



CITY OF HOBART

# **AGENDA**

## **Special Finance and Governance Committee Meeting**

### **Open Portion**

**Monday, 4 November 2019**

**at 4:50 pm**

**Lady Osborne Room, Town Hall**

## THE MISSION

**Working together to make Hobart a better place for the community.**

## THE VALUES

**The Council is:**

<b>People</b>	We value people – our community, our customers and colleagues.
<b>Teamwork</b>	We collaborate both within the organisation and with external stakeholders drawing on skills and expertise for the benefit of our community.
<b>Focus and Direction</b>	We have clear goals and plans to achieve sustainable social, environmental and economic outcomes for the Hobart community.
<b>Creativity and Innovation</b>	We embrace new approaches and continuously improve to achieve better outcomes for our community.
<b>Accountability</b>	We work to high ethical and professional standards and are accountable for delivering outcomes for our community.

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## ORDER OF BUSINESS

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**Business listed on the agenda is to be conducted in the order in which it is set out, unless the committee by simple majority determines otherwise.**

### **APOLOGIES AND LEAVE OF ABSENCE**

- 1. CO-OPTION OF A COMMITTEE MEMBER IN THE EVENT OF A VACANCY ..... 4**
- 2. INDICATIONS OF PECUNIARY AND CONFLICTS OF INTEREST ..... 4**
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**Special Finance and Governance Committee Meeting (Open Portion) held  
Monday, 4 November 2019 at 4:50 pm in the Lady Osborne Room, Town Hall.**

**COMMITTEE MEMBERS**

Zucco (Chairman)  
Deputy Lord Mayor Burnet  
Sexton  
Thomas  
Dutta

**Apologies:**

**Leave of Absence:**

**NON-MEMBERS**

Lord Mayor Reynolds  
Briscoe  
Denison  
Harvey  
Behrakis  
Ewin  
Sherlock

**1. CO-OPTION OF A COMMITTEE MEMBER IN THE EVENT OF A  
VACANCY**

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**2. INDICATIONS OF PECUNIARY AND CONFLICTS OF INTEREST**

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Ref: Part 2, Regulation 8(7) of the *Local Government (Meeting Procedures) Regulations 2015*.

Members of the committee are requested to indicate where they may have any pecuniary or conflict of interest in respect to any matter appearing on the agenda, or any supplementary item to the agenda, which the committee has resolved to deal with.

**3. TRANSFER OF AGENDA ITEMS**

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Regulation 15 of the *Local Government (Meeting Procedures) Regulations 2015*.

A committee may close a part of a meeting to the public where a matter to be discussed falls within 15(2) of the above regulations.

In the event that the committee transfer an item to the closed portion, the reasons for doing so should be stated.

Are there any items which should be transferred from this agenda to the closed portion of the agenda, or from the closed to the open portion of the agenda?

## **4. REPORTS**

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### **4.1 2018-19 Financial Statements** **File Ref: F19/133891**

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Report of the Manager Finance and the Deputy General Manager of 1 November 2019 and attachments.

The General Manager reports:

The Risk and Audit Panel has considered the financial statements and is comfortable with the accuracy of the statements themselves. However, the Panel has also considered a range of strategic financial issues which are informed by the statements and has identified opportunities to strengthen Council's key performance ratios.

The Risk and Audit Panel understands that Council intends to review its Long Term Financial Management Plan during the current financial year, and fully supports this being undertaken at an early stage. It also recommends that this Plan be utilised as a base line against which future years' performances are monitored.

Delegation: Council

**REPORT TITLE: 2018-19 FINANCIAL STATEMENTS**

**REPORT PROVIDED BY:** Manager Finance  
Deputy General Manager

**1. Report Purpose and Community Benefit**

- 1.1. The purpose of this report is to present the financial statements for the year ended 30 June 2019 for adoption by Council.

**2. Report Summary**

- 2.1. The Council's financial statements for the year ended 30 June 2019 have been prepared and independently audited.
- 2.2. The Auditor-General has completed his audit and issued an unqualified audit opinion on the financial statements (see **Attachments B and C**).
- 2.3. Council's 2018-19 underlying surplus of \$1.246 million is less than the original 2018-19 budget position, however more than the most recent 2018-19 forecast.

**3. Recommendation**

***That:***

1. ***The Council note that in accordance with section 84(4) of the Local Government Act 1993 that the General Manager tables the certified financial statements for the year ended 30 June 2019 marked as Attachment A to this report.***
2. ***In doing so the Council notes the advice from the Risk and Audit Panel as follows:***
- (i) ***The Risk and Audit Panel has considered the financial statements and is comfortable with the accuracy of the statements themselves. However, the Panel has also considered a range of strategic financial issues which are informed by the statements and has identified opportunities to strengthen Council's key performance ratios.***
- (ii) ***The Risk and Audit Panel understands that Council intends to review its Long Term Financial Management Plan during the current financial year, and fully supports this being undertaken at an early stage. It also recommends that this Plan be utilised as a base line against which future years' performances are monitored.***

#### **4. Background**

- 4.1. The financial statements for the year ended 30 June 2019 have been prepared on a consistent basis with prior years.
- 4.2. The financial statements were presented to the Risk and Audit Panel on 6 August 2019 and received the endorsement of that Panel subject to the following changes: -
  - 4.2.1. Updating the value of Council's ownership interest in TasWater,
  - 4.2.2. Correcting the reclassification errors in the cash flow statement, and
  - 4.2.3. Other minor presentation changes.
- 4.3. The financial statements were delivered to the Auditor-General on 14 August 2019.
- 4.4. The Auditor-General requested two changes to the financial statements, as follows: -
  - 4.4.1. Remove two rows from the Statement of Changes in Equity, and
  - 4.4.2. Reclassify land in note 23 from "...indexed to March 2019" to "...indexed to March 2018", and also add a note to specify that indexation was not applied in 2018/19 due to the Valuer-General land indexation factor being 1.0.
- 4.5. The financial statements were re-presented to the Risk and Audit Panel for endorsement for formal adoption by Council.
- 4.6. The financial statements are attached to this report (see **Attachment A**). Highlights of the financial statements are detailed in Section 7 below.

#### **5. Proposal and Implementation**

- 5.1. It is proposed that Council formally adopt the financial statements.

#### **6. Strategic Planning and Policy Considerations**

- 6.1. There are no direct strategic planning implications.

#### **7. Financial Implications**

- 7.1. Financial Sustainability Outcomes
  - 7.1.1. As outlined in Council's Long-term Financial Management Plan (LTFMP), eight financial sustainability measures have been adopted for the purpose of measuring Council's financial sustainability.

- 7.1.2. Indicators 1-2 are measures of profit and performance and the extent to which expenses are covered by revenues.
- 7.1.3. Indicators 3-4 are measures of indebtedness and the amount Council owes others (loans, employee provisions, creditors) net of financial assets (cash and amounts owed to Council).
- 7.1.4. Indicator 5 measures the proportion of income required to meet net interest costs.
- 7.1.5. Indicators 6-8 are measures of asset management.
- 7.1.6. Council's performance against the eight financial sustainability indicators is shown in Table 1 below: -

**Table 1: Performance against Financial Sustainability Indicators**

Indicator	Description	Budget 2018/19	Actual 2018/19	Budget achieved (✓ / x)	Benchmark	Benchmark achieved (✓ / x)
1	Underlying Surplus	\$1,447,000	\$1,246,000	X	> 0	✓
2	Underlying Surplus Ratio	1.1%	0.9%	X	0% - 2%	✓
3	Net Financial Liabilities *	-\$28,266,000	-\$42,441,000	X	> -\$67M	✓
4	Net Financial Liabilities Ratio	-21.2%	-31.6%	X	> -50%	✓
5	Net Interest Expense Cover Ratio	0.23%	0.39%	X	< 7%	✓
6	Asset Sustainability Ratio	126.7%	127.6%	✓	100%	✓
7	Asset Consumption Ratio	53.5%	54.6%	✓	40% - 80%	✓
8	Asset Renewal Funding Ratio	100%	100%	✓	100%	✓

\*Note - Net Financial Liabilities includes **all** liabilities, and therefore differs from the value shown in note 18 of the financial statements (which only includes **financial** liabilities).

- 7.1.7. The budget has not been achieved for indicators 1 to 5, however all indicators are within their benchmark ranges.
- 7.1.8. Indicators 1 and 2 did not meet budget mainly due to lower than expected parking fines revenue.
- 7.1.9. Indicator 3 and 4 did not meet budget due to a reduction in cash balances mainly from higher capital expenditure and materials and services costs, and lower parking fines revenue.
- 7.1.10. Indicator 5 did not meet budget due to increased interest expense from borrowing earlier than expected.
- 7.2. Operating Result
- 7.2.1. The Operating Result for 2018-19 is a deficit of \$64.317 million (2017-18 \$11.923 million surplus). This result includes capital grants, contributed infrastructure assets, and the advance receipt of financial assistance grants and rates. The main reason for the large deficit is the \$67.352 million for writing off all roads, land under roads and footpaths associated with the



transfer of ownership of Macquarie and Davey Streets and Brooker Avenue to the State Government.

- 7.2.2. Excluding these items, together with continued costs associated with the May 2018 flood event, and profits on sale of property, produces an underlying surplus of \$1.246 million (2017-18 \$3.695 million), or 0.9% of underlying revenue. This result is \$0.201 million unfavourable against the original budget position (\$1.447 million surplus) and \$0.346 million favourable against the most recent forecast (\$0.9 million surplus).
- 7.2.3. The \$0.201 million unfavourable variance against the original budget position is mainly due to lower than expected parking fines revenue and higher than expected materials and services costs (mainly in external labour, water and sewerage, legal fees and recruitment). Favourable variances were experienced in grants (half of the 2019-20 Financial Assistance Grants were brought forward and paid in 2018-19), and services income (mainly in DKHAC pool and gym income, Development Compliance and Appraisal licence and fees and McRobie's Waste Management Centre income).
- 7.2.4. The Auditor-General guidelines for calculating the underlying result have been followed in calculating the above number.

### 7.3. Cash Position

- 7.3.1. Cash balances have decreased by \$11.719 million from \$31.844 million to \$20.125 million. This amount is allocated to the various purposes listed in note 16 to the financial statements. Note 16 demonstrates that the cash on hand is not "unutilised funds". In fact, all funds are accounted for in some way. Some funds are restricted (e.g. the Heritage Account and unspent grants) and remaining funds are earmarked for various purposes (e.g. carry-forward capital works).
- 7.3.2. The decrease in cash is primarily due to higher employee costs and external labour, a lower accounts payable balance, lower proceeds from grants income and sales of property, and partly offset by higher services and rates revenue. The decrease in cash would have been higher had it not been for the early receipt of 2018-19 financial assistance grants and a \$10 million borrowing. The 2018-19 budget was premised on \$20 million of new borrowings.

### 7.4. Rate revenue

- 7.4.1. Rate revenue totalled \$84.782 million (2017-18 \$82.048 million) and continues to represent approximately 62% of underlying revenue.
- 7.4.2. The increase of \$2.734 million is the result of:

- A 2.18% increase to fund the increased cost of providing existing services,
- A 0.44% increase to fund the increase in the State Government fire levy, and
- A 1.10% increase in Council's rate base (total AAV) due to development activity.

#### 7.5. Asset Revaluations

7.5.1. In accordance with the requirement to ensure that reported asset values do not differ materially from their fair value, some asset classes were revalued during 2018-19 and indexation was applied to others.

7.5.2. The results of the revaluation exercise were:

Infrastructure Plant	\$1.903M	Increment
Other Structures	\$32.392M	Increment
	\$34.295M	Increment

7.5.3. Other Structures consists mainly of Furniture and Signs, Playgrounds, Fountains, and Drainage Structures that are not classified as Pipes, Drains and Rivulets, such as pollution traps, wetlands etc.

7.5.4. The results of the indexation exercise were:

Buildings	\$4.735M	Increment
Land Improvements	\$0.735M	Increment
Pipes, Drains and Rivulets	\$3.416M	Increment
Roads and Bridges	\$6.225M	Increment
	\$15.111M	Increment

7.5.5. The Infrastructure Plant and Other Structures revaluations were undertaken using the current replacement cost methodology, which is the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence, in accordance with *AASB 13 Fair Value Measurement*.

7.5.6. The above revaluation increments and decrements have been recognised in "other comprehensive income" rather than in the surplus.

#### 7.6. Contributed Property, Plant and Equipment

7.6.1. Contributed property, plant and equipment essentially comprises assets required to be constructed for Council by developers.

7.6.2. During 2018-19, these amounted to \$2.114 million (2017-18 \$5.255 million) and were mainly derived from the Garrington Park Subdivision (stage 5) located at 110 Giblin Street and the Parkwood Gardens Residential Subdivision located at 221A Lenah Valley Road.

#### 7.7. Asset Write-offs

7.7.1. Asset write-offs mainly comprise of the Macquarie and Davey Streets and Brooker Avenue assets that were transferred to State Government ownership, together with infrastructure assets replaced as part of Council's on-going asset renewal program.

7.7.2. Asset write-offs totalled \$69.889 million (2017-18 \$2.299 million) and were in respect of the following asset classes:

Land Under Roads	\$50.965M
Sealed Roads	\$15.084M
Footpaths Kerb and Guttering	\$1.724M
Other Structures	\$0.665M
Other Infrastructure Plant	\$0.297M
Bridges	\$0.289M
Playground Equipment	\$0.233M
Furniture Fittings and Office Equipment	\$0.172M
Street Furniture and Signs	\$0.126M
Other	\$0.334M
	<hr/>
	\$69.889M

#### 7.8. Investment in TasWater

7.8.1. Council has an ownership interest in TasWater, which is accounted for as an equity investment at fair value through other comprehensive income. The investment was previously classified as an "available-for-sale financial asset".

7.8.2. Distributions received from TasWater are recognised as revenue and included in Council's surplus.

7.8.3. The value of Council's ownership interest at any point in time is calculated by applying Council's ownership interest percentage (10.27%) to TasWater's net asset value. Council's equity interest has reduced from 10.39% last period due to the effect of the State Government's equity injection of one million shares in TasWater during the period. Applying this methodology at 30 June 2019 produces a value for Council's ownership interest of \$190.946 million (30 June 2018 \$166.823 million). The \$24.123 million increase from the previous year has been recognised in "other comprehensive income" rather than in the surplus.

## 7.9. Defined-Benefit Superannuation Plan

7.9.1. Council's defined-benefit superannuation plan position has reduced by \$4.041 million to a net asset of \$0.024 million at 30 June 2019. This movement is mainly due to: -

7.9.1.1. A reduction in the discount rate (from 2.6% to 1.3%) which increases the defined-benefit obligation, and

7.9.1.2. The salaries received by members of the fund in 2017-18 were, on average, 1.9% higher than expected in the 2018 calculations.

## 7.10. Financial Instruments

7.10.1. Council has adopted Accounting Standard *AASB 9 Financial Instruments* in 2018-19.

7.10.2. This standard replaces the existing standard, *AASB139 Financial Instruments: Recognition and Measurement* and revises classification, measurement and disclosure of financial assets and liabilities.

7.10.3. Council has applied this standard from 1 July 2018 using a retrospective approach with cumulative catch-up. This requires the presentation of both qualitative and quantitative disclosures for affected items, along with a corresponding adjustment to the opening balance of accumulated surpluses for transitional effects of re-measurement.

7.10.4. As a result of this standard:

7.10.5. Council has designated its investment in TasWater as an equity investment at fair value through other comprehensive income, the disclosures of which are contained in notes 12 and 18(e) of the financial statements.

7.10.6. Council now evaluates its impairment provisions based on expected credit losses, rather than incurred credit losses, the disclosures of which are contained in note 19 of the financial statements.

## 8. Legal, Risk and Legislative Considerations

8.1. Section 84(1) of the *Local Government Act 1993* requires the General Manager to prepare and forward to the Auditor-General a copy of Council's financial statements in accordance with the *Audit Act 2008*.

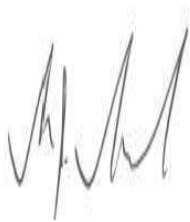
8.2. Section 17(1) of the *Audit Act 2008* requires the General Manager to prepare and forward a copy of Council's financial statements to the Auditor-General within 45 days after the end of each financial year.

- 8.3. Section 17(4) of the *Audit Act 2008* requires Council's financial statements to be prepared in accordance with the accounting standards and other requirements issued by the Australian Accounting Standards Board.
- 8.4. Section 84(3) of the *Local Government Act 1993* requires the General Manager to certify that the financial statements fairly represent Council's financial position, the results of Council's operations, and the cash flow of Council. This certification is attached (refer **Attachment D**).
- 8.5. Section 84(4) of the *Local Government Act 1993* requires the General Manager to table the certified financial statements at a meeting of the Council as soon as practicable.
- 8.6. All of the above legal requirements have been complied with.

## 9. Delegation

- 9.1. This matter is delegated to the Council.

*As signatory to this report, I certify that, pursuant to Section 55(1) of the Local Government Act 1993, I hold no interest, as referred to in Section 49 of the Local Government Act 1993, in matters contained in this report.*



Michael Greatbatch  
**MANAGER FINANCE**



Heather Salisbury  
**DEPUTY GENERAL MANAGER**

Date: 1 November 2019  
File Reference: F19/133891

Attachment A: Financial Statements for year ended 30 June 2019 ↓  
Attachment B: Final Management Letter dated 22 October 2019 ↓  
Attachment C: Independent Audit Report dated 22 October 2019 ↓  
Attachment D: Certification by General Manager dated 22 October 2019 ↓

**HOBART CITY COUNCIL**  
**GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

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**STATEMENT OF FINANCIAL POSITION  
 AS AT 30 JUNE 2019**

	Note	2018-19 \$'000	2017-18 \$'000
<b>Current Assets</b>			
Cash and Cash Equivalents	16	20,125	31,844
Inventories	17	429	358
Receivables	19	7,240	7,147
Prepayments		836	412
<b>Total Current Assets</b>		<b>28,630</b>	<b>39,761</b>
<b>Non-Current Assets</b>			
Receivables	19	-	48
Investment in TasWater	12	190,946	166,823
Property, Plant and Equipment	21-30	1,615,180	1,603,616
Employee Benefits	33	24	4,065
<b>Total Non-Current Assets</b>		<b>1,806,150</b>	<b>1,774,552</b>
<b>Total Assets</b>		<b>1,834,780</b>	<b>1,814,313</b>
<b>Current Liabilities</b>			
Payables	31	7,792	10,818
Trust, Deposits, Retention	32	2,434	3,128
Employee Benefits	33	12,693	12,391
Unearned Revenue	34	791	807
Loans	35	3,187	2,070
Provisions	36	217	603
<b>Total Current Liabilities</b>		<b>27,114</b>	<b>29,817</b>
<b>Non-Current Liabilities</b>			
Employee Benefits	33	2,988	2,808
Loans	35	34,954	18,141
Provisions	36	4,750	4,047
<b>Total Non-Current Liabilities</b>		<b>42,692</b>	<b>24,996</b>
<b>Total Liabilities</b>		<b>69,806</b>	<b>54,813</b>
<b>Net Assets</b>		<b>1,764,974</b>	<b>1,759,500</b>
<b>Equity</b>			
Reserves	37	684,938	614,644
Retained earnings		1,080,036	1,144,856
<b>Total Equity</b>		<b>1,764,974</b>	<b>1,759,500</b>

This statement should be read in conjunction with the accompanying notes.

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2018-19 ACTUAL \$'000	2018-19 BUDGET \$'000	2017-18 ACTUAL \$'000
<b>Recurrent Expenses</b>				
Employee Costs	5	(58,562)	(59,112)	(54,360)
Materials and Services		(35,448)	(33,868)	(33,950)
Depreciation and Amortisation	6	(21,273)	(20,523)	(20,361)
Finance Costs	7	(1,275)	(1,323)	(727)
State Fire Commission Levies		(10,741)	(10,740)	(10,249)
Other	8	(75,023)	(7,589)	(7,036)
		<u>(202,322)</u>	<u>(133,155)</u>	<u>(126,683)</u>
<b>Recurrent Income</b>				
Rates and Charges		84,782	84,918	82,048
Grants and Donations	10(a)	3,702	1,855	3,331
Fines		6,502	8,510	6,912
Rendering of Services		33,072	31,401	29,090
Distributions from TasWater		2,172	2,172	3,258
Interest		752	981	854
Rents		3,431	3,400	3,322
		<u>134,413</u>	<u>133,237</u>	<u>128,815</u>
<b>Capital Income</b>				
Capital grants received specifically for new or upgraded assets	10(b)	1,459	455	3,502
Net gain on disposal of property, plant and equipment	11	19	-	1,034
Contributed property, plant and equipment		2,114	-	5,255
		<u>3,592</u>	<u>455</u>	<u>9,791</u>
<b>Total Income</b>		<u>138,005</u>	<u>133,692</u>	<u>138,606</u>
<b>Surplus / (Deficit)</b>	9	<u>(64,317)</u>	<u>537</u>	<u>11,923</u>
<b>Other Comprehensive Income</b>				
<i>Items that may be reclassified subsequently to surplus or deficit: -</i>				
Adjustment to fair value of investment in TasWater	12	-	-	2,137
<i>Items that will not be reclassified to surplus or deficit: -</i>				
Adjustment to fair value of investment in TasWater	12	24,123	-	-
Net PP&E revaluation increments / (decrements)	13	49,405	-	48,339
Defined-benefit superannuation plan actuarial gains / (losses)	33	(3,737)	-	3,980
<b>Total other comprehensive income</b>		<u>69,791</u>	<u>-</u>	<u>54,456</u>
<b>Comprehensive Result for the period</b>		<u><u>5,474</u></u>	<u><u>537</u></u>	<u><u>66,379</u></u>

This statement should be read in conjunction with the accompanying notes. Budget numbers are not audited.



**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2019**

	Note	Total		Retained Earnings		Reserves	
		2018-19 \$'000	2017-18 \$'000	2018-19 \$'000	2017-18 \$'000	2018-19 \$'000	2017-18 \$'000
Balance at beginning of period		1,759,500	1,693,121	1,144,856	1,124,678	614,644	568,443
Comprehensive Result for the period		5,474	66,379	(68,054)	15,903	73,528	50,476
Transfers to reserves	37	-	-	(25,606)	(25,669)	25,606	25,669
Transfers from reserves	37	-	-	28,840	29,944	(28,840)	(29,944)
Balance at end of period		<u>1,764,974</u>	<u>1,759,500</u>	<u>1,080,036</u>	<u>1,144,856</u>	<u>684,938</u>	<u>614,644</u>

This statement should be read in conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2018-19 ACTUAL \$'000	2018-19 BUDGET \$'000	2017-18 ACTUAL \$'000
<b>Cash Flows from Operating Activities</b>				
<i>Receipts</i>				
Rates		84,664	84,804	81,904
Rendering of services (inclusive of GST)		35,429	34,394	31,396
Interest		787	981	851
Grants (inclusive of GST)		3,821	1,853	3,600
Rents (inclusive of GST)		3,751	3,738	3,632
Fines		5,995	8,510	6,349
Distributions from Tas Water		2,172	2,172	3,258
Net GST refund		5,470	3,663	3,656
Other receipts (inclusive of GST)		681	50	671
		<u>142,770</u>	<u>140,165</u>	<u>135,317</u>
<i>Payments</i>				
Employee costs		(57,173)	(57,767)	(52,991)
Payments to suppliers (inclusive of GST)		(48,071)	(41,787)	(41,333)
Interest		(937)	(1,291)	(632)
Other payments (inclusive of GST)		(15,628)	(15,391)	(13,811)
		<u>(121,809)</u>	<u>(116,236)</u>	<u>(108,767)</u>
<b>Net Cash Flow from Operating Activities</b>	38	<u><b>20,961</b></u>	<u><b>23,929</b></u>	<u><b>26,550</b></u>
<b>Cash Flows from Investing Activities</b>				
<i>Proceeds</i>				
Grants		1,459	455	3,502
Sales of Property		12	-	2,469
Sales of Plant and Equipment		824	499	1,031
		<u>2,295</u>	<u>954</u>	<u>7,002</u>
<i>Payments</i>				
Infrastructure - Employee Costs		(4,668)	(4,622)	(4,603)
Infrastructure and Facilities - Other		(43,907)	(32,565)	(33,713)
Property		-	-	(759)
Plant and Equipment		(4,330)	(4,619)	(4,202)
		<u>(52,905)</u>	<u>(41,806)</u>	<u>(43,277)</u>
<b>Net Cash Flow from/(used in) Investing Activities</b>	38	<u><b>(50,610)</b></u>	<u><b>(40,852)</b></u>	<u><b>(36,275)</b></u>
<b>Cash Flows from Financing Activities</b>				
Proceeds from Borrowings	35	20,000	20,000	10,000
Repayment of Borrowings	35	(2,070)	(2,267)	(1,482)
<b>Net Cash Flow from/(used in) Financing Activities</b>	39	<u><b>17,930</b></u>	<u><b>17,733</b></u>	<u><b>8,518</b></u>
<b>Net Increase (Decrease) in cash held</b>		<u><b>(11,719)</b></u>	<u><b>810</b></u>	<u><b>(1,207)</b></u>
<b>Cash Held at the Beginning of the Year</b>		<u><b>31,844</b></u>	<u><b>31,844</b></u>	<u><b>33,051</b></u>
<b>Cash held at the End of the Year</b>	16	<u><b>20,125</b></u>	<u><b>32,654</b></u>	<u><b>31,844</b></u>

This statement should be read in conjunction with the accompanying notes. Budget numbers are not audited.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a) Local Government Reporting Entity**

All funds through which Council controls resources to carry out its functions have been included in the financial statements of the Council.

The financial report of the Council incorporates only those items over which the Council has control.

Amounts received as tender deposit and retention amounts controlled by the Council are disclosed separately within current liabilities.

**b) Basis of Preparation**

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board such as Interpretations, and the *Local Government Act 1993*.

Council has determined that it does not have profit generation as a prime objective. Consequently, where appropriate, Council has elected to apply options and exemptions within accounting standards that are applicable to not-for-profit entities. As a result, the financial report does not comply with International Financial Reporting Standards.

The financial report has been prepared on the accrual basis under the convention of historical cost accounting and does not take into account changing money values, except in relation to some non-current assets which are stated at current valuations.

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

Judgements made by management that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. Significant assumptions and judgements were made in determining the values of employee provisions and superannuation liabilities (detailed in note 1(g)) and the fair value of property, plant and equipment, including useful lives and depreciation (detailed in note 1(j)).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

**c) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefit will flow to Council, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised: -

***Rates, Grants, Donations and Other Contributions***

Rates, grants, donations and other contributions are recognised as revenues when Council obtains control over the assets comprising the contributions. Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates. Control over granted assets is normally obtained upon their receipt or upon prior notification that a grant has been secured, and the timing of commencement of control depends upon the arrangements that exist between the grantor and Council. Donations and other contributions are recognised at the fair value of the assets received.

### *Rendering of Services*

Where a contract has been completed, all related revenue is recognised when Council controls a right to be compensated for the services provided. Where a contract has not been completed, revenue is recognised only to the extent of costs incurred. Contracts generally arise as a result of requests for work to be carried out at a property-owner's expense, or from compulsory works carried out by Council pursuant to legislation.

### *Sale of Assets*

Revenue is recognised when control of the assets has passed to the buyer.

### *Fines*

Revenue is recognised when Council controls a right to receive consideration for the enforcement of legislation and Council by-laws.

### *Rents, Interest and Dividends*

Revenue is recognised when Council has attained control of a right to receive consideration for the provision of, or investment in, assets.

## **d) Cash and cash equivalents (Note 16)**

For the purposes of the Cash Flow Statement, cash includes cash on hand, cash at bank, deposits at call and highly liquid investments with short periods to maturity, net of outstanding bank overdrafts.

## **e) Inventories (Note 17)**

Stock is valued at historical cost using the weighted average cost method. Stock is reviewed annually and an appropriate provision for obsolete stock is made.

## **f) Financial Assets (Notes 12 and 18)**

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Investments in subsidiaries are measured at cost. Investments in associates are accounted for under the equity method.

Council has classified its ownership interest in TasWater as an equity investment at fair value through other comprehensive income. Subsequent changes in fair value are reflected in the reserve and will not be reclassified through the profit or loss when derecognised. The investment was previously classified as an "available-for-sale financial asset".

All other financial assets are classified as "trade and other receivables" and are recorded at amortised cost less impairment. From this period the collectability of debts is assessed at year-end and an allowance is made for impairment on an expected credit loss (ECL) basis. When determining whether the credit risk has increased significantly since initial recognition, and when estimating the ECL, Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience, an informed credit assessment and forward-looking information.

For prior periods a provision for impairment was recognised when there was objective evidence that an impairment loss had occurred.

Penalty and interest are charged on outstanding rates in accordance with section 128(c) of the *Local Government Act 1993*.

## **g) Employee Benefits (Note 33)**

### *Wages and salaries, annual leave, long service leave and sick leave*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required

and they are capable of being measured reliably. Provision is also made for related superannuation contributions.

Provisions made in respect of employee benefits which fall due wholly within 12 months after the end of the period in which the employees rendered the related service, are measured at their nominal values using remuneration rates expected to apply at the time of settlement. Other provisions are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Discount rates used are those attaching to national government guaranteed securities at balance date which most closely match the terms to maturity of the related liabilities.

In determining "pre-conditional" long service leave entitlements, the amount of cash outflows required to be made by Council in the future have been estimated on a group basis after taking into consideration Council's experience with staff departures.

The liability for employee entitlements to sick leave is equivalent to 17.5% of total accumulated sick leave entitlements at the reporting date because this amount is payable to employees on retirement or resignation.

#### *Superannuation*

Council contributes to two superannuation plans in respect of its employees - a defined contribution plan and a defined-benefit plan.

Superannuation expense for the reporting period in respect of the defined contribution plan is the amount paid and payable to members' accounts in respect of services provided by employees up to the reporting date.

For the defined-benefit plan, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full in the period in which they occur, and are included in 'other comprehensive income'.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined-benefit obligation recognised in the statement of financial position represents the present value of the defined-benefit obligation, adjusted for unrecognised past service cost, net of the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

#### **h) Provisions (Note 36)**

Provisions are recognised when Council has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

#### **i) Non-current assets classified as held for sale (Note 20)**

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

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

**j) Property, Plant and Equipment (Notes 21-30)***Acquisition*

Purchases of property, plant and equipment are initially recorded at cost. Cost is defined as the purchase consideration plus any costs incidental to the acquisition.

The cost of property, plant and equipment constructed by Council includes the cost of all materials, direct labour and related labour overheads consumed in the construction.

*Revaluations*

Plant and equipment, and the valuation roll, are recorded at cost. All other property, plant and equipment is revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

When the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase is recognised in other comprehensive income and accumulated in equity under the heading of asset revaluation reserve. However, the net revaluation increase is recognised in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in surplus or deficit.

When the carrying amount of a class of assets is decreased as a result of a revaluation, the net revaluation decrease is recognised in profit or loss. However, the net revaluation decrease is recognised in other comprehensive income to the extent of any credit balance existing in the asset revaluation reserve in respect of that same class of assets.

Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment are offset against one another within that class but are not offset in respect of assets in different classes.

Where indexation adjustments have been applied to land values, these have been calculated by reference to land value adjustment factors published annually by the Department of Primary Industries, Parks, Water and Environment, in accordance with the *Valuation of Land Act 2001*.

Where indexation adjustments have been applied to other asset values, these have been calculated by reference to the 'council cost index' published annually by the Local Government Association of Tasmania (LGAT).

Note 48 details Council's approach to revaluing each class of property, plant and equipment. Where progressive revaluations have been employed for items of property, plant and equipment, revaluation of the particular asset class is completed within a three-year period. Earthworks are not included in the valuation of road assets.

Current cost in relation to an asset means the lowest cost at which the gross service potential of that asset could be obtained in the normal course of operations.

The carrying amount of each asset whose service potential is related to its ability to generate net cash inflows is reviewed at balance date to determine whether such carrying amount is in excess of its recoverable amount. If the carrying amount of an asset of the type mentioned exceeds recoverable amount, the asset is written-down to the lower amount. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

No provision is made for capital gains tax liability in respect of revalued assets because Council is not subject to this tax.

*Depreciation*

All items of property, plant and equipment having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets. Land is considered to have an unlimited useful life and therefore is not depreciated. Residual values are assumed to be zero except for some plant and equipment assets.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the beginning of the first reporting period following completion.

Useful lives are estimated on a time basis and are reviewed periodically. The straight-line method is employed for all assets. Ranges of useful lives for major asset classes are: -

<u>Asset Class</u>	<u>Range</u>	<u>Asset Class</u>	<u>Range</u>
<b><u>Buildings</u></b>		<b><u>Pipes, Drains &amp; Rivulets</u></b>	
Halls	125 - 150	Water Mains	25 - 126
Car Parks	150	Irrigation	10 - 120
Grandstands and Change Rooms	60 - 150	Sewer Mains	20 - 80
Public Conveniences	100	Stormwater Mains	10 - 134
Depot Buildings	60 - 150	Rivulets	15 - 120
Administrative Offices	100 - 500		
Other	40 - 150	<b><u>Plant &amp; Equipment</u></b>	
		Heavy Plant and Equipment	5 - 20
<b><u>Land Improvements</u></b>		Fleet Vehicles	3 - 5
Landscaping	50	Minor Plant	3 - 25
External Playing Surfaces	10 - 100	Furniture and Office Equipment	2 - 30
Other	3 - 100		
		<b><u>Roads &amp; Bridges</u></b>	
<b><u>Other Structures</u></b>		Sealed Roads	17 - 150
Furniture & Signs	1 - 100	Bridges	20 - 100
Drainage Structures	10 - 100	Footpaths, Kerbs and Gutters	15 - 75
Playground Equipment	5 - 30	Cycleways & Tracks	12 - 85
Fountains	10 - 80		
Other	1 - 500	<b><u>Other</u></b>	
		Valuation Roll	6
		Infrastructure Plant	3 - 100

#### *Monuments*

Council controls a number of monuments but has elected not to recognise these on the basis that they cannot be reliably measured.

#### *Land under Roads*

Land under roads is accounted for in accordance with AASB 116 *Property, Plant and Equipment*.

### **k) Leases (Note 42)**

#### *Finance Leases as lessee*

Leases under which Council assumes substantially all the risks and rewards of ownership are classified as finance leases and are capitalised. A lease asset and a liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense in the period in which they are incurred. Capitalised lease assets are amortised on a straight-line basis over the term of the relevant lease, or where it is likely that Council will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of lease payments are charged as an expense of the period.

#### *Operating Leases as lessee*

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

Council leases several parcels of Crown land under lease agreements with the State Government. Generally, these leases do not reflect commercial arrangements, are long-term

and have minimal lease payments. Crown land is recognised as an asset in the Statement of Financial Position and carried at fair value when Council establishes that it has control over the land, and will derive economic benefits from it.

*Operating Leases as lessor*

Council owns a range of facilities that are available for lease by not-for-profit sport, recreational and community organisations. Generally, leases to not-for-profit organisations do not reflect commercial arrangements and have minimal lease payments. Land and buildings which are leased under these arrangements are recognised within property, plant and equipment in the Statement of Financial Position, and associated rental income is recognised in accordance with Council's revenue recognition policy.

Furthermore, Council leases some of its land and buildings on commercial terms which may include incentives for the lessee to enter into the agreement, for example a rent-free period or discounted rent. Council does not account for the cost of incentives because the amounts are unlikely to be material and/or cannot be reliably measured. Rental income is recognised in accordance with Council's revenue recognition policy.

Where leasing of a property is incidental to Council's use of it, the associated land and buildings are recognised within property, plant and equipment in the Statement of Financial Position, and valued in accordance with Council's valuation policy.

**l) Financial Liabilities (Notes 31, 32 and 35)**

Financial liabilities are measured initially at fair value plus any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method.

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether billed or not. The amounts are unsecured and are usually paid within 30 days of recognition.

Council has issued a number of debt instruments which are secured by revenues of the Council. Repayments are made semi-annually in arrears, and interest expense is accrued at the contracted rate and included in payables.

**m) Heritage Account (Notes 15 and 16)**

On 16 July 1999, the *National Trust Preservation Fund (Winding-up) Act 1999* (the Act) commenced. The purpose of the Act is to provide for the winding-up of the National Trust Preservation Fund (Preservation Fund) and the distribution of the monies held in that fund. The Act requires the Hobart City Council to establish a Heritage Account, into which the Minister is to transfer one-half of the monies contained in the Preservation Fund.

On 15 December 1999, Council established the required Heritage Account with Perpetual Trustees Tasmania Limited, and the Minister transferred an amount of \$1,216,205 to that account.

The Act requires that funds transferred into the Heritage Account be applied for the provision of financial or other assistance in relation to an entry in either the National Trust register kept by the National Trust of Australia (Tasmania), or the Tasmanian Heritage Register.

In order to satisfy its responsibilities under the Act, Council has established a Heritage Account Special Committee as a Special Committee of Council pursuant to section 24 of the *Local Government Act 1993*.

**n) Goods and Services Tax (GST)**

Revenues, expenses and assets have been recognised net of GST where that GST is recoverable from the Australian Taxation Office (ATO). Where an amount of GST is not recoverable from the ATO, it has been recognised as part of the cost of acquisition of an asset or part of an item of expense to which it relates. Receivables and payables have been stated with the amount of GST included. The net amount of GST recoverable from the ATO has been included as part of receivables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.



**o) Budget**

Estimated revenues and expenses in the Statement of Comprehensive Income, and estimated receipts and payments in the Statement of Cash Flows, represent original budget amounts, and are not audited.

**p) Rounding**

Amounts shown in the financial statements are rounded to the nearest thousand dollars. This may result in minor variations between schedules.

## 2. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### **a) New and revised Accounting Standards and Interpretations adopted in the current period**

Council has adopted the following new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board which are relevant to its operations and effective for the current reporting period: -

#### *AASB 9 Financial Instruments*

This standard replaces the existing standard, AASB139 *Financial Instruments: Recognition and Measurement* and revises classification, measurement and disclosure of financial assets and liabilities. It reduces the number of categories for financial assets and simplifies the measurement choices, including the removal of impairment testing of assets measured at fair value. Classification of financial assets is determined by Council's business model for holding the particular asset and its contractual cash flows.

Council has applied this standard from 1 July 2018 using a retrospective approach with cumulative catch-up. This does not require Council to restate comparative figures, but does require the presentation of both qualitative and quantitative disclosures for affected items, along with a corresponding adjustment to the opening balance of accumulated surpluses for transitional effects of re-measurement.

As a result of this standard:

- Council has designated its investment in TasWater as an equity investment at fair value through other comprehensive income, see notes 12 and 18(e).
- Council evaluates its impairment provisions based on expected credit losses, rather than incurred credit losses, see note 19.

### **b) New and revised Accounting Standards and Interpretations not yet adopted**

Council has not yet applied the following Australian Accounting Standards and Interpretations which have been issued and are relevant to its operations, but are not yet effective. These will be applied from their application dates.

#### *AASB 15 Revenue from Contracts with Customers* (applies from 2019-20)

AASB 15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

Accounting policy changes will arise in the timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

Council has analysed the new revenue recognition requirements noting that future impacts include:

- Depending on the respective contractual terms, the new requirements of AASB 15 may result in a change to the timing of revenue from sales of goods and services such that some revenue may need to be deferred as a liability to a later reporting period to the extent that Council has received cash, but has not met its associated performance obligations, (a promise to transfer a good or service).
- Grants received to construct non-financial assets controlled by Council will be recognised as a liability, and subsequently recognised progressively as revenue as Council satisfies its performance obligations under the grant. At present, such grants are recognised as revenue upfront.

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

For Council there will be an effect in the treatment of all grants with sufficiently specific performance obligations, but where the conditions have yet to be fulfilled at year end. Council currently presents unexpended grant income received at note 15. Council's assessment is that \$0.546 million of grants received and unexpended for the current year, would be deferred as a liability under AASB 15 and progressively recorded as income as performance obligations are fulfilled.

Council does not expect any material impact in the timing of revenue on the sale of goods and services as sales are currently aligned to the reporting period that the performance obligations are aligned to.

Council will apply the standard from 1 July 2019 and expects to use a retrospective approach with cumulative catch-up with an adjustment to accumulated surpluses for the difference in accounting treatment on initial adoption.

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

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

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

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

Where the asset acquired is leased at a "Peppercorn" rate, Council is required to recognise the leased asset at its fair value, the remaining lease liability and the balance as income. Council has not identified any assets acquired that are leased at a "Peppercorn" rate.

AASB 1058 also encompasses non-contractual statutory income such as rates, taxes and fines. Council currently recognises income when received. Under AASB 1058, income is recognised when the taxable event has occurred. An impact for Council is that prepaid rates received prior to the beginning of a rating period, will now be recognised as a financial liability until the commencement of that rating period. The impact to Council will be that revenue recognised when received from Rates and charges in advance as disclosed in note 14, will now be recorded as a liability, with revenue deferred until the commencement of the applicable rating period.

AASB 1058 requires the recognition of volunteer services where they would have been purchased if not donated and the fair value of those services can be reliably measured. Council has assessed that approximately \$0.4 million of volunteer services would have been purchased if not donated for the period, however this needs to be assessed again for the next period.

Council will apply the standard from 1 July 2019 and expects to use a retrospective approach with cumulative catch-up with an adjustment to accumulated surpluses for the difference in accounting treatment on initial adoption.

*AASB 16 Leases (applies from 2019-20)*

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

AASB 16 will result in most of Council's operating leases being brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low-value assets which may remain off the balance sheet. Councils existing lease commitments are disclosed in note 42.

The calculation of the lease liability will take into account appropriate discount rates, assumptions about the lease term, and increases in lease payments. A corresponding right to use assets will be recognised, which will be amortised over the term of the lease. Rent expense will no longer be shown. The profit and loss impact of the leases will be through amortisation and interest charges. In the Statement of Cash Flows lease payments will be shown as cash flows from financing activities instead of operating activities.

Lessor accounting under AASB 16 remains largely unchanged. For finance leases, the lessor recognises a receivable equal to the net investment in the lease. Lease receipts from operating leases are recognised as income either on a straight-line basis or another systematic basis where appropriate.

Both operating leases reported at note 42 will become finance leases under this standard and Council is continuing to work through the effect of these changes on its financial statements, so is unable to fully quantify the impact at this point.

Council will apply the standard from 1 July 2019 and expects to use a retrospective approach with cumulative catch-up with an adjustment to accumulated surpluses for the difference in accounting treatment on initial adoption.

All other Australian accounting standards and interpretations with future effective dates are either not applicable to Council's activities, or have no material impact.

**3. SIGNIFICANT WEATHER EVENT**

In the previous period (May 2018), Hobart and surrounds experienced a major weather event causing significant flooding. During the current period Council has progressively undertaken repairs to a number of assets damaged by the weather event.

The financial impact to repair all of the damaged assets is yet to be fully realised as engineering and specialist technical designs continue to be sought for the more complex repairs.

The following is a summary of information available to date:

- Emergency and clean up costs. During the period emergency and clean up costs were incurred totalling \$2.517 million. \$1.409 million of these costs were capital expenditure and \$1.108 million were operating expenditure. It was determined that \$0.954 million of the operating expenditure should be excluded from the calculation of the underlying result (see note 9).
- Including the previous period, total emergency and clean up costs incurred to 30 June 2019 are \$4.181 million, made up of \$1.471 million in capital expenditure and \$2.710 million in operating expenditure.
- Insurable losses. The insurable losses claimed have been reimbursed less the deductible.
- Damage to essential public assets. The estimate of damage costs and clean up costs is \$15 million. Recovery assistance is available for up to 75% of eligible expenditure under the Commonwealth Government's Natural Disaster Relief and Recovery Arrangements (NDRRA), via the State Department of Premier and Cabinet. Eligibility criteria and thresholds apply.
  - One claim has been lodged for NDRRA assistance amounting to \$2.3 million, however funds are yet to be received.
  - A second claim amounting to \$0.9 million is currently being audited, in preparation for lodgement. The eligibility of McRobies Waste Management Centre, to be considered an essential asset under the NDRRA criteria, is being evaluated as part of this audit.
- Damage to non-essential public assets. Damage to assets and clean up costs not meeting the NDRRA definition of essential public assets, has been estimated at approximately \$3.2 million. Council is able to be reimbursed \$2.4m of eligible repair expenditure. The cost to repair these assets is included in the two claims above.

#### 4. FUNCTIONS/ACTIVITIES OF THE COUNCIL

		Expenses	R e v e n u e s			Assets
		\$'000	Grants \$'000	Other \$'000	Total \$'000	\$'000
Public Order and Safety	<b>2018-19</b>	<b>11,457</b>	<b>34</b>	<b>10,342</b>	<b>10,376</b>	<b>12</b>
	2017-18	10,913	0	9,808	9,808	13
Health	<b>2018-19</b>	<b>2,226</b>	<b>0</b>	<b>890</b>	<b>890</b>	<b>244</b>
	2017-18	1,932	1,177	-514	663	156
Welfare	<b>2018-19</b>	<b>5,246</b>	<b>281</b>	<b>637</b>	<b>918</b>	<b>2,669</b>
	2017-18	3,806	171	183	354	2,709
Community Amenities	<b>2018-19</b>	<b>23,017</b>	<b>15</b>	<b>15,606</b>	<b>15,621</b>	<b>186,554</b>
	2017-18	22,461	20	14,635	14,655	164,115
Recreation and Culture	<b>2018-19</b>	<b>35,419</b>	<b>93</b>	<b>8,681</b>	<b>8,774</b>	<b>315,008</b>
	2017-18	33,980	118	8,308	8,426	295,740
Parking	<b>2018-19</b>	<b>13,675</b>	<b>0</b>	<b>23,095</b>	<b>23,095</b>	<b>91,598</b>
	2017-18	12,206	0	21,863	21,863	89,444
Transport	<b>2018-19</b>	<b>83,708</b>	<b>1,697</b>	<b>693</b>	<b>2,390</b>	<b>981,154</b>
	2017-18	16,129	1,691	540	2,231	954,314
Economic Services	<b>2018-19</b>	<b>6,493</b>	<b>150</b>	<b>2,238</b>	<b>2,388</b>	<b>1,995</b>
	2017-18	6,149	150	2,215	2,365	2,758
Other (Not Attributed)*	<b>2018-19</b>	<b>21,081</b>	<b>1,432</b>	<b>68,529</b>	<b>69,961</b>	<b>255,546</b>
	2017-18	19,107	4	68,446	68,450	305,064
<b>Total</b>	<b>2018-19</b>	<b>202,322</b>	<b>3,702</b>	<b>130,711</b>	<b>134,413</b>	<b>1,834,780</b>
	2017-18	126,683	3,331	125,484	128,815	1,814,313

Note - Capital expenses and capital income are not included.

\* Rates and charges for Stormwater, Solid Waste Management and Fire have been attributed to functions, but general rates have not.

The activities relating to Council's functions are classified as follows:-

Public Order and Safety:-	fire prevention and emergency management.
Health:-	food control, immunisation services and animal control.
Welfare:-	youth services and aged care services.
Community Amenities:-	solid waste management, stormwater drainage, public conveniences, street lighting, council-owned properties and administration of planning schemes.
Recreation and Culture:-	public halls, the Aquatic Centre, recreation centres, parks and reserves, the nursery, and festivals.
Parking:-	car parks and on-street parking.
Transport:-	roads, footpaths, bridges, and traffic signs.
Economic Services:-	Salamanca Market and tourism promotion.

## 5. EMPLOYEE COSTS

	Note	2018-19 \$'000	2017-18 \$'000
Gross Wages and Salaries		50,630	47,657
<u>Less:</u> Amounts Capitalised		(3,239)	(3,186)
Leave payments		(3,748)	(3,688)
		<u>(6,987)</u>	<u>(6,874)</u>
Wages and Salaries expensed		43,643	40,783
Leave Entitlements		4,069	4,298
Defined-benefit superannuation plan	33	1,252	1,401
Other superannuation		4,853	4,670
Workers Compensation Insurance		1,111	786
Payroll Tax		3,633	3,146
Aldermanic Allowances		534	522
Employee Separation payments		896	171
Labour Overheads Capitalised		(1,429)	(1,417)
		<u><b>58,562</b></u>	<u><b>54,360</b></u>
Number of Employees (Full-time equivalent)		629	596

## 6. DEPRECIATION AND AMORTISATION

Land Improvements	1,131	1,064
Buildings	2,290	2,284
Infrastructure Plant	722	410
Plant and Equipment	3,135	3,137
Pipes, Drains and Rivulets	1,781	1,730
Roads and Bridges	8,317	8,314
Other Structures	3,751	3,410
Other	146	12
	<u><b>21,273</b></u>	<u><b>20,361</b></u>

## 7. FINANCE COSTS

Interest on Loans		1,271	632
Landfill Restoration Provision	36	112	123
Defined-benefit superannuation scheme	33	(108)	(28)
		<u><b>1,275</b></u>	<u><b>727</b></u>

**8. OTHER EXPENSES**

	Note	2018-19 \$'000	2017-18 \$'000
Pensioner Rate Remissions		1,137	1,161
<u>less: Reimbursements from Government</u>	10	(1,054)	(1,129)
		83	32
Other Rate Remissions		11	13
Grants and Specific Purpose Benefits		3,474	3,199
Auditor General's Fee - Audit of the Financial Report		65	53
Other Audit Fees		89	158
Impairment of Receivables		447	291
Assets Written-off*		69,889	2,299
Obsolete Stock		3	-
Fringe Benefits Tax		143	276
Land Tax		819	715
		<u>75,023</u>	<u>7,036</u>

\* Assets Written-off includes \$67.352 million for writing off all roads, land under roads and footpaths associated with the transfer of ownership of Macquarie and Davey Streets and Brooker Avenue to the State Government.

**9. UNDERLYING RESULT**

Council's underlying result for the period is calculated by excluding those items included in surplus or deficit which are either capital in nature, non-recurring, or the result of contributions received in advance.

Surplus		(64,317)	11,923
<u>exclude</u>			
Capital Grants	10	(1,459)	(3,502)
Contributed Property, Plant and Equipment		(2,114)	(5,255)
Redundancy Payments		896	-
Write-off of assets as a result of weather event	3	-	272
Additional costs as a result of weather event	3	954	1,319
Gains from one-off disposal of surplus land & buildings	11	(12)	(1,137)
Assets written off as a result of transfer to State Government	8	67,352	-
<u>adjust Financial Assistance Grants received in advance</u>	10		
2017/18 allocation received in 2016/17		-	1,318
2018/19 allocation received in 2017/18		1,382	(1,382)
2019/20 allocation received in 2018/19		(1,434)	-
<u>adjust Rates received in advance</u>	14		
2017/18 rates received in 2016/17		-	863
2018/19 rates received in 2017/18		724	(724)
2019/20 rates received in 2018/19		(726)	-
Underlying Surplus		<u>1,246</u>	<u>3,695</u>



## 10. GRANTS AND DONATIONS

	Note	2018-19 \$'000	2017-18 \$'000
<b>a) Operating Grants</b>			
<i>provided by Government</i>			
Commonwealth Financial Assistance Grants		2,824	2,738
Pensioner Rate Remission Grants	8	1,054	1,129
Fuel Tax Credit Scheme		200	126
Tasmanian Travel and Information Centre		150	150
Community Recovery and Resilience Grants		147	-
Still Gardening Program		134	148
Vulnerable Communities - Flood Management Plans		86	-
Employment Creation Initiatives		-	4
Miscellaneous		97	108
		<u>4,692</u>	<u>4,403</u>
<i>other</i>			
Provision of Public Open Space		64	57
		<u>64</u>	<u>57</u>
		4,756	4,460
<u>less</u> : Pensioner Rate Remission Grants netted against Remissions	8	(1,054)	(1,129)
		<u><b>3,702</b></u>	<u><b>3,331</b></u>

The Australian Commonwealth Government provides Financial Assistance Grants to Council for general purpose use and the provision of local roads. In accordance with AASB1004 *Contributions*, Council recognises these grants as revenue when it receives the funds and obtains control.

Since 2009-10 the Commonwealth has been making early payments of financial assistance grants in some years but not in others. Two instalments (50%) of the 2018-19 grants were brought-forward and received in June 2018. Again in this current period two instalments (50%) of the 2019-20 grants were brought-forward and received by Council in June 2019. Council has reflected these latest early payments in its 2019-20 budget, but has assumed that future grants will be received in the year to which they relate.

Future payments of Financial Assistance Grants remain at the Commonwealth's discretion.

	2018-19 \$'000	2017-18 \$'000
<b>b) Capital Grants</b>		
<i>provided by Government</i>		
Roads to Recovery Program	448	1,028
Blackspot Program	90	519
Levelling the Playing Fields Grants	365	-
South Hobart Community Centre Redevelopment	200	-
Tasmanian Cycle Tourism Fund - The Missing Link & Junction Climber	188	-
North Hobart Skate Park Redevelopment	100	-
Vulnerable Road User Program	68	-
Bridge of Remembrance	-	1,636
Macquarie Street Hotmix Overlay	-	319
	<b>1,459</b>	<b>3,502</b>
<b>Total Grants and Donations</b>	<b>5,161</b>	<b>6,833</b>
<b>c) Conditions</b>		
Grants and donations which were recognised as revenues during the reporting period and which were obtained on the condition that they be expended in a particular manner, but had yet to be applied in that manner as at the reporting date :	842	1,695
Grants and donations which were recognised as revenues in a previous reporting period and were expended during the current reporting period in the manner specified by the contributor :	(5,385)	(3,051)
Net increase/(decrease) in assets subject to conditions	(4,543)	(1,356)
Assets subject to conditions at the beginning of the period	5,571	6,927
<b>Assets subject to conditions at the end of the period</b>	<b>1,028</b>	<b>5,571</b>

With the exception of assets subject to conditions at the end of the period, all funds granted have been expended for the purpose for which they were provided.

### 11. ASSET SALES

	2018-19 \$'000	2017-18 \$'000
<i>Plant &amp; Equipment</i>		
Proceeds from sales	824	1,031
Less carrying amount of assets sold	(817)	(1,134)
Gain / (Loss) on disposal	<u>7</u>	<u>(103)</u>
<i>Land and Buildings</i>		
Proceeds from sales	12	2,469
Less carrying amount of assets sold	-	(1,332)
Gain / (Loss) on disposal	<u>12</u>	<u>1,137</u>
Total Gain / (Loss) on disposal of assets	<u><u>19</u></u>	<u><u>1,034</u></u>

## 12. INVESTMENT IN TASWATER

Council accounts for its ownership interest in the Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater) in accordance with AASB 9 *Financial Instruments*. Council has designated its investment in TasWater as an equity investment at fair value through other comprehensive income. Subsequent changes in fair value are reflected in the reserve and will not be reclassified through the profit or loss when derecognised. The investment was previously classified as an “available-for-sale financial asset”. Council derives investment returns in the form of dividends.

During the period the State Government became a shareholder of TasWater and will invest \$20 million per year for the next ten years. As a shareholder the State Government will not receive any dividend distributions. The partnership provides for a reduction in forecast price increases, accelerated infrastructure upgrades and a joint focus on major projects.

At 30 June 2019, the fair value of the asset was measured by applying Council’s equity voting proportion of 10.27% to TasWater’s net asset value at that date. TasWater advised that this net asset value was \$1.859 million. Council’s equity voting proportion has reduced from 10.39% last period due to the effect of the State Government’s equity injection of one million shares in TasWater during the period.

The following table summarises the movements in the value of Council’s investment in TasWater: -

	2018-19 \$'000	2017-18 \$'000
Opening Balance	166,823	164,686
Fair value adjustment - equity investment	24,123	-
Fair value adjustment - available-for-sale asset	-	2,137
Closing Balance	<u>190,946</u>	<u>166,823</u>

Fair value adjustments have been recognised in other comprehensive income.

## 13. ASSET REVALUATIONS

	Note	2018-19 \$'000	2017-18 \$'000
<i>PP&amp;E Revaluations recognised in other comprehensive income</i>			
Land		-	43,317
Buildings		4,735	(4,365)
Land Improvements		735	545
Infrastructure Plant		1,903	38
Pipes, Drains and Rivulets		3,416	2,431
Roads and Bridges		6,225	4,918
Other Structures		32,392	1,454
Net PP&E Revaluation increments	21,37	<u>49,406</u>	<u>48,338</u>

#### 14. RATES RECEIVED IN ADVANCE

Note	2018-19	2017-18
	\$'000	\$'000
Rates recognised as revenues during the reporting period which were obtained in respect of future rating periods	726	724
Rates recognised as revenues in a previous reporting period which were obtained in respect of the current reporting period.	(724)	(863)
Net increase (decrease) in prepaid rates	<u>2</u>	<u>(139)</u>

#### 15. RESTRICTED ASSETS

##### a) Grants and Donations subject to Conditions

Assets derived from grants and donations which were obtained on the condition that they be expended in a particular manner but had yet to be applied in that manner as at the reporting date were in respect of:

- Contributions in lieu of Parking	135	135
- Contributions in lieu of Public Open Space	114	48
- Roadworks	19	-
- Bridge of Remembrance	-	5,369
- Miscellaneous	760	19
10(c)	<u>1,028</u>	<u>5,571</u>

##### b) Heritage Account

Assets acquired as a result of the winding-up of the National Trust Preservation Fund which are required by section 5(3) of the *National Trust Preservation Fund (Winding-up) Act 1999* to be applied for the provision of financial or other assistance in relation to an entry in either the National Trust Register or the Tasmanian Heritage Register.

1(m)	<u>1,549</u>	<u>1,553</u>
<b>Total Restricted Assets</b>	<u><b>2,577</b></u>	<u><b>7,124</b></u>

**16. CASH**

	Note	2018-19 \$'000	2017-18 \$'000
<b>a) Definition of Cash</b>			
For the purpose of the Statement of Cash Flows, the following items comprise the cash balance at the end of the period: -			
Term Deposits		8,300	11,500
At Call		10,029	18,106
		<u>18,329</u>	<u>29,606</u>
Cash Advances		60	57
Cash at Bank		1,736	2,181
		<u><b>20,125</b></u>	<u><b>31,844</b></u>
<b>b) Composition of Cash</b>			
The following restrictions apply to the closing cash balance :			
- Provision of Public Open Space		114	48
- Provision of Parking Facilities		135	135
- Roadworks		19	-
- Bridge of Remembrance		-	5,369
- Heritage Funding		1,549	1,553
- Other		760	19
	15	<u>2,577</u>	<u>7,124</u>
The remainder of the Cash balance has been ear-marked for :			
- Capital Works		9,057	14,994
- Provision of Public Open Space		16	16
- Bushland Acquisition		182	208
- Public Infrastructure Fund		1,750	2,791
- McRobies Gully Landfill Rehabilitation		3,670	3,637
- Queens Domain Facility upgrades		1,339	912
- Refundable Deposits		1,534	2,162
		<u>17,548</u>	<u>24,720</u>
		<u><b>20,125</b></u>	<u><b>31,844</b></u>

**17. INVENTORIES**

The Doone Kennedy Hobart Aquatic Centre	52	31
McRobies Gully - construction materials	41	40
Salamanca Market	93	96
Tasmanian Travel & Information Centre	61	56
Other	182	135
	<u><b>429</b></u>	<u><b>358</b></u>

**18. FINANCIAL INSTRUMENTS**

Council's principal financial instruments comprise receivables, payables, loans, cash and short-term deposits. The main risks arising from these financial instruments are credit risk, interest rate risk and liquidity risk.

Council uses a variety of methods to measure and manage the various types of risk to which it is exposed, and these are outlined below.

**a) Credit Risk**

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

Council does not hold any credit derivatives to offset its credit risk exposure.

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

It is Council's policy that some customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their credit rating, financial position, past experience and industry reputation. These procedures are currently limited to customers of the McRobies Gully Waste Management Centre. Credit risk limits are set for each individual customer and these limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that Council's exposure to bad debts is not significant.

There are no significant concentrations of credit risk and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

In relation to amounts owed to Council in respect of unpaid rates, there is generally no credit risk as section 137 of the *Local Government Act 1993* empowers Councils to sell properties as a means of recovering rates outstanding.

**b) Interest Rate Risk**

Exposure to interest rate risk arises predominantly from assets and liabilities bearing variable interest rates, as Council intends to hold fixed rate assets and liabilities to maturity. Council monitors both its level of exposure to interest rate risk, and assessments of market forecasts for future interest rates.

Council's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

2018-19	Floating	Fixed Interest Maturing in :			Non-	Total	Weighted Average Interest Rate
	Interest	1 year	Over 1 to	More than	Interest		
	Rate	or less	5 years	5 years	Bearing		
	\$'000	\$'000	\$'000	\$'000	\$'000		
<b>Financial Assets</b>							
Cash and cash equivalents	12,358	8,300	-	-	60	20,718	2.16%
Investment in Tas Water	-	-	-	-	190,946	190,946	
Receivables	1,363	-	-	-	5,877	7,240	0.91%
	13,721	8,300	-	-	196,883	218,904	
Weighted Average Interest Rate	2.65%	2.33%	0.00%	0.00%			
<b>Financial Liabilities</b>							
Payables	-	-	-	-	7,792	7,792	
Trust, Deposits, Retention	-	-	-	-	2,434	2,434	
Loans	-	3,187	10,784	24,170	-	38,141	4.16%
	-	3,187	10,784	24,170	10,226	48,367	
Weighted Average Interest Rate	0.00%	4.60%	4.26%	4.06%			
<b>Net Financial Assets / (Liabilities)</b>	<b>13,721</b>	<b>5,113</b>	<b>(10,784)</b>	<b>(24,170)</b>	<b>186,657</b>	<b>170,537</b>	

2017-18	Floating	Fixed Interest Maturing in :			Non-	Total	Weighted Average Interest Rate
	Interest	1 year	Over 1 to	More than	Interest		
	Rate	or less	5 years	5 years	Bearing		
	\$'000	\$'000	\$'000	\$'000	\$'000		
<b>Financial Assets</b>							
Cash and cash equivalents	20,287	11,500	-	-	57	31,844	2.03%
Investment in Tas Water	-	-	-	-	166,823	166,823	
Receivables	1,197	-	-	-	5,998	7,195	0.88%
	21,484	11,500	-	-	172,878	205,862	
Weighted Average Interest Rate	2.11%	2.60%	0.00%	0.00%			
<b>Financial Liabilities</b>							
Payables	-	-	-	-	10,818	10,818	
Trust, Deposits, Retention	-	-	-	-	3,128	3,128	
Loans	-	2,070	7,392	10,749	-	20,211	4.82%
	-	2,070	7,392	10,749	13,946	34,157	
Weighted Average Interest Rate	0.00%	5.06%	4.87%	4.74%			
<b>Net Financial Assets / (Liabilities)</b>	<b>21,484</b>	<b>9,430</b>	<b>(7,392)</b>	<b>(10,749)</b>	<b>158,932</b>	<b>171,705</b>	



Changes in variable rates of 100 basis points at the reporting date would have the following effect on Council's profit or loss and equity: -

	30 June 2019		30 June 2018	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
	\$'000	\$'000	\$'000	\$'000
<b><i>Financial Assets</i></b>				
Cash Advances	n/a	n/a	n/a	n/a
Other Cash and Cash Equivalents	124	(124)	202	(202)
Investment in TasWater	n/a	n/a	n/a	n/a
Receivables	14	(14)	12	(12)
	<b>138</b>	<b>(138)</b>	<b>214</b>	<b>(214)</b>
<b><i>Financial Liabilities</i></b>				
Payables	n/a	n/a	n/a	n/a
Loans	n/a	n/a	n/a	n/a
	-	-	-	-

This analysis assumes all other variables remain constant. The analysis was performed on the same basis for 30 June 2018.

#### **c) Liquidity Risk**

Liquidity risk is monitored through the development of rolling cash flow forecasts. Council's objective is to maintain a balance between continuity of funding and flexibility through the use of short-term investments, bank overdrafts and loans.

Council monitors rolling forecasts of liquidity reserves on the basis of expected cash flow. The table below shows the contractual maturities for financial liabilities.

<b>2018-19</b>	<b>6 mths or less \$'000</b>	<b>6 - 12 months \$'000</b>	<b>1 - 2 years \$'000</b>	<b>2 - 5 years \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Total \$'000</b>	<b>Carrying Amount \$'000</b>
Trade and other payables	7,792	-	-	-	-	7,792	7,792
Trust funds and deposits	178	42	417	551	1,245	2,433	2,434
Interest-bearing loans and borrowings	1,576	1,611	3,097	7,687	24,170	38,141	38,141
<b>Total financial liabilities</b>	<b>9,546</b>	<b>1,653</b>	<b>3,514</b>	<b>8,238</b>	<b>25,415</b>	<b>48,366</b>	<b>48,367</b>

<b>2017-18</b>	<b>6 mths or less \$'000</b>	<b>6 - 12 months \$'000</b>	<b>1 - 2 years \$'000</b>	<b>2 - 5 years \$'000</b>	<b>&gt; 5 years \$'000</b>	<b>Total \$'000</b>	<b>Carrying Amount \$'000</b>
Trade and other payables	10,818	-	-	-	-	10,818	10,818
Trust funds and deposits	1,240	-	410	240	1,238	3,128	3,128
Interest-bearing loans and borrowings	1,024	1,046	2,160	5,232	10,749	20,211	20,211
<b>Total financial liabilities</b>	<b>13,082</b>	<b>1,046</b>	<b>2,570</b>	<b>5,472</b>	<b>11,987</b>	<b>34,157</b>	<b>34,157</b>

**d) Net Fair Value of Financial Assets and Liabilities**

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based on market prices where a market exists or by discounting expected future cash flows by the current interest rates for assets and liabilities with similar risk properties.

The carrying amounts and net fair values of financial assets and liabilities at the reporting date are as follows: -

	2018-19		2017-18	
	Carrying Amount \$'000	Net Fair Value \$'000	Carrying Amount \$'000	Net Fair Value \$'000
<b><i>Financial Assets</i></b>				
Cash Advances	60	60	57	57
Cash at Bank and Investments	20,065	20,065	31,787	31,787
Investment in TasWater	190,946	190,946	166,823	166,823
Receivables	7,240	7,240	7,195	7,195
	<b>218,311</b>	<b>218,311</b>	<b>205,862</b>	<b>205,862</b>
<b><i>Financial Liabilities</i></b>				
Payables	7,792	7,792	10,818	10,818
Loans	38,141	42,940	20,211	21,701
	<b>45,933</b>	<b>50,732</b>	<b>31,029</b>	<b>32,519</b>

None of the above assets and liabilities are readily traded on organised markets in standardised form.

**e) Fair Value hierarchy**

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

The different levels have been defined as follows: -

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

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2018-19</b>				
Investment in TasWater	-	-	190,946	190,946
Financial assets at fair value through profit or loss	-	267	-	267
	-	<b>267</b>	<b>190,946</b>	<b>191,213</b>
<b>2017-18</b>				
Investment in TasWater	-	-	166,823	166,823
Financial assets at fair value through profit or loss	-	248	-	248
	-	<b>248</b>	<b>166,823</b>	<b>167,071</b>

There were no transfers between levels 1 and 2 during the period, nor between levels 2 and 3.

Reconciliation of level 3 fair value movements

	<b>2018-19 \$'000</b>	2017-18 \$'000
Opening Balance	166,823	164,686
Gains / (Losses) recognised in other comprehensive income		
- Fair value adjustment - equity investment	24,123	-
- Fair value adjustment - available-for-sale asset	-	2,137
Closing Balance	<b>190,946</b>	<b>166,823</b>

**19. RECEIVABLES**

	2018-19 \$'000	2017-18 \$'000
Rates	1,363	1,245
Parking Fines	8,279	8,128
Trade Receivables	1,527	1,159
Accrued Interest on Investments	41	76
Wages and Salaries Paid in Advance	77	87
GST Receivable	841	1,166
Other Debtors	18	169
	<u>12,146</u>	<u>12,030</u>
Less Provision for Expected Credit Loss	(4,906)	-
Less Provision for Impairment	-	(4,835)
	<u><u>7,240</u></u>	<u><u>7,195</u></u>
Current	7,240	7,147
Non-Current	-	48
	<u><u>7,240</u></u>	<u><u>7,195</u></u>

At 30 June the ageing analysis of receivables is as follows: -

**Trade Receivables**

	Total	0-29 days	0-29 days	30-59 days	30-59 days	60-89 days	60-89 days	90+ days	90+ days
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
			CI*	PDNI*	CI*	PDNI*	CI*	PDNI*	CI*
2019	1,527	943	-	406	-	19	-	106	53
2018	1,159	889	-	139	-	66	-	19	46

**Parking Fines**

	Total \$'000	<u>Parking Meter and Voucher</u>			<u>Traffic Infractions</u>		
		0-14 days \$'000	14+ days \$'000	14+ days PDNI*	0-28 days \$'000	28+ days \$'000	28+ days PDNI*
2019	8,279	106	2,728	3,599	94	781	971
2018	8,128	102	2,700	3,552	84	714	976

**Rates**

	Total \$'000	90+ days \$'000
2019	1,363	1,363
2018	1,245	1,245

\* PDNI - past due not impaired

CI - considered impaired

	2018-19 \$'000	2017-18 \$'000
<b><u>Reconciliation of Movement in Expected Credit Loss</u></b>		
Carrying amount at 30 June 2018 under AASB 139	(4,835)	
Amounts restated through Accumulated Funds	-	
Carrying amount at 1 July under AASB 9	(4,835)	
Amounts written off during the year	376	
Amounts recovered during the year	-	
(Increase)/decrease in provision recognised in profit or loss	(447)	
Carrying amount at 30 June	(4,906)	
<b><u>Reconciliation of Movement in Provision for Impairment of Receivables</u></b>		
Carrying amount at 1 July		(4,883)
Amounts written off during the year		275
Amounts recovered during the year		-
(Increase)/decrease in provision recognised in profit or loss		(227)
Carrying amount at 30 June		(4,835)

## **20. ASSETS CLASSIFIED AS HELD FOR SALE**

No assets were classified as 'held for sale' at either the current reporting date or the previous reporting date.

## 21. PROPERTY, PLANT AND EQUIPMENT

	Note	Carrying Amount 30/6/2018 \$'000	Additions \$'000	Transfer to Non- current Assets \$'000	Disposals \$'000	Net Revaluation/ Indexation Adjustments \$'000	Depreciation \$'000	Other Movements \$'000	Carrying Amount 30/6/2019 \$'000
Plant and Equipment	22	18,837	4,351	122	(1,100)	-	(3,135)	(346)	18,729
Land	23	954,057	859	-	(50,965)	-	-	-	903,951
Buildings	23	142,781	12	5,168	(43)	4,735	(2,290)	(2)	150,361
Land Improvements	24	24,363	-	1,882	(96)	735	(1,131)	(73)	25,680
Infrastructure Plant	25	3,175	2,386	33	(298)	1,903	(722)	344	6,821
Pipes, Drains and Rivulets	26	107,264	571	880	(142)	3,416	(1,781)	1	110,209
Roads and Bridges	27	216,834	669	8,571	(17,159)	6,225	(8,317)	(87)	206,736
Other Structures	28	67,946	200	6,060	(903)	32,392	(3,751)	165	102,109
Capital Work in Progress	29	67,411	45,089	(23,264)	-	-	-	(2)	89,234
Other	30	948	-	548	-	-	(146)	-	1,350
		<b>1,603,616</b>	<b>54,137</b>	<b>-</b>	<b>(70,706)</b>	<b>49,406</b>	<b>(21,273)</b>	<b>-</b>	<b>1,615,180</b>

Other Movements predominantly represents the reclassification of assets between classes.

	Note	Carrying Amount 30/6/2017 \$'000	Additions \$'000	Transfer to Non- current Assets \$'000	Disposals \$'000	Net Revaluation/ Indexation Adjustments \$'000	Depreciation \$'000	Other Movements \$'000	Carrying Amount 30/6/2018 \$'000
Plant and Equipment	22	19,092	4,060	-	(1,295)	-	(3,137)	117	18,837
Land	23	908,352	2,637	153	(402)	43,317	-	-	954,057
Buildings	23	147,074	178	2,368	(141)	(4,365)	(2,284)	(49)	142,781
Land Improvements	24	23,862	5	1,569	(557)	545	(1,064)	3	24,363
Infrastructure Plant	25	2,017	1,515	15	(29)	38	(410)	29	3,175
Pipes, Drains and Rivulets	26	104,499	990	1,136	(63)	2,431	(1,730)	1	107,264
Roads and Bridges	27	211,741	1,908	7,249	(668)	4,918	(8,314)	-	216,834
Other Structures	28	68,428	382	1,870	(708)	1,454	(3,410)	(70)	67,946
Capital Work in Progress	29	45,189	36,681	(14,360)	-	-	-	(99)	67,411
Other	30	920	40	-	-	-	(12)	-	948
		<b>1,531,174</b>	<b>48,396</b>	<b>-</b>	<b>(3,863)</b>	<b>48,338</b>	<b>(20,361)</b>	<b>(68)</b>	<b>1,603,616</b>



**22. PLANT AND EQUIPMENT**

	2018-19 \$'000	2017-18 \$'000
At Cost	37,930	37,245
<u>less : Accumulated Depreciation</u>	<u>(19,201)</u>	<u>(18,408)</u>
	<u><b>18,729</b></u>	<u><b>18,837</b></u>

**23. LAND AND BUILDINGS**

	2018-19 \$'000	2017-18 \$'000
<b>Land</b>		
At Cost	1,088	1,088
At Valuer-General's market valuation - 2015 indexed to March 2018*	902,863	952,969
	<u><b>903,951</b></u>	<u><b>954,057</b></u>
<b>Buildings</b>		
At Fair Value - 2019	5,180	-
At Fair Value - 2018 indexed to March 2019	243,153	-
At Fair Value - 2018	-	235,442
	<u>248,333</u>	<u>235,442</u>
<u>less : Accumulated Depreciation</u>	<u>(97,972)</u>	<u>(92,661)</u>
	<u><b>150,361</b></u>	<u><b>142,781</b></u>
	<u><b>1,054,312</b></u>	<u><b>1,096,838</b></u>

\*Valuer-General land indexation factor for Hobart municipality for 2018/19 was 1.0, therefore no indexation was applied to land in the current period.

**24. LAND IMPROVEMENTS**

	2018-19 \$'000	2017-18 \$'000
At Fair Value - 2019	3,466	-
At Fair Value - 2017 to 2018 indexed to March 2019	49,463	-
At Fair Value - 2018	-	1,571
At Fair Value - 2017 indexed to March 2018	-	48,601
	<u>52,929</u>	<u>50,172</u>
<u>less : Accumulated Depreciation</u>	<u>(27,249)</u>	<u>(25,809)</u>
	<u><b>25,680</b></u>	<u><b>24,363</b></u>

**25. INFRASTRUCTURE PLANT**

	2018-19 \$'000	2017-18 \$'000
At Fair Value - 2019	10,004	-
At Fair Value - 2018	-	1,743
At Fair Value - 2016 indexed to March 2018	-	5,731
	10,004	7,474
<u>less : Accumulated Depreciation</u>	(3,183)	(4,299)
	<u><b>6,821</b></u>	<u><b>3,175</b></u>

**26. PIPES, DRAINS AND RIVULETS**

At Fair Value - 2019	5,835	-
At Fair Value - 2015 to 2018 indexed to March 2019	194,984	-
At Fair Value - 2018	-	4,400
At Fair Value - 2015 to 2017 indexed to March 2018	-	188,877
	200,819	193,277
<u>less : Accumulated Depreciation</u>	(90,610)	(86,013)
	<u><b>110,209</b></u>	<u><b>107,264</b></u>

**27. ROADS AND BRIDGES**

At Fair Value - 2019	17,325	-
At Fair Value - 2017 to 2018 indexed to March 2019	444,290	-
At Fair Value - 2018	-	9,115
At Fair Value - 2017 indexed to March 2018	-	474,948
	461,615	484,063
<u>less : Accumulated Depreciation</u>	(254,879)	(267,229)
	<u><b>206,736</b></u>	<u><b>216,834</b></u>

**28. OTHER STRUCTURES**

At Fair Value - 2019	200,300	-
At Fair Value - 2018	-	7,080
At Fair Value - 2016 to 2017 indexed to March 2018	-	132,296
	200,300	139,376
<u>less : Accumulated Depreciation</u>	(98,191)	(71,430)
	<u><b>102,109</b></u>	<u><b>67,946</b></u>

Council also controls a number of monuments. These assets have not been included in the Statement of Financial Position on the basis that they cannot be reliably measured.

## 29. CAPITAL WORK IN PROGRESS

	2018-19 \$'000	2017-18 \$'000
Road and Bridge Works	14,649	10,167
Sandy Bay Road Cycleway	1,226	1,226
Wilson Street Works	889	838
Mellifont Street Works	922	806
Olinda Grove Works	1,197	592
Dan Murphy's Development - Culvert Upgrade	1,184	56
Sandy Bay Road Works - York Street to Wainea Avenue	1,471	-
Footpath, Kerb and Gutter Works	3,056	2,826
Traffic Management Works	4,176	2,788
Sandy Bay Retail Precinct Upgrade	-	2,823
Lenah Valley Precinct Upgrade	2,649	1,973
South Hobart Pedestrian Crossing	881	136
Stormwater Mains	3,530	1,838
Railway Fountain Restoration	-	446
Parks and Gardens Works	3,466	4,025
Franklin Square Pavement	-	2,203
Soldiers Memorial Oval - Playscape incl Amphitheatre	1,557	1,328
TCA HC Smith Stand - Toilet Renewal	-	621
Soldiers Memorial Oval - Community Hub Buildings	1,060	111
Salamanca Public Conveniences	-	649
Solar Array Installations on Council Buildings	628	570
City Hall Refurbishment	1,212	536
Sporting Facility Works	2,437	3,707
Sandown Park Pavilion - Change Rooms Refurbishment	-	348
Buckingham Bowls Club Wall Replacement	-	426
The Doone Kennedy Hobart Aquatic Centre Upgrades	2,857	2,464
Core Business Systems Upgrade	5,220	3,061
Valuation Roll	-	548
Ancanthe Park Master Plan	689	689
Great Short Walks - Wellington Park Tracks	-	1,833
The Springs Infrastructure Upgrade	687	664
Bushland and Reserves Works	3,810	2,256
Argyle Street Sprinklers	1,268	436
City Wayfinding System	-	514
McRobies Gully Waste Management Centre	969	581
Kemp Street Works	1,865	991
Salamanca Pedestrian Works	868	868
Pedestrian and Cyclist High Level Crossing Over Brooker Ave	5,418	1,174
Bridge of Remembrance	10,449	2,316
Carnegie Gallery	-	361
Litter Bin and Wheelie Bin Renewals	257	356
Other	8,687	7,260
	<b>89,234</b>	<b>67,411</b>

### 30. OTHER PROPERTY, PLANT AND EQUIPMENT

	2018-19 \$'000	2017-18 \$'000
<b>Valuation Roll</b>		
At Cost	1,017	469
less : Accumulated Depreciation	(590)	(444)
	427	25
<b>Valuables</b>		
At Cost	258	258
At independent valuation of market value - 2014	665	665
	923	923
	<b>1,350</b>	<b>948</b>

### 31. PAYABLES

Trade Creditors	1,302	2,998
Accrued plant and equipment purchases	330	187
Accrued capital expenditure	1,042	2,067
GST payable	431	586
Accrued Interest Expense	334	-
Energy Costs	223	195
Payroll Tax	1,223	1,169
Workers Compensation Insurance	792	351
Fringe Benefits Tax	71	96
Other Accrued Expenses	2,044	3,169
	<b>7,792</b>	<b>10,818</b>

### 32. TRUST, DEPOSITS, RETENTION

Refundable Infrastructure Bonds	1,389	2,073
Deposits held for Travel Operators	596	681
Contract Retention monies	271	304
Other	178	70
	<b>2,434</b>	<b>3,128</b>

### 33. EMPLOYEE BENEFITS

	2018-19 \$'000	2017-18 \$'000
<b><u>Assets</u></b>		
Defined-benefit superannuation plan	24	4,065
	<b>24</b>	<b>4,065</b>
Current	-	-
Non-Current	24	4,065
	<b>24</b>	<b>4,065</b>
<b><u>Liabilities</u></b>		
Wages and salaries	1,920	1,811
Annual leave (including loading)	3,881	3,712
Long service leave	5,831	5,679
Sick leave	2,430	2,430
Superannuation contributions	1,482	1,431
Redundancies	137	136
	<b>15,681</b>	<b>15,199</b>
Current	12,693	12,391
Non-Current	2,988	2,808
	<b>15,681</b>	<b>15,199</b>

#### Superannuation

Council makes the following defined-contributions to superannuation: -

- 10.5% of wages and salaries for casual employees,
- 12.5% of wages and salaries for full-time and part-time employees who commenced after 11 March 2003, and
- 4.5% of wages and salaries for full-time and part-time employees who commenced prior to 11 March 2003.

In respect of those full-time and part-time employees who commenced employment with Council prior to 11 March 2003, Council also contributes to a defined-benefit superannuation plan. From 1 July 2014, the level of contribution was set at 9.5%. Employee contributions are 6% of wages and salaries. Employees are entitled to benefits on resignation, retirement, disability or death. The fund provides a defined-benefit based on years of service and final average salary.

An actuarial assessment of the fund was carried out by Mr. David Quinn-Watson, FIAA of DeeDeeRa Actuaries Pty Ltd for the purpose of providing figures in accordance with AASB 119 *Employee Benefits*. An assessment report was received on 31 July 2019 and this revealed the following:

<u>Key assumptions</u>	<u>30 June 2019</u>	<u>30 June 2018</u>
Discount Rate – gross of tax	1.30%	2.60%
Discount Rate – net of tax	n/a	n/a
Expected rates of salary increase: -		
2019/20 to 2021/22	2.50%	2.40%
thereafter	2.50%	2.40%

The amount included in expenses is as follows: -

	2018-19 \$'000	2017-18 \$'000
Employee Costs		
- Current Service Cost	1,252	1,401
Finance Costs		
- Interest Cost	880	872
- Expected return on plan assets	(988)	(900)
	<u>(108)</u>	<u>(28)</u>
	<u><b>1,144</b></u>	<u><b>1,373</b></u>

Actuarial gains and losses recognised in respect of the defined-benefit plan were as follows: -

Actuarial (gains) / losses incurred during the period and recognised in other comprehensive income	3,737	(3,980)
Cumulative actuarial (gains) / losses recognised in other comprehensive income	4,534	797

The amount included in the Statement of Financial Position arising from Council's obligation in respect of its defined-benefit plan is as follows: -

Present value of defined-benefit obligation	40,807	35,119
Fair value of plan assets	<u>(40,831)</u>	<u>(39,184)</u>
Net liability / (asset) arising from defined-benefit plan	<u><b>(24)</b></u>	<u><b>(4,065)</b></u>

Movements in the net liability / (asset) were as follows: -

Opening liability/(asset)	(4,065)	(545)
Expense recognised in surplus/(deficit)	1,144	1,373
Actuarial (gains)/losses	3,737	(3,980)
Employer contributions	(840)	(913)
Closing liability/(asset)	<u><b>(24)</b></u>	<u><b>(4,065)</b></u>

Movements in the present value of the defined-benefit obligation were as follows: -

	2018-19 \$'000	2017-18 \$'000
Opening defined-benefit obligation	35,119	39,991
Current Service Cost	1,252	1,401
Interest Cost	880	872
Member contributions and transfers from other funds	531	638
Actuarial (gains) / losses	6,754	(3,439)
Benefits and tax paid	(3,729)	(4,344)
Closing defined-benefit obligation	<u>40,807</u>	<u>35,119</u>

Movements in the fair value of the plan assets were as follows: -

Opening fair value of plan assets	39,184	40,536
Expected return on plan assets	988	900
Actuarial gains / (losses)	3,017	541
Employer contributions	841	912
Member contributions and transfers from other funds	530	639
Benefits paid	(3,729)	(4,344)
Closing fair value of plan assets	<u>40,831</u>	<u>39,184</u>

Changes in the key actuarial assumptions at the reporting date would have the following effect on the net asset arising from the defined-benefit plan: -

	0.25% increase \$'000	0.25% decrease \$'000
Discount rate	792	(387)
Salary increase rate	(331)	742
	2.50% increase \$'000	2.50% decrease \$'000
Asset value	1,021	(1,021)

Plan assets are invested in a “balanced” strategy with about three-quarters in “growth” asset classes (e.g. shares and property) and about one-quarter in “defensive” asset classes (e.g. fixed interest and cash). The table below shows the current benchmark (target) and actual asset allocations of fund assets (as advised by the Scheme administrators):

	Strategic Allocation %	as at 30 June 2019 %	as at 30 June 2018 %
Australian shares	34.0	34.8	35.7
International shares	29.0	28.2	23.9
Property	0.7	0.6	0.9
Fixed interest	8.5	8.9	11.4
Private Equity	9.1	9.9	10.7
Infrastructure	8.7	9.4	10.1
Alternative Assets	3.9	4.1	4.2
Cash	6.1	4.2	3.2
Total	100	100	100

### 34. UNEARNED REVENUE

	2018-19 \$'000	2017-18 \$'000
Doone Kennedy Hobart Aquatic Centre memberships paid in advance	127	153
Salamanca Market rentals paid in advance	175	182
Animal Licences paid in advance	22	51
Food Premises registration fees paid in advance	250	197
Other	217	224
	<b>791</b>	<b>807</b>

### 35. LOANS

Loans outstanding at beginning of year	20,211	11,693
New borrowings	20,000	10,000
	40,211	21,693
Redemptions	(2,070)	(1,482)
Loans outstanding at end of year	<b>38,141</b>	<b>20,211</b>
Current	3,187	2,070
Non-Current	34,954	18,141
	<b>38,141</b>	<b>20,211</b>

All loans are secured by Council revenues. Repayments are made semi-annually in arrears, and interest expense is accrued at the contracted rate and included in payables.



**36. PROVISIONS**

	2018-19 \$'000	2017-18 \$'000
<i>Rehabilitation of Landfill site</i>		
Balance at beginning of year	4,650	5,401
Additional provisions recognised	425	(190)
Expenditure incurred	(220)	(684)
Unwinding of discount and effect of changes in the discount rate	112	123
Balance at end of year	<u>4,967</u>	<u>4,650</u>
 Current	 217	 603
Non-Current	<u>4,750</u>	<u>4,047</u>
	<u>4,967</u>	<u>4,650</u>

### 37. RESERVES

	Note	Balance 30/6/18 \$'000	Transfers to Reserves \$'000	Transfers from Reserves \$'000	Balance 30/6/19 \$'000
Asset Replacement		12,390	25,418	(28,687)	9,121
Bushland Fund		208	56	(82)	182
Contributions in Lieu of Parking		135	-	-	135
Contributions in Lieu of Public Open Space		48	66	-	114
Heritage Account		1,554	66	(71)	1,549
		14,335	25,606	(28,840)	11,101
Fair Value Reserve	12	(29,898)	24,122	-	(5,776)
Asset Revaluation Reserve	13	630,207	49,406	-	679,613
		614,644	99,134	(28,840)	684,938

#### **Asset Replacement Reserve**

Council maintains a reserve for the replacement of its assets. Revenue and loans raised for this purpose are transferred to the reserve, whilst expenditure incurred on replacing existing assets is transferred from the reserve. The balance of the reserve represents expenditure which Council expects to incur in future reporting periods on replacing its assets.

#### **Bushland Fund**

Council has established a Bushland Fund and allocated funds from revenue to the reserve. The reserve was established for the purpose of purchasing strategic areas of bushland and open space.

#### **Contributions in Lieu of Parking**

Council maintains a reserve to separately account for funds provided to Council for the express purpose of providing parking facilities throughout the city.

#### **Contributions in Lieu of Public Open Space**

Council maintains a reserve to separately account for funds provided to Council for the express purpose of providing areas of public open space throughout the city.

#### **Heritage Account**

Council has established a Heritage Account as required by the *National Trust Preservation Fund (Winding-up) Act 1999*. Amounts transferred to the account include the initial distribution from the National Trust Preservation Fund, together with interest accruing on the balance of the account.

The Act requires that funds transferred into the Heritage Account be applied for the provision of financial or other assistance in relation to an entry in either the National Trust Register kept by the National Trust of Australia (Tasmania), or the Tasmanian Heritage Register.

#### **Fair Value Reserve**

Council maintains a fair value reserve in order to account for gains and losses on its TasWater equity investment as required by AASB 9 *Financial Instruments*.

#### **Asset Revaluation Reserve**

Council maintains an asset revaluation reserve in order to account for asset revaluation increments and decrements in accordance with AASB 116 *Property, Plant and Equipment*.

### 38. RECONCILIATION OF ACCRUAL-BASED RESULTS WITH CASH FLOWS

	2018/19 (\$'000)			2017/18 (\$'000)		
	Operating Activities	Investing Activities	Total	Operating Activities	Investing Activities	Total
Revenues	138,005			138,606		
Expenses / Expenditure	(202,322)	(52,023)		(126,683)	(43,141)	
<b>Surplus</b>	<b>(64,317)</b>			<b>11,923</b>		
<b>Items not involving Cash:</b>						
Depreciation and Amortisation	21,273			20,361		
Carrying Value of Assets Sold	817			2,466		
Asset Write-offs	69,889			2,299		
Assets received for no consideration	(2,114)			(5,255)		
<b>Re-classification of Revenues</b>						
Capital Grants	(1,459)	1,459	-	(3,502)	3,502	-
Sales of Assets	(836)	836	-	(3,500)	3,500	-
<b>Changes in Operating Assets &amp; Liabilities:</b>						
(Increase) / Decrease in Receivables	(45)	-	(45)	(1,171)	-	(1,171)
(Increase) / Decrease in Stock	(71)	-	(71)	29	-	29
(Increase) / Decrease in Prepayments	(424)	-	(424)	143	-	143
Increase / (Decrease) in Payables	(2,144)	(882)	(3,026)	2,129	(136)	1,993
Increase / (Decrease) in Employee Benefits	786	-	786	1,266	-	1,266
Increase / (Decrease) in Unearned Revenue	(16)	-	(16)	200	-	200
Increase / (Decrease) in Provisions	317	-	317	(751)	-	(751)
Increase / (Decrease) in Other Liabilities	(695)	-	(695)	(87)	-	(87)
<b>Net Cash Inflow / (Outflow)</b>	<b>20,961</b>	<b>(50,610)</b>		<b>26,550</b>	<b>(36,275)</b>	

### 39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	2018-19 Loans \$'000	2017-18 Loans \$'000
Balance as beginning of period	20,211	11,693
Changes from financing cash flows:		
Cash Received	20,000	10,000
Cash Repayments	(2,070)	(1,482)
	17,930	8,518
Balance at end of period	38,141	20,211

### 40. FINANCING FACILITIES

	2018-19 \$'000	2017-18 \$'000
Facility Limit	300	380
Less: Used/committed	(60)	(86)
Un-used credit card facilities	240	294

#### 41. COMMITMENTS

<i>Capital Expenditure contracted for at the reporting date but not recognised in liabilities:</i>	2018-19 \$'000	2017-18 \$'000
Brooker Avenue Pedestrian Bridge	1,705	5,629
Plant and Equipment Purchases	1,703	1,041
Pipeline Trail Fern Tree Park	926	-
Bridge of Remembrance	454	7,767
DKHAC Major Refurb & Upgrade Works	344	-
Swan Street Public Convenience Renewal	339	-
Flood - Walking Tracks Storm Recovery	330	-
New Town and Seymour Streets Stormwater Partial Upgrade	279	-
Solar Systems Supply and Installation	168	-
Elizabeth Street Bus Mall Construction	162	-
St Andrew's Park Lighting Upgrade	130	-
Lower Queenborough Oval Replacement	119	-
Mall Booth Upgrade	109	177
Degraves Street Sandstone Retaining Wall	96	-
New Parking Meter Installation	-	1,396
Casino to Maning Avenue Sea Wall	-	934
Kemp Street Project	-	913
Crelin Street - St George to End - Reconstruction	-	536
Mellifont Street to Mount Stuart Road	-	343
Trade Waste Compliance Projects	-	149
Olinda Grove Reconstruction	-	128
Lord Street Sandy Bay to Regent Street	-	111
BMS Renewal to Council Centre	-	105
Community Hall Toilet Upgrades	-	99
TCA Ground Picket Fence Replacement	-	83
Other	877	4,370
	<b>7,741</b>	<b>23,781</b>

Expected timing of these commitments is as follows: -

Not longer than one year	7,741	23,781
Longer than one year and not longer than two years	-	-
Longer than two years and not longer than five years	-	-
Longer than five years	-	-
	<b>7,741</b>	<b>23,781</b>

## 42. OPERATING LEASES

	2018-19 \$'000	2017-18 \$'000
<i>a) Operating Lease commitments at the reporting date not recognised in liabilities:</i>		
Not longer than one year	956	907
Longer than one year and not longer than two years	973	898
Longer than two years and not longer than five years	2,926	2,693
Longer than five years	9,362	8,976
	<u>14,217</u>	<u>13,474</u>

Council's operating lease commitments mainly relate to the lease of car parks.

	2018-19 \$'000	2017-18 \$'000
<i>b) Operating Lease receivables at the reporting date not recognised in assets:</i>		
Not longer than one year	687	694
Longer than one year and not longer than two years	558	523
Longer than two years and not longer than five years	1,213	1,279
Longer than five years	376	369
	<u>2,834</u>	<u>2,865</u>

Council's operating lease receivables mainly result from property leases.

## 43. CONTINGENT LIABILITIES

Council is currently acting as guarantor for the following loans: -

Buckingham Bowls Club	50	50
Hockey Tasmania Inc.	1,500	1,500
Southern Tasmanian Netball Association	631	631
Derwent Sailing Squadron	4,100	4,100
	<u>6,281</u>	<u>6,281</u>

Estimates of Council's future maximum obligations for payments pursuant to Development Assistance Deeds are as follows: -

	Note		
Vodafone development	44	975	1,157
Myer development	44	1,750	2,625
		<u>2,725</u>	<u>3,782</u>

Payments relating to the Vodafone development are contingent upon the achievement of employee occupancy targets. Payments relating to the Myer development are contingent upon annual gross sales from the Liverpool Street Myer Store reaching agreed thresholds.

**44. MAJOR DEVELOPMENT ASSISTANCE POLICY COMMITMENTS**

Council has entered into Development Assistance Deeds for the following Major Development Projects.

**The Wellington Centre Development**

The development agreement with Sultan Holdings Pty Ltd provides for the following: -

- Council contributed certain land to the development, and the developer also contributed land.
- The developer agreed to construct on the aggregated land amongst other things a car park, supermarket, office accommodation and retail shops.
- The development, on completion, was stratum titled to meet the ownership rights of the parties to the development.
- Council received the stratum title to the car park.
- During the construction period, based on suitable evidence of completion of progress work in relation to the car park, Council made progress payments for the car park.
- On completion and issue of stratum titles, Council received the stratum title for the car park. This occurred in October 2013.

On an ongoing basis: -

- Council has fixed the rates applicable to the development at that which applied on the date of the agreement plus CPI (all groups Hobart) for a 10 year period. The benefit is only applicable to the developer while it owns the particular stratum property.
- The value of the benefit for the current period is \$383,210 (prior year: \$364,309).

**The Vodafone Development**

Council has negotiated a development assistance deed with Alirente Pty Ltd that provides for the following: -

- That from when the development land is revalued on completion of construction by the Valuer-General for rating purposes, and while Vodafone meets target employee occupancy numbers for the building, Council on receipt of a suitable certificate will provide a grant to the developer for an amount equal to general rates and stormwater removal service rates that relate to the Vodafone tenancy area for that year. There are pro-rata conditions where partial certification occurs.
- This agreement continues until 30 June 2025 unless an event occurs which gives Council the right to terminate the agreement.
- The value of the benefit for the current period is nil (prior year: \$36,283).

**The Myer Development**

With respect to this development there are deeds with both the developer (E. Kalis Properties Pty Ltd) and the major tenant (Myer Pty Ltd).

Council has entered into conditional agreements to provide the following grants and benefits to the developer to assist with the redevelopment of the Myer site, located at 98-110 Liverpool Street and 55 Murray Street, Hobart, namely: -

1. Consistent with Council's Major Development Assistance Policy: -
  - a. A cap on rates for a defined period based on the value of the property as at 18 January 2012, limited to CPI increases, and
  - b. The waiving of fees and charges, including tip fees, hoarding fees, parking fees and associated statutory fees.
2. The air rights over the relevant portion of the Hobart Rivulet for a nominal consideration.

The final value of these benefits is not quantifiable until the development is completed and other conditions are determined.

The value of the benefit provided in the current period pursuant to 1.a. above is \$168,630 (prior year: \$154,416) and pursuant to 1.b. \$1,469 (prior year: \$134,639). It is not possible to reliably estimate the value of future assistance.

#### Myer Deed

The deed with Myer Pty Ltd (Myer) provides for the following: -

- The Council will, in exercise of its power under section 77(1A)(b) of the *Local Government Act 1993*, pay to Myer the following amounts at the following times: -
  - \$1.75 million when Myer commences trading to the public from the Myer Store following full occupation by Myer in the Liverpool Street stage of the Development.
  - \$1.75 million in the month of July after full occupation of the Liverpool Street store, unless full occupation occurs between 1 April and 30 June and construction of the Murray Street stage has not substantially commenced, in which case that amount will be paid on 31 July in the calendar year after the occupation of the Liverpool Street Myer Store.
  - \$0.875 million in each of the first four years starting 1 August after occupation of the Liverpool Street Myer Store in which gross sales for that year are less than an agreed threshold. Any amount is to be paid 28 days after receipt of the Auditor's Report for the relevant year.
- Under certain circumstances, if Myer ceases to occupy the development then a proportion of total grants paid will be refundable to Council under an agreed formula taking into account the number of years the development has been occupied.

The first \$1.75 million instalment was paid to Myer upon it commencing trading to the public in November 2015. The second \$1.75 million instalment was paid to Myer in July 2016 and accrued into the previous period. The first of the \$0.875 million instalments, for the Myer financial year ended 31 July 2017, has been accrued into the current period and was paid in July 2018. The second of the \$0.875 million instalments was paid in January 2019.

#### **45. SUBSEQUENT EVENTS**

No other matters or circumstances have arisen since the end of the financial year which require disclosure in the financial report.

#### **46. RELATED PARTY TRANSACTIONS**

##### (a) Key Management Personnel Compensation

	2018-19	2017-18
	\$'000	\$'000
Short-term employee benefits	2,666	2,367
Post-employment benefits	223	245
Long-term benefits	25	77
Termination benefits	406	-
	<u>3,320</u>	<u>2,689</u>

Key management personnel comprises elected members and senior executives.



The Lord Mayor, Deputy Lord Mayor and Elected Members of the City of Hobart are entitled to receive allowances as provided under section 340A of the *Local Government Act 1993*. The quantum of the allowances is set in accordance with regulation 42 of the *Local Government (General) Regulations 2015* and adjusted for inflation as at 1 November each year.

Employment terms and conditions for senior executives are contained in individual employment contracts and prescribe total remuneration, superannuation, annual and long service leave, vehicle and salary sacrifice provisions. Council also provides non-cash benefits and contributes to post-employment superannuation plans on their behalf.

(b) Transactions with other related parties

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

Nature of transactions	2018-19 \$'000	2017-18 \$'000
Metal Fabrication	5	4
Painting Services	56	76
Promotional Products	-	6
Provision of Grants	28	9
	<b>89</b>	<b>95</b>
Related payables balances at year-end	-	-
Commitments to related parties at year-end	1	2
Related receivables balances at year-end	-	-
Related impairment provisions at year-end	-	-
Related bad and doubtful debts expense for the period	-	-
Contributions to superannuation funds on behalf of employees	5,922	5,536

In accordance with section 84(2)(b) of the *Local Government Act 1993*, no interests have been notified to the General Manager by any Elected Member in respect of any body or organisation with which the Council has major financial dealings.

(c) Loans and guarantees to/from related parties

Council has not entered into any loans or guarantees with related parties.

(d) Commitments to/from related parties are disclosed above.

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

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

- Payment of rates and charges
- Dog registrations
- Attending Council events
- Use of Council facilities
- Parking fees and fines

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

#### 47. MANAGEMENT INDICATORS

(a) Underlying surplus or deficit

		Benchmark	2018-19 \$'000	2017-18 \$'000
	Underlying Revenue *		134,366	128,787
<i>less</i>	Recurrent expenses		(133,120)	(125,092)
<i>equals</i>	Underlying Surplus	> 0	1,246	3,695

\* Underlying revenue excludes all capital income (grants received specifically for assets and physical resources received free of charge) and non-recurring income, and includes adjustments for revenue received in advance.

This indicator measures the extent to which expenses are covered by revenues. The benchmark was achieved in the current period.

(b) Underlying surplus ratio

		Benchmark	2018-19 \$'000	2017-18 \$'000
	Underlying Surplus		1,246	3,695
<i>divided by</i>	Underlying Revenue		134,366	128,787
<i>equals</i>	Underlying Surplus ratio	0% - 2%	0.9%	2.9%

This indicator also measures the extent to which expenses are covered by revenues, by comparing the underlying surplus (or deficit) to total revenue. Again, the benchmark was achieved in the current period.

(c) Net financial liabilities

		Benchmark	2018-19 \$'000	2017-18 \$'000
	Cash and Cash Equivalents		20,125	31,844
<i>plus</i>	Current Receivables		7,240	7,147
<i>less</i>	Total Liabilities		(69,806)	(54,813)
<i>equals</i>	Net Financial Liabilities	> (\$67M)	(42,441)	(15,822)

This indicator measures Council's net indebtedness (the extent to which Council's liabilities could be met if all liabilities fell due at once). The above result is well within the benchmark range (being 50% of underlying revenue).

## (d) Net financial liabilities ratio

	Benchmark	2018-19 \$'000	2017-18 \$'000
Net Financial Liabilities		(42,441)	(15,822)
<i>divided by</i> Underlying Revenue		134,366	128,787
<i>equals</i> Net Financial Liabilities ratio	> -50%	-31.6%	-12.3%

This indicator also measures Council's net indebtedness by comparing net financial liabilities to total revenue. Again, the result is well within the benchmark range.

## (e) Asset sustainability ratio

	Benchmark	2018-19 \$'000	2017-18 \$'000
Asset renewal capital expenditure		27,147	27,775
<i>divided by</i> Depreciation expense		21,273	20,361
<i>equals</i> Asset sustainability ratio	100%	127.6%	136.4%

This indicator measures the extent to which assets are being renewed as they wear out. For a relatively young asset portfolio the benchmark may be quite low, whereas for an older asset portfolio the benchmark may be greater than 100%. The above results indicate that Council is sufficiently reinvesting in its assets.

## (f) Asset consumption ratio

		Benchmark	2018-19 \$'000	2017-18 \$'000
<i>Plant &amp; Equipment</i>				
	Depreciated Replacement Cost		18,729	18,837
<i>divided by</i>	Current Replacement Cost		37,930	37,245
<i>equals</i>	Asset consumption ratio	40% - 80%	49.4%	50.6%
<i>Buildings</i>				
	Depreciated Replacement Cost		150,361	142,781
<i>divided by</i>	Current Replacement Cost		248,333	235,442
<i>equals</i>	Asset consumption ratio	40% - 80%	60.6%	60.6%
<i>Land Improvements</i>				
	Depreciated Replacement Cost		25,680	24,363
<i>divided by</i>	Current Replacement Cost		52,929	50,172
<i>equals</i>	Asset consumption ratio	40% - 80%	48.5%	48.6%
<i>Infrastructure Plant</i>				
	Depreciated Replacement Cost		6,821	3,175
<i>divided by</i>	Current Replacement Cost		10,004	7,474
<i>equals</i>	Asset consumption ratio	40% - 80%	68.2%	42.5%
<i>Pipes, Drains, &amp; Rivulets</i>				
	Depreciated Replacement Cost		110,209	107,264
<i>divided by</i>	Current Replacement Cost		200,819	193,277
<i>equals</i>	Asset consumption ratio	40% - 80%	54.9%	55.5%
<i>Roads &amp; Bridges</i>				
	Depreciated Replacement Cost		206,736	216,834
<i>divided by</i>	Current Replacement Cost		461,615	484,063
<i>equals</i>	Asset consumption ratio	40% - 80%	44.8%	44.8%
<i>Other Structures</i>				
	Depreciated Replacement Cost		102,109	67,946
<i>divided by</i>	Current Replacement Cost		200,300	139,376
<i>equals</i>	Asset consumption ratio	40% - 80%	51.0%	48.8%

This indicator measures the service potential remaining in Council's existing assets. Results are within the benchmark range, and are expected to remain around current levels.

## (g) Asset renewal funding ratio

	Benchmark	2018-19 \$'000	2017-18 \$'000
Planned capital renewals		820,690	668,520
<i>divided by</i> Required capital renewals		820,690	668,520
<i>equals</i> Asset renewal funding ratio	100%	100.0%	100.0%

This indicator measures Council's capacity to fund asset renewal requirements by comparing planned funding for asset renewal (as per Council's Long Term Financial Management Plan) with required funding for asset renewal (as per Council's Asset Management Plans).

The above results indicate that Council is presently planning to fund all required asset renewal over the next 20 year period.

#### **48. FAIR VALUE MEASUREMENTS**

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

Property and infrastructure

- Land
- Buildings
- Roads, Footpaths and Drainage
- Bridges
- Other infrastructure

Council does not measure any liabilities at fair value on a recurring basis.

Council also has assets measured at fair value on a non-recurring basis as a result of being reclassified as assets held for sale. These comprise land as disclosed in note 20. A description of the valuation techniques and the inputs used to determine the fair value of this land is included below under the heading 'Land held for sale'.

(a) Fair Value Hierarchy

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

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

The table below shows the assigned level for each asset and liability held at fair value by the Council. The table presents the Council's assets and liabilities measured and recognised at fair value.

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

2018-19					
	Note	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000
<u>Recurring fair value measurements</u>					
Land	23	-	903,951	-	903,951
Buildings	23	102,066	2,732	45,563	150,361
Land Improvements	24	-	-	25,680	25,680
Infrastructure Plant	25	-	-	6,821	6,821
Pipes, Drains and Rivulets	26	-	-	110,209	110,209
Roads and Bridges	27	-	-	206,736	206,736
Other Structures	28	-	-	102,109	102,109
Capital Work in Progress	29	-	-	89,234	89,234
Other	30	-	-	1,350	1,350
		<b>102,066</b>	<b>906,683</b>	<b>587,702</b>	<b>1,596,451</b>

2017-18					
	Note	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000
<u>Recurring fair value measurements</u>					
Land	23	-	954,057	-	954,057
Buildings	23	102,066	2,732	37,983	142,781
Land Improvements	24	-	-	24,363	24,363
Infrastructure Plant	25	-	-	3,175	3,175
Pipes, Drains and Rivulets	26	-	-	107,264	107,264
Roads and Bridges	27	-	-	216,834	216,834
Other Structures	28	-	-	67,946	67,946
Capital Work in Progress	29	-	-	67,411	67,411
Other	30	-	-	948	948
		<b>102,066</b>	<b>956,789</b>	<b>525,924</b>	<b>1,584,779</b>

#### **Transfers between levels of the hierarchy**

Council's policy is to recognise transfers in and out of the fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

There were no transfers between levels 1 and 2 during the year, nor between levels 2 and 3.

#### **(b) Highest and best use**

All assets valued at fair value in this note are being used for their highest and best use.

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

#### **Land**

Fair values for land were determined by the Valuer-General effective 1 July 2014.

Land under roads is valued by individual roads using the Valuer-General's rate for the property class surrounding the road provided to the Local Government Association of Tasmania in July 2014.

**Land held for sale**

Land classified as held for sale during the reporting period was measured at the lower of its carrying amount and fair value less costs to sell at the time of reclassification. The fair value of the land was determined using the approach described in the preceding paragraph.

**Buildings**

Council derives fair value for buildings based on advice received from qualified independent valuers in the form of: -

- Unit replacement cost (rate / m2) for comparable modern equivalent building types applied to the dimensions of the current asset,
- Where there is a market for selected buildings, market value taking into account any heritage listings, and
- Quantity Surveyor estimates of replacement value of selected buildings which have unique characteristics.

Council has received advice from the following licensed Property Valuer and Quantity Surveyor:-

- Opteon – (Ty Winduss API 63346 and Gavin Lippelgoes API 63838)

Based on the values received against the range of buildings and buildings types under Council's control, the lowest value was used in each case to establish fair value.

The level of accumulated depreciation has been established based on the age of the building in relation to the expected useful life of the structure component of each building. Residual values are not applied to buildings.

**Infrastructure assets**

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

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

Council distinguishes significant asset types within its asset register for detailed review and consideration by its Financial Asset Information Review Panel. Significant asset types account for more than 80% of the total value of the asset register, and these are aligned with approximately 60 of the 2,000 asset types identified. The remaining non-significant asset types are either indexed or adjusted separately where evidence is available to support alternative levels of adjustment.

The unit rates (labour and materials) and quantities applied to determine the CRC of a significant asset type were based on a "Brownfield" assumption meaning that the CRC was determined as the full cost of replacement with a modern equivalent asset type considering typical site conditions, restrictions and extent of works. Residual values are not applied to infrastructure assets.



The level of accumulated depreciation for infrastructure assets is determined based (as the default) on the age of the asset and the standard life aligned with the corresponding asset type. A program to adjust the default expiry date when the assets are listed for renewal on the current works program is gradually being implemented.

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

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

### **Roads and Bridges**

#### **Sealed Roads, Footpaths, Kerb and Gutter**

Council categorises its road infrastructure by an urban hierarchy classification. Roads are managed in segments which generally extend from intersection to intersection. All road segments are then componentised into formation, pavement, sub-pavement and seal, kerb and channel and footpath (where applicable). Council assumes that environmental factors such as soil type, climate and topography are consistent across each segment.

CRC is based on the component dimension multiplied by a unit price; the unit price being an estimate of labour and material inputs, services costs, and overhead allocations etc. Against each road component a standard design exists for the modern equivalent asset which details pavement depths, typical widths and other relevant component information to enable pricing, such as location and extent of works.

Unit prices have been obtained from recent tender submissions for construction works in suburban areas against the modern equivalent asset specification. The lowest five of these have been averaged to determine the “suburban unit replacement rate”.

For assets not located in suburban areas, location factors have been applied to reflect the increased cost of undertaking works in higher traffic areas. For this purpose, two additional locations have been identified – urban and CBD. For assets in urban locations, a replacement rate equal to two times the suburban unit replacement rate has been adopted. For assets in CBD locations, a replacement rate equal to three times the suburban unit replacement rate has been adopted.

Council has commenced benchmarking unit prices for significant asset types with like service providers as an additional source of information to establish local market expectations to determine the lowest cost.

#### **Bridges**

Council does not have a large number of bridges and does not undertake replacement works frequently enough to provide reliable data for estimating actual costs.

Each bridge structure is aligned with a modern equivalent asset type which defines the replacement structure and associated bridge components.

Unit prices have been obtained from independent consultants (Pitt & Sherry) for construction works in rural areas against the modern equivalent asset specification. This “rural unit replacement rate” has then been multiplied by the deck area of each existing bridge located in rural areas to calculate the CRC of those bridges.

For bridges not located in rural areas, location factors provided by Pitt & Sherry have been applied to reflect the increased cost of undertaking works in higher traffic areas. For this purpose, two additional locations were identified – suburban and urban. For assets in suburban locations, a replacement rate equal to 1.2 times the rural unit replacement rate has been adopted. For assets in urban locations, a replacement rate equal to 1.5 times the rural unit replacement rate has been adopted.

In line with Pitt & Sherry's advice, unit replacement rates have been increased by a further 20 percent, regardless of location, for bridges with abutments higher than three metres to reflect the additional complexity of construction.

#### **Cycleways and Tracks**

Council has one cycleway and some one hundred and fifty kilometres of walking tracks. The cycleway is sufficiently similar to a concrete footpath to be able to determine a CRC on that basis. Due to insufficient work being carried out recently on walking tracks, previous unit rates have been indexed and multiplied by track lengths to calculate CRC.

#### **Pipes Drains and Rivulets**

Pipes Drains & Rivulets are grouped by stormwater catchment areas and contain all of those pipes, pits, manholes, inlets, outlets and constructed rivulets managing Hobart's stormwater along with the irrigation systems serving the city parks and the few remaining water and sewer assets relating solely to Council operations.

For stormwater pipes and built rivulets the Current Replacement Cost is based on the asset dimension multiplied by a unit price; the unit price being an estimate of labour and material inputs, services costs, and overhead allocations etc. For each pipe size and for standard rivulet lining a modern equivalent definition exists for which prices are obtained from both internal and external sources to determine the lowest cost at which the gross future economic benefits of the asset could currently be obtained in the normal course of business. For the irrigation systems and the sewer and water mains the Current Replacement Cost is based on the asset dimension multiplied by a unit price; the unit price being an estimate of labour and material inputs, services costs, and overhead allocations etc determined by the Asset Manager.

#### **Other Infrastructure**

A diverse range of asset types comprise "other infrastructure" including Land Improvements, Infrastructure Plant and Other Structures. Assets are revalued on a cyclic basis with a frequency of between three and five years. Unit rates are reviewed internally with a range of criteria (including recent costs, local knowledge, indexing rates, etc) used as the basis for updating. The CRC for these assets is then calculated as the unit rate multiplied by the asset quantity.

Other infrastructure is not deemed to be significant in terms of Council's Statement of Financial Position.

#### **(d) Unobservable inputs and sensitivities**

There were no significant inter-relationships between unobservable inputs that materially affect fair values.

#### **(e) Changes in recurring level 3 fair value measurements**

The changes in level 3 assets with recurring fair value measurements are detailed in note 21 (Property, Plant and Equipment). There have been no transfers between level 1, 2 or 3 measurements during the year.

#### **(f) Valuation processes**

Council's current policy for the valuation of property, plant and equipment (recurring fair value measurements) is set out in note 1(j).

Non-recurring fair value measurements are made at the point of reclassification by a registered valuer.

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

Council has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in other notes (refer note 18).

Council's loans are measured at amortised cost with interest recognised in profit or loss when incurred. The fair value of loans disclosed in note 18 is provided by each lender (level 2).

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

#### **49. SIGNIFICANT BUSINESS ACTIVITIES**

Pursuant to section 84(2)(da) of the *Local Government Act 1993*, Council identified 'Water Supply' and 'Sewerage' as significant business activities. As a result of statewide water and sewerage reforms taking effect on 1 July 2009, Council ceased providing these services on that date.

Council has also identified Off-street Parking, On-street Parking, Doone Kennedy Hobart Aquatic Centre (DKHAC) and the Tasmanian Travel and Information Centre (TTIC) as commercial-like undertakings. Details of each of these are set out below.

Competitive neutrality costs are costs which would have applied to the activity had it not been conducted within the umbrella of government. Therefore, from the local government perspective, such "costs" are notional only and are disclosed for information.

##### **Off-Street Parking**

	2018-19 ACTUAL \$'000	2018-19 BUDGET \$'000	2017-18 ACTUAL \$'000
<b>REVENUES</b>			
User Fees and Charges	10,297	10,180	9,267
Rental Income	398	446	427
	<b>10,695</b>	<b>10,626</b>	<b>9,694</b>
<b>EXPENSES</b>			
Employee Costs	(1,252)	(1,166)	(1,129)
Energy Costs	(153)	(167)	(171)
Materials and Contracts	(2,808)	(2,774)	(2,856)
Bad debts	-	-	(1)
Land Tax	(330)	(332)	(334)
Engineering and Administrative Overheads	(813)	(813)	(813)
Other	(8)	-	-
	<b>(5,364)</b>	<b>(5,252)</b>	<b>(5,304)</b>
<b>OPERATING PROFIT / (LOSS) BEFORE DEPRECIATION</b>	<b>5,331</b>	<b>5,374</b>	<b>4,390</b>
Depreciation	(1,284)	(736)	(918)
Profit / (Loss) on sale of Plant and Equipment	-	-	1,073
	<b>(1,284)</b>	<b>(736)</b>	<b>155</b>
<b>OPERATING PROFIT / (LOSS)</b>	<b>4,047</b>	<b>4,638</b>	<b>4,545</b>
<b>COMPETITIVE NEUTRALITY COSTS</b>			
Opportunity Cost of Capital	(3,837)	(3,837)	(5,045)
Income Tax	(950)	(1,151)	(1,125)
Council Rates	(592)	(452)	(453)
	<b>(5,379)</b>	<b>(5,440)</b>	<b>(6,623)</b>

**On-Street Parking**

	<b>2018-19</b>	<b>2018-19</b>	<b>2017-18</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>ACTUAL</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>REVENUES</b>			
User Fees and Charges	5,958	6,469	5,290
Fines	6,443	8,510	6,879
	<u><b>12,401</b></u>	<u>14,979</u>	<u>12,169</u>
<b>EXPENSES</b>			
Employee Costs	(3,622)	(3,887)	(3,434)
Energy Costs	(5)	-	-
Materials and Contracts	(1,951)	(1,872)	(1,369)
Bad debts	(398)	(350)	(206)
Engineering and Administrative Overheads	(703)	(703)	(703)
Other	(289)	-	(84)
	<u><b>(6,968)</b></u>	<u>(6,812)</u>	<u>(5,796)</u>
<b>OPERATING PROFIT / (LOSS) BEFORE DEPRECIATION</b>	<b>5,433</b>	8,167	6,373
Depreciation	(59)	(195)	(188)
Profit / (Loss) on sale of Plant and Equipment	-	-	(4)
	<u><b>(59)</b></u>	<u>(195)</u>	<u>(192)</u>
<b>OPERATING PROFIT / (LOSS)</b>	<b>5,374</b>	7,972	6,181
<b>COMPETITIVE NEUTRALITY COSTS</b>			
Opportunity Cost of Capital	(74)	(74)	(41)
Income Tax	(1,478)	(2,192)	(1,854)
	<u><b>(1,552)</b></u>	<u>(2,266)</u>	<u>(1,895)</u>

**Doone Kennedy Hobart Aquatic Centre**

	<b>2018-19</b>	<b>2018-19</b>	<b>2017-18</b>
	<b>ACTUAL</b>	<b>BUDGET</b>	<b>ACTUAL</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>REVENUES</b>			
User Fees and Charges	5,468	5,514	5,234
Other Income	264	14	263
	<u>5,732</u>	<u>5,528</u>	<u>5,497</u>
<b>EXPENSES</b>			
Employee Costs	(3,376)	(3,377)	(3,217)
Energy Costs	(483)	(510)	(535)
Materials and Contracts	(1,923)	(1,641)	(1,747)
Insurance	(35)	-	(35)
Other	(7)	-	(7)
	<u>(5,824)</u>	<u>(5,528)</u>	<u>(5,541)</u>
<b>OPERATING PROFIT / (LOSS) BEFORE DEPRECIATION</b>	<b>(92)</b>	<b>-</b>	<b>(44)</b>
Depreciation	(875)	(887)	(960)
Profit / (Loss) on sale of Plant and Equipment	(175)	-	(31)
	<u>(1,050)</u>	<u>(887)</u>	<u>(991)</u>
<b>OPERATING PROFIT / (LOSS)</b>	<b>(1,142)</b>	<b>(887)</b>	<b>(1,035)</b>
<b>COMPETITIVE NEUTRALITY COSTS</b>			
Opportunity Cost of Capital	(1,569)	(1,569)	(1,893)
Council Rates	(98)	(98)	(75)
	<u>(1,667)</u>	<u>(1,667)</u>	<u>(1,968)</u>

**Tasmanian Travel and Information Centre**

	2018-19 ACTUAL \$'000	2018-19 BUDGET \$'000	2017-18 ACTUAL \$'000
<b>REVENUES</b>			
User Fees and Charges	832	1,125	883
Tasmanian Government Grant	150	150	150
Other Income	23	20	49
	<u>1,005</u>	<u>1,295</u>	<u>1,082</u>
<b>EXPENSES</b>			
Employee Costs	(989)	(1,033)	(841)
Materials and Contracts	(347)	(325)	(352)
	<u>(1,336)</u>	<u>(1,358)</u>	<u>(1,193)</u>
<b>OPERATING PROFIT / (LOSS) BEFORE DEPRECIATION</b>	<b>(331)</b>	<b>(63)</b>	<b>(111)</b>
Depreciation	(8)	(9)	(8)
Profit / (Loss) on sale of Plant and Equipment	-	-	-
	<u>(8)</u>	<u>(9)</u>	<u>(8)</u>
<b>OPERATING PROFIT / (LOSS)</b>	<b>(339)</b>	<b>(72)</b>	<b>(119)</b>
<b>COMPETITIVE NEUTRALITY COSTS</b>			
Opportunity Cost of Capital	(8)	(8)	(11)
Council Rates	(10)	(10)	(7)
	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>



Level 8, 144 Macquarie Street, Hobart, Tasmania, 7000  
Postal Address: GPO Box 851, Hobart, Tasmania, 7001  
Phone: 03 6173 0900 | Fax: 03 6173 0999  
Email: [admin@audit.tas.gov.au](mailto:admin@audit.tas.gov.au)  
Web: [www.audit.tas.gov.au](http://www.audit.tas.gov.au)

22 October 2019

Ms A M Reynolds  
Lord Mayor  
Hobart City Council  
Macquarie Street  
**HOBART TAS 7000**

**Issued by email only**

Dear Lord Mayor Reynolds

**Hobart City Council - Final Management Letter - Financial Report for the Year Ended  
30 June 2019**

The audit of the financial report for Hobart City Council (Council) has been completed in accordance with the agreed client strategy. I have issued my audit report on the financial statements, a copy of which is enclosed.

**Audit Findings**

Matters that came to my attention during the audit will be detailed in a management report which is yet to be finalised.

You will appreciate that my normal audit procedures are designed primarily to enable me to form an opinion on the financial statements as a whole and therefore do not necessarily bring to light at each audit all the weaknesses in internal control or accounting practice which a special investigation might do.

I have prepared this report solely for the use of the Council. As you know, this report forms part of a continuing dialogue between the Council and the Auditor-General and, therefore, it is not intended to include every matter, whether large or small, that has come to my attention. For this reason I believe that it would be inappropriate for this report to be made available to third parties and, if such a third party were to obtain a copy without my prior written consent, I would not accept any responsibility for any reliance that they might place on it.

...1 of 2

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**Auditor-General's Report**

Draft commentary for inclusion in the Auditor-General's Report to Parliament scheduled for completion and tabling towards the end of November 2019, will be prepared in due course and then forwarded to you for formal comment.

**Review of the Annual Report**

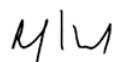
Please will you forward to me a copy of the final draft of the Council's annual report for review by my staff prior to its publication. This review will be conducted in accordance with Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Report* to identify any material inconsistencies between the financial report and other information disclosed in the annual report.

Appreciation is expressed for the assistance and co-operation provided to my staff during the course of the audit.

Please note that a copy of this letter together with the audit report will be provided to the Minister for Local Government, The Hon Mark Shelton MP in accordance with section 19(2) of the *Audit Act 2008*.

If you have any queries regarding the audit or any other matters, please contact Damian Cook on (03) 6173 0900.

Yours sincerely



Rod Whitehead  
**Auditor-General**

Encl.

Copy for:

Mr D Hudson, Chair Risk and Audit Panel

Mr N Heath, General Manager

Ms H Salisbury, Deputy General Manager and Director City Governance

Mr M Greatbatch, Manager Finance

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**Independent Auditor's Report****To the Aldermen of Hobart City Council****Report on the Audit of the Financial Report****Opinion**

I have audited the financial report of Hobart City Council (Council), which comprises the statement of financial position as at 30 June 2019 and statements of comprehensive income, changes in equity and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, other explanatory notes and the statement of certification by the General Manager.

In my opinion the accompanying financial report:

- (a) presents fairly, in all material respects, Council's financial position as at 30 June 2019 and its financial performance and its cash flows for the year then ended
- (b) is in accordance with the *Local Government Act 1993* and Australian Accounting Standards.

**Basis for Opinion**

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of Council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

The *Audit Act 2008* further promotes the independence of the Auditor-General. The Auditor-General is the auditor of all Tasmanian public sector entities and can only be removed by Parliament. The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

My audit responsibility does not extend to the budget figures, the asset renewal funding ratio disclosed in note 47, nor the Significant Business Activities disclosed in note 49 to the financial report and accordingly, I express no opinion on them.

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I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

<b>Why this matter is considered to be one of the most significant matters in the audit</b>	<b>Audit procedures to address the matter included</b>
<b>Valuation of property and infrastructure</b> <i>Refer to notes 6 and 21 to 29</i>	
<p>Property, and infrastructure includes land, buildings, land improvements and material long-life infrastructure assets, such as pipes, drains and rivulets, roads and bridges and other structures totalling \$1.51bn. The fair values of these assets are based on market value or current replacement cost. Council undertakes formal revaluations on a regular basis to ensure valuations represent fair value. Indexation is applied to fair values between formal valuations.</p> <p>In 2018-19, Council revalued infrastructure plant and other structures based on current replacement cost valuations determined by internal experts and indexed all other asset classes except land. These valuations are highly dependent upon a range of assumptions and estimated unit rates.</p> <p>The calculation of depreciation requires estimation of asset useful lives, which involves a high degree of subjectivity. Changes in assumptions and depreciation policies can significantly impact the depreciation charged.</p> <p>Capital expenditure in 2018-19 totalled \$54.14m on a number of significant programs to upgrade and maintain assets. Capital projects can contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental.</p>	<ul style="list-style-type: none"> <li>• Assessing the scope, expertise and independence of experts involved in the valuations.</li> <li>• Assessing the appropriateness of the valuation methodology and the key assumptions used.</li> <li>• Evaluating indexation applied to assets between formal valuations.</li> <li>• Testing, on a sample basis, the mathematical accuracy of the valuation model's calculations.</li> <li>• Evaluating management's assessment of asset useful lives.</li> <li>• Performing substantive analytical procedures on depreciation expenses.</li> <li>• Testing, on a sample basis, significant expenditure on maintenance and capital works to corroborate appropriate treatment.</li> <li>• Testing, on a sample basis, capital work-in-progress to ensure that active projects will result in usable assets and that assets commissioned are transferred in a timely manner.</li> <li>• Evaluating the adequacy of disclosures made in the financial report, including those regarding key assumptions used.</li> </ul>

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**Responsibilities of the General Manager for the Financial Report**

The General Manager is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Local Government Act 1993* and for such internal control as determined necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the General Manager is responsible for assessing Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Council is to be dissolved by an Act of Parliament or the Aldermen intend to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Manager.
- Conclude on the appropriateness of the General Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Council to cease to continue as a going concern.

...3 of 4

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the General Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the General Manager, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Rod Whitehead  
**Auditor-General**

**Tasmanian Audit Office**

22 October 2019  
Hobart

...4 of 4

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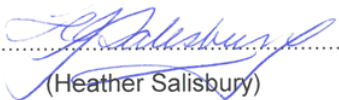
**HOBART CITY COUNCIL**

**GENERAL PURPOSE FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2019**

**CERTIFICATION BY GENERAL MANAGER**

The financial report presents fairly the financial position of the Hobart City Council as at 30 June 2019, the results of its operations for the year then ended and the cash flows of the Council, in accordance with the *Local Government Act 1993* (as amended), Australian Accounting Standards (including interpretations) and other authoritative pronouncements issued by the Australian Accounting Standards Board.

Signed at Hobart this 22 day of October 2019

  
.....  
(Heather Salisbury)  
**Acting General Manager**

