and Services Tax		(1,628,986)	(3,000,000)	(2,714,218)
		<u>(21,493,820)</u>	<u>(23,100,194)</u>	<u>(25,734,328)</u>
<b>Net Cash Provided By (Used In) Operating Activities</b>	13(b)	<u><b>1,684,205</b></u>	<u><b>1,925,217</b></u>	<u><b>(153,074)</b></u>
<b>Cash Flows from Investing Activities</b>				
Payments for Purchase of				
Land and Buildings	7	-	-	(7,409)
Information Technology Equipment	7	(38,505)	(39,951)	(37,567)
Furniture and Fittings	7	-	-	(12,011)
Plant and Equipment	7	(3,814,204)	(6,348,000)	(1,951,608)
Payments for Construction of				
RRRC Leasehold Improvements	7	(21,437)	(6,895,049)	(213,786)
Payments towards Capital Work-progress	7	(822,150)	-	-
Grants and Contributions for the Development of Assets		-	4,972,688	897,740
Proceeds from Sale of				
Plant and Equipment	25	104,999	115,000	60,000
Sale proceeds of investments	4	-	-	500,000
<b>Net Cash Provided By (Used In) Investing Activities</b>		<u><b>(4,591,297)</b></u>	<u><b>(8,195,312)</b></u>	<u><b>(764,641)</b></u>
<b>Cash Flows from Financing Activities</b>				
Repayment of Loans	30	(3,140,442)	(3,180,687)	(2,825,891)
Contributions from Project Participants for loan repayments		2,257,756	2,298,000	1,996,967
Proceeds from New Loans	30	5,700,000	5,700,000	870,000
<b>Net Cash Provided By (Used In) Financing Activities</b>		<u><b>4,817,314</b></u>	<u><b>4,817,313</b></u>	<u><b>41,076</b></u>
<b>Net Increase (Decrease) in Cash Held</b>		<u><b>1,910,222</b></u>	<u><b>(1,452,782)</b></u>	<u><b>(876,639)</b></u>
Cash and Cash Equivalents at Beginning of year	13(a)	2,979,015	2,902,872	3,855,654
<b>Cash and Cash Equivalents at End of Year</b>	13(a)	<u><b>4,889,237</b></u>	<u><b>1,450,090</b></u>	<u><b>2,979,015</b></u>

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), other mandatory professional reporting requirements and the Local Government Act 1995 and accompanying regulations.

The report has also been prepared on the accrual basis under the convention of historical cost accounting modified, where applicable, by 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 judgements about carrying values of assets and liabilities that are readily apparent from other sources. Actual results may differ from these estimates.

### (b) 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, but a separate statement of those monies appears at Note 18 to this financial report.

### (c) Goods and Services Tax

In accordance with recommended practice, revenues, expenses and assets capitalised are stated net of any GST recoverable. Receivables and payables in the Statement of Financial Position are stated inclusive of applicable GST.

### (d) Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity 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.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included as short-term borrowings in current liabilities on the Statement of Financial Position.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Trade and Other Receivables

Trade receivables, which generally have 30 - 90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

### (f) Inventories

Inventories are valued 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 cost necessary to make the sale.

Inventories held from trading are classified as current even if not expected to be realised in the next 12 months.

### (g) Fixed Assets

#### *Initial Recognition*

All assets are initially recognised at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed includes the cost of all materials used in construction, direct labour on the project and an appropriate portion of variable and fixed overheads.

#### *Revaluation*

Certain asset classes may be revalued on a regular basis such that the carrying values are not materially different from fair value. For asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on a basis to reflect the already consumed or expired future economic benefits of the asset.

Those assets carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses, are to be revalued with sufficient regularity to ensure the carrying amount does not differ significantly from that determined using fair value at reporting date.

### (h) Depreciation of Non-Current Assets

All non-current assets having a limited useful life where the cost / fair value exceeds \$500 for furniture, computer and electronic equipment and \$1,000 for vehicles, plant and equipment, buildings and infrastructure assets are systematically depreciated over their useful lives in a manner which reflects the consumption of the future economic benefits embodied in those assets.

Depreciation is recognised on a straight line basis, using rates which are reviewed each reporting period. The fair value of leasehold improvements is capitalised and the fair value is amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Major depreciation periods are:

Computer Equipment	3 to 5 years
Furniture and Equipment	5 to 10 years
Plant and Equipment	4 to 15 years
Leasehold Improvements	10 to 50 years
Freehold Buildings	40 years

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Investments and Other Financial Assets

#### *Classification*

Council classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

#### *(i) Financial assets at fair value through profit and loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

#### *(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

#### *(iv) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

#### *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date – the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Statement of Comprehensive Income as gains and losses from investment securities.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Subsequent measurement*

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value are presented through the Statement of Comprehensive Income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the Statement of Comprehensive Income as part of revenue from continuing operations when Council's right to receive payments is established. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

### *Impairment*

Council assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale are not reversed through the Statement of Comprehensive Income.

### (j) **Estimation of Fair Value**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

### (k) **Impairment**

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

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where such an indication exists, an estimate of the recoverable amount of the asset is made in accordance with AASB 136 'Impairment of Assets' and appropriate adjustments made.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

### (l) Trade and Other Payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided 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 and are usually paid within 30 days of recognition.

### (m) Employee Benefits

The provisions for employee benefits relates to amounts expected to be paid for long service leave, annual leave, wages and salaries and are calculated as follows:

#### *(i) Wages, Salaries, Annual Leave and Long Service Leave (Short-term Benefits)*

The provision for employees' benefits to wages, salaries, annual leave and long service leave expected to be settled within 12 months represents the amount the Council has a present obligation to pay resulting from employees services provided to reporting date. The provision has been calculated at nominal amounts based on remuneration rates the Council expects to pay and includes related on-costs.

#### *(ii) Long Service Leave (Long-term Benefits)*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match as closely as possible, the estimated future cash outflows. Where Council does not have the unconditional right to defer settlement beyond 12 months, the liability is recognised as a current liability.

### (n) Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### *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.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (o) Provisions

Provisions are recognised when: The council has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### (p) 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 equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

### (q) Grants, Donations and Other Contributions

Grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 2(c). That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operation for the current reporting period.

### (r) Superannuation

The Council contributes to the Local Government Superannuation Scheme and other similar schemes. All the funds are defined contribution schemes.

Contributions to defined contribution plans are recognised as an expenses as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

### (s) Current and Non-Current Classification

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Council's operational cycle. In the case of liabilities where 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 even if not expected to be realised in the next 12 months.

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (t) **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 statements.
- (u) **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/ RRRC participants. The corresponding liability of participants is shown as a receivable.  
  
However, when a loan are repaid by the Council without seeking funds from the project participants, the receivables and equity are reduced by the amount of loan repaid.
- (v) **Rounding Off Figures**  
All figures shown in this financial report are rounded to the nearest dollar.
- (w) **Comparative Figures**  
Where required, comparative figures have been adjusted to conform to the changes in presentation of the current financial year.
- (x) **Budget Comparative Figures**  
Unless otherwise stated, the budget comparative figures shown in the financial report relate to the approved revised budget estimate for the relevant item of disclosure.

**(y) New Accounting Standards and Interpretations for Application in Future Periods**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Council for the annual reporting period ending 30 June 2010. Council's assessment of these new standards and interpretations is set out below:

	<b>Title and Topic</b>	<b>Issued</b>	<b>Applicable</b> *	<b>Impact</b>
(i)	AASB 9– Financial Instruments	December 2009	1 January 2013	Nil – The objective of this Standard is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Given the nature of the financial assets of the Council, it is not anticipated the standard will have any material effect.
(ii)	AASB- 124 Related Party Disclosures	December 2009	1 January 2011	The Council may have to identify related parties, disclose the details of significant transactions, value of the transactions that are not individually significant and outstanding balances.
(iii)	AASB 2009-5 – Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	May 2009	1 January 2010	Nil – The revisions are part of the AASB's annual improvement project to help ensure consistency with presentation, recognition and measurement criteria of IFRSs. It is not anticipated these will have any effect on the Council.
(iv)	AASB 2009-8 - Amendments to Australian Accounting Standards – Group Cash – Settled Share-based Payment Transactions [AASB 2]	July 2009	1 January 2010	Nil- The Council will not have applicable transactions.
(v)	AASB 2009-12 Amendments to Australian Accounting Standards[AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	December 2009	1 January 2011	Nil – The revisions embodied in this standard relate to standards which do not apply to local government (ie AASB8) or are largely editorial in nature and will have minimal effect (if any) on the accounting practices of the Council.

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

	Title and Topic	Issued	Applicable *	Impact
(vi)	AASB 2009– 11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	December 2009	1 January 2013	Nil – The revisions embodied in this standard give effect to the consequential changes arising from the issuance of AASB 9 which is not anticipated to have any material effect on the Council.
(vii)	AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	December 2009	1 July 2010	Nil – None of these amendments will have any effect on the financial report as none of the topics are relevant to the operations of the Council.
	AASB 2010- 1 Amendment to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosure for First-time Adopters [AASB 1 & AASB 7]	February 2010	1 July 2010	
	AASB 2009- 10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB132]	October 2009	1 February 2010	
	Interpretation 19– Extinguishing Financial Liabilities with Equity Instruments	December 2009	1 July 2010	
	AASB 2009– 14 Amendments to Australian Interpretations – Prepayments of a minimum Funding Requirement [AASB Interpretation 14]	December 2009	1 January 2011	

\* Applicable to reporting periods commencing on or after the given date.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (z) Adoption of New and Revised Accounting Standards

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

The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of the Council.

#### **AASB 101: Presentation of Financial Statements**

In September 2007, the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Council's financial statements.

##### *Disclosure Impact*

**Terminology changes** – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

**Reporting changes in equity** – The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required owner changes in equity and other comprehensive income to be presented in the statement of changes in equity.

**Statement of comprehensive income** – The revised AASB 101 requires all income and expenses to be presented in either a single statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Council has adopted the single statement approach and the financial statements now contain a statement of comprehensive income.

**Other Comprehensive Income** – The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises income and expenses not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

**2. REVENUES AND EXPENSES**

	<b>2010</b>	<b>2009</b>	
	<b>\$</b>	<b>\$</b>	
<b>(a) Result from Ordinary Activities</b>			
The Result from Ordinary Activities includes:			
(i) Charging as Expenses:			
<b>Auditors Remuneration</b>			
<b>Current Auditors</b>			
- Audit (Including \$12,000 for the previous year in 2008-9)	18,550	25,100	
	<u>18,550</u>	<u>25,100</u>	
<b>Revaluations of Investments</b>			
Revaluations of Investments valued at fair value through profit or loss. The Investments (Refer Note 4) have been impacted by the global financial market volatility since 1 July 2007. These investments have been revalued to fair values as at 30 June 2010	-	224,500	
	<u>-</u>	<u>224,500</u>	
<b>Amortisation</b>			
- Leasehold Improvements	1,268,649	1,429,250	
	<u>1,268,649</u>	<u>1,429,250</u>	
<b>Depreciation</b>			
Computer Equipment	46,665	60,742	
Furniture and Equipment	20,433	19,919	
Plant and Equipment	2,434,002	2,857,484	
Freehold Buildings	32,935	32,812	
	<u>2,534,035</u>	<u>2,970,957</u>	
Total Amortisation and Depreciation	<u>3,802,684</u>	<u>4,400,207</u>	
<b>Rental Charges - Operating Leases</b>	<u>805,482</u>	<u>1,163,060</u>	
<b>MRF Fire Loss</b> - Carrying amount of property, plant and equipment destroyed in MRF Fire Accident on 1 June 2009 (Refer to Note 28). The amount is also recognised as an insurance claim receivable as at reporting date.	<u>-</u>	<u>11,035,590</u>	
(ii) Crediting as Revenues:			
	<b>2010</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>Budget</b>	<b>\$</b>
		<b>\$</b>	
<b>Interest Earnings</b>			
- Reserve Funds	106,093	80,046	93,987
- Other Funds	14,699	10,000	121,791
	<u>120,792</u>	<u>90,046</u>	<u>215,778</u>

**2. REVENUES AND EXPENSES (Continued)**

**(b) Statement of Objective**

The regional purposes for which the Regional Local Government is established are:

- (a) to plan, coordinate and implement the removal, processing, treatment and disposal of waste for the benefit of the communities of the participants;
- (b) to influence local, state and federal governments in the development of regional waste management policies and legislation.

The objectives of the Regional Local Government shall be:

- (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;
- (b) to reduce the quantity of waste disposed at landfill sites in accordance with targets set by the Regional Local Government.

The Council operations as disclosed in this report encompass the following service orientated programs:

**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. Directly attributable administration costs have been recorded in the relevant program while indirect costs have been allocated on the basis of Administration staff timesheets.

**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.

	2010 \$	2009 \$
<b>(c) Conditions Over Contributions</b>		
Grants which were recognised as revenues in the previous reporting period, which were not expended at the close of the previous reporting period :		
Glass Contamination Reduction Programme	10,000	10,000
Zero Waste Plan	76,462	86,431
Residential Target Action Programme	4,145	6,477
Climate Actions	-	14,445
Local Adaptations Pathways Programme	9,326	49,682
	<u>99,933</u>	<u>167,035</u>
Add: New Grants which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor.		
Glass Contamination Reduction Programme	-	-
Zero Waste Plan	-	-
Residential Target Action Programme	-	-
Climate Actions	-	-
Local Adaptations Pathways Programme	-	-
Less: Grants which were recognised as revenues in the previous reporting period and which were expended in the current reporting period in the manner specified by the contributor.		
Glass Contamination Reduction Programme	-	-
Zero Waste Plan	-	9,969
Residential Target Action Programme	-	2,332
Climate Actions	-	14,445
Local Adaptations Pathways Programme	9,326	40,356
Closing Balance of Unspent Grants	<u>90,607</u>	<u>99,933</u>
Comprises:		
Glass Contamination Reduction Programme	10,000	10,000
Zero Waste Plan	76,462	76,462
Residential Target Action Programme	4,145	4,145
Climate Actions	-	-
Local Adaptations Pathways Programme	-	9,326
	<u>90,607</u>	<u>99,933</u>

Southern Metropolitan Regional Council  
Notes to and Forming Part of the Financial Report for the year ended 30 June 2010

<b>3. CASH AND CASH EQUIVALENTS</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Cash on Hand	750	1,150
Cash at Bank	646,054	340,720
Cash at Call	4,242,433	2,637,145
	<u>4,889,237</u>	<u>2,979,015</u>
Unrestricted	723,167	23,215
Restricted	4,166,070	2,955,800
	<u>4,889,237</u>	<u>2,979,015</u>
The following restrictions have been imposed by regulations or other externally imposed requirements:		
Unspent Grants	90,607	99,933
Unspent Loans	2,452,559	-
Retention and Bonds	89,987	49,010
Reserve Fund - RRRRC Plant	1,463,316	2,737,256
Reserve Fund - RRRRC Infrastructure	39,601	39,601
Reserve Fund - Conference Reserve	30,000	30,000
	<u>4,166,070</u>	<u>2,955,800</u>
<b>4. INVESTMENTS</b>		
Financial assets at fair value through profit or loss	<u>450,000</u>	<u>450,000</u>
<b>Financial assets at fair value through profit or loss</b>		
Balance as at 1 July	450,000	1,174,500
Additions during the year	-	-
Revaluations to Income Statement	-	(224,500)
Realised Loss to Income Statement	-	-
Disposals during the year	-	(500,000)
Balance as at 30 June	<u>450,000</u>	<u>450,000</u>
<b>Held for Trading</b>		
FRNs	425,000	425,000
CDOs	25,000	25,000
Total	<u>450,000</u>	<u>450,000</u>
The following restrictions have been imposed by regulations or other externally imposed requirements:		
Reserve Fund - RRRRC Plant	450,000	-
Unspent Loans	-	343,819
Retention and Bonds	-	106,181
Total	<u>450,000</u>	<u>450,000</u>
<b>5. TRADE AND OTHER RECEIVABLES</b>		
<b>Current</b>		
Sundry Debtors	1,478,569	2,430,236
Accrued Income (refer note 28)	13,894,860	13,243,572
Prepaid expenses	12,000	83,198
Loan Debtors - Project Participants	3,457,296	5,881,398
	<u>18,842,725</u>	<u>21,638,404</u>
<b>Non-Current</b>		
Loan Debtors - Project Participants	49,672,333	44,688,673
	<u>49,672,333</u>	<u>44,688,673</u>
<b>6. INVENTORIES</b>		
Stock on Hand - Fuel	6,079	3,548
Stock on Hand - RRRRC Critical Spares	234,852	546,360
	<u>240,931</u>	<u>549,908</u>

Southern Metropolitan Regional Council  
Notes to and forming part of the financial report for the year ended 30 June 2010

	2010 \$	2009 \$
<b>7. PROPERTY, PLANT AND EQUIPMENT</b>		
RRRC Leasehold Improvements -at Fair Value	22,959,135	22,959,135
RRRC Leasehold Improvements -at Cost (In 2007-08 to 2009-10)	330,088	308,651
Less Accumulated Amortisation	<u>(3,753,767)</u>	<u>(2,485,118)</u>
At Fair Value & Cost less Accumulated Amortisation	19,535,456	20,782,668
Freehold Land and Buildings -at Fair Value	2,170,000	2,170,000
Freehold Land and Buildings -at Cost (In 2007-08 and 2008-9)	7,409	7,409
Less Accumulated Depreciation	<u>(100,825)</u>	<u>(67,890)</u>
At Fair Value & Cost less Accumulated Amortisation	2,076,584	2,109,519
Information Technology Equipment - at cost	468,816	430,311
Less Accumulated Depreciation	<u>(377,497)</u>	<u>(330,832)</u>
	91,319	99,479
Furniture and Equipment - at cost	291,708	291,708
Less Accumulated Depreciation	<u>(223,512)</u>	<u>(203,079)</u>
	68,196	88,629
Plant and Equipment - at cost	30,472,248	29,829,123
Less Accumulated Depreciation	<u>(12,084,241)</u>	<u>(11,606,876)</u>
	18,388,007	18,222,247
Capital Work-in-progress - at cost	822,150	-
Total Property, Plant and Equipment	<u>40,981,712</u>	<u>41,302,542</u>

**Movements in carrying amounts**

Movements in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	Leasehold Improvements	Freehold Land and Buildings	Information Technology Equipment	Furniture and Equipment	Plant and Equipment	Capital Work- in-progress	Total Property, Plant and Equipment
Balance at the beginning of the year	20,782,668	2,109,519	99,479	88,629	18,222,247	-	41,302,542
Additions	21,437	-	38,505	-	3,814,204	822,150	4,696,296
Disposals (note 25)	-	-	-	-	(1,214,442)	-	(1,214,442)
Reclassification	-	-	-	-	-	-	-
Depreciation/Amortisation expense	(1,268,649)	(32,935)	(46,665)	(20,433)	(2,434,002)	-	(3,802,684)
Increase due to Revaluation at fair values	-	-	-	-	-	-	-
Carrying amount at the end of year	<u>19,535,456</u>	<u>2,076,584</u>	<u>91,319</u>	<u>68,196</u>	<u>18,388,007</u>	<u>822,150</u>	<u>40,981,712</u>

**Freehold Land and Buildings and Leasehold improvements Valuation**

Freehold Land and Buildings and Leasehold improvements were revalued at fair values as on 30 June 2007 by AVP Valuers, an independent valuer. The Revaluation Surplus was credited to Asset Revaluation Reserve.

The assets involved in revaluation were valued at the amount for which the asset could be exchanged between knowledgeable and willing parties in an arm's length transaction. The valuation is on a presumption that the entity is a going concern without any intention or need to liquidate its operation or undertakes the sale of assets on adverse terms. The fair value is measured having regard to the highest and best use of the asset for which market participants would be prepared to pay.

	2010 \$	2009 \$
<b>8. TRADE AND OTHER PAYABLES</b>		
<b>Current</b>		
Sundry Creditors	4,099,457	4,315,728
Accrued Expenses	504,843	280,848
GST Payable	44,906	115,002
Accrued Salaries and Wages	134,741	109,284
Accrued Loan Interest	9,095	12,430
Retention and Bonds	<u>89,987</u>	<u>155,191</u>
	<u>4,883,029</u>	<u>4,988,483</u>

9. LONG TERM BORROWINGS	2010 \$	2009 \$
<b>Current</b>		
Debtentures	3,457,296	5,881,398
	<u>3,457,296</u>	<u>5,881,398</u>
<b>Non Current</b>		
Debtentures	49,672,333	44,688,673
	<u>49,672,333</u>	<u>44,688,673</u>

Additional detail on Debtentures is provided in note 30.

The Council has two lending facilities for the following projects:

**1. The Regional Resource Recovery Centre Loan Limit \$ 55 M**

The RRRC Project Participants has 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.

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

	2010	2009		
City of Canning	27.98%	27.98%	14,360,556	13,644,465
City of Cockburn	26.95%	26.95%	13,834,470	13,144,612
Town of East Fremantle	2.42%	2.42%	1,243,882	1,181,855
City of Fremantle	8.99%	8.99%	4,613,843	4,383,773
City of Melville	33.66%	33.66%	17,276,878	16,415,366
			<u>51,329,629</u>	<u>48,770,071</u>

**2. Administration Building (9 Aldous Place, Booragoon) Loan Limit \$2M**

The SMRC Participants has 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

	2010	2009		
City of Canning	20.14%	20.14%	362,520	362,520
City of Cockburn	19.40%	19.40%	349,200	349,200
Town of East Fremantle	1.74%	1.74%	31,320	31,320
City of Fremantle	6.47%	6.47%	116,460	116,460
Town of Kwinana	6.04%	6.04%	108,720	108,720
City of Melville	24.23%	24.23%	436,140	436,140
City of Rockingham	21.98%	21.98%	395,640	395,640
			<u>1,800,000</u>	<u>1,800,000</u>

**10. PROVISIONS**

**Current**

Provision for Annual Leave	254,677	299,421
Provision for Long Service Leave	97,654	88,141
	<u>352,331</u>	<u>387,562</u>

**Non Current**

Provision for Long Service Leave	102,213	72,334
----------------------------------	---------	--------

The credit (charge) to the operating result for the movement in the provision for employee entitlements during the year was \$5,352 (2009:\$24,560.)

#### 11. RESERVES- CASH BACKED

In accordance with the Council resolutions in relation to each reserve account, the purpose for which the funds are set aside are as follows:

**RRRC Plant Reserve-** to be used to fund the purchase of plant and equipment for the Canning Vale RRRC Project as per the adopted budget- Ongoing

**RRRC Infrastructure Reserve-** to be used to fund the capital expenditure requirements and/or loan borrowings for the Canning Vale RRRC Project and to be utilised as per the adopted budget- Ongoing

**RRRC Travel and Conference Reserve-** to be used to fund the requirements for staff and Councillors' travel and conference attendance- Ongoing

	2010 \$	2010 Budget \$	2009 \$
<b>(a) RRRC Plant Reserve</b>			
Balance as at 1 July	2,737,256	2,290,730	1,840,143
Transfers to Reserve	1,176,060	1,076,060	1,297,500
Transfers from Reserve	(2,000,000)	(2,000,000)	(400,387)
Balance as at 30 June	<u>1,913,316</u>	<u>1,366,790</u>	<u>2,737,256</u>
<b>(b) RRRC Infrastructure Reserve</b>			
Balance as at 1 July	39,601	39,601	39,601
Transfers to Reserve	-	-	-
Transfers from Reserve	-	-	-
Balance as at 30 June	<u>39,601</u>	<u>39,601</u>	<u>39,601</u>
<b>(c) Travel and Conference Reserve</b>			
Balance as at 1 July	30,000	-	-
Transfers to Reserve	-	-	30,000
Transfers from Reserve	-	-	-
Balance as at 30 June	<u>30,000</u>	<u>-</u>	<u>30,000</u>
<b>Total Reserves- Cash backed</b>	<u>1,982,917</u>	<u>1,406,391</u>	<u>2,806,857</u>

All of the reserve accounts are supported by money held in financial institutions and match the amount shown as restricted cash in Note 3 to this financial report.

#### SUMMARY OF RESERVE TRANSFERS

##### Transfers To Reserves- Cash Backed

RRRC Plant Reserve	1,176,060	1,076,060	1,297,500
RRRC Infrastructure Reserve	-	-	-
Travel and Conference Reserve	-	-	30,000
	<u>1,176,060</u>	<u>1,076,060</u>	<u>1,327,500</u>

#### SUMMARY OF RESERVE TRANSFERS

##### Transfers From Reserves- Cash Backed

RRRC Plant Reserve	(2,000,000)	(2,000,000)	(400,387)
RRRC Infrastructure Reserve	-	-	-
Travel and Conference Reserve	-	-	-
	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(400,387)</u>
Net Reserve Movement (Cash Backed)	<u>(823,940)</u>	<u>(923,940)</u>	<u>927,113</u>

#### 12. ASSET REVALUATION RESERVE

In accordance with the Council resolution, this non-cash backed reserve cannot be used except for adjustment to fixed assets on their revaluation, disposal or write-off.

##### (a) Freehold Land and Building

Balance as at 1 July	425,712	425,712	425,712
Increments / (Decrements)	-	-	-
Balance as at 30 June	<u>425,712</u>	<u>425,712</u>	<u>425,712</u>

##### (b) Leasehold Improvements

Balance as at 1 July	7,830,880	10,963,267	10,963,267
Transfer to Retained Surplus on disposal	-	-	(3,132,387)
Balance as at 30 June	<u>7,830,880</u>	<u>10,963,267</u>	<u>7,830,880</u>

<b>Total Asset Revaluation Reserve</b>	<u>8,256,592</u>	<u>11,388,979</u>	<u>8,256,592</u>
--	------------------	-------------------	------------------

**13. NOTES TO THE CASH FLOW STATEMENT**

**(a) Reconciliation of Cash**

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments, 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:

	2010 \$	2010 Budget \$	2009 \$
Cash on Hand	750	1,800	1,150
Cash at Bank	646,054	310,783	340,720
Cash at Call	4,242,433	1,137,507	2,637,145
	<u>4,889,237</u>	<u>1,450,090</u>	<u>2,979,015</u>

**(b) Reconciliation of Net Cash Provided By Operating Activities to Change in Net Assets Resulting from Operations**

	2010	2010	2009
Change in Net Assets Resulting from Operations	(3,797,670)	(1,677,539)	(2,885,073)
Add / (Less):			
Depreciation	3,802,684	3,704,284	4,400,207
(Profit)/Loss on Sale / Disposal of Asset	1,109,443	-	11,007,599
(Increase)/Decrease in Receivables	300,379	269,297	(12,884,812)
(Increase)/Decrease in Prepaid Expenses	71,198	59,794	(83,198)
(Increase)/Decrease in Inventories	308,977	-	(346,970)
Increase/(Decrease) in Creditors and Accruals	(105,454)	(405,619)	1,287,853
Increase/(Decrease) in Employee Provisions	(5,352)	(25,000)	24,560
Revaluations of Investments valued at fair value through profit or loss	-	-	224,500
Grants and Contributions for the Development of Assets	-	-	(897,740)
<b>Net Cash from Operating Activities</b>	<u>1,684,205</u>	<u>1,925,217</u>	<u>(153,074)</u>

	2010 \$	2009 \$
<b>(c) Credit Standby Arrangements</b>		
Credit Card limit	52,000	39,000
Credit Card balance at reporting date	(14,607)	(14,718)
<b>Total Amount of Credit Unused</b>	<u>37,393</u>	<u>24,282</u>

	2010	2009
<b>(d) Loan Facilities</b>		
Loan Facilities - Current	3,457,296	5,881,398
Loan Facilities - Non-Current	49,672,333	44,688,673
<b>Total Facilities in Use at reporting date</b>	<u>53,129,629</u>	<u>50,570,071</u>
<b>Unused Loan Facilities at reporting date</b>	<u>-</u>	<u>-</u>

	2010 \$	2009 \$
<b>14. CAPITAL AND LEASING COMMITMENTS</b>		
<b>(a) Capital Expenditure Commitments</b>		
Capital expenditure commitments contracted for as at the reporting date and which have not been recognised as liabilities in the Statement of Financial Position as follows:		
Regional Resource Recovery Centre Contracts	<u>1,090,381</u>	<u>459,034</u>
Payable:		
- not later than one year	<u>1,090,381</u>	<u>459,034</u>
	<u>1,090,381</u>	<u>459,034</u>
<b>(b) Operating Lease Commitments</b>		
Non-cancellable operating leases contracted for but not capitalised in the accounts.		
Payable:		
- not later than one year	1,010,856	526,340
- later than one year but not later than two years	974,603	461,685
- later than two years but not later than five years	1,297,621	1,283,943
- later than five years	13,500,000	6,720,000
	<u>16,783,080</u>	<u>8,991,968</u>
<b>15. CONTINGENT LIABILITIES</b>		
There were no claims or pending claims or any other contingent liabilities as at the reporting date. (2009- Nil.)		
<b>16. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY</b>		
Community Amenities	<u>115,076,938</u>	<u>111,608,542</u>
	<u>115,076,938</u>	<u>111,608,542</u>

Southern Metropolitan Regional Council  
Notes to and Forming Part of the Financial Report for the year ended 30 June 2010

	2010 \$	2010 Budget \$	2009 \$
<b>17. COUNCILLORS' REMUNERATION</b>			
The following fees, expenses and allowances were paid to the Council members, the Chairman and Deputy Chairman.			
Meeting Fees	56,000	56,000	52,000
Chairman Allowance	10,000	10,000	10,000
Deputy Chairman Allowance	2,500	2,500	2,500
IT Allowance	7,000	7,000	7,000
Other reimbursements	800	800	703
	<u>76,300</u>	<u>76,300</u>	<u>72,203</u>

**18. TRUST FUNDS**

The Council does not have any trust funds on hand as at 30 June 2010. ( As on 30 June 2009- Nil)

**19. BUDGET COMPARISON**

	2010 \$	2010 \$ Budget
<b>(a) Operating Income and Expenditure</b>		
Recycling Facility Surplus / (Deficit)	1 (247,382)	706,746
Waste Composting Facility Surplus / (Deficit)	1,139,709	1,253,000
Green Waste Facility Surplus / (Deficit)	183,453	71,001
Depreciation on non-current assets	(3,802,684)	(3,704,284)
Profit / (Loss) of disposal of assets	2 (1,109,443)	-
Others	38,677	(4,002)
	<u>(3,797,670)</u>	<u>(1,677,539)</u>

1. Change in the estimate of insurance claims recoverable for MRF fire losses of 2008-9. Refer Note 28 for further details.
2. Loss of account of disposal / retirement of WCF fixed plant. Refer Note 25 for further details

**(b) Non Operating Income and Expenditure**

The following is a comparison of non-operating income and expenditure not included in the operating statement:

<b>Non Operating Income</b>		
Proceeds on sale of assets	104,999	115,000
Loans raised	5,700,000	5,700,000
Loan Principal Contributions	2,257,756	2,298,000
<b>Non Operating Expenditure</b>		
Principal repayment of loans	3,140,442	3,180,687
Construction/purchase of assets		
Computers and Equipment	38,505	39,951
Plant and Equipment	1 3,814,204	6,348,000
Leasehold Improvements	2 21,437	6,895,049
Capital Work-in-progress	3 822,150	-

Comments - Reasons for variations from budgeted amounts:

1. These projects will be completed in 2010-11. Incomplete jobs are shown under the head Capital Work-in-progress. Also refer to note 14 (a) on the Capital Expenditure Commitments, which are also covered by this budget.
2. Due to delay in getting MRF Building approval.
3. Covered under Plant & Equipment budget.

## 20. MAJOR TRADING UNDERTAKING

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

This project is undertaken on behalf of the SMRC's five participating councils. The \$55 m project funded by borrowings and payable over 10-20 years by the five participants, involves the construction 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.

<b>INCOME STATEMENT</b>	<b>2010</b>	<b>2009</b>
<b>Revenues from Ordinary Activities</b>	<b>\$</b>	<b>\$</b>
Education & Marketing	434,324	412,080
RRRC Admin & Weighbridge	307	106
Recycling	1,439,197	7,235,500
Greenwaste	1,381,656	1,084,425
Waste Compost	13,816,276	12,501,238
Waste Audit Service	5,069	92,979
Contributions for interest on loans	2,593,319	2,545,357
Profit on sale of Assets	65,000	11,035,590
Others	-	925,731
	<u>19,735,148</u>	<u>35,833,006</u>
<b>Less Expenses from Ordinary Activities</b>		
Education & Marketing	465,362	585,645
RRRC Admin & Weighbridge	(214,398)	(387,112)
Recycling	1,136,737	6,555,156
Greenwaste	1,309,153	1,122,731
Waste Compost	16,145,228	16,002,727
Business Development	259,744	305,765
Waste Audit Service	120,656	132,617
Loss on sale of Assets	1,174,443	11,035,590
	<u>20,396,925</u>	<u>35,353,119</u>
<b>Less Borrowing Cost Expense</b>		
RRRC Property	3,139,978	3,152,457
<b>Net Profit or (Loss)</b>	<u><b>(3,801,755)</b></u>	<u><b>(2,672,570)</b></u>
<b>BALANCE SHEET</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	4,567,273	2,720,090
Investments	-	105,025
Trade and Other Receivables	18,717,993	21,507,572
Inventories	240,931	549,908
Total Current Assets	<u>23,526,197</u>	<u>24,882,595</u>
<b>Non-Current Assets</b>		
Trade and Other Receivables	47,872,333	42,888,673
Property, Plant and Equipment	19,286,458	18,290,793
Leasehold Improvements	19,535,456	20,782,668
Total Non-Current Assets	<u>86,694,247</u>	<u>81,962,134</u>
<b>Total Assets</b>	<u>110,220,444</u>	<u>106,844,729</u>
<b>Current Liabilities</b>		
Trade and Other Payables	4,462,177	4,734,250
Borrowings - current portion	3,457,296	5,881,398
Provisions	158,313	106,158
Total Current Liabilities	<u>8,077,786</u>	<u>10,721,806</u>
<b>Non-Current Liabilities</b>		
Borrowings - non-current portion	47,872,333	42,888,673
Provisions	65,667	45,151
Total Non-Current Liabilities	<u>47,938,000</u>	<u>42,933,824</u>
<b>Total Liabilities</b>	<u>56,015,786</u>	<u>53,655,630</u>
<b>Net Assets</b>	<u>54,204,658</u>	<u>53,189,099</u>
<b>Equity</b>		
Opening Balance	53,189,099	55,820,593
RRRC Participants Contribution towards Equity	5,700,000	870,000
Retained Surplus/(Deficit) for year	(3,801,755)	(2,672,570)
Less: Loans repaid from Equity	(882,686)	(828,924)
<b>Total Equity</b>	<u>54,204,658</u>	<u>53,189,099</u>

**21. ECONOMIC DEPENDENCY**

A significant portion of revenue is received from the members as contributions as disclosed in note 22 and also in form of RRRC Gate fees as indicated in the note 23.

**22. GRANTS, SUBSIDIES AND CONTRIBUTIONS**

Grants, Subsidies and Contributions are included as in the Statement of Comprehensive Income

By Programme:

	2010 \$	2009 \$
Governance	451,945	449,672
Community Amenities	4,843,146	17,662,463
	5,295,091	18,112,135

By Nature or Type:

Operating Grants, Subsidies and Contributions	5,295,091	6,178,805
Non-operating Grants, Subsidies and Contributions	-	11,933,330
	5,295,091	18,112,135

**23. FEES AND CHARGES**

Community Amenities

	15,212,537	18,537,846
--	------------	------------

**24. FINANCIAL RATIOS**

	2010	2009	2008
Current Ratio	2.337	2.001	1.090
Debt Ratio	0.508	0.502	0.492
Debt Service Ratio	0.278	0.226	0.226
Gross Debt to Revenue Ratio	2.558	2.026	2.117
Untied Cash to Trade Creditors Ratio	0.176	0.005	0.393
Gross Debt to Economically Realisable Assets Ratio	0.462	0.453	0.456

The Regional Council does not levy rates and the Rate Coverage Ratio and Outstanding Rates Ratio are not applicable. The above rates are calculated as follows:

**Current Ratio :**

*Purpose: To assess adequacy of working capital and the ability to satisfy short-term obligations.*

$$\frac{\text{Current assets minus restricted current assets}}{\text{Current liabilities minus liabilities associated with restricted assets}}$$

**Debt Ratio:**

*Purpose: To identify exposure to debts by measuring the proportion of assets funded by creditors.*

$$\frac{\text{Total liabilities}}{\text{Total assets}}$$

**Debt Service Ratio:**

*Purpose: To assess the ability to service debt (principal and interest) out of available operating revenue.*

$$\frac{\text{Debt Service Cost (Principal \& Interest)}}{\text{Available operating revenue}}$$

**Gross Debt to Revenue Ratio:**

*Purpose: To assess the ability to service debt in any given year out of total revenue.*

$$\frac{\text{Gross Debt}}{\text{Total revenue}}$$

**Untied Cash to Trade Creditors Ratio:**

*Purpose: To assess the capacity to pay trade creditors with normal trading terms and conditions.*

$$\frac{\text{Untied Cash}}{\text{Unpaid Trade Creditors}}$$

**Gross Debt to Economically Realisable Assets Ratio:**

*Purpose: To assess whether there are sufficient realisable assets to cover the total debts.*

$$\frac{\text{Gross Debt}}{\text{Economically realisable assets}}$$

Note: As the Current Assets include MRF fire damage and loss of profit claims of \$13,765,044 (2009: \$13,205,783), the Current Ratio is significantly high at 30-06-2010 and 30-6-2009 (Refer Note 5 & 28 for details).

Southern Metropolitan Regional Council  
Notes to and forming part of the financial report for the year ended 30 June 2010

**25. DISPOSALS OF ASSETS - 2009/10 FINANCIAL YEAR**

Assets Disposed	Net Book Value		Sale Price		Profit (Loss)	
	Actual	Budget	Actual	Budget	Actual	Budget
RRRC Fixed Plant	1,191,065	40,000	39,999	40,000	(1,151,066)	-
RRRC Mobile Plant	23,377	75,000	65,000	75,000	41,623	-
<b>Total</b>	<b>1,214,442</b>	<b>115,000</b>	<b>104,999</b>	<b>115,000</b>	<b>(1,109,443)</b>	<b>-</b>
<b>2008/09</b>	<b>11,067,599</b>	<b>135,000</b>	<b>60,000</b>	<b>135,000</b>	<b>(11,007,599)</b>	<b>-</b>

By Program	Net Book Value		Sale Price		Profit (Loss)	
	Actual	Budget	Actual	Budget	Actual	Budget
	\$	\$	\$	\$	\$	\$
Governance	-	-	-	-	-	-
Community Amenities	1,214,442	115,000	104,999	115,000	(1,109,443)	-
<b>Total</b>	<b>1,214,442</b>	<b>115,000</b>	<b>104,999</b>	<b>115,000</b>	<b>(1,109,443)</b>	<b>-</b>

By Class	Net Book Value		Sale Price		Profit (Loss)	
	Actual	Budget	Actual	Budget	Actual	Budget
	\$	\$	\$	\$	\$	\$
Plant and Equipment	1,214,442	115,000	104,999	115,000	(1,109,443)	-
<b>Total</b>	<b>1,214,442</b>	<b>115,000</b>	<b>104,999</b>	<b>115,000</b>	<b>(1,109,443)</b>	<b>-</b>

Summary			
Profit		65,000	-
Loss		(1,174,443)	-
		<b>(1,109,443)</b>	<b>-</b>

**26. MEMBER COUNCILS' EQUITY IN THE SOUTHERN METROPOLITAN REGIONAL COUNCIL AS AT 30 JUNE 2010**

	SMRC	RRRC	TOTAL EQUITY	Loan Liability	TOTAL EQUITY Less Loan
City of Canning	484,383	15,164,906	15,649,289	14,723,076	926,213
City of Cockburn	466,585	14,609,353	15,075,939	14,183,670	892,269
Town of East Fremantle	41,848	1,313,553	1,355,401	1,275,202	80,199
City of Fremantle	155,609	4,872,269	5,027,878	4,730,303	297,575
Town of Kwinana	145,267	-	145,267	108,720	36,547
City of Melville	582,750	18,244,576	18,827,326	17,713,018	1,114,308
City of Rockingham	528,636	-	528,636	395,640	132,996
	<b>2,405,078</b>	<b>54,204,658</b>	<b>56,609,736</b>	<b>53,129,629</b>	<b>3,480,107</b>
<b>Equity (2009)</b>	<b>2,403,002</b>	<b>53,187,090</b>	<b>55,590,092</b>	<b>50,570,071</b>	<b>5,020,021</b>

Reasons for Equity variation

Due to new borrowings (\$ 5.7 Million). However negative Net Result of \$3.8 Million and repayment of loans without corresponding reimbursement from members (\$0.9 Million) reduced the same.

**27. Rating Information**

Being a Regional Council, no rates were raised during the year ended 30 June 2010 and in the year ended 30 June 2009.

**28. MRF Fire Insurance Claims**

The Accrued Income (Refer Note 5) includes MRF fire damage and loss of profit claims of \$13,765,044 (2009: \$13,205,783). These claims are for two fire accidents that took place in the previous financial year. Due to change in the estimate of a fire claim, \$ 843,725 was charged to the current year's revenue.

**29. Notice by a Participant of an Intention to Withdraw 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.

In accordance with the agreements, SMRC has prepared business plans of its projects affected by the withdrawal of the City of Canning. The plans indicate that SMRC will be in position to continue with these projects despite the withdrawal of the City of Canning. The City of Canning's proportional loan liability as at 30 June 2010 at Note 9(1) for the RRRC Project will continue to be paid by the City of Canning. Any proportional equity or liability arising from the division of assets and liabilities will be met by the Participants and not the SMRC, pursuant to the Agreements between the participants.

30. INFORMATION ON BORROWINGS

(a) Loan Repayments

Particulars	Principal 1-Jul-09	New Loans	Interest Repayments		Principal Repayments		Principal 30 Jun 10
			Budget	Actual	Budget	Actual	
<b>Community Amenities</b>							
<b>RRRC</b>							
LOAN NO 1-9	1,495,873	-	46,341	46,341	1,495,873	1,495,873	-
LOAN NO 1-19	773,553	-	49,404	49,404	773,553	773,553	-
LOAN NO 1-22	766,735	-	48,256	48,256	766,735	766,735	-
LOAN NO 1-23	1,531,726	-	95,646	95,646	88,002	88,002	1,443,724
LOAN NO 1-27	763,588	-	46,701	46,701	44,222	44,222	719,366
LOAN NO 1-28	766,116	-	43,002	43,002	45,773	45,773	720,343
LOAN NO 1-29	764,413	-	42,152	42,152	45,950	45,950	718,463
LOAN NO 1-30	771,016	-	42,745	42,745	46,262	46,262	724,754
LOAN NO 1-31	1,570,320	-	88,450	88,450	93,707	93,707	1,476,613
LOAN NO 1-32	1,483,168	-	90,272	90,272	86,053	86,053	1,397,115
LOAN NO 1-33	1,491,112	-	83,743	83,743	89,524	89,524	1,401,588
LOAN NO 1-34	1,649,995	-	100,853	100,853	96,203	96,203	1,553,792
LOAN NO 1-35	1,223,369	-	69,934	69,934	73,092	73,092	1,150,277
LOAN NO 1-37	2,334,253	-	129,274	129,274	159,926	159,926	2,174,327
LOAN NO 1-40	819,771	-	45,633	45,633	49,397	49,397	770,374
LOAN NO 1-41	837,030	-	48,954	48,954	49,585	49,585	787,445
LOAN NO 1-42	830,064	-	47,565	47,565	49,533	49,533	780,531
LOAN NO 1-43	1,477,038	-	84,675	84,675	90,293	90,293	1,386,745
LOAN NO 1-49	1,523,408	-	95,898	95,898	70,179	70,179	1,453,229
LOAN NO 1-50	902,071	-	55,540	55,540	41,988	41,988	860,083
LOAN NO 1-51	896,692	-	54,942	54,942	41,860	41,860	854,832
LOAN NO 1-52	6,340,195	-	377,400	377,400	634,830	634,830	5,705,365
LOAN NO 1-53	1,506,934	-	94,901	94,901	69,532	69,532	1,437,402
LOAN NO 1-55	2,551,328	-	172,593	172,593	247,857	247,857	2,303,471
LOAN NO 1-56	777,023	-	52,904	52,904	34,440	34,440	742,583
LOAN NO 1-57	775,614	-	52,808	52,808	34,378	34,378	741,236
LOAN NO 1-58	2,977,904	-	205,701	205,701	131,107	131,107	2,846,797
LOAN NO 1-59	673,377	-	49,563	49,563	28,641	28,641	644,736
LOAN NO 1-60	1,477,821	-	103,025	103,025	81,611	81,611	1,396,210
LOAN NO 1-61	2,320,869	-	168,171	168,171	99,535	99,535	2,221,334
LOAN NO 1-62	1,913,692	-	99,906	99,906	95,406	95,406	1,818,286
LOAN NO 1-63	1,914,003	-	117,826	117,826	89,023	89,023	1,824,980
LOAN NO 1-64	870,000	-	56,435	56,435	37,327	37,327	832,673
LOAN NO 1-65	-	2,000,000	258,100	100,134	167,000	64,408	1,935,592
LOAN NO 1-66	-	3,700,000	-	37,270	-	66,143	3,633,857
LOAN NO 1-67	-	1,453,602	-	-	-	-	1,453,602
LOAN NO 1-68	-	1,453,201	51,000	44,695	39,093	35,297	1,417,904
<b>Office Accommodation</b>							
LOAN NO 2-3	1,800,000	-	116,820	116,820	-	-	1,800,000
	50,570,071	8,606,803	3,387,133	3,260,132	6,087,490	6,047,245	53,129,629
Add: Accrued Interest				(3,335)			
Net Interest			3,387,133	3,256,797			
Less: Loans refinanced		2,906,803			2,906,803	2,906,803	
Net Borrowings / Repayments		5,700,000			3,180,687	3,140,442	

Southern Metropolitan Regional Council  
Notes to and forming part of the financial report for the year ended 30 June 2010

30. INFORMATION ON BORROWINGS (Continued)

(b) New Borrowings

Particulars/Purpose	Amount Borrowed		Institution	Loan Type	Term (Years)	Total Interest & Charges	Interest Rate	Amount Used		Balance Unspent
	Budget	Actual						Budget	Actual	
	\$	\$						\$	\$	\$
Community Amenities										
RRRC Project										
LOAN NO 1-66	2,000,000	2,000,000	WATC	Debenture	6.75	64,406	6.18%	2,000,000	2,000,000	-
LOAN NO 1-66	3,700,000	3,700,000	WATC	Debenture	6.25	66,145	6.27%	3,700,000	3,700,000	2,452,559
	5,700,000	5,700,000				130,551		5,700,000	5,700,000	2,452,559

(c) Unspent Loans

An amount of \$2,452,559 (2009: \$343,819) remained unspent out of the amount borrowed on the reporting date and is shown as a part of restricted cash.

(d) Overdraft

Council does not have an overdraft facility with its bankers.

### 31. FINANCIAL RISK MANAGEMENT

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

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 Council held the following financial instruments at balance date:

	Carrying Value		Fair Value	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Financial Assets</b>				
Cash and cash equivalents	4,889,237	2,979,015	4,889,237	2,979,015
Receivables	68,515,058	66,327,077	64,912,473	62,783,940
Financial assets at fair value through profit or loss	450,000	450,000	450,000	450,000
	<u>73,854,295</u>	<u>69,756,092</u>	<u>70,251,710</u>	<u>66,212,955</u>
<b>Financial Liabilities</b>				
Payables	4,883,029	4,988,483	4,883,029	4,988,483
Borrowings	53,129,629	50,570,071	49,527,044	47,026,934
	<u>58,012,658</u>	<u>55,558,554</u>	<u>54,410,073</u>	<u>52,015,417</u>

Fair value is determined as follows:

- Cash and Cash Equivalents, Receivables, Payables – estimated to the carrying value which approximates net market value.
- Borrowings – estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.
- Financial Assets at Fair Value through profit and loss – based on quoted market prices at the reporting date or independent valuation.

#### (a) Cash and Cash Equivalents

##### Financial assets at fair value through profit or loss

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. Council has an investment policy and the policy is subject to review by Council. An Investment Report is provided to Council on a monthly basis setting out the make-up and performance of the portfolio.

The major risk associated with investments is price risk – the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments of their issuers or factors affecting similar instruments traded in a market.

Cash and investments are also subject to interest rate risk – the risk that movements in interest rates could affect returns. Another risk associated with cash and investments is credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

**31. FINANCIAL RISK MANAGEMENT (continued)**

**(a) Cash and Cash Equivalents (continued)**

**Financial assets at fair value through profit or loss (continued)**

	2010 \$	2009 \$
Impact of a 10% (*) movement in price of investments:		
- Equity	45,000	78,079
- Income Statement	45,000 (+)	78,079 (+)
Impact of a 1% (*) movement in interest rates on cash and investments:		
- Equity	25,483	30,605
- Income Statement	25,483	30,605

**Notes:**

(\*) Sensitivity percentages based on management's expectation of future possible market movements. Recent market volatility has seen large market movements for certain types of investments.

(+) Maximum impact.

**(b) Receivables**

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. Council manages this risk by monitoring outstanding debt and employing debt recovery policies.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance. The Council has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial loss from defaults.

The Council makes suitable provision for doubtful receivables as required.

There are no material receivables that have been subject to a re-negotiation of repayment terms.

The profile of the Council's credit risk at balance date was:

	2010	2009
Percentage of Receivables		
- Current	98.45%	95.66%
- Overdue	1.55%	4.34%

### 31. FINANCIAL RISK MANAGEMENT (continued)

#### (c) 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. Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

The contractual undiscounted cash flows of Council's Payables and Borrowings are set out in the Liquidity Sensitivity Table below:

	Due within 1 year \$	Due between 1 & 5 years \$	Due after 5 years \$	Total contractual cash flows \$	Carrying values \$
<b>2010</b>					
Payables	4,883,029	-	-	4,883,029	4,883,029
Borrowings	15,886,631	34,092,207	14,748,219	64,727,057	53,129,629
	<u>20,769,660</u>	<u>34,092,207</u>	<u>14,748,219</u>	<u>69,610,086</u>	<u>58,012,658</u>
<b>2009</b>					
Payables	4,988,483	-	-	4,988,483	4,988,483
Borrowings	8,958,055	37,634,915	15,508,072	62,101,042	50,570,071
	<u>13,946,538</u>	<u>37,634,915</u>	<u>15,508,072</u>	<u>67,089,525</u>	<u>55,558,554</u>

**31. FINANCIAL RISK MANAGEMENT (continued)**

**(d) Payables and Borrowings (continued)**

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs. 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 following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	<1 year \$	>1<2 years \$	>2<3 years \$	>3<4 years \$	>4<5 years \$	>5 years \$	Total \$	Weighted Average Effective Interest Rate %
<b>2010</b>								
<b>Borrowings</b>								
<b>Fixed Rate</b>								
Debentures	9,921,580	3,348,806	5,014,259	5,226,713	7,002,162	22,616,109	53,129,629	6.21%
Weighted Average Effective Interest Rate	6.58%	6.24%	6.18%	6.57%	6.02%	6.01%		
<b>2009</b>								
<b>Borrowings</b>								
<b>Fixed Rate</b>								
Debentures	3,036,159	10,472,679	3,546,743	5,343,798	5,494,898	22,675,794	50,570,071	6.21%
Weighted Average Effective Interest Rate	6.26%	6.59%	6.24%	6.18%	6.57%	5.95%		

**INDEPENDENT AUDIT REPORT  
TO THE MEMBERS OF THE SOUTHERN METROPOLITAN REGIONAL COUNCIL.**

***Report on the Financial Report***

We have audited the accompanying financial report of the Southern Metropolitan Regional Council, which comprises the Statement of Financial Position as at 30 June 2010 and the Statement of Comprehensive Income by nature or type, Statement of Comprehensive Income by program, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and a summary of significant accounting policies and other explanatory notes.

***Council's Responsibility for the Financial Report***

Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of Australian professional ethical pronouncements.

**Auditor's Opinion**

In our opinion, the financial report of the Southern Metropolitan Regional Council is in accordance with the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended), including:

- a. giving a true and fair view of the Council's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- b. complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).



**INDEPENDENT AUDIT REPORT  
TO THE MEMBERS OF THE SOUTHERN METROPOLITAN REGIONAL COUNCIL (continued)**

**Other Matters**

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- a) There are no matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Council.
- b) No matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- c) All necessary information and explanations were obtained by us.
- d) All audit procedures were satisfactorily completed in conducting our audit.

UHY HAINES NORTON  
CHARTERED ACCOUNTANTS

DAVID TOMASI  
PARTNER

Date: 10 November 2010  
Perth, WA

S:\01\Local Govt\Southern Metro Regional Council\2010\YE End\2010 Year Audit Report.doc





Southern Metropolitan Regional Council  
9 Aldous Place, Booragoon WA 6954  
Tel: (08) 9329 2700 Fax: (08) 9330 6788  
Web: [www.smrc.com.au](http://www.smrc.com.au) Email: [smrc@smrc.com.au](mailto:smrc@smrc.com.au)