



SOUTHERN METROPOLITAN
REGIONAL COUNCIL

ANNUAL REPORT 2018-19



CEO REPORT

08

PLAN FOR
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About the SMRC

SMRC is a statutory local government authority established in 1991 by local governments in the southern part of metropolitan Perth cities of Fremantle, Melville, Kwinana and Town of East Fremantle. The City of Cockburn was a participant until the 30 June 2019.

The member local governments have jointly agreed to establish SMRC under an Establishment Agreement and each participant may participate in regional projects that are governed by a Participants' Project Agreement.

There are two core projects, being:

1. The Regional Resource Recovery Centre (RRRC) Project and;
2. The Office Accommodation Project.

Both the projects were established through separate project participants' agreements. The City of Kwinana is not a participant in the RRRC project. In addition to the above two projects, support activities such as administration, education and research are also undertaken.

The Regional Resource Recovery Centre (RRRC) is an integrated waste precinct in Canning Vale, Perth.

The RRRC is made up of the following:

- I. Administration Office, Weighbridge and carparking;
- II. Waste Composting Facility (WCF), which currently processes municipal solid waste (MSW) collected by the Participant Councils and commercial customers;
- III. Maintenance workshop & amenities;
- IV. Waste audit building;
- V. Green waste facility and hardstand, which turns green waste into mulch; and
- VI. Materials Recovery Facility (MRF), which currently processes recyclable waste collected by the Participant Councils and commercial customers.

Reshaping the RRRC

The Food Organics Green Organics (FOGO) initiative, in line with our comprehensive Strategic Waste Management Plan (SWMP), started in October 2017 with a trial of 7,000 households, with a vision for all RRRC Participants to commence its 3-bin collection service by July 2019. This strategy sees the transition of the WCF to a Food Organics Green Organics (FOGO) processing facility, which will be completed by 1 July 2020.

The divestment strategy of the RRRC is aligned with the SMRC's strategic objectives and its regional purpose by delivering waste management solutions on behalf of its member local government communities.

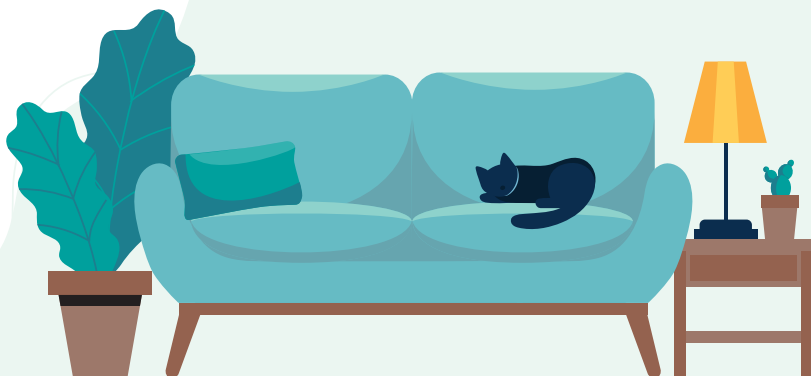
The WARR Strategy 2030 requires that a consistent 3-bin kerbside collection system, including separation of food organics and garden organics (FOGO) from other waste categories, is provided by all local governments in the Perth and Peel region by 2025. It also introduces challenging targets for material recovery of 70% by 2025 and a target of only 15% of waste generated in Perth and Peel is landfilled by 2030.



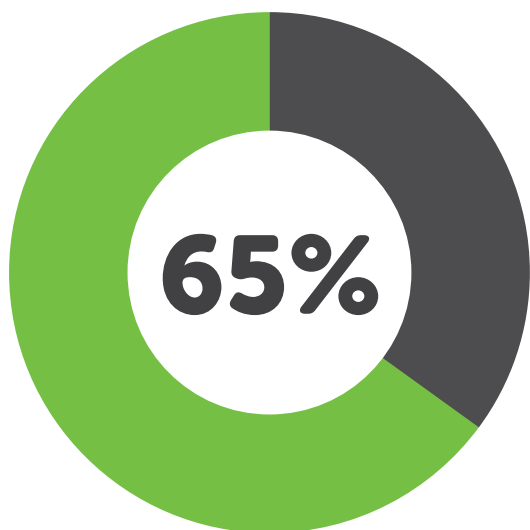
Statistics

2018-2019 Overview

The Region's households: **118,548**



The Region's population: **296,295**



The Regional Resource Recovery Centre's total recovery diversion from landfill

The number of tonnes the region's waste is processed at the RRRC



Materials Recovery Facility

26,441t
2018/2019



Waste Composting Facility

62,256t
2018/2019



Green Waste Facility

10,205t
2018/2019



Chairman's Report

I am pleased to present the 2018/19 Annual Report of the Southern Metropolitan Regional Council (SMRC).

The waste and resource recovery sector has finally become part of a national conversation on how best to use the resources we consume on a daily basis with the appointment of the Hon Trevor Evans MP as the Assistant Minister for Waste Reduction and Environmental Management on 29 May 2019. This signals a new focus on waste and resource recovery as an issue of national importance.

It has become clear that we will no longer be able to rely on export markets in Asia and elsewhere to process our recyclable materials and we will have to become more self-reliant, which will require moving from a linear to a circular economy whereby we keep materials on-shore and in use for as long as possible.

At a State level, the release of the WARR Strategy 2030 in February 2019 sets a clear direction and blueprint for the future of waste and resource recovery in WA. Headline strategies include the requirement that a consistent 3-bin kerbside collection system, including separation of food organics and garden organics (FOGO) from other waste categories, is provided by all local governments in the Perth and Peel region by 2025. This provides confirmation that the strategic direction the SMRC and its participants have been taking for the past three years is the right one.

In November 2018, the SMRC and the City of Melville's FOGO trial conducted on behalf of all member councils received a State Government Infinity Awards for 'Avoid Recover Protect'. SMRC also received a Highly Commended Award for a joint recycling industry initiative for development of consistent guidelines for kerbside recycling in partnership with WALGA, SUEZ and Cleanaway. My congratulations to all involved in these projects.

This year, following the announcement of the introduction of a Container Deposit Scheme (CDS) in 2017, a Scheme coordinator has since been appointed and a start date of 2 July 2020 confirmed. This will reduce litter, improve the quality of some recycled commodities and change community attitudes on waste.

In April 2019, the RRRC hosted Minister David Templeman MLA alongside Mayor Brad Pettit, Mayor Jim O'Neill and Mayor Russell Aubrey to announce the publishing of waste statistics for all local governments on MyCouncil website. It was pleasing to note SMRC member councils ranked highly on the list of councils recovering the most amount of materials from household waste, largely due to the recovery of organics through the composting facility at the RRRC.

The Recycle Right community communications team and the Waste Recycling Education Network (WREN) were actively involved in community events informing residents of the benefits of reuse and recycling and the 3-bin FOGO system. WREN, in partnership with the Men's Shed, was also successful in gaining Waste Authority grant funding for building and installing recycling stations in member local government areas.

The widely-acclaimed and utilised Recycle Right app and website commenced a major re-development and are due to be relaunched prior to Christmas.

Effective 30 June 2019, the City of Cockburn withdrew from the Regional Council and on behalf of SMRC, I thank their past and present councillors and officers for their contributions as founder members of the Regional Council.

I would like to thank my fellow regional councillors, the regional managers executive, Waste Recycling Education Network community members (WREN), Mr Andrew Burchfield, External Audit Committee Member and SMRC CEO and staff for their efforts and achievements throughout 2018/19.

Doug Thompson

Chairman

“ In November 2018, the SMRC and the City of Melville’s FOGO trial conducted on behalf of all member councils received a State Government Infinity Awards for ‘Avoid Recover Protect’. ”

Photo: Receiving a State Government Infinity Award for Avoid Recover Protect from Honourable Stephen Dawson MLC



Chief Executive Officer's Report

The Regional Resource Recovery Centre (RRRC) located in Canning Vale, owned and operated by SMRC and commissioned in 2003, has consistently delivered diversion from landfill results above State Government targets and far in advance of any other local government in Western Australia. This has placed participant councils at the forefront of responsible waste management.

However, some of the infrastructure is nearing end of life and so a new chapter begins in meeting community aspirations to deliver best practice environmental outcomes at optimal cost. This will be realised by maintaining a strong focus on achieving the objectives and outcomes set by the participant councils in our strategic plan.

The strategy includes considering divestment of the RRRC to a private operator with a view to attract the necessary capital, in order to optimise development of this important waste precinct.

This approach has been coupled with progress toward a best practice regional kerbside collection system, designed to separate household recyclables from residual waste at source. This system is designed to configure the recyclables and residual streams into the most suitable format for optimal processing of each stream.

Following detailed analysis of one of the largest 3-bin Food Organics Garden Organics (FOGO) collection trials in Australia from selected suburbs within the City of Melville, it was clearly shown the FOGO system receives strong community support, reduces overall processing costs, significantly improves compost quality and is in alignment with State Government policy.

Change is not without challenges and during the year the participant councils, along with the staff at the SMRC, have shown they are prepared to meet the challenges of transitioning to a new future. During the year, a revised Workforce Plan was adopted addressing impacts from the introduction of FOGO, the RRRC divestment plan, proposed changes to governance structures and broader resource sharing arrangements.

During this period of change, it is most pleasing to report that we recorded no lost time injuries and continue to maintain accreditation for Quality, Environment and Occupational Health and Safety.

None of this would be possible without the unwavering support of the Chair Cr Doug Thompson, Regional Councillors, the Regional Executive Group and their teams and all SMRC employees, to whom go my heartfelt thanks.

Tim Youé

Chief Executive Officer



“ ...the FOGO system receives strong community support, reduces overall processing costs, significantly improves compost quality and is in alignment with state government policy. ”

Regional Councillors

Profiles



1. Chairman, Cr Doug Thompson, City of Fremantle

Doug is Chairman of the Regional Council and has served on the SMRC as the Fremantle City Council representative since its inception. He is the longest continuously serving Councillor in Fremantle's history with 30 years' service to the City.

He serves on the WALGA State Council and is SMRC's representative on WALGA's Municipal Waste Advisory Council. He also chairs WALGA's Container Deposit Legislation Policy Forum, which is working closely with State Government to bring in a Container Deposit scheme in 2019.

Cr Thompson has been instrumental in adopting best practice waste minimisation at the City of Fremantle. He believes that working collectively towards environmentally responsible waste solutions is one of the most important challenges facing local government today. Throughout his time on the SMRC and on Fremantle Council, he has made a significant contribution in facilitating cooperation between councils to achieve this end.

2. Deputy Chair, Cr Clive Robartson AM LGM, City of Melville

Clive has lived in the City of Melville for most of his life and since 1975 has resided in Bull Creek. He has a long and distinguished career in Local Government as a Councillor at the City of Melville. He served as President of the Local Government Association (LGA) and became State President of the WA Local Government Association (WALGA) shortly after its formation in 2002. He was appointed as a member of the Australian Local Government Association (ALGA) and served on the LG Insurance Scheme (LGIS) Board.

He has served on the Southern Metropolitan Regional Council (13 years), the Municipal Waste Advisory Council (6 years) and the State Government Advisory Council on Waste Management. Clive is proud to have been awarded the Local Government Medal (LGM) in 2007 for his services to Local Government. In 2010 he was appointed as a Member of the Order of Australia (AM) for his services to the community and Local Government.

Apart from his passion for his family and grandchildren, Clive is the State Vice President of the Royal Australian Air Force Association (WA Division) and has a great interest in aged care.

3. Cr Cliff Collinson, Town of East Fremantle

Cliff is a retired schoolteacher and a Councillor with the Town of East Fremantle since 2007. Over many years he has been active in numerous community and environmental groups including Radio Fremantle, presenting regular programs for 30 years and has been convenor of the Fremantle Oxfam group for the past twelve years.

He is passionately committed to environmental sustainability and believes the SMRC has a major role to play in this process by not only diverting waste from landfill, but also to educate the community on the importance of effective recycling and the role this plays in reducing greenhouse gas emissions. To this end, the financial sustainability of the SMRC is of paramount importance.

4. Cr Wendy Cooper, City of Kwinana

Wendy has been a Councillor at the City of Kwinana since 2011 and was appointed to the SMRC in October 2015. For many years, Wendy has been passionate about community education to limit waste disposal through choices made in everyday purchasing, coupled with recycling and sustainable living.

“Each individual can make better choices if they understand the process of waste management and the part they play in the reduction of waste, especially to landfill and the targets that are in place.”

As a Rotarian, Wendy, along with her husband Bob, have been able to contribute locally and overseas to positive care of the environment. A stronger focus on educating communities to curb disposal of unwanted materials is paramount. By being a member of the SMRC, Wendy hopes to influence behaviour to achieve positive outcomes.

5. Cr Philip Eva, City of Cockburn

Philip has lived in Cockburn for the last 24 years having moved to Australia from Cornwall after meeting his wife Michele while working as a freight manager for a local shipping company. Philip joined the SMRC in 2017 as the City of Cockburn representative.

Philip has always had a passion for the community and is currently serving as an active member of several Community groups and Clubs; Yangebup Progress Association, Bibra Lake Residents Association, Friends of the Community, Dalmatinacs Club, Coolbellup Sporting Association and the Woodman's Points CRG and Beeliar Residents Association Group.

Philip has a very strong passion for the environment and in his spare time, he enjoys gardening, fishing, the gym, and of course the Fremantle Dockers.



Governance

	MEMBERS MEETING ATTENDANCE 2018/2019				
	Cr D Thompson (Chair)	Cr C Robartson (Deputy Chair)	Cr C Collinson	Cr P Eva	Cr W Cooper
Ordinary Council Meetings (6)	5	4	6	6	5
Special Council Meetings (1)	1	1	1	0	1
Audit & Risk Committee (4)	3	3	4		
Stakeholder Relations Committee (3)	3		3		3
CEO Performance Committee (1)	1	1	1		1
RRRC Project Committee (7)	5	6	6		
Total Meetings	18	16	22	6	10

Blank denotes not a member of committee

Cr Thompson was a telephone observer of the Special council meeting in May

Participant Council	Regional Councillors	Regional Executive Group
City of Fremantle	Cr Doug Thompson Chair Appointed 1998	Mr Graham Tattersall Appointed 2016 Mr Glen Dougal Appointed 2009
City of Melville	Cr Clive Robartson AM Deputy Chair Appointed 2017	Mr Mick McCarthy Appointed 2018 Mr Marten Tieleman Appointed 2015
Town of East Fremantle	Cr Cliff Collinson Appointed 2017	Mr Gary Tuffin Appointed 2017 Mr Peter Kocian Appointed 2018
City of Kwinana	Cr Wendy Cooper Appointed 2015	Mr Darrell Monteiro Appointed 2017
City of Cockburn	Cr Philip Eva Appointed 2017	Mr Stuart Downing Appointed 2014
External Appointment Mr Andrew Burchfield Audit & Risk Committee Member		

Audit & Risk Committee	Stakeholder Relations Committee	CEO Performance Review Committee	RRRC Project Committee
Cr Doug Thompson Chair	Cr Doug Thompson Chair	Cr Doug Thompson Chair	Cr Doug Thompson Chair
Cr Clive Robartson	Cr Cliff Collinson	Cr Clive Robartson	Cr Clive Robartson
Cr Cliff Collinson	Cr Wendy Cooper	Cr Cliff Collinson	Cr Cliff Collinson
Mr Andrew Burchfield	Ms Isabelle Gagnon WREN Chairperson	Cr Wendy Cooper	Mr Graham Tattersall Mr Mick McCarthy Mr Gary Tuffin



From Left: Cr Cliff Collinson, Cr Clive Robartson AM LGM - Deputy Chair, Cr Doug Thompson - Chairman, Cr Philip Eva, Cr Wendy Cooper

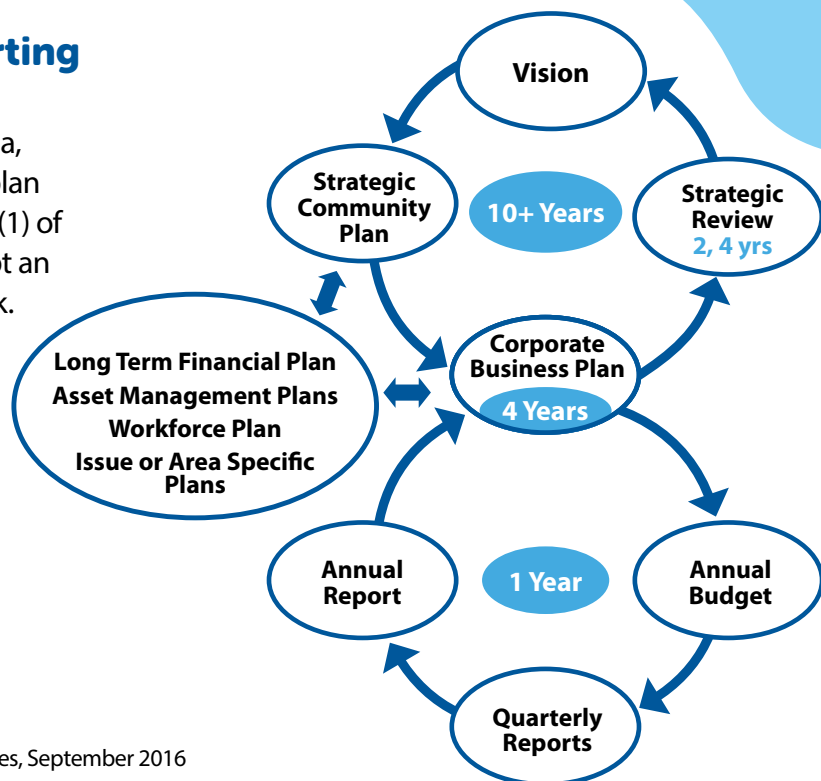
Planning For The Future Overview

OUR VISION: WE DELIVER INNOVATIVE AND SUSTAINABLE WASTE MANAGEMENT SOLUTIONS FOR THE BENEFIT OF OUR COMMUNITIES AND THE ENVIRONMENT



Integrated Planning and Reporting Framework

All local governments within Western Australia, including Regional Councils, are required to plan for the future in accordance with section 5.56(1) of the *Local Government Act 1995 (WA)* and adopt an integrated planning and reporting framework.



Source: Department of Local Government and Communities

Integrated Planning and Reporting Framework and Guidelines, September 2016

The key challenges in the short term are:

1. The existing RRRC project waste composting facility digesters nearing the end of their operating life;
2. Changing market conditions for recovered recyclables; and
3. Changing membership.

The two key underpinnings to the preference for reshaping the RRRC are:

1. Transition of the Waste Composting Facility from processing a mixed solid waste (MSW) to a food and organic (FOGO) waste stream. This is to reduce processing costs, improve compost quality and further improve diversion from landfill;
2. Leasing surplus space for additional revenue to provide a financial benefit to our stakeholders.

In support of this, participants will commence its 3-bin collection service (FOGO, Recycling and General Waste) in July 2019 and the leasing of the site is supported by the RRRC divestment strategy with a view to attract the necessary financial return. This will optimise development of this important waste precinct as a continuation of the SMRC's strategic objectives and its regional purpose by fulfilling waste management solutions for its member local government communities.



Planning For The Future Overview

Major strategic initiatives that are proposed to commence or to continue in the next financial year

1. 1.1 Consider opportunities for divesting resource recovery and disposal activities

1. 2.1 Consider EfW for the participants red bin rubbish

1. 2.2 Implement a 3 bin FOGO collection and composting system

2.1.4 Being a responsible and considered employer

3. 1.1 Participate in industry forums for policy & legislation change

3.2.1 Promote the RecycleRight Program as the regional & state recycling initiative

1. 1.1 Consider opportunities for divesting resource recovery and disposal activities

The SMRC resolved on 16 August 2018 to prepare a tender in conjunction with RRRC project committee representatives, for Food Organics and Green Organics (FOGO) processing services and other possible uses for the RRRC site.

The divestment of the RRRC will achieve the SMRC's strategic objectives and regional purpose by continuing to plan and implementing waste management solutions for its member local governments.

Following an extensive assessment of public tender submissions, representatives of SMRC and the Participating Councils has recommended a preferred tenderer subject to satisfying the conditions referred to in the Council resolution, as the new operator of the RRRC.

Participants Vision and Objectives



Planning For The Future Overview



INTEGRATED WASTE PRECINCT – UNIQUE OPPORTUNITY –

SMRC IS INVITING TENDERS FOR ACQUISITION OF ALL, OR SOME OF THE RRRC ASSETS

The Southern Metropolitan Regional Council (SMRC) owns and operates the RRRC, located at 350 Bannister Road, Canning Vale, Western Australia. The RRRC is strategically located adjacent to transport networks in the Canning Vale industrial area, approximately 13 kilometers south of Perth CBD.



- Recycling
- Composting
- Green Waste
- Odour Management Systems
- EP Act Licence
- Zoned for Industrial and Waste
- Scalable Opportunities
- Local Government Customers

Contact: Stephen Pelham

T: 61 8 9329 2700

E: spelham@smrc.com.au

W: smrc.com.au



**We Deliver Innovative and Sustainable
Waste Management Solutions**

**Regional Resource
Recovery Centre**



Planning For The Future Overview

1. 2.1 Consider EfW for the participants red bin rubbish

Strategies	Actions	Responsibility	Informing Document		
			2018/19	2019/20	
1.2.1 Investigate the viability of new technologies for waste recovery, including Energy from Waste	a. Consider EfW for the RRRC residuals and member Councils MSW	CEO	✓	✓	SWMP No9

EVALUATING ENERGY FROM WASTE PROVIDERS

The SMRC issued a Request for Proposal (RFP) for the Provision of Energy for Waste (EfW) Services. The RFP was issued on behalf of three participating Councils of the SMRC, the City of Fremantle, the City of Melville, and the Town of East Fremantle.

As part of the qualitative assessment the Evaluation Panel is considering the following key features:

Waste Supply Contracts	Energy Off-Take	Location and delivery logistics
Throughput Capacity	Technology	Treatment of Residuals
Key Subcontractors	Financing	Milestones
Partners	Operational Date	State Waste Strategy

The EfW solution is ideally suitable for Participants' red lid bin general waste material which cannot be reused, recycled or composted and therefore diverted from landfill, achieving a total combined household waste diversion from landfill estimated at 85%.

1. 2.2 Implement a 3 bin FOGO collection and composting system

Strategies	Actions	Responsibility	Informing Document		
			2018/19	2019/20	
1.2.2 Investigate best use scenarios for current technology and site set up for FOGO	a. Conduct a 3 bin FOGO trial through the RRRC WCF	EMSP	✓		SWMP No1
	b. Implement a 3 bin FOGO collection and composting system	EMSP		✓	SWMP No2
	c. Tender for FOGO processing and/or provision of composting technology	EMSP	✓		SWMP No6

FOGO THE WAY TO GO

Following detailed analysis of one of the largest 3-bin Food Organics Garden Organics (FOGO) collection trials in Australia from selected suburbs within the City of Melville, it was clearly shown that the FOGO system receives strong community support, reduces overall processing costs, significantly improves compost quality and is in alignment with state government policy.

Planning For The Future Overview



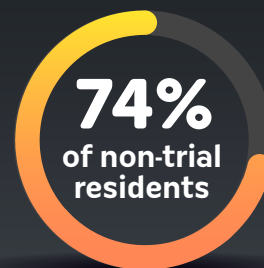
want the FOGO
service to
continue



were happy with the
amount of information
they received



rate weekly
FOGO bins
positively



in the SMRC region
want a FOGO bin

WASTE DEEP IN MUD

The SMRC was successful in obtaining a \$130K Waste Authority's Community Industry Engagement Project grant to evaluate options for recovery of food waste from Multi Unit Developments (MUDs).

The grant is in conjunction with SMRC's contribution of \$80K and includes, resident surveys and auditing programs to understand the issues and opportunities and develop best practice collections systems.

2.1.4 Being a responsible and considered employer

Strategies	Actions	Responsibility	Timeframes	Informing Document
			2018/19	
2.2.4 We will be a responsible employer	a. Review and update the Workforce Plan to reflect the service delivery model	Corporate Services Safety Manager	✓	WFP
	b. Implement the OH&S Plan	Corporate Services	✓	OH&S Plan

INVESTING IN EMPLOYEE ENGAGEMENT

The Council adopted its revised Workforce Plan addressing future workforce challenges and operating environments, such as, the introduction of FOGO, the RRRRC divestment plan, proposed changes to governance structures and broader resource sharing arrangements.

The Plan includes a number of employee retention incentive strategies during this time of organisational change.

Planning For The Future Overview

SMRC RECOGNISED FOR EXCELLENCE IN SAFETY AND WELLBEING



HEALTHIER WORKPLACE WA – GOLD RECOGNITION

The SMRC has achieved Gold Recognition status as part of the Healthier Workplace WA Program.

The Healthier Workplace WA program helps to assist staff members make positive lifestyle changes that benefit everyone.

You can find out more about the program by visiting healthierworkplacewa.com.au



LGIS – SILVER SAFETY AWARD

The SMRC has achieved a Silver Award from the Local Government Insurance Scheme (LGIS) as part of LGIS's 3 steps to safety program.

The award highlights the SMRC's ongoing commitment to safety and follows on from previously receiving a Gold Certificate of Achievement from Worksafe and Gold Certification of the SMRC's OH & S Management Systems from LGIS in 2015.

KEEP AUSTRALIA BEAUTIFUL WEEK AT THE RRRC



Keith and Bebe doing their bit to help out

The SMRC prides itself on ensuring our operations are of the best possible standards and during this years Keep Australia Beautiful Week we decided to get everyone involved.

As part of the initiative, staff at the Regional Resource Recovery Centre downed tools, working together to help tidy up the site and do their bit.

In order to cover as much of the 12-hectare site as possible, staff were split up into a number of different groups and as with all good events the staff were treated to lunch as a reward for their efforts!

KEEP THE FOCUS ON **WORK HEALTH & SAFETY**

IR (number of incidents/100 workers) – AVERAGE

Incidence of reports

per 100 FTE employees 10.99 UP BY 15%. This is indicative of improved reporting culture.

Number of Lost time incidents 0 (LTIR Aus. Std.1885.1 per 1 million hours worked)

(2017/18 0)

Timely and safe return to work is key to reducing long term claim costs

Planning For The Future Overview

3.1.1 Participate in industry forums for policy & legislation change

Strategies	Actions	Responsibility	Timeframes	Informing Document
			2018/19	
3.1.1 Participate in Federal, State and Local Government bodies to support the development of regional and metropolitan waste management policies and legislation	a. Continue to develop existing relationships with Waste Authority and DWER	CEO	✓	Communications Plan
	b. Advocate for extended producer responsibility and circular economy principals.	CEO	✓	SWMP No36,37
	c. Advocate for legislation that supports the state's waste hierarchy	CEO	✓	National Waste Policy State Waste Strategy SWMP No35,36

WA STATE WASTE STRATEGY



The WA State Government launched the new Western Australian Waste Strategy which aims to make Western Australia a sustainable, low-waste and more environmentally friendly State.

The Strategy outlines a range of targets across a range of sectors and is accompanied by an Action Plan which details a range of steps required to meet these targets.

At the cornerstone of the strategy is a headline target to ensure all households in the Perth and Peel Regions will have access to a consistent three-bin Food Organics Garden Organics (FOGO) kerbside collection system by 2025.

You can view the full Strategy and Action Plan on the Waste Authority website at the following link wasteauthority.wa.gov.au/about/waste-strategy

The release of the WARR Strategy 2030 in February 2019 sets a clear direction and blueprint for the future of waste and resource recovery in WA. Headline strategies include the requirement that a consistent 3-bin kerbside collection system, including separation of food organics and garden organics (FOGO) from other waste categories, is provided by all local governments in the Perth and Peel region by 2025. It also introduces challenging targets for material recovery of 70% by 2025 and a target of only 15% of waste generated in Perth and Peel is landfilled by 2030. It should be noted that material recovery explicitly excludes the recovery of energy from waste.

Planning For The Future Overview

MOVING IN THE RIGHT CIRCLES

During 2018/19 the Chair and Chief Executive Officer were on the following external boards, committees and working groups

STATE GOVERNMENT WASTE TASKFORCE

Chaired by the Minister for Environment's Parliamentary Secretary Mr Reece Whitby MLA, Cr Thompson as Chair of MWAC and Mr Tim Youé, as CEO of SMRC have been appointed to the 18-person membership. The Taskforce reports to the Minister for Environment, on recycling market issues and opportunities in Western Australia. The Chair and CEO are also members of the reference group to review problematic material effecting downstream recycling.

Chair – Cr Doug Thompson

- Municipal Waste Advisory Council, *Chair*
- WALGA CDS Policy Forum, *Chair*
- WALGA South Metropolitan Zone, *Chair*
- WALGA Environmental Policy Group, *Chair*
- WALGA State Council Executive Committee, *Member*
- Waste Reform Advisory Group, *Member*
- Ministerial Waste Taskforce, *Member*

Chief Executive Officer – Mr Tim Youé

- Waste Management and Resource Recovery Association of Australia (WMRR), *National Director*
- Metropolitan Regional Councils, CEO Working Group, *Chair*
- Municipal Waste Advisory Council (MWAC), Officers Advisory Group, *Chair*
- Waste Reform Advisory Group, *Member*
- Ministerial Waste Taskforce, *Member*
- CDS- Logistics, Resource Recovery and Local Government Technical Working Group, *Member*
- WALGA, CDS Policy Forum, *Member*

Planning For The Future Overview

MINISTER TEMPLEMAN VISITS THE RRRC



From Left: Mayor Brad Pettit, Mayor Jim O'Neill, Minister David Templeman MLA and Mayor Russell Aubrey

On the 8th of April the Minister for Local Government, the Hon. David Templeman MLA, visited the Regional Resource Recovery Centre (RRRC) in Canning Vale as part of an announcement that the State Government's MyCouncil website will now include local government waste and recycling data.

The announcement saw a number of SMRC Member Councils, including the Cities of Melville, Fremantle and Town of East Fremantle all coming in the top 5 in the metro area for diverting waste from landfill.

Aside from the materials collected through the yellow-topped recycling bin, a strong part of this result is the recovery of materials organic waste collected through the green-topped general waste bin. This bin is currently processed through the Waste Composting Facility at the RRRC which separates out the organic materials and creates a compost suitable for use for agricultural purposes.

In the second half of 2019, each of the three councils will roll out a three-bin Food Organics Garden Organics (FOGO) system, which will allow for the production of a cleaner, higher quality compost, less landfill and reduced processing costs.

To view your council's result, visit <https://www.mycouncil.wa.gov.au/>

Planning For The Future Overview

3.2.1 Promote the RecycleRight Program as the regional & state recycling initiative

Strategies	Actions	Responsibility	Timeframes	Informing Document
			2018/19	
3.2.1 Develop and implement an effective community education program	a. Implement community education plan actions	CEO and Communications	✓	Communications Plan Recycle Right Plan
	b. Undertake an annual review of the community education plan	Communications	✓	SWMP Recycle Right Plan
3.2.2 Partner with member councils and complementary organisations to promote behavioural change towards waste recovery and reuse	a. Continue to work with and provide support to waste reduction groups	Communications	✓	Community Engagement Plan Recycle Right Plan
	b. Promote the Recycle Right Program amongst member councils as the regional recycling initiative	Communications	✓	Community Engagement Plan Recycle Right Plan
	c. Promote the benefits of source separation for 3 bin systems	Communications	✓	Community Engagement Plan Recycle Right Plan
	d. Actively pursue funding and partnership opportunities for educational programs	Communications	✓	Community Engagement Plan Recycle Right Plan
	e. Lead trial projects to reuse recycled materials	Communications	✓	Community Engagement Plan Recycle Right Plan



The SMRC issues its Recycle right newsletter on a regular basis, featuring topics that promote community awareness in reuse and recycling and actions undertaken by SMRC and our members.

Go to recycleright.wa.gov.au to sign up to the email publication.

Planning For The Future Overview



And the winner is...

The South Metropolitan Regional Council (SMRC) and the City of Melville have received the Avoid Recover Protect – Waste Management Award at this year's Infinity Awards, for the first Perth Metropolitan 3-bin Food Organics Garden Organics (FOGO) trial.



Photo Credit: Department of Water and Environmental Regulation

From left to right: Hon Stephen Dawson MLC - Minister for Environment; Disability Services, Cr Doug Thompson - Chairman of the SMRC, Cr Tim Barling - Deputy Mayor of the City of Melville and Mr Marcus Geisler - Chairman of the Waste Authority.

The Infinity Awards acknowledge and celebrate the outstanding achievements of Western Australians working towards a better waste future through improved waste practices and innovative waste solutions. This year's awards saw a record number of nominations with more than 100 entries from organisations and individuals throughout Western Australia across a range of different categories.

The 3-bin FOGO trial was rolled out to approximately 7,000 households in the City of Melville as part of a joint project between the Cities of Fremantle and Melville, Town of East Fremantle and the SMRC. The trial demonstrated that this system achieves greater than 65% diversion from landfill, reduces processing costs, produces an Australian Standard Compost and received strong support and participation from the community.

The success of the project will now see the system rolled out throughout to the remaining residents in the City of Melville, alongside the City of Fremantle and Town of East Fremantle in the second half of 2019.

Alongside this achievement, the SMRC and the Waste and Recycling Industry Association of WA, Cleanaway WA, SUEZ WA and Western Australian Local Government Association also received a Highly Commended recognition for the development of Statewide Guidelines for Kerbside Recycling in the Avoid Recover Protect – Waste Management category.

PREPARING FOR THE BAN AT PINEY

On Wednesday the 20th of June, the SMRC in Partnership with the City of Melville, ran an interactive information session at Piney Lakes Environmental Education Centre, explaining just exactly what the plastic bag ban means for households, and providing some alternative reduce and reuse options.

The event was well attended with 45 attendees, with a number of spot door prizes such as Recycle Right reusable shopping and produce bags alongside shopping trolley bags to help with the weekly shop.



Planning For The Future Overview



YOUNG ENGINEERS BATTERY DESIGN CHALLENGE PROGRAM

Over a number of years, the SMRC has developed a relationship with Young Engineers, hosting workshops and sessions at the Regional Resource Recovery Centre (RRRC) and helping children develop their understanding of how engineering can be used to solve real world problems.

This year, the program looked to tackle the issue of preventing batteries from entering the Materials Recovery Facility (MRF) at the RRRC. The event took place at John XXIII College with year 5 and 6 students building Lego prototypes of battery removal contraptions based around the equipment at the MRF.

The students then presented their prototypes to a panel of 'technology investors', which included our Waste Education and Project Officer Conor Macgill alongside a representative from the Department of Industry, Innovation and Science and a Technology Expert from Fairfax Media.

To find out more about the program, visit young-engineers.com.au

COMMUNITY WASTE GRANT **SUCCESS**



Our very own Waste and Recycling Education Network (a.k.a the WREN) has been successful in a grant application as part of the Waste Authority Community Grants Scheme. The WREN is the community advisory group of the SMRC and made up of residents from our member councils.

The grant project is part of a partnership with the Fremantle Men's Shed and funds will be used to assist in the building and installation of recycling collection stations within the SMRC catchment area.

If you are interested in getting involved in the group, you can find out more by visiting recycleright.wa.gov.au/get-involved.

This project is funded by the State Government through the Waste Avoidance and Resource Recovery Account, and administered by the Waste Authority.

Planning For The Future Overview

RECENT EVENTS

The Recycle Right team and the WREN have been out and about at some local events recently, starting with the City of Fremantle's Garage Sale Trail event at the Fremantle Recycling Yard on Saturday October 20.

There were plenty of people choosing to reuse by buying second hand items, and there was a huge variety of items for sale - not just clothes and trinkets but bicycles and even scuba gear! We were speaking to locals about the recent recycling changes, the upcoming FOGO 3 bin system and making t-shirt bags out of pre-loved t-shirts.

On Sunday November 4 we also joined the City of Melville to act as 'bin fairies' and talk all things rubbish. It was a beautiful day down at Tompkins Reserve by the water for Little Hands Festival: Kidchella! and a very busy event with no shortage of residents to talk to about FOGO, recycling and cloth nappies.



From left to right: Stephanie Courtney (City of Melville) Isabelle Marie (SMRC) Paul Molony (City of Melville) and Isabelle Gagnon (WREN) at Little Hands Festival: Kidchella!

Key Performance Indicators

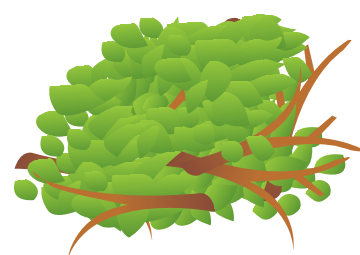
The SMRC continues to deliver sustainable waste management solutions that meet and exceed state government targets on behalf of the communities of our member councils.

During the year, the overall diversion rate of waste from landfill was 65% from combining all of our three RRRC facilities, while these were above the state government's targets at the time of 50% and in line with the 2020 target of 65% the release of the WARR Strategy 2030 means the targets have now shifted to a material recovery target of 70% by 2025 with only 15% of waste generated in Perth and Peel landfilled by 2030. The SMRC's Strategic Plan and members waste plans will be amended to reflect these new targets.

Resource Recovery Key Performance Indicators

Performance Indicator	How it will be measured	Actuals			Target
		2016/2017	2017/2018	2018/2019	2018/2019
Waste diverted from landfill	Percentage of waste diverted = $(1 - \text{total residuals} / \text{total waste processed}) \times 100\%$	65%	62%	65%	65%
Contamination is reduced in the three waste streams collected.	Lime Bin FOGO contamination (Waste Audits)	N/A	N/A	Trial Area 2.6%	<2%
	Yellow Bin Recycling contamination				<10%
	Red Bin Residuals				<10%

Waste Diverted from Landfill



RECYCLABLES		MSW		GREEN WASTE	
Tonnes Received	% Diverted from landfill	Tonnes Received	% Diverted from landfill	Tonnes Received	% Diverted from landfill
21,972	84%	71,076	54%	9,702	100%

Key Performance Indicators

Business Sustainability Key Performance Indicators

Performance Indicator	How it will be measured	Actuals			Target
		2016/2017	2017/2018	2018/2019	2018/2019
Key stakeholders are satisfied with our performance	Stakeholder survey	84%	87%	89%	>80%
Plant availability	Percentage of member tonnes accepted at RRRC	100%	100%	100%	>95%
Current Ratio	Current assets over current liabilities	1.22	1.21	1.46	=>1.10
No of lost time incidents (LTIFR)	Number of lost time injuries	1	0	0	0

Community & Stakeholder Relationships Key Performance Indicators

Performance Indicator	How it will be measured	Actuals			Target
		2016/2017	2017/2018	2018/2019	2018/2019
SMRC is acknowledged as a leader in waste management and resource recovery	Community survey	82%	83%	No survey	>80%
Community awareness of the Recycle Right brand	Community Survey	8%	26%	No survey	>40%
Number of community contacts	Number of persons receiving waste education from SMRC eg RRRC tour visitors, community and school education, awareness programs run by SMRC	5,157	3,424	4,074	>5,000
RecycleRight Website	Number of hits on the Recycle Right website	59,560	98,267	77,498	>50,000

77,500
Website Hits
This Year



Key Performance Indicators

Financial Ratios

Current Ratio

Measures the liquidity position of a local government.

	Target	Actual FY19	Actual FY18	Comments
Dept of Local Government Standard Benchmark	1.0 Higher is better	1.58	1.21	The SMRC is in a solvent position and has ability to meet its short term financial obligations out of unrestricted assets. (nb: Cash reserves are not included in the ratio)
Current assets minus restricted current assets Current liabilities minus restricted liabilities associated with restricted assets FY17 $\$19.5 - \$5.8 = \$13.7$ million $\$9.5 - \$0.9 = \$8.6$ million [Numbers taken from statement of financial position and cash and cash equivalents note]				

Asset Consumption Ratio

This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.

	Target	Actual FY19	Actual FY18	Comments
Dept of Local Government Standard Benchmark	0.50 Higher is better	0.75	0.76	
Depreciated Replacement Cost of Depreciable Assets Current Replacement Cost of Depreciable Assets FY19 $\$16.1$ million $\$21.5$ million [Numbers taken from notes in financial statements – Property, Plant & Equipment]				

Asset Renewal Funding

This ratio is a measure of the ability of a local government to fund its projected asset renewal / replacements in the future.

	Target	Actual FY19	Actual FY18	Comments
Dept of Local Government Standard Benchmark	0.75 Higher is better	-	1.00	The 10 year required capital renewals program is included in the 10 year planned Asset Management Renewal Plan. SMRC has placed a hold on its 10 year planned capital renewals program until it finalises its decision with the RRRC divestment plan.
NPV of Planned Capital Renewals over 10 years NPV of Required Capital Expenditure over 10 years There is no asset renewal program as a result of the RRRC divestment, therefore the Asset renewal funding ratio for the year 2019 has not been reported.				

Key Performance Indicators

Financial Ratios

Asset Sustainability Ratio

Measures whether assets are being replaced/renewed at the rate they are wearing out.

	Target	Actual FY19	Actual FY18	Comments
Dept of Local Government Standard Benchmark	0.90 Higher is better	0.03	0.19	The SMRC's annual depreciation charge is \$5.1M, (\$5M FY18). It includes assets that will never be replaced and therefore an annual replacement program of \$5M is not required. This ratio has little meaning for the SMRC because the annual asset renewal program will not be realised to its full value.
Depreciated Replacement Cost of Depreciable Assets Current Replacement Cost of Depreciable Assets FY19 \$0.1 million \$5.1 million [Numbers taken capital expenditure & statement of comprehensive Income]				

Debt Service Cover

Measures a local government's ability to repay its debt including lease payments.

	Target	Actual FY19	Actual FY18	Comments
Dept of Local Government Standard Benchmark	2.0 Higher is better	(0.86) (0.19)	(0.18)	The RRRC Project loan is guaranteed and repaid by Participants. Therefore this ratio is not a true financial performance for the SMRC For FY19 disclosed above the ratio is further distorted by the utilisation of brought forward surplus and cash-backed reserves instead of operating revenue from participants.
Annual Operating Surplus before interest and depreciation Principal and Interest FY19 $(\$9.4) + \$5.9 = \$3.5 \text{ million}$ $\$3.4 + \$0.7 = \$4.1 \text{ million}$ [Numbers taken from statement of comprehensive income and statement of cash flows]				

Operating Surplus Ratio

This ratio is a measure of a local government's ability to cover its operational costs and have revenues available for capital funding or other purposes.

	Target	Actual FY19	Actual FY18	Comments
Dept of Local Government Standard Benchmark	0.01 Higher is better	(0.41) (0.29)	(0.27)	The reason for the SMRC's negative ratio is due to the financial structure of the SMRC. It does not budget to make a surplus or recover the annual \$5 million depreciation charge as revenue from its participants because the participants contribute separately towards the capital assets through annual loan borrowings.
Operating Revenue minus Operating Expenses Own source operating revenue FY19 $\$23.2 - \$32.7 = (\$9.5) \text{ million}$ \$23.0 million [Numbers taken from statement of comprehensive income by nature or type]				

Key Performance Indicators

Financial Ratios

Own Source Revenue Coverage Ratio

This ratio measures a local government's ability to cover its costs through its own revenue effort.

	Target	Actual FY19	Actual FY18	Comments
Dept of Local Government Standard Benchmark	0.40 Higher is better	0.71 0.77	0.79	The reduction in this ratio is because in FY19 SMRC utilised brought forward surplus and cash backed reserves to fund its operations. If the SMRC did not undertake the above and generated revenue, the ratio would have been 0.90.
Own source operating revenue				
Operating expense				
FY19				
\$23.0 million				
\$32.7 million				
[Numbers taken from statement of comprehensive income by nature or type]				





Statutory requirements

Plan for the Future

Section 5.53(2)(e) of the Local Government Act 1995 requires local governments to provide an overview of the plan for the future of the district, made in accordance with s.5.56, including major initiatives that are proposed to commence, or to continue, in the next financial year (FY).

The Regional Council adopted its Strategic Community Plan 2013-2023 and Corporate Business Plan 2013-2017 in accordance with the requirements of the Integrated Planning Framework as outlined by Regulation 19C (Strategic Community Plan) and Regulation 19DA (Corporate Business Plan) of the Local Government (Administration) Regulations 1996.

Since that date, the Regional Council through extensive consultation with its member local governments has reviewed and adopted in June 2016, an amended Strategic Community Plan 2016-2026.

The Corporate Business Plan has been reviewed and updated every two years, with the latest adoption in June 2018.

Refer to this report for detail and performance reporting on the current Plan's actions and KPIs.

Register of complaints in relation to minor breaches by Councillors

In accordance with section 5.53(2)(hb) of the Local Government Act 1995, it is a requirement to report any complaints in relation to minor breaches by Councillors received during the year.

There were no complaints reported for the period 1 July 2018 to 30 June 2019.

Payment to Employees

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

	2019	2018
Salary Range \$	\$	\$
270,000 - 279,999	1	1
190,000 - 199,999	1	1
180,000 - 189,999	1	1
170,000 - 179,999	1	-
160,000 - 169,999	-	1
110,000 - 119,999	2	-
100,000 - 109,999	-	2
Total	6	6

NUMBER OF EMPLOYEES

The number of full-time and part-time employees as at the balance date.

57 68

Reason for changes from previous year: positions vacant are either not replaced or temporarily replaced with agency staff.

National Competition Policy

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

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

Statutory requirements

The Regional Council has one significant business activity – Regional Resource Recovery Centre (RRRC).

The SMRC undertook a review of its legislative requirements under the National Competition Policy in 2014/15. The assessment has determined that, while RRRC's business activities meet the first criterion for the implementation of competitive neutrality principles they do not meet the Public Benefit Test. For this reason, and consistent with the requirements of the Competition Principles Agreement, SMRC is not required to implement any competitive neutrality principles to the operations of RRRC. The report is available on the SMRC website.

Regulatory Review

Under clause 7 of the Competition Principles Agreement Local Governments are required to review their Local Laws. The intention of this clause is to ensure existing Local Laws set by Local Governments do not restrict competition unless there are benefits to the community as a whole.

The Southern Metropolitan Regional Council adopted its Standing Orders Local Law on 27 November 2008 and meets the principles of Clause 7.

Statutory Compliance Return

The Statutory Compliance Return for the period 1 January 2018 to 31 December 2018 was completed and lodged as required. There were no matters of non-compliance to report.

Record-Keeping Plans

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

- An Amended Record Keeping Plan (RKP) for the SMRC was approved by the State Records Commission (9/12/2016). The plan is next reviewed in December 2021.
- A new Electronic Document Record Management System eDRMS was implemented from July 2015.
- Staff training programmes for new and existing staff are regularly undertaken to ensure staff comply with the Record Keeping Policy and Procedures.
- An Independent internal audit for record keeping was completed in May 2016. The audit focused on the design and operational effectiveness, through detailed testing of the key controls in the following areas:
 - Documentation is aligned with the State Records Act (SRA) and has been reviewed and approved by the State Records Office.
 - The relevant record keeping documents are in place to ensure compliance at a high level with the SRA including Recordkeeping Plan, Metadata Management Policy, Thesaurus and Retention and Disposal Plan and key requirements are complied with, including archiving and disposal
 - Staff are aware of record keeping requirements and adequately trained
 - Access to records is appropriately controlled either through a system or hard copy records; and
 - Record audits are performed by the manager responsible for recordkeeping e.g. frequency, results and follow-up.

Statutory requirements

Disability Access & Inclusion Plan

In accordance with S29(2) of the Disability Services Act 1993 a public authority that has a Plan must report on the implementation of the Plan. The SMRC does not have a Plan.

Environmental Operating Licence

The SMRC has an environmental licence for a prescribed premises under the Environmental Protection Act 1986, granted by the Department of Water and Environmental Regulation (DWER) to the 30 March 2033.

The licence includes conditions, which are monitored and evaluated by DWER. A full copy of the licence can be viewed on SMRC's website.

The Regional Resource Recovery Centre (RRRC) is required to provide an audit compliance report on an annual basis to the DWER. This is a legal requirement under part V of the *Environmental Protection Act 1986* and stipulated as a condition in the RRRC operating licence. The report was forwarded to DWER in November 2018.





Financial Summary

	Jun-19 (\$M)	Jun-18 (\$M)	
Revenues	\$23.2	\$24.4	-\$1.2
Operating Expenses	\$23.0	\$26.1	-\$3.1
Operating Surplus/(Deficit)	\$0.2	(\$1.7)	\$1.9
Cash in Bank	\$9.0	\$10.3	-\$1.3
Reserves	\$6.0	\$5.2	\$0.8
Outstanding Loans	\$14.9	\$18.3	-\$3.4
Net Assets	\$25.6	\$36.0	-\$10.4

Financial Performance

Revenue (from continuing & discontinuing operations)

The 2018/19 total operating revenue was \$23.2 million (\$24.4M FY 18)

80% of revenue is from SMRC's participants towards RRRC services, loan interest, governance and education contributions.

The reduction in revenue is attributed to customer tonnes received and recycling sales due to restricted international markets.

Expenditure (from continuing & discontinuing operations)

The 2018/19 total operating expenditure was \$33 million (\$31M FY 18)

The reduction compared to the previous year relates to employee costs and plant maintenance.

The expenditure includes some exceptional costs such as a new provision for employee redundancies of \$1.8 million and asset impairments associated with future potential divestment decisions of the RRRC.

Expenditure also includes \$5.1 million depreciation charges. Depreciation is a non-cash expense and has no impact on net cash position, however, it does have a material impact on the net operating result, which is shown in the following table.

Net Result for the Year

Whilst the financial statements show a deficit of \$9.4 million. The following is an explanation for the deficit.

The SMRC uses **EBITDA** as an alternative internal measure for reporting its net result. Applying SMRC's EBITDA, the net result is a surplus of \$0.2 million (see table below).

Reconciling our financial results

Measure	Underlying (EBITDA)	
	EBITDA stands for: Earnings before interest, taxes, depreciation & amortisation.	
Why do we use this?	Underlying EBITDA is a key alternative performance measure that management uses internally to assess the financial performance by removing expenses that are irrelevant in understanding actual financial results for the year ended.	
Adjustment	Net Result	(\$9.4 M)
	Add back depreciation	\$5.1 M
	Add back provision for employee redundancies	\$1.8 M
	Add back impairment loss on revaluation of assets held for sale	\$2.7M
Result	EBITDA	\$0.2 M

Understanding the Financial Statements

The financial statements cover the period 1 July 2018 to 30 June 2019 and have been audited by Butler Settineri appointed by the Office of the Auditor General Western Australia.

1. Proposed Divestment of the RRRC

During the year the Council proposed to dispose of the Plant and equipment and sub-lease the leasehold developments relating to SMRC's major trading undertaking, the Regional Resource Recovery Centre (RRRC). The Council is still in negotiations with a prospective buyer and the RRRC Plant and equipment has not yet been disposed of at year end.

The divestment, triggers a number of accounting treatments in accordance with international accounting standards, as explained hereunder;

2. Understanding Assets Held for Sale

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

Accounting Standard AASB 5 Non-current Assets Held for Sale and Discontinued Operations is structured for larger organisations where these circumstances are more frequent. Therefore, the application of this standard for smaller organisations such as this Council presents a Statement of Comprehensive Income that may confuse some readers, so to assist, we recommend viewing Note 2(c) Break up of Continued and Discontinued Operations.

3. Understanding Discontinued Operations

Accounting Standard AASB 5 Non-current Assets Held for Sale and Discontinued Operations

The revenue and expenditure relating to the part of the business that is subject to divestment are reported separately from continuing operations in the Statement of Comprehensive Income (Profit & loss Statement).

Note 8 b) Financial performance and cashflow information – Discontinued Operations	Note	2019
		\$
Revenue	8(c)	21,726,035
Expense	8(c)	(26,002,109)
Profit on asset disposal		145
Impairment loss on revaluation of asset held for sale		(2,741,453)
Net result for the period		(7,017,382)

4. Understanding Continued Operations

Until there is an agreed decision on the role of the regional council after the RRRC divestment, the existing undertakings definition under the Establishment Agreement has been considered as continued. This refers to; administration, research and education.

The following assumptions have been considered as continued operations

5. Statement of Comprehensive Income

5.1 Continuing Operations:

The **revenue** of \$1.5 million relates to participants' contributions towards:

- Administration and Education.
- RRRC and Office Interest on Borrowings

The **expenses** of \$3.9 million relates to:

- Governance and compliance
- Administration and Education employees and expenses.
- RRRC and Office Interest on Borrowings
- Depreciation

The net result deficit of \$2.4 million is funded from brought forward balances, cash reserves and non-cash depreciation.

5.2 The **Result from discontinuing operations** of \$7.0 million is explained under the heading "3. Understanding Discontinued Operations" in the first part of this report.

5.3 The **net result** deficit is explained under the heading "Net Result for the Year" in the first part of this report.

5.4 **Other Comprehensive Income** refers to a loss in the revaluation of assets reversed from the Revaluation Surplus Reserve. Plant items revalued relate to:

- Plant and Equipment of the RRRC Project, no longer held
- Land and buildings of the Office Accommodation Project.

6. Statement of Financial Position

6.1 The Council's **net assets and total equity** is \$25.6 million (\$36.0 million FY 18). The decrease of \$10.4 million is attributed to net deficit result (\$9.4 million).

6.2 **Property, plant and equipment** carrying value as at 30 June 2019 was \$23.7 million (\$32.3 million FY 18), the reduction of \$7.8 million is due to the following:

- Depreciation \$5.1 million
- Impairment loss on revaluation of assets held for sale \$2.7 million

6.3 **Borrowings** balance (current & non-current liabilities) was \$14.9 million (\$18.3 million FY 18), made up of the following two project loans;

- RRRC Project outstanding balance of \$13.1 million (\$16.5 million FY 18) and;
- Office Accommodation Project, Office building in Booragoon \$1.8 million (\$1.8 million FY 18).

No new loans were raised during the year. RRRC project loans repaid during the year amounted to \$3.4 million (\$3.0 million FY 18). The RRRC Project borrowings will be fully repaid by 30 June 2023.

6.4 The **make good provision** (RRRC project decommissioning and restoration) is \$3.5 million (\$3.4 million FY 18). The provision increases annually by an inflation interest charge.

Understanding the Financial Statements

7. Statement of Changes in Equity

- 7.1 The changes in the **retained surplus** balance as at 30 June 2019 was \$7.1 million (\$16.7 million FY18). The explanation for the reduction of \$9.6 million is below;
- The net deficit result from the statement of comprehensive income of (\$9.4 million).
 - Net amount of (\$0.7 million) is transferred from the cash backed reserves.
 - Amount of \$0.6 million transferred from asset revaluation reserve for revaluation of mobile plant no longer held.
- 7.2 The **changes in the cash-backed reserve** balance as at 30 June 2019 increased by \$0.7 million to \$5.9 million (\$5.2 million FY18).
- The reserve accounts are for the purposes of funding the asset renewal program, contingency & development initiatives, insurance, restoration costs associated with the RRRC lease conditions and provision for travel and conferences.
- 7.3 The **changes in the revaluation surplus** of \$1.5 million to \$12.5 million (\$14 million FY 18). The reduction relates to a revaluation of plant and equipment.

8. Statement of Cash Flows

- 8.1 The **net decrease in the cash balances** of \$1.3 million is attributed to the following cash receipts and payments during the year.
- 8.2 The **cash receipts from operations** is \$25.8 million (\$27.7 million FY 18). The decrease of \$1.9 million is a result of reduced tonnes received and recycling sale prices.
- 8.3 The **cash payments for operations** is \$26 million (\$28.3 million FY 18). The decrease of \$2.3 million is a result of reduced employee expenses, plant maintenance expenses and loan interest.
- This resulted in a **net cash deficit from operating activities** of \$0.1 million (surplus of \$0.6 million FY 18).
- 8.4 The **cash used in investing activities** is \$1.1 million (\$1.0 million FY 18). The amount refers to capital expenditure and Cash term deposit investments exceeding three months. The classification of Cash term deposit investments exceeding three months is in accordance with the changes in accounting classification and measurement requirements for AASB 9 Financial instruments.
- 8.5 The **cash balance at the end of the financial year** has reduced by \$1.3 million to \$9 million (\$10.3 million FY 18).



SOUTHERN METROPOLITAN REGIONAL COUNCIL

FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2019

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Principal place of business:
9 Aldous Place
Booragoon WA 6154

**SOUTHERN METROPOLITAN REGIONAL COUNCIL
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

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

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Southern Metropolitan Regional Council for the financial year ended 30 June 2019 is based on proper accounts and records to present fairly the financial position of the Southern Metropolitan Regional Council at 30 June 2019 and the results of the operations for the financial year then ended in accordance with the Local Government Act 1995 and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Signed on the 28th day of November 2019



Chief Executive Officer

Tim Youé

Name of Chief Executive Officer

BUTLER SETTNERI (AUDIT) PTY LTD

Financial Report

SOUTHERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF COMPREHENSIVE INCOME
BY NATURE OR TYPE
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
Continuing Operations				
Operating Revenue				
Operating grants, subsidies and contributions	2(a)	1,519,153	1,429,640	1,677,711
Fees and charges	2(a)	0	0	0
Interest earnings	2(a)	0	25,000	20,831
Other revenue	2(a)	177	60,000	3,135
		<u>1,519,330</u>	<u>1,514,640</u>	<u>1,701,677</u>
Operating Expenses				
Employee costs		(484,496)	(682,575)	(586,325)
Materials and contracts		(925,092)	(825,586)	(899,937)
Utility charges		(21,249)	(17,400)	(14,553)
Depreciation on non-current assets	2(c)	(1,670,424)	(2,006,416)	(1,664,466)
Interest expenses	2(b)	(798,182)	(717,573)	(996,398)
Insurance expenses		(50,710)	(47,000)	(44,932)
		<u>(3,950,153)</u>	<u>(4,296,550)</u>	<u>(4,206,611)</u>
Net result from continuing operations		(2,430,823)	(2,781,910)	(2,504,934)
Result from discontinued operations	8(b)	(7,017,382)	(1,144,137)	(4,134,016)
Net result for the period	2(c)	(9,448,205)	(3,926,047)	(6,638,950)
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Reversal of revaluation surplus to offset reduction in fair value of assets				
Plant and Equipment - specialised	10(a)	(324,348)	0	0
Land and Buildings - non-specialised	10(a)	(602,694)	0	0
Total other comprehensive income for the period		(927,042)	0	0
Total comprehensive income for the period		(10,375,247)	(3,926,047)	(6,638,950)
Total comprehensive income for the period arrives from:				
Continuing operations	2(c)	(3,033,517)	(2,781,910)	(2,504,934)
Discontinued operations	2(c)	(7,341,730)	(1,144,137)	(4,134,016)
		<u>(10,375,247)</u>	<u>(3,926,047)</u>	<u>(6,638,950)</u>

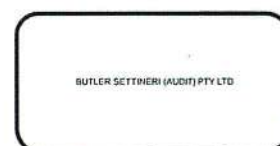
This statement is to be read in conjunction with the accompanying notes.



SOUTHERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF COMPREHENSIVE INCOME
BY PROGRAM
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
Continuing Operations				
Operating Revenue	2(a)			
Governance		348,522	348,522	343,371
Community amenities		1,170,808	1,166,118	1,358,306
		<u>1,519,330</u>	<u>1,514,640</u>	<u>1,701,677</u>
Operating Expenses	2(b)			
Governance		(440,414)	(378,522)	(377,371)
Community amenities		(2,711,557)	(3,200,455)	(2,832,842)
		<u>(3,151,971)</u>	<u>(3,578,977)</u>	<u>(3,210,213)</u>
Finance Costs	2(b)			
Governance		(58,500)	(58,500)	(68,769)
Community amenities		(739,682)	(659,073)	(927,629)
		<u>(798,182)</u>	<u>(717,573)</u>	<u>(996,398)</u>
Net result from continuing operations		<u>(2,430,823)</u>	<u>(2,781,910)</u>	<u>(2,504,934)</u>
Result from discontinued operations	8(b)	(7,017,382)	(1,144,137)	(4,134,016)
Net result for the period	2(c)	<u>(9,448,205)</u>	<u>(3,926,047)</u>	<u>(6,638,950)</u>
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Reversal of revaluation surplus to offset reduction in fair value of assets				
Governance	10(a)	(602,694)	0	0
Community amenities	10(a)	(324,348)	0	0
Total other comprehensive income for the period		<u>(927,042)</u>	<u>0</u>	<u>0</u>
Total comprehensive income for the period		<u>(10,375,247)</u>	<u>(3,926,047)</u>	<u>(6,638,950)</u>
Total comprehensive income for the period arrives from:				
Continuing operations	2(c)	(3,033,517)	(2,781,910)	(2,504,934)
Discontinued operations	2(c)	(7,341,730)	(1,144,137)	(4,134,016)
		<u>(10,375,247)</u>	<u>(3,926,047)</u>	<u>(6,638,950)</u>

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



Financial Report

SOUTHERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2019

	NOTE	2019	2018
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	3	9,030,098	10,336,874
Trade receivables	5	1,501,823	1,849,784
Other financial assets	9	4,188,075	3,807,403
Inventories	6	299,324	838,371
Other current assets	7	92,862	238,386
Assets classified as held for sale	8	4,400,000	0
TOTAL CURRENT ASSETS		19,512,182	17,070,818
NON-CURRENT ASSETS			
Other financial assets	9(b)	11,713,250	14,475,234
Property, plant and equipment	10	19,295,983	32,348,695
TOTAL NON-CURRENT ASSETS		31,009,233	46,823,929
TOTAL ASSETS		50,521,415	63,894,747
CURRENT LIABILITIES			
Trade and other payables	12	3,806,514	5,324,608
Borrowings	13(a)	3,173,433	3,807,403
Employee related provisions	14	141,137	735,765
Liabilities classified as held for sale	8	2,409,577	0
TOTAL CURRENT LIABILITIES		9,530,661	9,867,776
NON-CURRENT LIABILITIES			
Borrowings	13(a)	11,713,250	14,475,234
Employee related provisions	14	124,399	130,406
Make good provision for lease	15	3,522,564	3,436,795
TOTAL NON-CURRENT LIABILITIES		15,360,213	18,042,435
TOTAL LIABILITIES		24,890,874	27,910,211
NET ASSETS		25,630,541	35,984,536
EQUITY			
Retained surplus		7,108,598	16,683,177
Reserves - cash backed	4	5,961,925	5,245,685
Revaluation surplus	11	12,560,018	14,055,674
TOTAL EQUITY		25,630,541	35,984,536

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



SOUTHERN METROPOLITAN REGIONAL COUNCIL
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	RETAINED SURPLUS \$	RESERVES CASH BACKED \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 2017		22,218,139	5,983,685	14,055,674	42,257,498
Comprehensive income					
Net result for the period		(6,638,950)	0	0	(6,638,950)
Total comprehensive income		(6,638,950)	0	0	(6,638,950)
Past Participant's Contribution on Withdrawal		365,988	0	0	365,988
Transfers from/(to) reserves		738,000	(738,000)	0	0
Balance as at 30 June 2018		16,683,177	5,245,685	14,055,674	35,984,536
Net result for the period		(9,448,205)	0	0	(9,448,205)
Other comprehensive income	11	0	0	(927,042)	(927,042)
Total comprehensive income		(9,448,205)	0	(927,042)	(10,375,247)
Past Participant's Contribution on Withdrawal		21,252	0	0	21,252
Transfers from/(to) reserves		(716,240)	716,240	0	0
Transfers from/(to) Revaluation Surplus	11	568,614	0	(568,614)	0
Balance as at 30 June 2019		7,108,598	5,961,925	12,560,018	25,630,541

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

Financial Report

SOUTHERN METROPOLITAN REGIONAL COUNCIL STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Operating grants, subsidies and contributions		2,052,878	1,489,640	1,989,017
Fees and charges		21,334,691	23,085,724	23,172,429
Interest received		178,609	169,000	211,382
Goods and services tax received		2,219,941	2,440,000	2,310,128
Other revenue		27,148	60,000	27,528
		<u>25,813,267</u>	<u>27,244,364</u>	<u>27,710,484</u>
Payments				
Employee costs		(6,069,795)	(7,212,383)	(6,831,243)
Materials and contracts		(14,464,414)	(13,907,509)	(15,857,223)
Utility charges		(1,614,672)	(1,368,900)	(1,480,294)
Interest expenses		(798,182)	(717,573)	(997,117)
Insurance paid		(1,451,676)	(1,653,000)	(1,262,123)
Goods and services tax paid		(1,579,551)	(2,440,000)	(1,924,228)
		<u>(25,978,290)</u>	<u>(27,299,365)</u>	<u>(28,352,228)</u>
Net cash provided by (used in) operating activities	16	(165,023)	(55,001)	(641,744)
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchase of property, plant & equipment		(132,111)	(1,500,000)	(960,421)
Payments for financial assets	9(a)	(1,014,642)	0	0
Proceeds from sale of property, plant & equipment	10(c)	5,000	0	0
Net cash provided by (used in) investment activities		(1,141,753)	(1,500,000)	(960,421)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings		(3,395,954)	(3,139,007)	(3,039,960)
Contributions from Project Participants for loan repayments		3,395,954	3,139,007	3,039,960
Past Participant's Contribution on Withdrawal		0	0	365,988
Net cash provided by (used in) financing activities		0	0	365,988
Net increase (decrease) in cash held		(1,306,776)	(1,555,001)	(1,236,177)
Cash at beginning of year		10,336,874	7,962,329	11,573,051
Cash and cash equivalents at the end of the year	16	<u>9,030,098</u>	<u>6,407,328</u>	<u>10,336,874</u>
Net increase (decrease) Cashflows of discontinued operations	8(b)	100,372	(900,001)	(827,979)

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

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

1. BASIS OF PREPARATION

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

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

CRITICAL ACCOUNTING ESTIMATES

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

THE LOCAL GOVERNMENT REPORTING ENTITY

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

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

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

2. REVENUE AND EXPENSES

(a) Revenue

Grants, subsidies and contributions

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

By Programme:

Governance

Annual member's contributions 348,522
Reimbursements 0

Community Amenities

Annual member's contributions 482,045
Member's contributions towards interest 653,913
Grants 133,927
Other contributions 86,510

By Nature or Type:

Operating grants, subsidies and contributions

Comprises

Continuing operations 1,519,153
Discontinued operations 185,764

	2019 Actual \$	2019 Budget \$	2018 Actual \$
Governance			
Annual member's contributions	348,522	348,522	343,371
Reimbursements	0	0	0
Community Amenities			
Annual member's contributions	482,045	482,045	505,364
Member's contributions towards interest	653,913	659,073	840,764
Grants	133,927	0	2,000
Other contributions	86,510	0	151,089
	1,704,917	1,489,640	1,842,588
	1,704,917	1,489,640	1,842,588
Comprises			
Continuing operations	1,519,153	1,429,640	1,677,711
Discontinued operations	185,764	60,000	164,877

SIGNIFICANT ACCOUNTING POLICIES

Grants, donations and other contributions

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

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 23.

Grants, donations and other contributions (Continued)

That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operations for the current reporting period.

Financial Report

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)

Fees and Charges

Community Amenities

Gate Fee - Participating Member Councils	17,105,624	18,306,401	16,869,644
Gate Fee - Others	2,016,977	2,666,077	2,348,452
Sale of Materials	1,880,139	2,073,246	2,759,851
Consultancy Fee	331,951	40,000	385,250

	21,334,691	23,085,724	22,363,197
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Comprises

Continuing operations	0	0	0
Discontinued operations	21,334,691	23,085,724	22,363,197

There were no changes during the year to the amount of the fees or charges detailed in the original budget.

Interest earnings

Reserve accounts interest	126,068	159,000	199,829
Other interest earnings	52,541	10,000	20,700
	178,609	169,000	220,529

Comprises

Continuing operations	0	25,000	20,831
Discontinued operations	178,609	144,000	199,698

Other revenue

Reimbursements	2,148	60,000	27,528
Sale of inventory	25,000	0	0
	27,148	60,000	27,528

Comprises

Continuing operations	177	60,000	3,135
Discontinued operations	26,971	0	24,393

2. REVENUE AND EXPENSES (Continued)

(b) Expenses

Significant expense

Employment costs	5,990,388	7,192,353	6,714,822
Provision for employee redundancies	1,853,849	0	0
RRRC lease fees	669,446	684,800	684,640
Maintenance expenses	3,431,827	3,822,306	4,988,784
Contracted services	1,006,747	1,123,112	1,240,642
Disposal and transport costs	6,328,265	7,123,353	7,582,139
Electricity	1,572,717	1,301,800	1,425,523
Interest on borrowings	712,413	717,573	909,590
Insurance	1,451,676	1,653,000	1,262,123

Auditors remuneration

- Audit of the annual financial report	22,100	25,000	18,181
- Other services	0	5,000	0
	22,100	30,000	18,181

Interest expenses (finance costs)

- RRRC loans	653,913	659,073	840,045
- Admin building loan	58,500	58,500	68,827
Interest on borrowings	712,413	717,573	908,872
Interest on unwinding of discounts	85,769	0	87,526
	798,182	717,573	996,398

Rental charges

RRRC lease	669,446	684,800	684,640
Other operating leases	262,654	297,614	339,667
	932,100	982,414	1,024,307

2. REVENUE AND EXPENSES (Continued)

(c) Break up of Continued and Discontinued Operations

NOTE	Continuing & Discontinued Operations				Discontinued Operations				Continuing Operations			
	2019 Actual	2019 Budget	2018 Actual	2018 Budget	2019 Actual	2019 Budget	2018 Actual	2018 Budget	2019 Actual	2019 Budget	2018 Actual	2018 Budget
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Operating Revenue												
Operating grants, subsidies and contributions	1,704,917	1,489,840	1,842,588		185,764	80,000	164,877		1,519,153	1,429,640	1,677,711	
Fees and charges	21,334,691	23,085,724	22,363,197		21,334,691	23,085,724	22,363,197		0	0	0	
Interest earnings	178,609	169,000	220,528		178,609	144,000	199,698		0	25,000	20,831	
Other revenue	27,148	60,000	27,528		26,971	0	24,393		177	60,000	3,135	
Total Revenue	23,245,365	24,804,364	24,453,842		21,726,035	23,289,724	22,752,165		1,519,330	1,514,640	1,701,677	
Operating Expenses												
Employee costs	(5,990,388)	(7,192,383)	(6,714,822)		(5,505,892)	(6,509,808)	(6,128,497)		(484,496)	(682,575)	(586,325)	
Materials and contracts	(13,132,022)	(13,657,508)	(15,694,491)		(12,206,930)	(12,831,922)	(14,794,554)		(925,092)	(825,586)	(899,937)	
Utility charges	(1,614,672)	(1,368,900)	(1,480,294)		(1,593,423)	(1,351,500)	(1,465,741)		(1,249)	(17,400)	(14,553)	
Depreciation on non-current assets	(5,111,473)	(4,141,047)	(4,944,664)		(3,441,049)	(2,134,631)	(3,280,198)		(1,670,424)	(2,006,416)	(1,664,466)	
Interest expenses	(798,182)	(717,573)	(996,398)		0	0	0		(798,182)	(717,573)	(996,398)	
Insurance expenses	(1,451,676)	(1,653,000)	(1,262,123)		(1,400,966)	(1,606,000)	(1,217,191)		(50,710)	(47,000)	(44,932)	
Provision for employee redundancies	(1,853,849)	0	0		(1,853,849)	0	0		0	0	0	
Total Expenses	(29,952,262)	(28,730,411)	(31,092,792)		(26,002,109)	(24,433,861)	(26,886,181)		(3,950,153)	(4,296,550)	(4,206,611)	
	(6,706,897)	(3,926,047)	(6,638,950)		(4,276,074)	(1,144,137)	(4,134,016)		(2,430,823)	(2,781,910)	(2,504,934)	
Non-Operating Activities												
Profit on asset disposals	145	0	0		145	0	0		0	0	0	
Impairment loss on revaluation of asset held for sale												
Specialised Plant and Equipment	(2,741,453)	0	0		(2,741,453)	0	0		0	0	0	
Net result for the period	(9,448,205)	(3,926,047)	(6,638,950)		(7,017,382)	(1,144,137)	(4,134,016)		(2,430,823)	(2,781,910)	(2,504,934)	
Other comprehensive income												
Reversal of revaluation surplus to offset reduction in fair value of assets												
Specialised Plant and Equipment	(324,348)	0	0		(324,348)	0	0		0	0	0	
Land and Buildings - non-specialised	(602,694)	0	0		0	0	0		(602,694)	0	0	
Total other comprehensive income for the period	(927,042)	0	0		(324,348)	0	0		(602,694)	0	0	
Total comprehensive income/ (loss) for the period	(10,375,247)	(3,926,047)	(6,638,950)		(7,341,730)	(1,144,137)	(4,134,016)		(3,033,517)	(2,781,910)	(2,504,934)	

Financial Report

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

3. CASH AND CASH EQUIVALENTS

	NOTE	2019 \$	2018 \$
Cash at bank and on hand		877,851	1,492,557
Call deposit		1,900,000	1,500,000
Term deposits		6,252,247	7,344,317
		9,030,098	10,336,874
Comprises:			
- Unrestricted cash and cash equivalents		3,211,481	4,568,153
- Restricted cash and cash equivalents		5,818,617	5,768,721
		9,030,098	10,336,874
The following restrictions have been imposed by regulations or other externally imposed requirements:			
Reserve accounts			
RRRC Plant Reserve	4	859,676	1,843,318
RRRC Contingency & Development Reserve	4	1,925,367	1,602,367
Travel and Conference Reserve	4	25,000	50,000
Office Accommodation Reserve	4	271,252	250,000
Property Insurance Reserve	4	500,000	500,000
RRRC Restoration Reserve	4	1,365,988	1,000,000
		4,947,283	5,245,685
Other restricted cash and cash equivalents			
Retentions and Bonds	12	871,334	516,612
Unspent grants/contributions	23	0	6,424
Total restricted cash and cash equivalents		5,818,617	5,768,721

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

4. RESERVES- CASH BACKED

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

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

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

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

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

Property Insurance Reserve- to be used to fund repair and replacement expenses resulting from an event causing damage or loss to RRRC assets up to the value of \$1 million- Ongoing

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

	2019 Actual	2019 Budget	2018 Actual
(a) RRRC Plant Reserve	\$	\$	\$
Balance as at 1 July	1,843,318	905,428	1,872,318
Transfers to Reserve	51,000	51,000	870,959
Transfers from Reserve	(20,000)	(520,000)	(899,959)
Balance as at 30 June	1,874,318	436,428	1,843,318
(b) RRRC Contingency & Development Reserve			
Balance as at 1 July	1,602,367	1,691,367	2,311,367
Transfers to Reserve	873,000	1,443,000	391,000
Transfers from Reserve	(550,000)	(1,000,000)	(1,100,000)
Balance as at 30 June	1,925,367	2,134,367	1,602,367
(c) Travel and Conference Reserve			
Balance as at 1 July	50,000	50,000	50,000
Transfers to Reserve	0	0	0
Transfers from Reserve	(25,000)	(25,000)	0
Balance as at 30 June	25,000	25,000	50,000
(d) Office Accommodation Reserve			
Balance as at 1 July	250,000	250,000	250,000
Transfers to Reserve	21,252	0	0
Transfers from Reserve	0	0	0
Balance as at 30 June	271,252	250,000	250,000
(e) Property Insurance Reserve			
Balance as at 1 July	500,000	500,000	500,000
Transfers to Reserve	0	0	0
Transfers from Reserve	0	0	0
Balance as at 30 June	500,000	500,000	500,000
(f) RRRC Restoration Reserve			
Balance as at 1 July	1,000,000	1,000,000	1,000,000
Transfers to Reserve	365,988	0	0
Transfers from Reserve	0	0	0
Balance as at 30 June	1,365,988	1,000,000	1,000,000
Total Reserves- Cash backed	5,961,925	4,345,795	5,245,685

All of the reserve accounts are supported by money held in financial institutions and match the amount shown as restricted as follows:

	Note	2019 Actual	2019 Budget	2018 Actual
		\$	\$	\$
Cash & Cash Equivalents	3	4,947,283	4,345,795	5,245,685
Financial Assets	9	1,014,642	0	0
		5,961,925	4,345,795	5,245,685

Financial Report

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

4. RESERVES- CASH BACKED (Continued)

Transfers To Reserves- Cash Backed
RRRC Plant Reserve
RRRC Contingency & Development Reserve
Office Accommodation Reserve
RRRC Restoration Reserve

SUMMARY OF RESERVE TRANSFERS

Transfers From Reserves- Cash Backed
RRRC Plant Reserve
RRRC Contingency & Development Reserve
Travel and Conference Reserve

Net Reserve Movement (Cash Backed)

2019 Actual	2019 Budget	2018 Actual
\$	\$	\$
51,000	51,000	870,959
873,000	1,443,000	391,000
21,252	0	0
365,988	0	0
<u>1,311,240</u>	<u>1,494,000</u>	<u>1,261,959</u>
(20,000)	(520,000)	(899,959)
(550,000)	(1,000,000)	(1,100,000)
(25,000)	(25,000)	0
<u>(595,000)</u>	<u>(1,545,000)</u>	<u>(1,999,959)</u>
<u>716,240</u>	<u>(51,000)</u>	<u>(738,000)</u>

5. TRADE RECEIVABLES

Current

Sundry receivables

2019 \$	2018 \$
1,501,823	1,849,784
<u>1,501,823</u>	<u>1,849,784</u>

SIGNIFICANT ACCOUNTING POLICIES

Trade and other receivables

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

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

Impairment and risk exposure

Information about the impairment of trade receivables and their exposure to credit risk and interest rate risk can be found in Note 25.

Impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

Impairment of trade receivables (continued)

From 2018-19 onwards, expected credit losses expense is recognised as the movement in the allowance for impairment of receivables. The allowance for impairment of receivables is measured at the lifetime expected credit losses at each reporting date. The Council has established provision matrix that is based on its historic credit loss experience, adjusted for forward looking factors specific to the debtors and economic environment.

Classification and subsequent measurement

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

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

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

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

6. INVENTORIES

Current

Stock on Hand - Fuel	
Stock on Hand - RRRC Critical Spares	
Stock on Hand - Finished Goods	
Provision for Inventory (NRV Adjustment)	

2019	2018
\$	\$
1,983	3,962
654,940	754,680
69,762	79,729
(427,361)	0
299,324	838,371
838,371	739,169
(704,435)	(528,613)
(427,361)	0
592,749	627,815
299,324	838,371

The following movements in inventories occurred during the year:

Carrying amount at 1 July	838,371	739,169
Inventories expensed during the year	(704,435)	(528,613)
Write down of inventories to net realisable value	(427,361)	0
Additions to inventory	592,749	627,815
Carrying amount at 30 June	299,324	838,371

SIGNIFICANT ACCOUNTING POLICIES

General

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

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

Other financial assets at amortised cost

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

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

Financial assets at fair value through profit and loss

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

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

Impairment and risk

Information regarding impairment and exposure to risk can be found at Note 25

Previous accounting policy: available for sale financial assets

Available-for-sale financial assets were non-derivative financial assets that were either not suitable to be classified as other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Previous accounting policy: Loans and receivables

Non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and are solely payments of principal and interest were classified as loans and receivables and are subsequently measured at amortised cost, using the effective interest rate method.

Refer to Note 30 for explanations regarding the change in accounting policy.

7. OTHER CURRENT ASSETS

Prepayments	
Accrued Income	

2019	2018
\$	\$
18,646	20,736
74,216	217,650
92,862	238,386

SIGNIFICANT ACCOUNTING POLICIES

Other current assets

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

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SOUTHERN METROPOLITAN REGIONAL COUNCIL
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8. ASSETS (LIABILITIES) CLASSIFIED AS HELD FOR SALE

	Note	2019	2018
Non-current assets held for sale		\$	\$
Plant & Equipment		4,400,000	0
		4,400,000	0
Liabilities classified as held for sale			
Employee related provisions	14	(555,728)	0
Provision for Redundancy	15	(1,853,849)	0
		(2,409,577)	0

Discontinued operation relating to non-current assets held for sale

(a) Description

During the year the Council proposed to dispose of the Plant and equipment and sub-lease the lease hold developments relating to the Regional Resource Recovery Centre (RRRC), the Council is still in negotiations with a prospective buyer. The RRRC Plant and equipment has not yet been disposed of at year end.

(b) Financial performance and cashflow information

	Note	2019	2018
		\$	\$
Revenue	8(c)	21,726,035	22,752,165
Expense	8(d)	(26,002,109)	(26,886,181)
Profit on asset disposal		145	0
Impairment loss on revaluation of asset held for sale		(2,741,453)	0
Net result for the period		(7,017,382)	(4,134,016)
Net cash provided by (used in) from operating activities		227,484	(253,645)
Net cash provided by (used in) from investing activities		(127,112)	(940,322)
Net cash provided by (used in) from financing activities		0	365,988
Net increase (decrease) in cash generated by the discontinued operation		100,372	(827,979)

In addition, in accordance with AASB 5, comparative information in the Statement of Comprehensive Income for the year ended 30 June 2018, has been adjusted to reflect the effect of the discontinued operation on operations.

(c) Revenue from discontinued operations

	2019	2018
	\$	\$
Operating grants, subsidies and contributions	185,764	164,877
Fees and charges	21,334,691	22,363,197
Interest earnings	178,609	199,698
Other revenue	26,971	24,393
Total revenue from discontinued operations	21,726,035	22,752,165

(d) Expenses relating to discontinued operations

	2019	2018
	\$	\$
Employee costs	(5,505,892)	(6,128,497)
Materials and contracts	(12,206,930)	(14,794,554)
Utility charges	(1,593,423)	(1,465,741)
Depreciation on non-current assets	(3,441,049)	(3,280,198)
Insurance expenses	(1,400,966)	(1,217,191)
Provision for employee redundancies	(1,853,849)	0
Total expenses relating to discontinued operations	(26,002,109)	(26,886,181)

SIGNIFICANT ACCOUNTING POLICIES

Non-current assets held for sale

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

The fair value of non-current assets classified as held for sale was determined using the estimated realisable value expected from sale of properties in the area. This is a level 1 measurement as per the fair value hierarchy set out in Note 32(h).

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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9. OTHER FINANCIAL ASSETS

(a) Current assets

Financial assets at amortised cost - term deposits
Financial assets at amortised cost - Loans receivable - Project Participants

Financial assets previously classified as other receivables
- Loans receivable - Project Participants

Financial assets at amortised cost - term deposits

Comprises:

- Unrestricted
- Restricted

The following restrictions have been imposed by regulations or other externally imposed requirements:

RRRC Plant Reserve
Total restricted

(b) Non-current assets

Financial assets at amortised cost - Loans receivable - Project Participants

Financial assets previously classified as other receivables
- Loans receivable - Project Participants

2019	2018
\$	\$
1,014,642	0
3,173,433	3,807,403
4,188,075	3,807,403
0	3,807,403
0	3,807,403
0	0
1,014,642	0
1,014,642	0
11,713,250	14,475,234
11,713,250	14,475,234
0	14,475,234
0	14,475,234

Loans receivable from Project Participants relate to borrowings disclosed in Note 13(c).

SIGNIFICANT ACCOUNTING POLICIES

Other financial assets at amortised cost

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

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

Financial assets at fair value through profit and loss

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

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

Impairment and risk

Information regarding impairment and exposure to risk can be found at Note 25.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Previous accounting policy: available for sale financial assets

Available-for-sale financial assets were non-derivative financial assets that were either not suitable to be classified as other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Previous accounting policy: Loans and receivables

Non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and are solely payments of principal and interest were classified as loans and receivables and are subsequently measured at amortised cost, using the effective interest rate method.

Refer to Note 30 for explanations regarding the change in accounting policy.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

10. PROPERTY, PLANT AND EQUIPMENT

(a) Movements in Carrying Amounts

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

	Land - freehold land and buildings - non- specialised	RRRC Leasehold Improvements - Buildings - specialised	Total land and buildings	Furniture and equipment	Plant and equipment	Information Technology Equipment	Capital Work In Progress (CWIP)	Total property, plant and equipment
	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	2,258,260	20,856,119	23,114,379	0	13,164,669	53,890	0	36,332,938
Additions	0	0	0	47,564	491,590	50,913	370,354	960,421
Depreciation (expense)	(31,740)	(1,604,315)	(1,636,055)	(6,468)	(3,273,730)	(28,411)	0	(4,944,664)
Carrying amount at 30 June 2018	2,226,520	19,251,804	21,478,324	41,096	10,382,529	76,392	370,354	32,348,695
Comprises:								
Gross carrying amount at 30 June 2018	2,290,000	22,788,363	25,078,363	55,780	15,617,990	128,051	370,354	41,248,538
Accumulated depreciation at 30 June 2018	(63,480)	(3,536,559)	(3,600,039)	(14,684)	(5,235,461)	(49,659)	0	(8,899,843)
Carrying amount at 30 June 2018	2,226,520	19,251,804	21,478,324	41,096	10,382,529	76,392	370,354	32,348,695
Additions	0	0	0	0	132,111	0	0	132,111
(Disposals)	0	0	0	0	(4,855)	0	0	(4,855)
Revaluation increments / (decrements) transferred to revaluation surplus	(602,694)	0	(602,694)	0	(324,348)	0	0	(927,042)
Impairment loss on revaluation of asset held for sale	0	0	0	0	(2,741,453)	0	0	(2,741,453)
Transfer from CWIP	0	0	0	0	370,354	0	(370,354)	0
Depreciation (expense)	(28,439)	(1,604,668)	(1,633,107)	(26,711)	(3,414,338)	(37,317)	0	(5,111,473)
Transfers to Assets held for sale	0	0	0	0	(4,400,000)	0	0	(4,400,000)
Carrying amount at 30 June 2019	1,595,387	17,647,136	19,242,523	14,385	0	39,075	0	19,295,983
Comprises:								
Gross carrying amount at 30 June 2019	1,600,000	22,788,363	24,388,363	47,564	0	119,451	0	24,555,378
Accumulated depreciation at 30 June 2019	(4,613)	(5,141,227)	(5,145,840)	(33,179)	0	(80,376)	0	(5,259,395)
Carrying amount at 30 June 2019	1,595,387	17,647,136	19,242,523	14,385	0	39,075	0	19,295,983

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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FOR THE YEAR ENDED 30TH JUNE 2019

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Land and buildings					
Land - freehold land and buildings -non-specialised	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	01 April 2019	Observable open market value of assets, condition, comparison and highest and best use.
Buildings - non-specialised	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	01 July 2016	Observable open market value of assets, condition, comparison and highest and best use.
RRRC Leasehold Improvements -Buildings - specialised	Level 3	Cost approach using depreciated replacement cost	Independent Valuation	01 July 2016	Cost to reproduce or replace similar assets in new condition, depreciation accrued wear and tear, economic and functional obsolescence.
Furniture and equipment	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	30 June 2016	Observable open market value of assets, condition and comparison.
Information Technology Equipment	Level 2	Market approach using market value of similar assets adjusted to condition and comparability	Independent Valuation	30 June 2016	Observable open market value of assets, condition and comparison.

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

During the period there were no changes in the valuation techniques used by the local government to determine the fair value of property, plant and equipment using either level 2 or level 3 inputs.

There was no scheduled valuations undertaken for all buildings in 2019, except for a market valuation prepared for the purposes of the City of Cockburn's withdrawal and notional winding up provisions for the Office Project at 30 June 2019. Due to the current market downturn for this property and in accordance with the Local Government (Financial Management) Regulations 17A(4), the fair value of this asset was materially different from its carrying amount and therefore the new valuation has been applied in 2019.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

SIGNIFICANT ACCOUNTING POLICIES

Fixed assets

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

Initial recognition and measurement between mandatory revaluation dates

All assets are initially recognised at cost where the fair value of the asset at date of acquisition is equal to or above \$5,000. All assets are subsequently revalued in accordance with the mandatory measurement framework.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Southern Metropolitan Regional Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

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

Revaluation

The fair value of fixed assets is determined at least every three years and no more than five years in accordance with the regulatory framework. At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A (2)* which requires property, plant and equipment to be shown at fair value.

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

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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FOR THE YEAR ENDED 30TH JUNE 2019

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Disposals of Assets

	2019			2019			2019			2019			2018			2018		
	Actual	2019		Actual	2019		Budget	2019		Budget	2019		Actual	2018		Actual	2018	
	Net Book	Actual	2019	Net Book	Actual	2019	Net Book	Actual	2019	Net Book	Actual	2019	Net Book	Actual	2018	Net Book	Actual	2018
	Value	Proceeds	Profit	Value	Proceeds	Loss	Value	Proceeds	Loss	Value	Proceeds	Loss	Value	Proceeds	Loss	Value	Proceeds	Loss
Plant and equipment	\$ 4,855	\$ 5,000	\$ 145	\$ 4,855	\$ 5,000	\$ 145	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	4,855	5,000	145	4,855	5,000	145	0	0	0	0	0	0	0	0	0	0	0	0

The following assets were disposed of during the year.

	2019			2019		
	Actual	2019		Actual	2019	
	Net Book	Actual	2019	Net Book	Actual	2019
	Value	Proceeds	Profit	Value	Proceeds	Loss
Plant and Equipment	4,855	5,000	145	4,855	5,000	145
Community amenities						
Dingo						
	4,855	5,000	145	4,855	5,000	145

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SOUTHERN METROPOLITAN REGIONAL COUNCIL
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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Depreciation

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Buildings - non-specialised	28,439	31,740	31,740
RRRC Leasehold Improvements -Buildings - specialised	1,604,668	1,942,309	1,604,315
Furniture and equipment	26,711	16,420	6,468
Plant and equipment	3,414,338	2,118,211	3,273,730
Information Technology Equipment	37,317	32,367	28,411
	5,111,473	4,141,047	4,944,664
Comprises			
Continuing operations	1,670,424	2,006,416	1,664,466
Discontinued operations	3,441,049	2,134,631	3,280,198
	5,111,473	4,141,047	4,944,664

SIGNIFICANT ACCOUNTING POLICIES

Depreciation

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

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

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

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

Depreciation rates

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

Asset Class	Useful life
Computer equipment	1 to 3 years
Furniture and equipment	1 to 5 years
Plant and equipment	1 to 5 years
Leasehold improvements	12 years
Freehold buildings	40 years

Depreciation (Continued)

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

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

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

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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11. REVALUATION SURPLUS

	2019 Opening Balance	2019 Revaluation (Decrement)	Total Movement on Revaluation	2019 Closing Balance	2018 Opening Balance	2018 Closing Balance
	\$	\$	\$	\$	\$	\$
Revaluation surplus - Land - freehold land and buildings -non-specialised	820,733	(602,694)	(602,694)	218,039	820,733	820,733
Revaluation surplus - RRRC Leasehold Improvements -Buildings - specialised	12,341,979	0	0	12,341,979	12,341,979	12,341,979
Revaluation surplus - Plant and equipment- non-specialised (Refer Note below)	892,962	(892,962)	(892,962)	0	892,962	892,962
	14,055,674	(1,495,656)	(1,495,656)	12,560,018	14,055,674	14,055,674

Revaluation surplus - Land - freehold land and buildings -non-specialised
Revaluation surplus - RRRC Leasehold Improvements -Buildings - specialised
Revaluation surplus - Plant and equipment- non-specialised (Refer Note below)

Offset Revaluation decrements

Land - freehold land and buildings -non-specialised
Plant & Equipment - Non-specialised

602,694
324,348
927,042

Plant & Equipment - Non-specialised consists of:

Offset Revaluation decrements

Retained Surplus as there are no longer any assets in this asset class

324,348
568,614
892,962

12. TRADE AND OTHER PAYABLES

Current

Sundry creditors
Accrued interest
Accrued salaries and wages
Accrued expenses
Retentions and bonds

	2019 \$	2018 \$
Sundry creditors	2,697,306	3,884,828
Accrued interest	1,537	1,537
Accrued salaries and wages	96,135	95,565
Accrued expenses	140,202	826,066
Retentions and bonds	871,334	516,612
	3,806,514	5,324,608

SIGNIFICANT ACCOUNTING POLICIES

Trade and other payables

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

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SOUTHERN METROPOLITAN REGIONAL COUNCIL
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13. INFORMATION ON BORROWINGS

(a) Long Term Borrowings

Current

Debentures

Non Current

Debentures

Total

2019	2018
\$	\$
3,173,433	3,807,403
3,173,433	3,807,403
11,713,250	14,475,234
11,713,250	14,475,234
14,886,683	18,282,637

(b) Borrowings by Project

The Council has two lending facilities for the following projects:

The Regional Resource Recovery Centre Loan

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

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

	2019	2018	2019	2018
			\$	\$
City of Cockburn (Past Participant)	43.98%	42.97%	5,755,523	7,082,589
Town of East Fremantle	3.12%	3.05%	408,305	502,720
City of Fremantle	12.28%	12.22%	1,607,045	2,014,178
City of Melville	40.62%	41.76%	5,315,810	6,883,150
			13,086,683	16,482,637

Administration Building (9 Aldous Place, Booragoon) Loan

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

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

	2019	2018	2019	2018
			\$	\$
City of Cockburn (Past Participant)	37.67%	37.29%	678,060	671,220
Town of East Fremantle	2.68%	2.65%	48,240	47,700
City of Fremantle	10.52%	10.61%	189,360	190,980
Town of Kwinana	14.34%	13.22%	258,120	237,960
City of Melville	34.79%	36.23%	626,220	652,140
			1,800,000	1,800,000

13. INFORMATION ON BORROWINGS (Continued)

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

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SOUTHERN METROPOLITAN REGIONAL COUNCIL
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13. INFORMATION ON BORROWINGS (Continued)

	2019	2018
	\$	\$
(d) Undrawn Borrowing Facilities		
Credit Standby Arrangements		
Credit card limit	400,000	25,000
Credit card balance at balance date	(32,115)	(4,800)
Total amount of credit unused	367,885	20,200
Loan facilities		
Loan facilities - current	3,173,433	3,807,403
Loan facilities - non-current	11,713,250	14,475,234
Total facilities in use at balance date	14,886,683	18,282,637

SIGNIFICANT ACCOUNTING POLICIES

Financial liabilities

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

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

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

Borrowing costs

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

Risk

Information regarding exposure to risk can be found at Note 25.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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FOR THE YEAR ENDED 30TH JUNE 2019

14. EMPLOYEE RELATED PROVISIONS

Employee Related Provisions

	Note	Provision for Annual Leave	Provision for Long Service Leave	Total
		\$	\$	\$
Opening balance as at 1 July 2017				
Current provisions		317,464	545,375	862,839
Non-current provisions		0	116,768	116,768
		317,464	662,143	979,607
Additional Provisions		252,705	(13,708)	238,997
Amounts used		(287,054)	(65,379)	(352,433)
Balance as at 30 June 2018		283,115	583,056	866,171
Comprises				
Current provisions		283,115	452,650	735,765
Non-current provisions		0	130,406	130,406
Additional Provisions		265,437	1,267	266,704
Amounts used		(300,261)	(11,350)	(311,611)
Closing balance as at 30 June 2019		248,291	572,973	821,264
Comprises				
Current provisions		248,291	448,574	696,865
Non-current provisions		0	124,399	124,399
		248,291	572,973	821,264
Comprises				
Continuing operations - Current		37,945	103,192	141,137
Continuing operations - Non-Current		0	124,399	124,399
Discontinued operations	8	210,346	345,382	555,728
		248,291	572,973	821,264
Amounts are expected to be settled on the following basis:		2019	2018	
Less than 12 months after the reporting date		\$	\$	
More than 12 months from reporting date		696,865	735,765	
		124,399	130,406	
		821,264	866,171	

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

SIGNIFICANT ACCOUNTING POLICIES

Employee benefits

Short-term employee benefits

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

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

Other long-term employee benefits

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

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

Other long-term employee benefits (Continued)

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

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

Provisions

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

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

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SOUTHERN METROPOLITAN REGIONAL COUNCIL
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15. OTHER PROVISIONS

	Note	Make Good Provision for Lease	Provision for Redundancy	Total
		\$	\$	\$
Opening balance as at 1 July 2017				
Current provisions		0	0	0
Non-current provisions		3,349,269	0	3,349,269
		<u>3,349,269</u>	<u>0</u>	<u>3,349,269</u>
 Increase in the discounted amount arising because of time and the effect of any change in the discounted rate		87,526	0	87,526
Balance as at 30 June 2018		<u>3,436,795</u>	<u>0</u>	<u>3,436,795</u>
Comprises				
Current		0	0	0
Non-current		3,436,795	0	3,436,795
 Additional provision		0	1,853,849	1,853,849
Increase in the discounted amount arising because of time and the effect of any change in the discounted rate		85,769	0	85,769
Balance at 30 June 2019		<u>3,522,564</u>	<u>1,853,849</u>	<u>5,376,413</u>
Comprises				
Current	8	0	1,853,849	1,853,849
Non-current		3,522,564	0	3,522,564
		<u>3,522,564</u>	<u>1,853,849</u>	<u>5,376,413</u>

Make Good Provision for Lease

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

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

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

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

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

Provision for redundancy

In view of proposed divestment of RRRC Assets, the Council has identified the need for a provision for severance pay, notice period and staff retention incentive. The provision is considered as current, as the payments are expected within the next 12 months.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

16. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Cash

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

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Cash and cash equivalents	9,030,098	6,407,328	10,336,874
Reconciliation of Net Cash Provided By Operating Activities to Net Result			
Net result	(9,448,205)	(3,926,047)	(6,638,950)
Non-cash flows in Net result:			
Depreciation	5,111,473	4,141,047	4,944,664
(Profit)/loss on sale of asset	(145)	0	0
Provision for Redundancy	1,853,849	0	0
Inventory write down	427,361	0	0
Impairment loss on revaluation of assets held for sale	2,741,453	0	0
Changes in assets and liabilities:			
(Increase)/decrease in receivables	347,960	(50,000)	809,232
(Increase)/decrease in other assets	(153,800)	49,999	136,967
(Increase)/decrease in inventories	539,047	(150,000)	(99,202)
Increase/(decrease) in payables	(1,624,878)	(100,000)	318,981
Increase/(decrease) in provisions	40,862	(20,000)	(113,436)
Net cash from operating activities	(165,023)	(55,001)	(641,744)

17. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	2019	2018
	\$	\$
Community amenities	50,521,415	63,894,747
	50,521,415	63,894,747

18. CONTINGENT LIABILITIES

Nil (Nil as on 30 June 2018)

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SOUTHERN METROPOLITAN REGIONAL COUNCIL
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19. CAPITAL AND LEASING COMMITMENTS

(a) Capital Expenditure Commitments

Contracted for:

- IT equipment purchases
- plant & equipment purchases

2019	2018
\$	\$
8,814	0
0	73,478
8,814	73,478

Payable:

- not later than one year

8,814	73,478
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(b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the accounts.

Payable:

- not later than one year
- later than one year but not later than five years
- later than five years

2019	2018
\$	\$
681,375	721,214
2,665,000	2,609,454
7,887,993	7,000,000
11,234,368	10,330,668

SIGNIFICANT ACCOUNTING POLICIES

Leases

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

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

Leases (Continued)

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

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

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

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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20. RELATED PARTY TRANSACTIONS

Elected Members Remuneration

The following fees, expenses and allowances were paid to Council members and to the Chairman / Deputy Chairman.

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Meeting Fees	57,500	58,350	56,650
Chairman Allowance	19,864	20,304	19,570
Deputy Chairman Allowance	4,966	4,893	4,965
Other Allowances	17,500	18,565	17,500
Other reimbursements	3,022	1,888	1,145
	102,852	104,000	99,830

Key Management Personnel (KMP) Compensation Disclosure

The total of remuneration paid to KMP of the Council during the year are as follows:

	2019 Actual	2018 Actual
	\$	\$
Short-term employee benefits	819,093	793,031
Post-employment benefits	110,164	111,713
Other long-term benefits	84,178	85,600
Termination benefits	379,225	0
	1,392,660	990,344

Short-term employee benefits

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

Post-employment benefits

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

Other long-term benefits

These amounts represent annual leave and long service benefits accruing during the year.

Termination benefits

These amounts represent termination benefits payable to KMP of the discontinued operations.

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20. RELATED PARTY TRANSACTIONS (Continued)

Transactions with related parties

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

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

The following transactions occurred with related parties:

	2019 Actual	2018 Actual
	\$	\$
Member Councils of SMRC:		
Member Council Contributions and Gate Fees Received	18,590,104	18,559,143
Member Council Contributions for Loan Repayments Received	3,395,954	3,039,960
Member Council Contribution on Withdrawal	21,252	365,988
Member Council Cont. on Withdrawal - Amended Business Plan	6,884	150,532
Paid to Member Councils	(3,328)	(2,517)
Amounts outstanding from related parties:		
Trade and other receivables - member councils	869,531	1,074,294

Related Parties

The Council's main related parties are as follows:

i. Key management personnel

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

ii. Other Related Parties

The associate person of KMP was employed by the Council under normal employment terms and conditions.

iii. Entities subject to significant influence by the Council or entities which have significant influence over the council

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

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

SOUTHERN METROPOLITAN REGIONAL COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

21. MAJOR LAND TRANSACTIONS

A business plan, pursuant to Section 3.59 of the Local Government Act 1995 (WA), has been prepared for a Major Land Transaction and Major Trading Undertaking comprising the sub-leasing of the land and buildings, sale of plant and equipment and receipt and processing of recovered waste, via tender, of the Regional Resource Recovery Centre (RRRC) located at 350 Bannister Road, Canning Vale managed by the Southern Metropolitan Regional Council (SMRC).

The Regional Council resolved at its meeting 8 July 2019, to accept the Plan subject to entering into agreements with a third party operator and participant local government and discussions with the City of Canning as landlord.

22. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS

REGIONAL RESOURCE RECOVERY CENTRE (RRRC), CANNING VALE

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

STATEMENT OF COMPREHENSIVE INCOME

Revenues from Ordinary Activities

	2019	2018
	\$	\$
Education & Marketing	212,066	214,481
FOGO MUD Grant	130,457	0
RRRC Admin & Weighbridge	255,797	347,374
Recycling	3,394,787	2,916,835
Greenwaste	834,658	886,016
Waste Compost	16,799,639	17,790,071
Business Development	0	402,899
Waste Audit Service	331,951	385,250
Contributions for interest on loans	653,913	840,764
	<u>22,613,268</u>	<u>23,783,690</u>

Less Expenses from Ordinary Activities

Education & Marketing	(265,922)	(185,300)
FOGO MUD Grant	(109,458)	0
RRRC Admin & Weighbridge	(2,901,776)	(807,469)
Recycling	(5,879,579)	(6,537,832)
Greenwaste	(943,234)	(940,803)
Waste Compost	(17,704,870)	(20,260,960)
Business Development	0	0
Waste Audit Service	(160,960)	(339,898)
FOGO Transition	(138,926)	0
Loss on sale of Assets	0	(63,716)
	<u>(28,104,725)</u>	<u>(29,135,978)</u>

Less: RRRC Revaluation Decrement

RRRC Property	(3,065,800)	0
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Less: Borrowing Cost Expense

RRRC Property	(653,913)	(752,577)
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Less: Make Good Provision

RRRC Property	(85,769)	(87,526)
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Net Profit or (Loss)	<u>(9,296,939)</u>	<u>(6,192,391)</u>
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SOUTHERN METROPOLITAN REGIONAL COUNCIL
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22. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS (Continued)

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

STATEMENT OF FINANCIAL POSITION

	2019	2018
Current Assets	\$	\$
Cash and Cash Equivalents	6,741,703	7,650,314
Trade and Other Receivables	1,501,823	5,875,844
Other Financial Assets	4,188,075	0
Inventories	299,324	838,371
Other current assets	89,660	0
Assets held for sale	4,400,000	0
Total Current Assets	17,220,585	14,364,529
Non-Current Assets		
Other Financial Assets	9,913,250	12,675,234
Property, Plant and Equipment	17,661,521	30,006,462
Total Non-Current Assets	27,574,771	42,681,696
Total Assets	44,795,356	57,046,225
Current Liabilities		
Trade and Other Payables	3,617,943	5,179,626
Borrowings - Current Portion	3,173,433	3,807,403
Employee related provisions	0	339,092
Liabilities held for sale	1,572,746	0
Total Current Liabilities	8,364,122	9,326,121
Non-Current Liabilities		
Borrowings - Non-current Portion	9,913,250	12,675,234
Employee related provisions	98,866	104,105
Other Provisions	3,522,564	3,436,795
Total Non-Current Liabilities	13,534,680	16,216,134
Total Liabilities	21,898,802	25,542,255
Net Assets	22,896,554	31,503,970
Equity		
Opening Balance	31,503,970	37,330,373
Transfer of unspent FOGO funds to RRRC	689,523	0
Past Participant's Contribution on Withdrawal	0	365,988
Retained Surplus/(Deficit) for year	(9,296,939)	(6,192,391)
Total Equity	22,896,554	31,503,970

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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23. CONDITIONS OVER GRANTS/CONTRIBUTIONS

Grant/Contribution	Opening Balance ⁽¹⁾ 1/07/17	Received ⁽²⁾ 2017/18	Expended ⁽³⁾ 2017/18	Closing Balance ⁽¹⁾ 30/06/18	Received ⁽²⁾ 2018/19	Expended ⁽³⁾ 2018/19	Closing Balance 30/06/19
	\$	\$	\$	\$	\$	\$	\$
Community amenities							
Metropolitan Youth Development Scholarship	15,766	0	(9,342)	6,424	0	(6,424)	0
Total	15,766	0	(9,342)	6,424	0	(6,424)	0

Notes:

- (1) - Grants/contributions recognised as revenue in a previous reporting period which were not expended at the close of the previous reporting period.
- (2) - New grants/contributions which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor.
- (3) - Grants/contributions which had been recognised as revenues in a previous reporting period or received in the current reporting period and which were expended in the current reporting period in the manner specified by the contributor.

24. RATING INFORMATION

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

Financial Report

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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25. FINANCIAL RISK MANAGEMENT

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

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

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

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

(a) Interest rate risk

Cash and cash equivalents

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

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

	Weighted Average Interest Rate %	Carrying Amounts \$	Fixed Interest Rate \$	Variable Interest Rate \$	Non Interest Bearing \$
2019					
Cash and cash equivalents	1.93%	9,030,098	8,152,247	0	877,851
Financial assets at amortised cost - term deposits	2.57%	1,014,642	1,014,642	0	0
2018					
Cash and cash equivalents	1.82%	10,336,874	8,844,317	0	1,492,557
Financial assets at amortised cost - term deposits	0.00%	0	0	0	0

Borrowings

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

	Weighted Average Interest Rate %	Carrying Amounts \$	Fixed Interest Rate \$	Variable Interest Rate \$	Non Interest Bearing \$
2019					
Borrowings - Debentures	4.04%	14,886,683	14,886,683	0	0
2018					
Borrowings - Debentures	4.22%	18,282,637	18,282,637	0	0

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25. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Trade Receivables

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

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

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

Financial assets at amortised cost - Loans receivable - Project Participants

The Council's Loans receivable from Project Participants relates to the outstanding debenture borrowings disclosed in Note 13. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The risk is minimised by having a guarantee from the Project Participants, by way of security, to the Western Australian Treasury Corporation, a charge over its general funds for their share of any outstanding debenture borrowings for each Project.

Expected credit losses

The Council applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables and Financial assets at amortised cost - Loans receivable - Project Participants.

The expected loss are based on the payment profiles of contributions, fees and charges over a period of 36 months before 1 July 2018 or 1 July 2019 respectively and the corresponding historical losses experienced within this period. Historical credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors. There are no material receivables that have been subject to a re-negotiation of repayment terms.

Based on the above, the loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as nil for trade receivables and Financial assets at amortised cost - Loans receivable - Project Participants.

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
2019	\$	\$	\$	\$	\$
Trade receivables					
Gross carrying amount	1,408,470	22,755	70,598	0	1,501,823
	1,408,470	22,755	70,598	0	1,501,823

2018					
Trade receivables					
Gross carrying amount	1,568,192	239,842	41,750	0	1,849,784
	1,568,192	239,842	41,750	0	1,849,784

	Non-current	Current	More than 30 days past due	More than 60 days past due	Total
2019	\$	\$	\$	\$	\$
Financial assets at amortised cost - Loans receivable - Project Participants					
Gross carrying amount	11,713,250	3,173,433	0	0	14,886,683
	11,713,250	3,173,433	0	0	14,886,683

2018					
Financial assets at amortised cost - Loans receivable - Project Participants					
Gross carrying amount	14,475,234	3,807,403	0	0	18,282,637
	14,475,234	3,807,403	0	0	18,282,637

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SOUTHERN METROPOLITAN REGIONAL COUNCIL
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25. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

Payables and borrowings

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

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

	Due within 1 year	Due between 1 & 5 years	Due after 5 years	Total contractual cash flows	Carrying values
	\$	\$	\$	\$	\$
2019					
Payables	3,806,514	0	0	3,806,514	3,806,514
Borrowings	3,724,638	12,403,738	0	16,128,376	14,886,683
	7,531,152	12,403,738	0	19,934,890	18,693,197
2018					
Payables	5,324,608	0	0	5,324,608	5,324,608
Borrowings	4,520,784	15,760,749	0	20,281,533	18,282,637
	9,845,392	15,760,749	0	25,606,141	23,607,245

26. TRUST FUNDS

The Council does not have any trust funds on hand as at 30 June 2019. (As at 30 June 2018- Nil)

27. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

Developments in the Regional Resource Recovery Centre (RRRC) divestment proposal

The RRRC Divestment negotiations with the prospective buyer are still underway and are likely to be reaching an outcome early in the 2020 calendar year.

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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28. MEMBERS WITHDRAWAL FROM THE SMRC

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

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

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

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

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

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

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

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

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

The City of Cockburn's proportional loan liability at note 13(b) for the RRRC Project will continue to be paid by the City of Cockburn.

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

The City of Cockburn will no longer have a proportional loan liability for the Administration Building at note 13(b) from 1 July 2019.

29. RRRC ISSUES

(a) FOGO Transition and Decommissioning Provision

In accordance with the RRRC Project Amended Business Plan 2018, Participants' have agreed to implement a third bin collection service consisting of a 'Food Organics Green Organics' (FOGO) bin commencing from July 2019. The decision to transition the Waste Composting Facility into a FOGO pre-sort transfer station and decommission plant has yet to be determined, however, the Amended Business Plan includes financial costings and revenue should this transition proceed.

(b) RRRC Licence

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

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30. INITIAL APPLICATION OF AUSTRALIAN ACCOUNTING STANDARDS

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

Whilst many reflected consequential changes associated with the amendment of existing standards, the only new standard with some material application is AASB 9 *Financial Instruments*.

AASB 9 Financial instruments

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual reporting periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting,

The Council applied AASB 9 prospectively, with an initial application date of 1 July 2018. The adoption of AASB 9 has resulted in changes in accounting policies but no adjustments to the amounts recognised in the considering the nature of the assets and risk profile.

(a) Classification and measurement

Under AASB 9, financial assets are subsequently measured at amortised cost, fair value through other comprehensive income (fair value through OCI) or fair value through profit or loss (fair value through P/L). The classification is based on two criteria: the Council's business model for managing the assets; and whether the assets' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Council's business model was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of AASB 9 did not have a significant impact on the Council. The following are the changes in the classification of the Council's financial assets:

- Loan receivables classified as Other receivables as at 30 June 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Financial assets at amortised cost beginning 1 July 2018.

In summary, upon the adoption of AASB 9, the Council had the following required (or elected) reclassifications as at 1 July 2018:

AASB 139 category	AASB 139 value \$	AASB 9 category amortised cost \$	Fair value through OCI \$	Fair value through P/L \$
Loans receivable				
Project Participants - Current	3,807,403	3,807,403	0	0
Project Participants - Non Current	14,475,234	14,475,234	0	0
	18,282,637	18,282,637	0	0

Loans receivable from Project Participants relate to borrowings disclosed in Note 13.

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

(b) Impairment

No additional impairments were required considering the nature of the assets and credit risk profile.

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31. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS FOR APPLICATION IN FUTURE YEAR:

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

This note explains management's assessment of the new and amended pronouncements that are relevant to the Council and the impact of the adoption of AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases* and AASB 1058 *Income for Not-for-Profit Entities*. These standards are applicable to future reporting periods and have not yet been adopted.

(a) Revenue from Contracts with Customers

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

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

(b) Leases

The Council will adopt AASB 16 with effect from 1 July 2019

On adoption of AASB 16, the Council will recognise lease liabilities in relation to leases which had previously been classified as an 'operating lease' applying AASB 117. These lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 is 3%.

On adoption of AASB 16, the Council will recognise a right-of-use asset in relation to a lease which had previously been classified as an 'operating lease' applying AASB 117. This right-of-use asset is to be measured as if AASB 16 had been applied since its commencement date by the carrying amount but discounted using the lessee's incremental borrowing rate as on 1 July 2019.

On adoption of AASB 16 *Leases* (issued February 2016), for leases which had previously been classified as an 'operating lease' when applying AASB 117, the Council is not required to make any adjustments on transition for leases for which the underlying asset is of low value. Assets for which the fair value as at the date of acquisition is under \$5,000 are not recognised as an asset in accordance with Financial Management Regulation 17A (5).

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

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

The Council is in the process of assessing the impact of the Standard.

(c) Income For Not-For-Profit Entities

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

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

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32. OTHER SIGNIFICANT ACCOUNTING POLICIES

a) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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

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

b) Current and non-current classification

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

c) Rounding off figures

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

d) Comparative figures

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

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

e) Budget comparative figures

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

f) Superannuation

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

g) Fair value of assets and liabilities

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

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the

specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

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

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

h) Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

Measurements based on unobservable inputs for the asset or liability.

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

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32. OTHER SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Fair value hierarchy (continued)

Valuation techniques

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

Market approach

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

Income approach

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

Cost approach

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

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

i) Impairment of assets

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

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

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

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

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FOR THE YEAR ENDED 30TH JUNE 2019

33. ACTIVITIES/PROGRAMS

REGIONAL PURPOSE

Statement of Objective

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

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

The objectives of the Regional Local Government shall be:

- (a) without loss being incurred by the Regional Local Government, to carry out the regional purposes so that services and facilities are provided to the consumer at a reasonable cost and with due regard for community needs;
- (b) to reduce the quantity of waste disposed at landfill sites in accordance with targets set by the Regional Local Government.

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

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

PROGRAM NAME AND OBJECTIVES

ACTIVITIES

GOVERNANCE

Administration and operation facilities and services to Members of Council, other costs that relate to tasks of assisting the member councils and the public on matters which do not concern specific council services. In accordance with legislative changes effective 1 July 1997, the General Administration costs have been allocated to the various programs of the Council to reflect the true cost of the services provided. Directly attributable administration costs have been recorded in the relevant program while indirect costs have been allocated on the basis of Administration staff timesheets.

COMMUNITY AMENITIES

To provide environmentally friendly waste management facilities to consumers at a competitive cost, mindful of community requirements, whilst aiming to greatly reduce the quantity of waste disposed at landfill sites. This includes the Regional Resource Recovery Centre at Canning Vale which is a Major Commercial Business Undertaking,

SOUTHERN METROPOLITAN REGIONAL COUNCIL
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FOR THE YEAR ENDED 30TH JUNE 2019

34. FINANCIAL RATIOS

	2019 Actual	2018 Actual	2017 Actual
Current ratio	1.58	1.21	1.22
Asset consumption ratio	0.75	0.76	0.89
Asset renewal funding ratio	-	1.00	1.00
Asset sustainability ratio	0.03	0.19	0.05
Debt service cover ratio	(0.86)	(0.18)	0.49
Operating surplus ratio	(0.41)	(0.27)	(0.10)
Own source revenue coverage ratio	0.71	0.79	0.91

There is no asset renewal program as a result of the RRRC divestment, therefore the Asset renewal funding ratio for the year 2019 has not been reported.

The Debt service cover ratio, Operating surplus ratio & Own source revenue coverage ratio for the year 2019 disclosed above is distorted by an item of significant expense totalling \$2,741,453 relating to the impairment loss on revaluation of asset held for sale in accordance with AASB 136 Impairment of Assets and Financial Management Regulations 17A (refer to Note 8(b) & 10(a) for further details). This amount has been included in the ratio calculations above.

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

Debt service cover ratio	(0.19)
Operating surplus ratio	(0.29)
Own source revenue coverage ratio	0.77

The above ratios are calculated as follows:

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



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Council of the Southern Metropolitan Regional Council

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Southern Metropolitan Regional Council which comprises the Statement of Financial Position as at 30 June 2019, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Southern Metropolitan Regional Council:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Council for the year ended 30 June 2019 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

I conducted my 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 the Council in accordance with the *Auditor General Act 2006* and the relevant 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 annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Note 1 to the annual financial report, which describes the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Council's annual financial reporting responsibilities under the Act. Regulation 16 of the Local Government (Financial Management) Regulations 1996, does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of the Council is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of an annual financial report that is free from material misstatement, whether due to fraud or error.

In preparing the annual financial report, the CEO is responsible for assessing the 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 the State government has made decisions affecting the continued existence of the Council.

The Council is responsible for overseeing the Council's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the annual 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 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 the annual financial report.

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

- Identify and assess the risks of material misstatement of the annual 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 the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the CEO.
- Conclude on the appropriateness of the CEO'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 annual financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report, as we cannot predict future events or conditions that may have an impact.
- Evaluate the overall presentation, structure and content of the annual financial report, including the disclosures, and whether the annual financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Council and the CEO 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matter indicates significant adverse trends in the financial position of the Council:
 - a. The Operating Surplus Ratio, Asset Sustainability Ratio and Debt Service Cover Ratio have been below the Department of Local Government, Sport and Cultural Industries standards for the past three years.
The financial ratios are reported in Note 34 of the financial report.
- (ii) The following material matters indicating non-compliance with Part 6 of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:


- a. The Council has not reported the Asset Renewal Funding Ratio for 2019 in the annual financial report as required by regulation 50(1)(c) of the Local Government (Financial Management) Regulations 1996, as the asset renewal program has not been updated due to the proposed divestment of Regional Resource Recovery Centre.
 - b. Accounting journal entries were posted by one employee, without being reviewed by a senior staff member independent of preparation. Accounting journals can represent significant adjustments to previously approved accounting transactions, and should therefore be independently reviewed and approved.
 - c. For approximately 17% of purchase transactions we sampled, there was inadequate or no evidence that a sufficient number of quotations was obtained, to test the market, and no documentation to explain why other quotes were not sought. We also noted 9% of the purchase orders were dated after the dates of the corresponding supplier invoices. This practice increases the risk of fraud or favouritism of suppliers and not obtaining value for money.
- (iii) All required information and explanations were obtained by me.
 - (iv) All audit procedures were satisfactorily completed.
 - (v) In my opinion, the asset consumption ratio included in the annual financial report was supported by verifiable information and reasonable assumptions.

Other Matter

The annual financial report of the Council for the year ended 30 June 2018 was audited by another auditor who expressed an unmodified opinion on that annual financial report. The financial ratios for 2017 and 2018 in Note 34 of the audited annual financial report were included in the supplementary information and/or audited annual financial report for those years.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Southern Metropolitan Regional Council for the year ended 30 June 2019 included on the Council's website. The Council's management is responsible for the integrity of the Council's website. This audit does not provide assurance on the integrity of the Council's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited annual financial report to confirm the information contained in this website version of the annual financial report.


SANDRA LABUSCHAGNE
DEPUTY AUDITOR GENERAL
Delegate of the Auditor General for Western Australia
Perth, Western Australia
04 December 2019



SOUTHERN METROPOLITAN
REGIONAL COUNCIL

ANNUAL REPORT 2018-19

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