

A photograph of two people in business attire sitting at a table, looking at a tablet. The image is overlaid with a blue gradient.

ANNUAL FINANCIAL STATEMENTS

For the year ended 30 June 2022

**Mackay Regional Council
Financial Statements
For the year ended 30 June 2022**

Table of Contents

| | |
|---|----|
| Statement of Comprehensive Income..... | 3 |
| Statement of Financial Position..... | 4 |
| Statement of Changes in Equity | 5 |
| Statement of Cash Flows | 6 |
| 1) Summary of significant accounting policies | 7 |
| 2) Analysis of results by function..... | 8 |
| 3) Revenue analysis..... | 10 |
| 4) Grants, subsidies, contributions and donations | 11 |
| 5) Other capital income | 12 |
| 6) Employee costs..... | 12 |
| 7) Materials and services | 13 |
| 8) Finance costs | 14 |
| 9) Capital expenses | 14 |
| 10) Cash and cash equivalents | 15 |
| 11) Investments..... | 16 |
| 12) Trade and other receivables | 17 |
| 13) Property, plant and equipment..... | 18 |
| 14) Intangible assets | 24 |
| 15) Contract balances..... | 25 |
| 16) Leases | 25 |
| 17) Trade and other payables..... | 26 |
| 18) Employee entitlements..... | 27 |
| 19) Borrowings | 27 |
| 20) Provisions..... | 28 |
| 21) Other liabilities..... | 29 |
| 22) Asset revaluation surplus..... | 29 |
| 23) Commitments for expenditure..... | 30 |
| 24) Contingencies..... | 30 |
| 25) Superannuation..... | 31 |
| 26) Reconciliation of net result to net cash inflow from operating activities | 32 |
| 27) National Competition Policy | 32 |
| 28) Transactions with related parties..... | 33 |
| 29) Events after the reporting period | 33 |
| Management Certificate | 34 |
| Current Year Financial Sustainability Statement..... | 36 |
| Long Term Financial Sustainability Statement (Unaudited) | 39 |

Mackay Regional Council
Statement of Comprehensive Income
For the year ended 30 June 2022

| | Note | 2022 \$000's | 2021 \$000's |
|--|-------------|-----------------|-----------------|
| Income | | | |
| Recurrent revenue | | | |
| Rates and charges | 3(a) | 225,147 | 219,562 |
| Fees and charges | 3(b) | 21,819 | 17,391 |
| Rental income | 3(c) | 1,226 | 1,174 |
| Interest income | 3(d) | 1,741 | 2,196 |
| Sales contracts and recoverable works | 3(e) | 8,474 | 7,615 |
| Other recurrent income | | 5,892 | 4,502 |
| Grants, subsidies, contributions and donations | 4(a) | 13,421 | 15,536 |
| Total recurrent revenue | | <u>277,719</u> | <u>267,975</u> |
| Capital revenue | | | |
| Grants, subsidies, contributions and donations | 4(b) | 42,082 | 49,729 |
| Other capital income | 5 | 1,597 | 1,227 |
| Total capital revenue | | <u>43,679</u> | <u>50,956</u> |
| Total income | | <u>321,398</u> | <u>318,931</u> |
| Expenses | | | |
| Recurrent expenses | | | |
| Employee costs | 6 | 89,754 | 88,574 |
| Materials and services | 7 | 101,214 | 91,280 |
| Finance costs | 8(a) | 11,103 | 8,350 |
| Depreciation and amortisation | 13,14,16(a) | 75,075 | 73,602 |
| Total recurrent expenses | | <u>277,147</u> | <u>261,807</u> |
| Capital expenses | | | |
| Finance costs | 8(b) | 328 | 221 |
| Loss on disposal of non-current assets | 9(a) | 5,080 | 4,382 |
| Fair value movements | 9(b) | - | 1,057 |
| Other capital expenses | 9(c) | (201) | 961 |
| Total capital expenses | | <u>5,207</u> | <u>6,622</u> |
| Total expenses | | <u>282,353</u> | <u>268,427</u> |
| Net result | | <u>39,045</u> | <u>50,504</u> |
| Other comprehensive income | | | |
| Items that will not be reclassified to net result | | | |
| Increase or (decrease) in asset revaluation surplus | 22 | 220,228 | 75,217 |
| Total other comprehensive income for the year | | <u>220,228</u> | <u>75,217</u> |
| Total comprehensive income for the year | | <u>259,273</u> | <u>125,721</u> |

The above statement should be read in conjunction with the accompanying notes and significant accounting policies.

**Mackay Regional Council
Statement of Financial Position
As at 30 June 2022**

| | Note | 2022 \$000's | 2021 \$000's |
|--------------------------------------|-------|-----------------|-----------------|
| Current assets | | | |
| Cash and cash equivalents | 10 | 99,104 | 124,056 |
| Investments | 11 | 70,000 | 70,000 |
| Trade and other receivables | 12 | 24,027 | 28,034 |
| Contract assets | 15(a) | 2,552 | 4,086 |
| Other assets | | 3,216 | 2,710 |
| Inventories | | 2,988 | 2,745 |
| Non-current assets held for sale | | 79 | 79 |
| Total current assets | | 201,966 | 231,710 |
| Non-current assets | | | |
| Investments | 11 | 5,277 | 5,102 |
| Trade and other receivables | 12 | 1,676 | 1,975 |
| Property, plant and equipment | 13 | 3,669,726 | 3,409,363 |
| Intangible assets | 14 | 3,970 | 6,180 |
| Right of use assets | 16(a) | 1,303 | 822 |
| Total non-current assets | | 3,681,952 | 3,423,442 |
| Total assets | | 3,883,918 | 3,655,152 |
| Current liabilities | | | |
| Contract liabilities | 15(b) | 10,417 | 4,486 |
| Lease liabilities | 16(b) | 66 | 25 |
| Trade and other payables | 17 | 16,459 | 21,658 |
| Employee entitlements | 18 | 22,309 | 21,420 |
| Borrowings | 19 | 13,292 | 16,167 |
| Provisions | 20 | 51,203 | 51,540 |
| Other liabilities | 21 | 20,044 | 12,654 |
| Total current liabilities | | 133,790 | 127,950 |
| Non-current liabilities | | | |
| Lease liabilities | 16(b) | 1,299 | 831 |
| Employee entitlements | 18 | 1,699 | 1,775 |
| Borrowings | 19 | 52,771 | 101,416 |
| Provisions | 20 | 13,268 | 14,971 |
| Other liabilities | 21 | 11,219 | 1,163 |
| Total non-current liabilities | | 80,256 | 120,156 |
| Total liabilities | | 214,046 | 248,106 |
| Net community assets | | 3,669,872 | 3,407,046 |
| Community equity | | | |
| Retained surplus | | 2,280,456 | 2,237,858 |
| Asset revaluation surplus | 22 | 1,389,416 | 1,169,188 |
| Total community equity | | 3,669,872 | 3,407,046 |

The above statement should be read in conjunction with the accompanying notes and significant accounting policies.

**Mackay Regional Council
Statement of Changes in Equity
For the year ended 30 June 2022**

| | Retained surplus | Asset revaluation surplus | Total |
|---|---------------------|---------------------------------|-----------|
| Note | \$000's | \$000's | \$000's |
| Balance as at 1 July 2021 | 2,237,858 | 1,169,188 | 3,407,047 |
| Adjustment to opening value | 3,554 | - | 3,554 |
| Restated balance as 1 July 2021 | 2,241,411 | 1,169,188 | 3,410,599 |
| Net result | 39,045 | - | 39,045 |
| Increase or (decrease) in asset revaluation surplus | - | 220,228 | 220,228 |
| Total comprehensive income for the year | 39,045 | 220,228 | 259,273 |
| Balance as at 30 June 2022 | 2,280,456 | 1,389,416 | 3,669,872 |
| Balance as at 1 July 2020 | 2,164,720 | 1,067,349 | 3,232,070 |
| Adjustment to opening value | 22,635 | 26,619 | 49,254 |
| Restated balance as 1 July 2020 | 2,187,354 | 1,093,971 | 3,281,325 |
| Net result | 50,503 | - | 50,503 |
| Increase or (decrease) in asset revaluation surplus | - | 75,217 | 75,217 |
| Total comprehensive income for the year | 50,503 | 75,217 | 125,721 |
| Balance as at 30 June 2021 | 2,237,858 | 1,169,188 | 3,407,046 |

The above statement should be read in conjunction with the accompanying notes and significant accounting policies.

**Mackay Regional Council
Statement of Cash Flows
For the year ended 30 June 2022**

| | Note | 2022 \$000's | 2021 \$000's |
|--|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 290,892 | 248,402 |
| Payments to suppliers and employees | | (196,593) | (178,291) |
| Interest income | | 2,069 | 3,075 |
| Recurrent grants, subsidies, contributions and donations | 4(a) | 13,421 | 15,536 |
| Borrowing costs | | (10,533) | (7,918) |
| Net cash inflow from operating activities | 26 | 99,256 | 80,804 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (91,545) | (86,100) |
| Payments for other non-current assets | | (238) | (26) |
| Payments for investments | | - | 60,000 |
| Other capital income | | 260 | 1,227 |
| Capital project costs expensed | | (735) | (1,188) |
| Proceeds from sale of property, plant and equipment | | 1,392 | 2,116 |
| Capital grants, subsidies, contributions and donations | | 18,242 | 33,753 |
| Net cash outflow from investing activities | | (72,623) | 9,781 |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (51,521) | (15,217) |
| Principal lease repayments | | (62) | (68) |
| Net cash outflow from financing activities | | (51,583) | (15,285) |
| Net increase or (decrease) in cash and cash equivalents | | (24,950) | 75,300 |
| Cash and cash equivalents at beginning of the period | | 124,056 | 48,759 |
| Cash and cash equivalents at end of the period | 10 | 99,104 | 124,056 |

The above statement should be read in conjunction with the accompanying notes and significant accounting policies.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

1) Summary of significant accounting policies

a) Basis of preparation

These general purpose financial statements are for the period 1 July 2021 to 30 June 2022. They are prepared in accordance with the *Local Government Act 2009* and the *Local Government Regulation 2012*. They comply with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB). Mackay Regional Council (MRC) is a not-for-profit entity for financial reporting purposes and these financial statements comply with Australian Accounting Standards and Interpretations as applicable to not-for-profit entities.

These financial statements have been prepared under the historical cost convention, except for financial assets and liabilities, certain classes of property, plant and equipment and investment property which are measured at fair value and assets held for sale which are measured at fair value less cost of disposal.

MRC is constituted under the Queensland *Local Government Act 2009* and is domiciled in Australia. The Australian dollar is used as its functional and presentation currency.

b) Basis of consolidation

Mackay Region Enterprises Pty Ltd (MRE) is a controlled entity of MRC. During the reporting period, the Directors of MRE resolved to dissolve the entity. At the date of this report, Management believed there was insignificant risk associated with entity being able to realise its assets and discharge its liabilities upon dissolution.

The transactions of MRE are not material to MRC and are therefore not consolidated within these annual financial statements.

c) Rounding and comparatives

Amounts included in the financial statements have been rounded to the nearest one thousand dollars, unless otherwise stated. Consequently, rounded balances in the notes to the financial statements may not exactly agree to the amounts reported in the primary statements.

Comparative information is generally restated for reclassifications, errors and changes in accounting policies, unless permitted otherwise by transition rules in a new Accounting Standard.

d) New and revised accounting standards adopted during the year

MRC adopted all Australian Accounting Standards which became effective for annual reporting periods beginning on 1 July 2021. None of the standards had a material impact on reported position, performance and cash flows.

e) Standards issued by the Australian Accounting Standards Board not yet effective

The AASB has issued Australian Accounting Standards and Interpretations which are not yet effective at 30 June 2022. These standards have not yet been adopted by MRC and will be included within the financial statements on their effective date. At this time, it is not anticipated that these standards will have a material impact upon MRC's future financial statements.

f) Estimates and judgements

MRC is required to make judgements, estimates and assumptions in preparing these financial statements. These are based on historic experience and other factors or indicators that are considered to be relevant and reasonable, including impacts of COVID-19. By nature, these assumptions may change over time.

Significant judgements, estimates and assumptions relate to the following notes:

- note 3 revenue analysis – revenue recognition
- note 4 grants, subsidies, contributions and donations – revenue recognition
- note 9 capital expenses – fair value measurement
- note 11 investments – valuation of investment property
- note 13 property, plant and equipment – valuation of property, plant and equipment, depreciation, asset useful lives and residual values
- note 14 intangible assets – valuation of intangibles, amortisation and asset useful lives
- note 18 employee entitlements
- note 20 provisions
- note 21 other liabilities – revenue recognition
- note 24 contingencies

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

g) Volunteer services

MRC operations are carried out with the assistance of volunteers, where individuals donate their time and skills to help MRC achieve its objectives within the community. MRC has not recognised volunteer services in these financial statements, as the value donated cannot be reliably measured.

h) Taxation

The income of local government and public authorities is exempt from income tax. However, MRC is subject to Fringe Benefits Tax (FBT), Goods and Services Tax (GST) and Payroll Tax on certain activities. The net amount of GST recoverable from or payable to the Australian Taxation Office (ATO) is shown as an asset or liability respectively.

2) Analysis of results by function

a) Components of Mackay Regional Council by function

The purpose and activities relating to MRC's components are as follows:

Office of the Mayor and Chief Executive Officer

The purpose of the Office of the Mayor and Chief Executive Officer (CEO) is to support MRC to be open, accountable and transparent and to deliver value for money community outcomes. This function includes legal and administrative support for the Mayor, Councillors and CEO and the functions of workplace health and safety, governance, performance and risk and internal audit.

Development Services

The purpose of Development Services is to facilitate growth and prosperity for the region, through well planned and quality development and incorporating the economic development of the area. This ensures that the Mackay region is well designed, efficiently serviced and economically sustainable. This function sustainably manages and cares for our natural surroundings and resources and ensures our open spaces are accessible and valued.

Organisational Services

The purpose of Organisational Services is to provide accurate, timely and appropriate information to support sound decision making and meet statutory requirements. This includes advice and support to other departments particularly in areas of people and culture, financial information and information technology needs, and customer support to Mackay's residents. Organisational Services also manages MRC's extensive fleet, contract and procurement activities as well as managing and maintaining all MRC owned land and buildings.

Community and Client Services

The purpose of Community and Client Services is to provide opportunities for all residents, workers and visitors to participate in cultural and recreational activities which foster inclusion and stronger communities, as well as keeping our community safe through the coordination of emergency management activities and the provision of compliance and regulatory services. The department includes libraries, entertainment venues, art galleries and museums, community development, sport and recreation programs, corporate communications and marketing, emergency management and health and regulatory services.

Engineering and Commercial Infrastructure

Engineering

The purpose of Engineering is to provide a high quality and effective road network within the region. The engineering function is responsible for asset management and providing and maintaining transport infrastructure; including the roads, bridges and drainage network.

Commercial Infrastructure

The purpose of the Commercial Infrastructure function is to support healthy and safe communities and natural environments by sustainably managing water and sewerage services. This function also protects and supports the community by providing sustainably managed waste collection and disposal services.

Capital Works

The purpose of the Capital Works function includes providing portfolio management, field and contract services and supporting major projects through centralised delivery of MRC's capital works program.

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

b) Income and expenses defined between recurrent and capital are attributed to the following functions:

| | Income | | | | Total income | Expenses | | Total expenses | Net result | Total assets |
|-------------------------------|---------------|----------------|---------------|--------------|----------------|----------------|--------------|----------------|---------------|------------------|
| | Recurrent | | Capital | | | Recurrent | Capital | | | |
| | Grants | Other | Grants | Other | | | | | | |
| \$000's | | | | | | | | | | |
| Office of Mayor and CEO | - | 1 | - | - | 1 | 9,647 | - | 9,647 | (9,646) | - |
| Development Services | 505 | 6,856 | 5,061 | - | 12,422 | 32,099 | - | 32,099 | (19,677) | 85 |
| Organisational Services | 10,665 | 112,387 | - | 1,367 | 124,419 | 76,652 | 1,665 | 78,317 | 46,102 | 557,786 |
| Community and Client Services | 1,575 | 9,878 | - | - | 11,453 | 25,955 | - | 25,955 | (14,502) | 3,652 |
| Engineering | 65 | 8,059 | 4,627 | - | 12,751 | 32,885 | 3,157 | 36,042 | (23,291) | 1,972,010 |
| Commercial Infrastructure | 473 | 126,962 | 9,657 | 199 | 137,291 | 96,732 | 389 | 97,121 | 40,170 | 1,350,383 |
| Capital Works | 138 | 154 | 22,738 | 31 | 23,061 | 3,177 | (5) | 3,172 | 19,889 | - |
| Total at 30 June 2022 | 13,421 | 264,297 | 42,083 | 1,597 | 321,398 | 277,147 | 5,206 | 282,353 | 39,045 | 3,883,916 |
| Office of Mayor and CEO | - | 2 | - | - | 2 | 8,302 | - | 8,302 | (8,299) | - |
| Development Services | 894 | 6,146 | 7,607 | - | 14,647 | 29,976 | - | 29,976 | (15,328) | 92 |
| Organisational Services | 10,434 | 109,519 | 4,174 | 134 | 124,260 | 75,208 | 4,642 | 79,850 | 44,410 | 532,102 |
| Community and Client Services | 2,054 | 6,289 | - | - | 8,342 | 24,747 | - | 24,747 | (16,405) | 2,809 |
| Engineering | - | 6,780 | 6,030 | - | 12,811 | 30,601 | 2,439 | 33,040 | (20,230) | 1,760,598 |
| Commercial Infrastructure | 1,345 | 123,620 | 8,904 | 165 | 134,034 | 90,665 | (461) | 90,204 | 43,830 | 1,359,552 |
| Capital Works | 808 | 85 | 23,013 | 928 | 24,834 | 2,309 | - | 2,309 | 22,525 | - |
| Total at 30 June 2021 | 15,536 | 252,440 | 49,729 | 1,227 | 318,930 | 261,807 | 6,620 | 268,428 | 50,503 | 3,655,153 |

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

3) Revenue analysis

a) Rates and charges

Rates and charges are recognised as revenue at the beginning of the rating period to which they relate. Prepaid rates are recognised as a financial liability on the Statement of Financial Position until the commencement of the rating period to which they relate.

| | 2022 | 2021 |
|--|----------|----------|
| Note | \$000's | \$000's |
| General rates | 122,641 | 119,664 |
| Separate and special rates and charges | 3,734 | 3,657 |
| Water consumption and utility charges | 44,958 | 44,083 |
| Sewerage utility charges | 51,844 | 50,664 |
| Waste management utility charges | 22,952 | 22,396 |
| Less: discounts and remissions | (20,982) | (20,902) |
| | 225,147 | 219,562 |

b) Fees and charges

Revenue from fees and charges is recognised at the point in time when the performance obligation is satisfied and the customer receives the benefit of the goods or services being provided.

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service. In some cases, the customer is required to pay on arrival, for example at caravan parks. There is no material obligation for MRC in relation to refunds or returns.

A small quantity of low value and short-term fees and charges are recognised at the time of receipt.

| | 2022 | 2021 |
|----------------------------------|---------|---------|
| Note | \$000's | \$000's |
| Application fees | 2,915 | 2,408 |
| Licence fees and registrations | 2,495 | 1,436 |
| Fines and penalties | 526 | 425 |
| Venues, events and cultural fees | 2,544 | 836 |
| Waste and recycling fees | 7,045 | 6,476 |
| Other fees and charges | 6,295 | 5,810 |
| | 21,820 | 17,391 |

c) Rental income

Rental income is recognised as income on a straight-line basis over the lease term.

| | 2022 | 2021 |
|---------------------|---------|---------|
| Note | \$000's | \$000's |
| Investment property | 436 | 399 |
| Other property | 790 | 774 |
| | 1,226 | 1,173 |

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

d) Interest income

Interest earned on deposits at call and fixed term deposits is accrued over the term of the investment.

| | Note | 2022 \$000's | 2021 \$000's |
|----------------------------|-------------|-------------------------|-------------------------|
| Interest on deposits | | 1,306 | 1,559 |
| Interest on debtor arrears | | 435 | 637 |
| | | 1,741 | 2,196 |

e) Sales contracts and recoverable works

Sales of goods are recognised when the significant risks and rewards of ownership are transferred to the buyer. Generally, this is when the customer has taken undisputed delivery of the goods.

MRC generates revenue from a number of services including contracts for water, sewerage and road works. Revenue from contracts and recoverable works generally comprises a recoupment of material costs together with an hourly charge for equipment and labour. Where consideration is received for the service in advance, it is only recognised as revenue in the period the service is performed.

| | Note | 2022 \$000's | 2021 \$000's |
|---|-------------|-------------------------|-------------------------|
| Roads recoverable works | | 6,712 | 5,526 |
| Water operations | | 938 | 1,254 |
| Sewer operations | | 507 | 611 |
| Other sales contracts and recoverable works | | 317 | 224 |
| | | 8,474 | 7,615 |

4) Grants, subsidies, contributions and donations

Grant revenue arising from an enforceable agreement containing sufficiently specific performance obligations is recognised as revenue progressively, as the performance obligations are satisfied. MRC deems costs incurred as the most appropriate measure of satisfying sufficiently specific performance obligations.

Grants received with the intent to further MRC's objectives, with no sufficiently specific performance obligations are recognised at fair value, at the point in time in which MRC receives the asset.

Where assets are donated, or purchased for significantly below fair value, revenue is recognised when the asset is acquired or controlled by MRC.

Enforceable capital grants received to enable MRC to acquire or construct a specified item of property, plant and equipment, to be controlled by MRC, are recognised as revenue progressively as the sufficiently specific performance obligations are satisfied in accordance with the grant agreement. MRC deems costs incurred as the most appropriate measure of satisfying sufficiently specific performance obligations.

a) Recurrent

| | Note | 2022 \$000's | 2021 \$000's |
|-------------------------------------|-------------|-------------------------|-------------------------|
| General purpose grants* | | 8,015 | 5,771 |
| Government grants and subsidies | | 4,679 | 8,613 |
| Non-government grants and subsidies | | 252 | 328 |
| Contributions and donations | | 476 | 824 |
| | | 13,422 | 15,536 |

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

*In April 2022, the Department of State Development, Infrastructure, Local Government and Planning pre-paid a partial allocation of MRC's 2023 Financial Assistance Grant totalling \$4.9M. Any additional payments of this allocation will be determined in line with a revised calculation methodology in 2023. As a result, MRC expects a reduction in total funding received in future years.

b) Capital

Capital revenue includes grants and subsidies which are tied to specific projects for the replacement or upgrade of existing non-current assets or investment in new assets. It also includes non-cash contributions which are usually infrastructure assets received from developers.

Developers also pay infrastructure charges for trunk infrastructure such as pump stations, treatment works, mains, sewers and water pollution control works. There is no associated enforceable performance obligation in relation to these charges and as such, they are recognised upon receipt.

Non-cash contributions with a value in excess of MRC's non-current asset recognition threshold of \$5.0K, are recognised by increasing non-current assets and capital revenue. When the threshold is not met, an operating revenue and operating expense are recorded.

| | Note | 2022 \$000's | 2021 \$000's |
|--|-------------|-------------------------|-------------------------|
| Government grants and subsidies | | 10,646 | 22,932 |
| Contributions and donations | | 7,607 | 11,923 |
| Contributed non-current assets at fair value | | 23,840 | 15,976 |
| Less: discounts allowed on developer contributions | | (11) | (1,102) |
| | | 42,082 | 49,729 |

5) Other capital income

| | Note | 2022 \$000's | 2021 \$000's |
|--|-------------|-------------------------|-------------------------|
| Fair value increase of investment property | | 95 | - |
| Reversal of revaluation decrements previously expensed | | 1,242 | - |
| Other income | | 260 | 1,227 |
| | | 1,597 | 1,227 |

6) Employee costs

Employee costs are recorded when the service has been provided by the employee.

Where staff are required to self-isolate or quarantine as a result of government direction relating to the COVID-19 pandemic, 20 days special leave may be accessed following exhaustion of other excess leave balances. The total value of special leave expended during the period was \$111.6K (2021: \$2.1K).

The Mackay Regional Council Certified Agreement (2017) nominally expired on 30 June 2020. This Agreement was terminated with effect from 19 April 2022, when an arbitration determination, being the Mackay Regional Council Determination 2022, was issued. Interim back pay increases were awarded during the intervening period and up to the date of issue of the Determination. The Determination shall operate until its nominal expiry date of 30 June 2024.

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

| | Note | 2022 \$000's | 2021 \$000's |
|-------------------------------------|------|-----------------|-----------------|
| Wages and salaries | | 60,940 | 60,087 |
| Annual, sick and long service leave | | 17,388 | 17,207 |
| Superannuation | 25 | 9,820 | 9,604 |
| Other employee costs | | 171 | 241 |
| | | 88,319 | 87,139 |
| Councillor remuneration | | 1,436 | 1,435 |
| | | 89,755 | 88,574 |

7) Materials and services

Expenditure for materials and services is recorded as the goods or services are received.

| | Note | 2022 \$000's | 2021 \$000's |
|---|------|-----------------|-----------------|
| Advertising and marketing | | 886 | 891 |
| Audit of financial statements by the Auditor-General* | | 155 | 155 |
| Capital project costs expensed | | 785 | 628 |
| Communications and IT | | 2,258 | 2,184 |
| Community facilities and entertainment | | 3,631 | 2,920 |
| Consultants and services | | 14,219 | 10,947 |
| Contractors | | 24,070 | 23,117 |
| Donations, grants, subsidies and contributions | | 3,555 | 4,269 |
| Electricity and public utilities | | 7,470 | 7,842 |
| Equipment and hire fees | | 5,164 | 3,148 |
| Fees and charges | | 2,291 | 2,410 |
| Fuel and chemicals | | 4,939 | 3,859 |
| Insurance | | 4,162 | 4,134 |
| Registrations and subscriptions | | 2,216 | 2,092 |
| Repairs and maintenance | | 20,307 | 18,235 |
| Waste Levy payment | | 4,080 | 3,643 |
| Waste Levy refund** | | (3,820) | (3,643) |
| Other materials and services | | 4,845 | 4,449 |
| | | 101,214 | 91,280 |

*The total fee quoted by the Queensland Audit Office in the external audit plan, for the audit of the 2022 annual financial statements, was \$155.2K (2021: \$155.2K).

**The State Government rebated \$3.8M (2021: \$3.6M) to mitigate the direct impact of the Waste Levy on households. Any portion of the refund not applied to the Waste Levy payment is reported in note 4 grants, subsidies, contributions and donations as government grants and subsidies.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

8) Finance costs

a) Recurrent

| | Note | 2022 \$000's | 2021 \$000's |
|---|-------------|-------------------------------|-------------------------------|
| Borrowing costs - Queensland Treasury Corporation | | 6,766 | 7,918 |
| Market realisation expense* | | 3,768 | - |
| Bank charges | | 488 | 291 |
| Interest on lease liabilities | | 21 | 14 |
| Impairment of receivables | | 62 | 126 |
| | | 11,104 | 8,350 |

*In June 2022, MRC repaid \$40.7M in QTC borrowings ahead of the scheduled repayment date in 2029.

b) Capital

| | Note | 2022 \$000's | 2021 \$000's |
|------------------------------------|-------------|-------------------------------|-------------------------------|
| Unwinding of discounted provisions | | 328 | 221 |

9) Capital expenses

a) Loss on disposal of non-current assets

| | Note | 2022 \$000's | 2021 \$000's |
|-------------------------------|-------------|-------------------------------|-------------------------------|
| Property, plant and equipment | | 5,074 | 4,382 |
| Intangible assets | | 6 | - |
| | | 5,080 | 4,382 |

b) Fair value movements

| | Note | 2022 \$000's | 2021 \$000's |
|--|-------------|-------------------------------|-------------------------------|
| Fair value decrease of investment property | | - | 1,057 |

c) Other capital expenses

| | Note | 2022 \$000's | 2021 \$000's |
|---------------------------------------|-------------|-------------------------------|-------------------------------|
| Capital project costs expensed | | 739 | 1,188 |
| Adjustments to remediation provisions | | (940) | (634) |
| Other expenses | | - | 407 |
| | | (201) | 961 |

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

10) Cash and cash equivalents

Cash and cash equivalents include cash on hand, all cash and cheques receipted but not banked at the year end, deposits held at call with financial institutions and other short-term, highly liquid investments. Original terms to maturity are three months or less and they are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash deposits are required to have a minimum credit rating of A-, therefore the likelihood of the counterparty having capacity to meet its financial commitments is strong.

MRC may be exposed to credit risk through investments in the Queensland Treasury Corporation (QTC) cash fund, which is an asset management portfolio that invests with a wide range of high credit rated counterparties. Deposits with the QTC cash fund are capital guaranteed.

MRC's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking reputational damage.

| Note | 2022 \$000's | 2021 \$000's |
|--------------------------|-----------------|-----------------|
| Cash at bank and on hand | 9,058 | 2,550 |
| Deposits at call | 90,046 | 121,506 |
| | 99,104 | 124,056 |

MRC's cash balance is subject to internal and external restrictions that limit amounts available for discretionary or future use. Expenditure restrictions at the reporting date relate to:

| Note | 2022 \$000's | 2021 \$000's |
|--|-----------------|-----------------|
| Externally restricted | | |
| Unspent grants and subsidies | 10,417 | 4,486 |
| Waste Levy refund paid in advance | 14,911 | - |
| | 25,328 | 4,486 |
| Internally restricted | | |
| Separate and special rates and charges | 4,261 | 4,081 |
| Capital reserves | 69,708 | 66,371 |
| Donations | 284 | 298 |
| | 74,253 | 70,750 |

Funds held on behalf of other parties

Funds held in trust on behalf of other parties include security deposits lodged to guarantee performance, bonds and unclaimed monies paid into the trust account by MRC. MRC performs a custodian role only in respect of these monies. As these funds are for a specific purpose and cannot be used by MRC, they are not brought to account in these financial statements, as MRC has no rights over the assets. The amount held in trust by MRC is \$2.7M (2021: \$1.5M).

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

11) Investments

| | Note | 2022 \$000's | 2021 \$000's |
|---------------------|------|-----------------|-----------------|
| Current | | | |
| Term deposits | | 70,000 | 70,000 |
| Non-current | | | |
| Investment property | | 5,275 | 5,100 |
| Shares | | 2 | 2 |
| | | 5,277 | 5,102 |

a) Investment property

Investment property is initially recognised at cost; being purchase price inclusive of any transaction costs. Fair value is subsequently measured at current market value, which is derived by reference to market-based evidence, including observable historical sales data for properties of similar nature and specification.

Revaluations are conducted annually at 30 June by an independent, registered valuer. This was last conducted by Jones Lang La Salle Public Sector Valuations Pty Ltd (JLL). JLL is a leading professional services firm with highly skilled valuers, experienced in the valuation of local government and public sector assets across Australia.

The carrying value of investment property is assessed annually for impairment indicators. COVID-19 has created much uncertainty, directly affecting market activity across many sectors. As at June 30, JLL determined these effects to still be subjective.

| | Note | 2022 \$000's | 2021 \$000's |
|--|------|-----------------|-----------------|
| Opening balance at 1 July | | 5,100 | 6,157 |
| Transfers to or from property, plant and equipment | | 80 | - |
| Fair value increase or (decrease) | | 95 | (1,057) |
| Closing balance at 30 June | | 5,275 | 5,100 |

b) Shares

MRC holds shares in Mackay Region Enterprises Pty Ltd and Mackay Regional Housing Company Limited (trading as Connect Housing Group). The shares are not listed on any stock exchange and there is no active market. As a result, fair value cannot be reliably measured and therefore, they have been recognised at cost.

c) Term deposits

In accordance with the *Statutory Bodies Financial Arrangements Act 1982*, MRC has category 1 investment power and currently holds term deposits with various financial institutions; all of which are considered to be low risk with fixed rates and fixed original terms to maturity greater than 3 months, but less than 12. All term deposits are intended to be held to maturity.

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

12) Trade and other receivables

Trade receivables are recognised at the amounts due at the time of sale or service delivery. MRC's standard settlement terms are 30 days from invoice date. No significant concentration of credit risk has been identified, as exposure is spread over a large number of counterparties and customers.

Interest is charged on overdue rates and other receivables at 8.03% per annum (2021: 8.53%), compounding monthly. MRC is empowered under the provisions of the *Local Government Act 2009* to sell an owner's property to recover rates arrears. For this reason, MRC does not generally impair any rates receivables. However, in the case of rates on state leased land, where the lease has been cancelled or land leased by MRC, the right to sell is forfeit. In addition to this and where other avenues to pursue the debt are doubtful, a provision for impairment will be made, pending the exhaustion of all legal options.

MRC used an allowance matrix to measure the expected credit losses of trade and other receivables from individual customers, which comprise a large number of small balances. Loss rates are calculated, based on the probability of the receivable progressing to write-off. The rates were derived using both observable historic default rates and assumptions of forward-looking market and economic conditions applied against like debtor segments where similar loss patterns exist or could be expected to exist. Forward looking assessments included, where relevant, an allowance to account for the estimated impact on credit losses as a result of COVID-19. Impairment of receivables is recognised as a recurrent or capital finance cost.

| | Note | 2022 \$000's | 2021 \$000's |
|---------------------------|-------------|-------------------------|-------------------------|
| Current | | | |
| Rates and utility charges | | 7,672 | 9,971 |
| Interest receivable | | 798 | 1,125 |
| GST recoverable | | 2,168 | 2,830 |
| Developer contributions | | 7,286 | 6,484 |
| Other debtors | | 6,507 | 8,027 |
| Less: loss allowance | | (404) | (403) |
| | | 24,027 | 28,034 |
| Non-current | | | |
| Other debtors | | 1,676 | 1,975 |

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

**13) Property, plant and equipment
Current year movements:**

| Asset Class | Opening written down value 1 July 2021 | Adjustment to opening value | Additions | Transfers | Disposals and write offs | Revaluation | Depreciation expense | Closing written down value 30 June 2022 | Basis of measurement | Useful life range (years) |
|-------------------------------------|---|--------------------------------|-----------|-----------|-----------------------------|-------------|-------------------------|--|-------------------------|------------------------------|
| \$000's | | | | | | | | | | |
| Land | 153,787 | - | 17 | - | (485) | 9,236 | - | 162,555 | Valuation | Indefinite |
| Site improvements | 137,105 | - | 60 | 2,454 | (183) | 10,081 | (5,394) | 144,122 | Valuation | 3 - indefinite |
| Buildings | 151,486 | - | 118 | 933 | (1,534) | 25,978 | (6,638) | 170,344 | Valuation | 5 - 100 |
| Roads, bridges and drainage network | 1,725,579 | 1,224 | 17,048 | 34,423 | (2,934) | 173,978 | (28,470) | 1,920,848 | Valuation | 5 - indefinite |
| Water | 513,632 | 3,639 | 2,104 | 8,735 | (282) | (45,048) | (14,369) | 468,412 | Valuation | 7 - 150 |
| Sewerage | 612,958 | 1,532 | 4,515 | 7,181 | (108) | 45,796 | (12,895) | 658,978 | Valuation | 7 - 160 |
| Plant and equipment | 42,784 | - | - | 8,649 | (940) | - | (7,131) | 43,361 | Cost | 1 - 50 |
| Capital work in progress | 72,032 | - | 93,065 | (63,991) | - | - | - | 101,106 | Cost | Not depreciated |
| | 3,409,363 | 6,395 | 116,927 | (1,616) | (6,466) | 220,021 | (74,897) | 3,669,726 | | |

Prior year movements:

| Asset Class | Opening written down value 1 July 2020 | Adjustment to opening value | Additions | Transfers | Disposals and write offs | Revaluation | Depreciation expense | Closing written down value 30 June 2021 | Basis of measurement | Useful life range (years) |
|-------------------------------------|---|--------------------------------|-----------|-----------|-----------------------------|-------------|-------------------------|--|-------------------------|------------------------------|
| \$000's | | | | | | | | | | |
| Land | 153,241 | - | 546 | - | - | - | - | 153,787 | Valuation | Indefinite |
| Site improvements | 118,010 | - | 31 | 16,508 | (1,354) | 8,976 | (5,069) | 137,105 | Valuation | 2 - indefinite |
| Buildings | 144,642 | - | - | 13,912 | (292) | - | (6,774) | 151,486 | Valuation | 10 - 100 |
| Roads, bridges and drainage network | 1,648,158 | 49,255 | 10,903 | 47,229 | (2,289) | - | (27,677) | 1,725,579 | Valuation | 5 - indefinite |
| Water | 487,823 | - | 1,074 | 6,588 | (430) | 32,129 | (13,554) | 513,632 | Valuation | 2 - 100 |
| Sewerage | 580,214 | - | 2,566 | 8,954 | (30) | 33,655 | (12,401) | 612,958 | Valuation | 3 - 120 |
| Plant and equipment | 41,107 | - | - | 10,562 | (2,102) | - | (6,783) | 42,784 | Cost | 1 - 50 |
| Capital work in progress | 89,773 | - | 87,916 | (105,657) | - | - | - | 72,032 | Cost | Not depreciated |
| | 3,262,968 | 49,255 | 103,036 | (1,904) | (6,497) | 74,760 | (72,258) | 3,409,363 | | |

Additions include contributed assets and developer offsets. Transfers comprise capitalised expenditure on constructed or purchased assets transferred out of capital work in progress, transfers between asset classes and other non-current assets and transfers to the Statement of Comprehensive Income. Amounts expensed to the Statement of Comprehensive Income are reported in note 7 materials and services and note 9 capital expenses.

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

Gross asset cost and accumulated depreciation by asset class:

| Asset Class | Closing balance at 30 June 2022 | | | Opening balance at 1 July 2021 | | | Closing balance at 30 June 2021 | | |
|-------------------------------------|---------------------------------|--------------------------|--------------------|--------------------------------|--------------------------|--------------------|---------------------------------|--------------------------|--------------------|
| | Gross asset value | Accumulated depreciation | Written down value | Gross asset value | Accumulated depreciation | Written down value | Gross asset value | Accumulated depreciation | Written down value |
| | \$000's | | | | | | | | |
| Land | 162,555 | - | 162,555 | 153,787 | - | 153,787 | 153,787 | - | 153,787 |
| Site improvements | 229,866 | (85,744) | 144,122 | 217,717 | (80,612) | 137,105 | 217,717 | (80,612) | 137,105 |
| Buildings | 283,910 | (113,566) | 170,344 | 259,401 | (107,915) | 151,486 | 259,401 | (107,915) | 151,486 |
| Roads, bridges and drainage network | 2,901,300 | (980,452) | 1,920,848 | 2,681,735 | (954,932) | 1,726,803 | 2,680,998 | (955,420) | 1,725,579 |
| Water | 878,761 | (410,349) | 468,412 | 858,494 | (341,223) | 517,271 | 853,323 | (339,691) | 513,632 |
| Sewerage | 1,004,908 | (345,930) | 658,978 | 895,049 | (280,560) | 614,490 | 892,307 | (279,350) | 612,958 |
| Plant and equipment | 81,396 | (38,034) | 43,361 | 75,660 | (32,877) | 42,784 | 75,660 | (32,877) | 42,784 |
| Capital work in progress | 101,106 | - | 101,106 | 72,032 | - | 72,032 | 72,032 | - | 72,032 |
| | 5,643,802 | (1,974,075) | 3,669,726 | 5,213,875 | (1,798,119) | 3,415,758 | 5,205,225 | (1,795,865) | 3,409,363 |

Reported values include adjustments taken to the opening value at 1 July. Further details of adjustments taken to the opening value of property, plant and equipment at 1 July 2021, are disclosed in note 13(f) fair value measurement (iv) - roads, bridges and drainage network and (v) - water and sewerage.

**Mackay Regional Council
Financial Statements
For the year ended 30 June 2022**

a) Recognition

Items of property, plant and equipment with a total value of less than \$5.0K, except for land which has a recognition threshold of \$1, are treated as an expense in the year of acquisition. Individual assets valued below the asset recognition threshold are recognised as an asset if connected to a larger network. All other items of property, plant and equipment are capitalised and included in the relevant asset class.

Land under the roads and reserve land, which falls under the *Land Act 1994* or the *Land Title Act 1994* is controlled by the Queensland Government pursuant to the relevant legislation. This land is not recognised in these financial statements.

b) Measurement of assets acquired during the period

All assets purchased or constructed during the reporting period are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration, plus costs incidental to acquisition; including architects' fees, engineering design fees and other establishment costs. Cost for constructed assets include the cost of all services, materials and plant used in construction, direct labour on the project and an appropriate proportion of indirect labour costs attributable to bringing the asset to the location and condition necessary for it to operate in the manner intended.

Property, plant and equipment received in the form of contributions or as offsets to infrastructure charges are brought to account as capital contribution revenue, based on the fair value of each asset, at such time that the asset is acquired or controlled by MRC and the value exceeds the recognition threshold for the respective class. Where an active market does not exist, as is the case for most infrastructure assets contributed to MRC, fair value is deemed to be current replacement cost.

Costs incurred on assets after initial recognition are capitalised if the associated work either renews, extends or upgrades the assets underlying service potential. Routine operating maintenance, repair costs and minor renewals to maintain the operational capacity of a non-current asset are expensed as incurred.

When MRC raises a provision for the restoration or rehabilitation of an MRC-controlled waste or quarry site, the provision is initially recognised against property, plant and equipment. Subsequent changes in the provision relating to the discount rate or the estimated amount or timing of restoration costs are recognised in capital expenses or taken against the asset revaluation surplus.

c) Valuation

Non-current physical assets measured at fair value are revalued, where required, so that the carrying amount of each class of asset does not materially differ from its fair value at the reporting date. This is achieved by engaging independent, professionally qualified valuers to determine the fair value for each relevant class of property, plant and equipment assets at least once every 5 years. This process involves the valuer physically sighting a representative sample of MRC assets across all asset classes and making their own assessments of the condition of the assets at the date of inspection.

In the intervening years, MRC uses internal engineers and asset managers to assess the condition and cost assumptions associated with all infrastructure assets; the results of which are considered in combination with an appropriate cost index for the region. Together these are used to form the basis of a management valuation for infrastructure asset classes in each of the intervening years. Where indicators exist that the asset class has experienced a significant and volatile change in value since the last reporting period, management will engage independent, professionally qualified valuers to perform a "desktop" valuation. This involves management providing updated information to the valuer regarding additions, deletions and changes in assumptions such as useful life, residual value and condition rating. The valuer then determines suitable indices which are applied to each of these asset classes.

Materiality concepts are considered in determining whether the difference between the carrying amount and the fair value of an asset is significant or experienced a volatile change, in which case a revaluation is undertaken.

Upon revaluation, accumulated depreciation is restated proportionately with the change in the carrying amount of the asset and any change in the estimate of remaining useful life. Separately identified components of assets are measured on the same basis as the assets to which they relate.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

d) Depreciation

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the date an asset is commissioned and available for use; at which time they are capitalised and transferred from work in progress to the appropriate property, plant and equipment class.

Property, plant and equipment assets held at cost having a limited useful life are depreciated on a straight-line basis over their estimated useful lives. Capital work in progress, land, formation work and certain heritage and cultural assets are not depreciated.

Where assets have significant separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the revised depreciable amount is depreciated over the remaining useful life of the asset to MRC.

Depreciation methodology, estimated useful lives and residual values of property, plant and equipment assets are reviewed at the end of each reporting period and adjusted where necessary to reflect any changes in the pattern of consumption, physical wear and tear, technical or commercial obsolescence, or management intentions.

e) Impairment

Property, plant and equipment is assessed for indicators of impairment annually. If an indicator of material impairment exists, MRC determines the recoverable amount of the asset. Any amount, by which the carrying amount exceeds the recoverable amount, is recorded as an impairment loss.

MRC's asset base largely consists of highly specialised infrastructure and other specialist assets for which there is no active market. As a result, infrastructure asset classes rarely experience volatility and significant changes in value as a result of market sentiment are not probable.

f) Fair value measurement

The methods used to estimate fair value comprise:

Level 1 – calculated using quoted prices in active markets

Level 2 – estimated using inputs that are directly and indirectly observable, such as prices for similar assets

Level 3 – estimated using unobservable inputs for the asset

There is no market for MRC's infrastructure assets due to their specialised nature and the services they provide. As such, the fair value of all infrastructure assets is determined on the basis of replacement with a new asset having similar service potential. Infrastructure assets are recorded at fair value, using written down current replacement cost (CRC). This comprises the CRC, less accumulated depreciation representing the amount of the asset already consumed or the expired future economic benefits of the asset. MRC first determined the gross cost of replacing the full-service potential of the asset then adjusted this amount to take account of the expired service potential of the asset.

CRC is measured by reference to the lowest cost at which the gross economic benefits (i.e. service potential) of the asset could be obtained in the normal course of business. It is assumed that the infrastructure assets will be replaced by their modern equivalent, in order to provide the required service potential required by MRC.

This method utilises a number of inputs that require judgement and are therefore classed as unobservable. While these judgements are made with the greatest care, and based upon years of experience, different judgements could result in a different valuation.

i) Land

Fair value of land is measured at current market value, which is derived by reference to market-based evidence including observable historical sales data for properties of similar nature and specification. The most appropriate sales evidence within the locality is applied, with valuations based on the general usability, probable use and most likely zoning (in line with surrounding developments based on highest and best use of the site and its potential).

Where there is a lack of comparable sales evidence, the valuation is based on the closest comparable sales in terms of the characteristics of the parcel and sales evidence.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

MRC's fair value measurement has been either a level 2 or 3, depending on the assumptions relating to restrictions on land use and whether there is an active market. Independent valuer, JLL determined a 5.0% cost movement increase for the 12 months ended 30 June 2022. The cumulative movement since the last comprehensive valuation of the class, conducted as at 30 June 2019 by Jones Lange La Salle Public Sector Valuations (JLL), represented a 6.1% increase and was determined to be material by internal stakeholders. Accordingly, a commensurate adjustment to the fair value of land was made in the current financial year. A comprehensive valuation of the class is currently planned for 2023.

| | 2022 | 2021 |
|--|----------------|----------------|
| Note | \$000's | \$000's |
| Non-specialised (level 2) | 47,739 | 45,016 |
| Specialised (level 3) | 114,815 | 108,771 |
| Total written down value at 30 June | 162,554 | 153,787 |

ii) Site improvements

Fair value measurement of site improvements has been based on either level 2 or level 3 inputs. The class was last valued at 30 June 2018 by independent valuers, Ross Searle and Associates (heritage and cultural assets) and JLL (all remaining assets in the class).

Fair values are benchmarked by the valuer to externally available published rates and internally generated data for similar works performed by MRC and contractors. Where an active market exists, fair value is measured at current market value. This is derived by reference to market-based evidence, including observable historical sales data.

For major site improvements, the fair value is determined on the basis of replacement with a new asset having similar service potential. A sample of assets were physically inspected to determine asset attributes and conditions for inclusion in the 2018 valuation. These conditions were in turn used to reflect the remaining life of the assets.

| | 2022 | 2021 |
|--|----------------|----------------|
| Note | \$000's | \$000's |
| Non-specialised (level 2) | 943 | 851 |
| Specialised (level 3) | 143,179 | 136,254 |
| Total written down value at 30 June | 144,122 | 137,105 |

JLL reported a 6.5% cost movement increase for the 12 months ended 30 June 2022. This was determined to be material by internal stakeholders and as such, a commensurate adjustment was taken to the fair value of site improvement assets in the current financial year. A cumulative adjustment of 4.6% was previously taken to the fair value of site improvement assets as at 30 June 2021, representing cost index movement between this date and the last comprehensive revaluation in 2018. A comprehensive valuation of the class is currently planned for 2023.

iii) Buildings

A comprehensive revaluation of building assets was undertaken as at 30 June 2019 by independent valuers, JLL. For the 12 months ending 30 June 2022, JLL advised a 7.0% increase in the relevant cost movement index. This represents a cumulative 10.2% increase which was determined to be material by internal stakeholders. Accordingly, a commensurate adjustment was taken to the fair value of buildings in the current financial year. A comprehensive valuation of the class is currently planned for 2023.

MRC's fair value measurement has been either a level 2 or 3, depending on the assumption as to whether the building is specialised and if a market exists.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

| Note | 2022 \$000's | 2021 \$000's |
|--|-----------------|-----------------|
| Non-specialised (level 2) | 6,563 | 5,507 |
| Specialised (level 3) | 163,781 | 145,979 |
| Total written down value at 30 June | 170,344 | 151,486 |

Where MRC buildings are of a specialised nature and there is no active market for the assets, fair value has been determined on the basis of replacement with a new asset having similar service potential.

For non-specialised buildings, fair value is derived by reference to market-based evidence including observable historical sales data for comparative properties of similar nature and specification. A sample of assets were physically inspected to determine asset attributes and condition.

In determining replacement costs, unit rates have been applied to the individual asset components to determine current replacement cost. Unit rates have been based on project costs and include all materials, labour and direct costs. These unit rates have been developed based on a variety of sources including MRC project costs, product suppliers and published construction cost information such as Rawlinson's Australian Construction Handbook (Rawlinson's) and Cordell Cost Guides.

iv) Roads, bridges and drainage network (level 3)

For the 12 months ended 30 June 2022, JLL reported a 6.5% increase in cost movement for the class, since the last comprehensive valuation undertaken as at 30 June 2020 by JLL. The increase represented a cumulative 6.7% increase since the last valuation and was determined to be immaterial by internal stakeholders and as such, no adjustment to the fair value of the class was made in the current financial year. A comprehensive valuation of the class is currently planned for 2024.

MRC continues to undertake significant multi-year asset data improvement initiatives, intended to validate, standardise and enhance the classification and attribute accuracy of infrastructure assets recorded within the class. These processes incorporate separate operational phases which are categorised by asset sub-class and geographical location. The current year outcomes resulted in a number of assets of varying ages being recognised for the first time, or derecognised as a result of duplicate data entry or being controlled by third parties. This resulted in a net increase of \$1.2M being recognised against the opening balance of the retained surplus as at 1 July 2021.

Retrospective adjustments to prior year comparatives have not been applied in any instances due to the impractical nature of determining the period specific effects and given that the amounts were immaterial to property, plant and equipment and equity balances.

MRC make assessments annually to identify any indicators that the carrying value of a class materially differs from the reported fair value. Any such indicators are considered in the requirement to comprehensively revalue the class.

Infrastructure assets were componentised where required with unit rates applied to the individual components in order to determine the replacement costs. A sample of above ground assets were physically inspected across each relevant subclass or subject to an assessment to determine remaining useful life. Where site inspections were conducted, the assets were allocated a condition rating, which is based on factors such as the age of the asset, overall condition as noted by the valuer during inspection, economic and or functional obsolescence. Condition assessment was made using a 10-point scale with 0 indicating an asset with a very high level of remaining service potential and 5 representing an asset near the end of its useful life. The condition rating directly translates to the level of depreciation applied and was used to estimate remaining useful life.

The unit rates applied were based on project costs and include materials, labour and overheads. Fair values are benchmarked by the valuer to externally available published rates and internally generated data for similar works performed by MRC and contractors.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

v) Water and sewerage (level 3)

MRC engaged independent valuers, JLL to perform a comprehensive valuation of water and sewerage infrastructure assets, as at 30 June 2022. The valuation addressed data structure improvements undertaken through the year to enhance and reclassify the componentisation attributes of assets recorded within the class.

During the current reporting period, MRC identified a number of assets of varying ages which were not previously recorded on the asset register. These assets were recognised for the first time and brought to account as a net increase of \$5.1M against the opening balance of the retained surplus as at 1 July 2021.

Retrospective adjustments to prior year comparatives have not been applied in any instances due to the impractical nature of determining the period specific effects and given that the amounts were immaterial to property, plant and equipment and equity balances.

Valuation methodology determines that water and sewer assets can be broken into 2 broad groups, active and passive assets. Active assets include pump stations, bore fields, reservoirs and treatment plants, while passive assets primarily comprise network assets such as water and sewerage mains and manholes.

Assets were either subject to a site inspection or an assessment to determine remaining useful life. Where site inspections were conducted, the assets were allocated a condition rating, which is based on factors such as the age of the asset, overall condition as noted by the valuer during inspection, economic and or functional obsolescence. The condition rating was made using a scale with a range between 0 and 5, where 0 indicates a brand new or rehabilitated asset and 5 represents an asset near the end of its useful life. The condition rating directly translates to the level of depreciation applied and was used to estimate remaining useful life.

Where site inspections were not conducted, the remaining useful life was calculated on an age basis after taking into consideration current and planned maintenance records.

Fair value of water and sewerage assets is determined using a cost approach and is derived from MRC's internal construction costs for similar projects, Rawlinson's, communication with suppliers to determine applicable unit rates, schedule rates for construction of assets or similar assets and performance of comprehensive condition assessment.

14) Intangible assets

Intangible assets with a total value of more than \$5.0K are capitalised at cost and then amortised on a straight-line basis to best represent the pattern of consumption over the expected period of benefit. Where the capitalisation threshold is not met, items are expensed in the year of acquisition.

MRC's accounting policy has historically been to capitalise costs related to SaaS arrangements in the Statement of Financial Position. As at 1 July 2021, MRC adopted the relevant International Financial Reporting Standards Interpretations Committee agenda decisions, which required reclassification of these intangible assets to either prepaid assets in the Statement of Financial Position or as an expense in the Statement of Comprehensive Income.

Adoption of this policy clarification resulted in a decrease of \$2.3M being taken against the opening balance of the retained surplus, as at 1 July 2021. Retrospective adjustments to prior year comparatives have not been applied in any instances due to the impractical nature of determining the period specific effects of the reclassification.

Intangible assets include land easements and software in use. Easements have indefinite useful lives and are not amortised, while software assets have useful lives between 1 and 15 years. Capital work in progress is recorded at cost and not amortised.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

| | Note | Intangible assets | Capital work in progress |
|---|------|----------------------|-----------------------------|
| | | \$000's | |
| Opening written down value at 1 July 2021 | | 6,173 | 7 |
| Opening value adjustment | | (2,345) | - |
| Additions | | - | 238 |
| Transfers | | 169 | (159) |
| Disposals and write offs | | (6) | - |
| Amortisation expense | | (108) | - |
| Closing written down value at 30 June 2022 | | 3,883 | 87 |
| Closing accumulated amortisation at 30 June 2022 | | 4,699 | - |
| Closing gross asset value at 30 June 2022 | | 8,582 | 87 |
| Opening written down value at 1 July 2020 | | 6,420 | 941 |
| Additions | | - | 26 |
| Transfers | | 1,046 | (960) |
| Disposals and write offs | | - | - |
| Amortisation expense | | (1,293) | - |
| Closing written down value at 30 June 2021 | | 6,173 | 7 |
| Closing accumulated amortisation at 30 June 2021 | | 7,474 | - |
| Closing gross asset value at 30 June 2021 | | 13,647 | 7 |

Additions include contributed assets and developer offsets. Transfers comprise capitalised expenditure transferred out of work in progress, transfers to or from other non-current assets and transfers to the Statement of Comprehensive Income. Amounts expensed to the Statement of Comprehensive Income are reported in note 7 materials and services and note 9 capital expenses.

15) Contract balances

| | Note | 2022 \$000's | 2021 \$000's |
|----------------------|------|-----------------|-----------------|
| Contract assets | | 2,552 | 4,086 |
| Contract liabilities | | 10,417 | 4,486 |

a) Contract assets

Where the amounts billed to customers are based on the achievement of various milestones established in the contract, the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer. Where work has been performed but an invoice milestone is not yet met, the amount is recognised as a contract asset unless the rights to that amount of consideration are unconditional, in which case MRC recognises a receivable.

b) Contract liabilities

When an amount of consideration is received from a provider prior to MRC transferring a good or service to the customer, MRC presents the funds which exceed revenue recognised as a contract liability.

16) Leases

MRC has leases in place over buildings and other assets. Where MRC assesses that an agreement contains a lease, a right of use asset and lease liability is recognised on inception of the lease. MRC does not separate lease and non-lease components for any class of assets.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

The right of use asset is measured using the cost model where cost on initial recognition comprises the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives received. The right of use asset is amortised over the lease term on a straight-line basis. The carrying amount is reduced for impairment, where appropriate.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease.

MRC has applied the exceptions available for short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. MRC recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease payments during the period did not differ as a result of any COVID-19 associated rent relief.

a) Right of use assets

| | Buildings | Other | Total |
|--|------------------|--------------|--------------|
| | \$000's | | |
| Opening balance at 1 July 2021 | 10 | 812 | 822 |
| Additions | 550 | - | 550 |
| Amortisation expense | (38) | (30) | (69) |
| Closing balance at 30 June 2022 | 521 | 782 | 1,303 |
| Opening balance at 1 July 2020 | 32 | 843 | 874 |
| Amortisation expense | (22) | (30) | (52) |
| Closing balance at 30 June 2021 | 10 | 813 | 822 |

b) Lease liabilities

At each reporting date, MRC assesses whether it is reasonably certain that the extension options will be exercised based on current operations and corporate strategy. As at 30 June 2022, there were no extension options available.

| | Note | 2022 | 2021 |
|---|-------------|----------------|----------------|
| | | \$000's | \$000's |
| Within one year | | 91 | 41 |
| Later than one year but not later than five years | | 471 | 203 |
| Later than five years | | 1,084 | 855 |
| Total contractual cash flows | | 1,646 | 1,099 |
| Carrying amount | | 1,365 | 856 |

17) Trade and other payables

Creditors are recognised when goods or services are received, at the amount owed. Amounts owing are unsecured and are generally settled on 30-day terms.

| | Note | 2022 | 2021 |
|-----------|-------------|----------------|----------------|
| | | \$000's | \$000's |
| Creditors | | 659 | 2,205 |
| Accruals | | 15,800 | 19,454 |
| | | 16,459 | 21,659 |

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

18) Employee entitlements

Employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The estimated future cash outflows have been discounted to their present value based on interest rates on Commonwealth Government guaranteed securities as at the reporting date. The value of the liability was calculated using current pay rates and projected future increases in those rates and includes related employee on-costs. Long service leave entitlements have been adjusted for the probability of the employees remaining in MRC's employment.

Where employees have met the prerequisite length of service and MRC does not have an unconditional right to defer this liability beyond 12 months, long service leave is classified as a current liability. Otherwise, it is classified as non-current. Annual leave is classified as a current liability as MRC considers there is no right to defer settlement. Further information is available in note 6 employee costs.

| | Note | 2022 \$000's | 2021 \$000's |
|--------------------|------|-----------------|-----------------|
| Current | | | |
| Annual leave | | 9,217 | 9,088 |
| Long service leave | | 12,226 | 11,572 |
| Other entitlements | | 866 | 760 |
| | | 22,309 | 21,420 |
| Non-current | | | |
| Long service leave | | 1,699 | 1,775 |

19) Borrowings

All MRC borrowings are held with QTC. Borrowings are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these liabilities are measured at amortised cost, with interest expensed as it accrues. Principal and interest repayments are made quarterly in arrears for all borrowings.

All borrowing costs are expensed in the period in which they are incurred. No interest has been capitalised during the current or comparative reporting period. There have been no defaults or breaches of loan agreements during the period.

Final payment dates vary from 2024 to 2033 for all borrowings. The market value of borrowings at the reporting date was \$69.5M. This represents the value of the debt if MRC repaid it all on that date. At the reporting date, it is the intention of MRC to hold the debt for its full term, as such no provision is required to be made in these accounts.

Reconciliation of liabilities arising from financing activities:

| | Note | 2022 \$000's | 2021 \$000's |
|-----------------------------------|------|-----------------|-----------------|
| Opening balance at 1 July | | 117,583 | 132,801 |
| Cash flows | | (51,521) | (15,218) |
| Closing balance at 30 June | | 66,063 | 117,583 |

In June 2022, MRC repaid \$40.7M in QTC borrowings ahead of the scheduled repayment date in 2029.

The following table sets out the liquidity risk in relation to borrowings held with QTC. It represents the remaining undiscounted contractual cashflows (principal and interest) of financial liabilities at the end of the reporting period.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

| | Note | 2022 \$000's | 2021 \$000's |
|---|------|-----------------|-----------------|
| Within one year | | 16,808 | 22,828 |
| Later than one year but not later than five years | | 44,717 | 79,477 |
| Later than five years | | 16,726 | 43,918 |
| Total contractual cash flows | | 78,251 | 146,223 |
| Carrying amount | | 66,063 | 117,583 |

The outflows of the liabilities in the above table are not expected to occur significantly earlier or for significantly different amounts than indicated. MRC borrows using fixed rate loan products to limit exposure to interest rate risk and reduce the risk of adverse effects on future cash flows. To further manage exposure to the risk of not being able to meet financial obligations as they fall due, MRC maintains sufficient cash deposits at call to cater for unexpected volatility in cash flows. Further details of cash deposits are disclosed in note 10 cash and cash equivalents.

20) Provisions

A provision is made for the cost of restoring waste and quarry sites where it is probable MRC will be liable or required to complete restoration works when the use of the facilities is complete. A provision for restoration in these circumstances is calculated as the present value of anticipated future costs associated with the sites closure, including the decontamination and monitoring of historical residues leaching on waste sites and refilling the basin, reclamation and rehabilitation of quarry sites.

The calculation provides assumptions which are reviewed annually, such as the application of environmental legislation, site closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from amounts currently provided. Because of the long-term nature of the liability, the most significant uncertainty in estimating the provision, is the year costs will be incurred. Estimates relating to closed waste and quarry sites are classified as current as MRC cannot defer remediation work when requested under the State Government Environmental Regulations.

| | Note | 2022 \$000's | 2021 \$000's |
|-----------------------|------|-----------------|-----------------|
| Current | | | |
| Waste restoration | | 48,382 | 48,664 |
| Quarry rehabilitation | | 2,820 | 2,875 |
| | | 51,202 | 51,539 |
| Non-current | | | |
| Waste restoration | | 10,459 | 11,458 |
| Quarry rehabilitation | | 2,787 | 3,513 |
| Other | | 22 | - |
| | | 13,268 | 14,971 |

The cost of restoring waste sites is expected to be incurred between 2024 and 2038, after site closure and allowing a period for settlement. No works are identified for completion within the next 12 months.

Golder Associates Pty Ltd (Golder) were engaged during the period to determine landfill provision cost estimates. Golder are a leading consultant, with highly skilled engineers and scientists who provide specialist services in the area of earth and environment, including remediation. The estimates reflect Golder's review of site-specific data including; geo-technical information, size, existing conditions, unique environmental and human health risks that require site specific closure works, long-term management strategies and current legislative obligations.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

The cost of rehabilitating quarry sites is expected to be incurred between 2023 and 2059, after site closure and allowing a period for settlement. The portion estimated to be payable during the next 12 months is \$0.6M based on the current schedule of works.

MRC determines estimates for quarry remediation annually, through the use of highly skilled internal engineers and other specialists with relevant expertise in this field. The cost estimates have been based on extensive site analysis, current legislative requirements and guidelines and encompass remediation and revegetation costs.

| | Waste restoration | Quarry rehabilitation \$000's | Other |
|---|----------------------|-------------------------------------|-----------|
| Opening balance at 1 July | 60,122 | 6,388 | - |
| Provisions recognised or (derecognised) | 7,737 | 244 | 22 |
| Amounts used or (paid) | - | (21) | - |
| Unwinding of discount | 240 | 88 | - |
| Discount rate increase or (decrease) | (9,258) | (1,092) | - |
| Closing balance at 30 June | 58,841 | 5,608 | 22 |

21) Other liabilities

Revenue is classified as a liability if it relates to an obligation to supply specific goods and services in future periods. Prepaid rates are recognised as a liability until the beginning of the rating period to which they relate.

A decrease of \$496K was taken against the opening balance of the retained surplus to recognise an infrastructure charge offset liability, as at 1 July 2021. Retrospective adjustments to prior year comparatives have not been applied in any instances due to the impractical nature of determining the period specific effects.

| | Note | 2022 \$000's | 2021 \$000's |
|-----------------------------------|------|-----------------|-----------------|
| Current | | | |
| Infrastructure charges offsets | | 969 | - |
| Prepaid rates and charges | | 10,563 | 9,446 |
| Waste Levy refund paid in advance | | 4,382 | - |
| Other liabilities | | 4,129 | 3,208 |
| | | 20,043 | 12,654 |
| Non-current | | | |
| Infrastructure charges offsets | | 691 | 1,163 |
| Waste Levy refund paid in advance | | 10,528 | - |
| | | 11,219 | 1,163 |

22) Asset revaluation surplus

The asset revaluation surplus comprises adjustments relating to changes in the value of property, plant and equipment that do not result from the use of those assets. Net incremental changes in the carrying value of classes of non-current assets, since their initial recognition, are accumulated in the asset revaluation surplus. Increases and decreases on revaluation are offset within a class of assets.

Where a class of assets is decreased on revaluation, that decrease is offset first against the amount remaining in the asset revaluation surplus in respect of that class. Any excess is treated as a capital expense. When an asset is disposed of, the amount reported in surplus in respect of that asset, is retained in the asset revaluation surplus and not transferred to retained surplus.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

| | Balance at 1 July | Movement \$000's | Balance at 30 June |
|------------------------------------|----------------------|---------------------|-----------------------|
| Land | 54 | 7,994 | 8,048 |
| Site improvements | 25,428 | 11,530 | 36,958 |
| Buildings | 5,784 | 25,978 | 31,762 |
| Roads, bridge and drainage network | 618,797 | 173,978 | 792,775 |
| Water | 233,446 | (45,048) | 188,398 |
| Sewerage | 285,679 | 45,796 | 331,475 |
| | 1,169,188 | 220,228 | 1,389,416 |

23) Commitments for expenditure

Commitments for contractual expenditure at balance date but not recognised in the financial statements are as follows:

| | Note | 2022 \$000's | 2021 \$000's |
|---|------|-----------------|-----------------|
| Waste operational commitments | | 27,432 | 39,095 |
| Other operational commitments | | 3,746 | 6,639 |
| Capital commitments | | 17,220 | 38,322 |
| | | 48,399 | 84,056 |
| This expenditure is payable: | | | |
| Within one year | | 35,077 | 57,399 |
| Later than one year but not later than five years | | 13,322 | 26,657 |
| | | 48,399 | 84,056 |

MRC is not committed by any material onerous contract provisions, as a result of COVID-19.

24) Contingencies

Details and estimates of the maximum amounts of contingent assets and liabilities are as follows:

Legal matters

As at 30 June, various cases filed in the Courts naming MRC as defendant and other formal requests or demands for financial compensation, for which no fault or liability is admitted, were pending.

The outcomes of many of these disputes are uncertain and as such it is not possible to make a reliable estimate of any potential financial liability. However, for matters where a financial liability is probable and can be reasonably estimated, the potential liability has been determined by MRC's legal Counsel as \$0 (2021: \$0).

Local Government Mutual

MRC is a member of the Local Government Mutual liability self-insurance pool, LGM Queensland. In the event of the pool being wound up or it is unable to meet its debts as they fall due, the trust deed and rules provide that any accumulated deficit will be met by the individual pool members in the same proportion as their contribution is to the total pool contributions in respect to any year that a deficit arises.

As at 30 June 2022, the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

Local Government WorkCare

MRC is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government WorkCare. Under this scheme, MRC has provided an indemnity towards a bank guarantee to cover bad debts which may remain should the self-insurance licence be cancelled and there were insufficient funds available to cover outstanding liabilities. Only the Queensland Government's worker's compensation authority may call on any part of the guarantee should the above circumstances arise.

MRC's maximum exposure to the bank guarantee is \$1.7M (2021: \$1.7M).

25) Superannuation

MRC contributes to the LGIASuper Regional Defined Benefits Fund (the scheme), at the rate of 12% for each permanent employee who is a defined benefit member. This rate is set in accordance with the LGIASuper trust deed and may be varied on the advice of an actuary. The Regional Defined Benefits Fund is a complying superannuation scheme for the purpose of the Commonwealth Superannuation Industry (Supervision) legislation and is also governed by the *Local Government Act 2009*.

The scheme is a pooled defined benefit plan and it is not in accordance with the deed to allocate obligations, plan assets and costs at the council level.

Any amount by which the scheme is over or under funded may affect future contribution rate obligations, but has not been recognised as an asset or liability of the council.

MRC may be liable to the scheme for a portion of another local governments' obligations should that local government be unable to meet them. However the risk of this occurring is extremely low and in accordance with the LGIASuper trust deed changes to council's obligations will only be made on that advice of an actuary.

The last completed actuarial assessment of the scheme as required under *Superannuation Prudential Standard 160* was undertaken as at 1 July 2021. The actuary indicated that "at the valuation date of 1 July 2021, the net assets of the scheme exceeded the vested benefits and the scheme was in a satisfactory financial position as at the valuation date." The measure of vested benefits represents the value of benefit entitlements should all participating employees voluntarily exit the scheme. MRC is not aware of anything that has happened since that time that indicated the assets of the scheme are not sufficient to meet the vested benefits, as at the reporting date.

No changes have been made to prescribed employer contributions which remain at 12% of employee salary or wages and there are no known requirements to change the rate of contributions.

The next triennial actuarial review is not due until 1 July 2024.

The most significant risks that may result in LGIASuper increasing the contribution rate, on the advice of the actuary, are:

- Investment risk - the risk that the scheme's investment returns will be lower than assumed and additional contributions are needed to fund the shortfall.
- Salary growth risk - the risk that wages or salaries will rise more rapidly than assumed, increasing vested benefits to be funded.

The amount of superannuation contributions paid by MRC during the period for the benefit of employees was:

| | Note | 2022 \$000's | 2021 \$000's |
|--|------|-----------------|-----------------|
| Superannuation contributions to the scheme | | 345 | 375 |
| Other superannuation contributions for employees | | 9,475 | 9,229 |
| | 6 | 9,820 | 9,604 |

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022

26) Reconciliation of net result to net cash inflow from operating activities

| | Note | 2022 \$000's | 2021 \$000's |
|---|------|-----------------|-----------------|
| Net result | | 39,045 | 50,503 |
| Non-cash items | | | |
| Depreciation and amortisation | | 75,075 | 73,603 |
| Interest on lease liabilities | | 20 | 14 |
| Unwinding of discounted provisions | | 328 | - |
| | | 75,423 | 73,617 |
| Investing and development activities | | | |
| Grants, subsidies, contributions and donations | 4(b) | (42,082) | (49,729) |
| Other income | 5 | (1,597) | (1,227) |
| Capital expenses | 9 | 4,879 | 6,399 |
| | | (38,801) | (44,557) |
| Movement in operating assets and liabilities | | | |
| Trade and other receivables | | 4,309 | 284 |
| Other assets | | (506) | 490 |
| Contract assets | | 1,533 | (3,257) |
| Inventories | | (243) | 282 |
| Trade and other payables | | (5,200) | (316) |
| Employee entitlements | | 813 | 1,471 |
| Provisions | | - | (73) |
| Other liabilities | | 16,950 | 1,889 |
| Contract liabilities | | 5,932 | 247 |
| | | 23,588 | 1,017 |
| Net cash inflow from operating activities | | 99,255 | 80,580 |

27) National Competition Policy

MRC applies the competitive code of conduct to:

- Mackay Water Services, which manages water and sewerage activities; and
- Mackay Waste Services, which manages waste activities.

This requires the application of full cost pricing, identifying the cost of community service obligations (CSO) and eliminating the advantages and disadvantages of public ownership within that activity.

The CSO value is determined by MRC and represents a cost which would not be incurred if the primary objective of the activities was to make a profit. MRC provides funding from general revenue to the business activity to cover the cost of providing non-commercial community services or costs deemed to be CSO's by MRC.

The following operating statement is for activities subject to the code of competitive conduct for the period ended 30 June 2022:

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

| Note | Mackay Water Services | Mackay Waste Services |
|---|--------------------------|--------------------------|
| | \$000's | |
| Revenue for services provided to MRC | 2,467 | 988 |
| Revenue for services provided to external clients | 97,437 | 29,969 |
| Community service obligations (community or sporting rebates) | 205 | 36 |
| Less: expenditure | (77,057) | (23,343) |
| Operating result before tax and dividend | 23,052 | 7,650 |

28) Transactions with related parties

Most of the entities and people that are related parties of MRC live and operate within the MRC region. Therefore, ordinary citizen transactions occur between MRC and its related parties on a regular basis. Examples of such would include payment of rates/animal registration, use of aquatic facilities etc. These transactions have not been disclosed as they were on the same terms and conditions available to the general public.

a) Transactions with key management personnel

Key management personnel (KMP) include the Mayor, CEO and the Executive Leadership Team. KMP and other persons occupying or acting in KMP positions are required to complete a related party declaration bi-annually each financial year.

The compensation paid to KMP during the reporting period comprised the below. Detailed remuneration disclosures are provided in the annual report.

| Note | 2022 \$000's | 2021 \$000's |
|----------------------------------|-----------------|-----------------|
| Short term employee entitlements | 3,552 | 3,419 |
| Post employee entitlements | 415 | 363 |
| Long term entitlements | 8 | 22 |
| Termination benefits | 284 | - |
| | 4,259 | 3,804 |

b) Transactions with other related parties

Other related parties include the close family members of KMP and any entities controlled or jointly controlled by KMP or their close family members. Close family members include a spouse, child and dependent of a KMP or their spouse.

MRC employs a total of 1,109 staff (2021: 1,125), of which only 1 (2021: 3) are close family members of KMP. All close family members of KMP were employed through an arm's length process. They are paid in accordance with the Award for the job they perform. Employee expenses for those staff members amounted to \$45.3K (2021: \$140.6K). In some instances, these amounts do not represent a full financial year, but rather the actual period of employment. Further details are disclosed in note 6 employee costs.

29) Events after the reporting period

MRC continues to undertake significant asset data improvement processes to enhance the classification and attribute accuracy of assets recorded on corporate asset registers. The impact of this body of work is not yet known and the effects on the 2023 reporting period cannot yet be reasonably estimated. Management will conduct assessments through the period to determine at the earliest opportunity any financial impacts arising from this comprehensive project.

There are no known further matters or circumstances which have arisen since the report date which have affected the financial position of MRC.

**Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2022**

Management Certificate

These general purpose financial statements have been prepared pursuant to s176 and 177 of the *Local Government Regulation 2012* (the Regulation) and other prescribed requirements.

In accordance with s212(5) of the Regulation we certify that:

- a) The prescribed requirements of the *Local Government Act 2009* and *Local Government Regulation 2012* for the establishment and keeping of accounts have been complied with in all material respects; and
- b) the general purpose financial statements, as set out on pages 1 to 33, present a true and fair view, in accordance with Australian Accounting Standards, of MRC's transactions for the financial year and financial position at the end of the year.



**Mayor Mackay Regional Council
Cr Greg Williamson**

4 October 2022

Date



**Acting Chief Executive Officer
Angela Hays**

4 October 2022

Date

INDEPENDENT AUDITOR'S REPORT

To the councillors of Mackay Regional Council

Report on the audit of the financial report

Opinion

I have audited the financial report of Mackay Regional Council.

In my opinion, the financial report:

- a) gives a true and fair view of the council's financial position as at 30 June 2022, and of its financial performance and cash flows for the year then ended
- b) complies with the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including significant accounting policies and other explanatory information, and the certificate given by the Mayor and Acting Chief Executive Officer.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards*, which incorporate the 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 ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*.

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

Other information

Other information comprises financial and non-financial information (other than the audited financial report) in an entity's annual report.

At the date of this auditor's report, the available other information in Mackay Regional Council's annual report for the year ended 30 June 2022 was the current year financial sustainability statement and long-term financial sustainability statement.

The councillors are responsible for the other information.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon. However, as required by the Local Government Regulation 2012, I have expressed a separate opinion on the current year financial sustainability statement.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the councillors for the financial report

The councillors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Local Government Act 2009*, the Local Government Regulation 2012 and Australian Accounting Standards, and for such internal control as the councillors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The councillors are also responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the council or to otherwise cease operations of the council.

Auditor's responsibilities for the audit of the financial report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for 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 council.

- Conclude on the appropriateness of the council's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the council 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 s. 40 of the *Auditor-General Act 2009*, for the year ended 30 June 2021:

- a) I received all the information and explanations I required.
- b) I consider that, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

Prescribed requirements scope

The prescribed requirements for the establishment and keeping of accounts are contained in the *Local Government Act 2009*, any other Act and the Local Government Regulation 2012. The applicable requirements include those for keeping financial records that correctly record and explain the council's transactions and account balances to enable the preparation of a true and fair financial report.



Sri Narasimhan
as delegate of the Auditor-General

10 October 2022

Queensland Audit Office
Brisbane

**Mackay Regional Council
Financial Statements
For the year ended 30 June 2022**

Current Year Financial Sustainability Statement

MRC's performance at 30 June 2022, against key financial ratios and targets:

| Key financial sustainability metrics | Target | Actual |
|--|---------------|---------------|
| Operating surplus ratio (%) Operating result (excluding capital items) as a percentage of operating revenue | 0% - 10% | 0.2% |
| Asset sustainability ratio (%) Capital expenditure on renewals divided by depreciation expense | > 90% | 65.5% |
| Net financial liabilities ratio (%) (Total liabilities less current assets) divided by total operating revenue (excluding capital items) | < 60% | 4.3% |

1 a) Basis of preparation

The current year financial sustainability statement is a special purpose statement prepared in accordance with the requirements of the *Local Government Regulation 2012* and the Financial Management (Sustainability) Guideline 2013.

The amounts used to calculate the 3 reported measures are prepared on an accrual basis and are drawn from MRC's audited general purpose financial statements for the year ended 30 June 2022.

**Mackay Regional Council
Financial Statements
For the year ended 30 June 2022**

**Certificate of Accuracy
Current Year Financial Sustainability Statement**

This current year financial sustainability statement has been prepared pursuant to s178 of *the Local Government Regulation 2012*.

In accordance with s212(5) of the Regulation, we certify that this current year financial sustainability statement has been accurately calculated.



**Mayor Mackay Regional Council
Cr Greg Williamson**

4 October 2022

Date



**Acting Chief Executive Officer
Angela Hays**

4 October 2022

Date

INDEPENDENT AUDITOR'S REPORT

To the councillors of Mackay Regional Council

Report on the current-year financial sustainability statement

Opinion

I have audited the accompanying current-year financial sustainability statement of Mackay Regional Council for the year ended 30 June 2022, comprising the statement, explanatory notes, and the certificate of accuracy given by the Mayor and the Acting Chief Executive Officer.

In accordance with s. 212 of the Local Government Regulation 2012, in my opinion, in all material respects, the current-year financial sustainability statement of Mackay Regional Council for the year ended 30 June 2022 has been accurately calculated.

Basis of opinion

I conducted my audit in accordance with the *Auditor-General Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the current-year financial sustainability statement* section of my report.

I am independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the statement in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General Auditing Standards*.

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 which describes the basis of accounting. The current-year financial sustainability statement has been prepared in accordance with the Financial Management (Sustainability) Guideline 2013 for the purpose of fulfilling the council's reporting responsibilities under the Local Government Regulation 2012. As a result, the statement may not be suitable for another purpose. My opinion is not modified in respect of this matter.

Other Information

Other information comprises financial and non-financial information (other than the audited financial report) in an entity's annual report.

At the date of this auditor's report, the available other information in Mackay Regional Council's annual report for the year ended 30 June 2021 was the general purpose financial statements and long-term financial sustainability statement.

The councillors are responsible for the other information.

My opinion on the current-year financial sustainability statement does not cover the other information and accordingly I do not express any form of assurance conclusion thereon. However, as required by the Local Government Regulation 2012, I have expressed a separate opinion on the general purpose financial report.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report and my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the councillors for the current-year financial sustainability statement

The councillors are responsible for the preparation and fair presentation of the current-year financial sustainability statement in accordance with the Local Government Regulation 2012. The councillors' responsibility also includes such internal control as the councillors determine is necessary to enable the preparation and fair presentation of the statement that is accurately calculated and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the current-year financial sustainability statement

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

My responsibility does not extend to forming an opinion on the appropriateness or relevance of the reported ratios, nor on the council's future sustainability.

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

- Identify and assess the risks of material misstatement of the statement, 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 council.

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

I communicate with the council 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.



Sri Narasimhan
as delegate of the Auditor-General

10 October 2022

Queensland Audit Office
Brisbane

**Mackay Regional Council
Financial Statements
For the year ended 30 June 2022**

Long Term Financial Sustainability Statement (Unaudited)

| Key financial sustainability metrics | Target | Actual | Projection for the financial year ended | | | | | | | | | |
|--|----------|--------|---|-------|-------|-------|-------|-------|-------|-------|-------|--|
| | | | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | |
| Operating surplus ratio (%) | | | | | | | | | | | | |
| Operating result (excluding capital items) as a percentage of operating revenue | 0% - 10% | 0.2% | 0.3% | 0.8% | 1.7% | 1.2% | 1.4% | 1.6% | 1.0% | 1.0% | 0.6% | |
| Asset sustainability ratio (%) | | | | | | | | | | | | |
| Capital expenditure on renewals divided by depreciation expense | > 90% | 65.5% | 74.6% | 94.8% | 90.1% | 81.8% | 96.1% | 93.6% | 88.0% | 86.1% | 87.1% | |
| Net financial liabilities ratio (%) | | | | | | | | | | | | |
| (Total liabilities less current assets) divided by total operating revenue (excluding capital items) | < 60% | 4.3% | 4.7% | 9.1% | 15.1% | 20.1% | 22.6% | 22.5% | 22.1% | 22.2% | 24.6% | |

Mackay Regional Council's financial management strategy

Operating surplus ratio

A positive operating surplus ratio is a strong indicator of long term sustainability. MRC's forecast operating surplus ratio is within the benchmark set for the life of the plan. This indicates that MRC is in a sound financial position and reinforces the continuing ability to fund proposed capital expenditure and debt service repayments.

Asset sustainability ratio

MRC continues to invest adequately in asset renewals to ensure continued services to the community over the long term. Due to significant investment in new assets in the past few years, MRC can boast a relatively new infrastructure asset base, which reduces the immediate need for renewal of those assets. Renewals expenditure is calculated based on sound asset management principles and is designed to optimise the costs of operating and maintaining the asset over its useful life. Continuing refinement of MRC's asset management plans will improve the ability to make informed decisions regarding asset management into the future. The ratio is an 'average of the long-term' and while 2023 is below target, overall, the long-term average is expected to achieve target.

Net financial liabilities ratio

This ratio is well below target across all years of the financial model, indicating MRC's capacity to fund liabilities and increase loan borrowings to fund infrastructure where required.

**Mackay Regional Council
Financial Statements
For the year ended 30 June 2022**

**Certificate of Accuracy
Long Term Financial Sustainability Statement (Unaudited)**

This long term financial sustainability statement has been prepared pursuant to s178 of the *Local Government Regulation 2012*.

In accordance with s212(5) of the Regulation, we certify that this long term financial sustainability statement has been accurately calculated.



**Mayor Mackay Regional Council
Cr Greg Williamson**

4 October 2022

Date



**Acting Chief Executive Officer
Angela Hays**

4 October 2022

Date