Mackay REGIONAL COUNCIL

ANNUAL FINANCIAL STATEMENTS

For the year ended 30 June 2020

Mackay Regional Council
Financial Statements
For the year ended 30 June 2020

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Mackay Regional Council
Statement of Comprehensive Income
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's
Income			
Recurrent revenue			
Rates and charges	3(a)	220,251	217,998
Fees and charges	3(b)	15,982	17,097
Rental income	3(c)	1,098	1,214
Interest income	3(d)	4,023	5,609
Sales contracts and recoverable works	3(e)	8,638	8,662
Other recurrent income		4,073	6,822
Grants, subsidies, contributions and donations	4(a)	14,045	17,743
Total recurrent revenue		268,110	275,145
Capital revenue			
Grants, subsidies, contributions and donations	4(b)	57,422	42,630
Other capital income		992	469
Total capital revenue		58,414	43,099
Total income		326,524	318,244
Expenses			
Recurrent expenses			
Employee benefits	5	(85,194)	(81,461)
Materials and services	6	(92,324)	(106,988)
Finance costs	7	(9,513)	(10,395)
Depreciation and amortisation	8	(83,539)	(76,830)
Total recurrent expenses		(270,570)	(275,674)
Capital expenses	9	(12,483)	(26,234)
Total expenses		(283,053)	(301,908)
Net result		43,470	16,336
Other comprehensive income			
Items that will not be reclassified to net result			
Increase or (decrease) in asset revaluation surplus	21	(389,047)	180,168
Total other comprehensive income for the year		(389,047)	180,168
Total comprehensive income for the year		(345,577)	196,504

The above statement should be read in conjunction with the accompanying notes and significant accounting policies.
Comparatives have not been restated for new and revised accounting standards adopted during the year and are presented using the previous accounting standards for revenue and leases.

Mackay Regional Council
Statement of Financial Position
As at 30 June 2020

	Note	2020 $000's	2019 $000's
Current assets			
Cash and cash equivalents	10	48,759	81,063
Investments	11	130,000	105,000
Trade and other receivables	12	28,246	24,064
Contract assets	15	829	-
Other assets		3,200	2,225
Inventories		3,028	2,547
Non-current assets held for sale		79	280
Total current assets		214,141	215,179
Non-current assets			
Investments	11	6,159	3,923
Trade and other receivables	12	2,049	2,314
Property, plant and equipment	13	3,262,968	3,476,032
Intangible assets	14	7,361	7,322
Right of use assets	16	874	-
Total non-current assets		3,279,411	3,489,591
Total assets		3,493,552	3,704,770
Current liabilities			
Contract liabilities	15	4,239	-
Lease liabilities	16	77	-
Trade and other payables	17	32,094	30,952
Borrowings	18	15,517	14,619
Provisions	19	60,863	58,553
Other liabilities	20	10,765	4,491
Total current liabilities		123,555	108,615
Non-current liabilities			
Lease liabilities	16	833	-
Trade and other payables	17	882	-
Borrowings	18	117,284	132,461
Provisions	19	18,928	17,684
Total non-current liabilities		137,927	150,145
Total liabilities		261,482	258,760
Net community assets		3,232,070	3,446,010
Community equity			
Retained surplus		2,164,720	1,989,613
Asset revaluation surplus	21	1,067,349	1,456,397
Total community equity		3,232,070	3,446,010

The above statement should be read in conjunction with the accompanying notes and significant accounting policies.
Comparatives have not been restated for new and revised accounting standards adopted during the year and are presented using the previous accounting standards for revenue and leases.

Mackay Regional Council
Statement of Changes in Equity
For the year ended 30 June 2020

	Note	Retained surplus	Asset revaluation surplus	Total
		$000's	$000's	$000's
Balance as at 1 July 2019		1,989,613	1,456,397	3,446,010
Adjustment on initial application of AASB 15 & AASB 1058	1(d),3,4,15	(16,167)	-	(16,167)
Adjustment to opening value	13	147,804	-	147,804
Restated balance at 1 July 2019		2,121,250	1,456,397	3,577,647
Net result		43,471	-	43,471
Increase or (decrease) in asset revaluation surplus	21	-	(389,047)	(389,047)
Total comprehensive income for the year		43,471	(389,047)	(345,576)
Balance as at 30 June 2020		2,164,720	1,067,349	3,232,071
Balance as at 1 July 2018		1,964,542	1,276,229	3,240,771
Adjustment to opening value	13	8,739	-	8,739
Adjustment on initial application of AASB 9		(4)	-	(4)
Restated balance at 1 July 2018		1,973,277	1,276,229	3,249,506
Net result		16,336	-	16,336
Increase or (decrease) in asset revaluation surplus		-	180,168	180,168
Total comprehensive income for the year		16,336	180,168	196,504
Balance as at 30 June 2019		1,989,613	1,456,397	3,446,010

The above statement should be read in conjunction with the accompanying notes and significant accounting policies.
Comparatives have not been restated for new and revised accounting standards adopted during the year and are presented using the previous accounting standards for revenue and leases.

Mackay Regional Council
Statement of Cash Flows
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's
Cash flows from operating activities			
Receipts from customers		248,112	250,456
Payments to suppliers and employees		(186,524)	(183,630)
Interest income		3,618	7,135
Non-capital grants, subsidies, contributions and donations		14,045	17,743
Borrowing costs		(8,856)	(9,733)
Net cash inflow from operating activities	25	70,395	81,971
Cash flows from investing activities			
Payments for property, plant and equipment		(92,534)	(100,203)
Payments for other non-current assets		(506)	(1,430)
Payments for investments		(25,000)	40,000
Other capital income		992	469
Other capital expenses		(4,132)	(2,002)
Proceeds from sale of property, plant and equipment		2,342	3,826
Capital grants, subsidies, contributions and donations		30,454	31,961
Net cash outflow from investing activities		(88,384)	(27,379)
Cash flows from financing activities			
Repayment of borrowings		(14,279)	(13,402)
Principal lease repayments		(36)	-
Net cash outflow from financing activities		(14,315)	(13,402)
Net increase or (decrease) in cash and cash equivalents		(32,304)	41,190
Cash and cash equivalents at beginning of the period		81,063	39,873
Cash and cash equivalents at end of the period	10	48,759	81,063

The above statement should be read in conjunction with the accompanying notes and significant accounting policies.
Comparatives have not been restated for new and revised accounting standards adopted during the year and are presented using the previous accounting standards for revenue and leases.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

1) Summary of significant accounting policies

a) Basis of preparation

These general purpose financial statements are for the period 1 July 2019 to 30 June 2020. 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 complies with Australian Accounting Standards 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 and Artspace Mackay Foundation Ltd are controlled entities of MRC. The transactions of these entities are not material to MRC and are therefore not consolidated within these annual financial statements.

During the period, Management resolved that Arstpace Mackay Foundation Ltd would cease trading in August 2020. At the date of this report, Management believed there was insignificant risk associated with the entity being able to realise its assets and discharge it liabilities as at the dissolution date.

c) Rounding and comparatives

Amounts included in the financial statements have been rounded to the nearest thousand ($000), 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 classifications, 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 2019. The standards which had an impact on reported position, performance and cash flows were AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases.*

MRC implemented AASB 15 and AASB 1058 using the modified retrospective approach. Therefore, the cumulative effect of adopting these standards was recognised as an adjustment to the opening balance of retained surplus as at 1 July 2019, with no restatement of comparatives.

AASB 16 was implemented on 1 July 2019 using the modified retrospective approach, by recognising initial application as an adjustment to the opening balance of the retained surplus. Therefore, the comparative information for the year ended 30 June 2019 has not been restated.

Transition disclosures are provided within the relevant notes to the financial statements: note 3 revenue analysis, note 4 grants, subsidies, contributions and donations, note 15 contract balances and note 16 leases.

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 2020. These standards have not yet been adopted by MRC and will be included within the financial statements on their effective date. These standards are not expected to have a material impact upon MRC's future financial statements.

AASB 1059 *Service Concession Arrangements: Grantors* comes into effect from 1 July 2020. The standard addresses the accounting for service concession arrangements by a grantor that is a public sector entity, by prescribing the accounting for the arrangement from the grantors perspective. MRC continues to review the impact of this standard on accounts, however at this time, it is not expected to have a significant effect when

assessing the nature of arrangements currently in place. Any future developments in AASB 1059 will be monitored for potential impacts on MRC's application of the standard.

AASB 2018-8 *Amendments to Australian Accounting Standards – Right of Use Assets of Not-for-Profit Entities*: AASB 1058 made amendments to AASB 16 to require not-for-profit entities to measure right of use assets at initial recognition at fair value in respect of leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives. However, the AASB has provided temporary relief for not-for-profit entities from measuring a class or classes of such right of use assets at fair value at initial recognition. MRC is lessee of a number of leases for which no or little lease payment is made. These leases are not currently recognised within these financial statements. MRC will not apply the fair value initial measurement requirements for right of use assets until it is mandated.

f) Estimates and judgements

MRC is required to make judgements, estimates and assumptions. These are based on historical experience and other factors or indicators that are considered to be relevant and are reviewed on an ongoing basis for reasonableness. In March 2020, The World Health Organisation declared the novel coronavirus (COVID-19) outbreak a global pandemic. MRC has considered key estimates and judgements for any known impacts as a result of the pandemic and the associated directives of the National Cabinet.

Significant judgements, estimates and assumptions relate to the following notes: note 3 revenue analysis, note 4 grants, subsidies, contributions and donations, note 9 capital expense, note 11 investment property, note 12 trade and other receivables, note 13 fair value and depreciation of property, plant and equipment, note 17 annual leave, note 19 provisions and note 23 contingent liabilities.

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 at this time.

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

Operations were suspended at all MRC facilities affected by the National Cabinet's directives in response to COVID-19. As at 30 June, these facilities either remained closed or had reopened to the public at reduced operating capacity or otherwise in line with any government mandated restrictions. The greatest impacts from these closures were experienced by the Community and Client Services and Organisational Services directorates. Further details of the net results of these directorates and their 2019 comparative performance are disclosed in note 2b.

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.

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 whilst taking into consideration the regions tropical climate. This function sustainably manages and cares for our natural surroundings and resources and ensures our open spaces are accessible and valued.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

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, workplace health and safety, governance and financial information. Organisational Services also manages MRC's extensive fleet, contract and procurement activities as well as managing and maintaining all MRC owned 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 providing compliance and regulatory services in line with legislation and community standards. The program includes libraries, entertainment venues, art galleries and museums, community development, sport and recreation programs 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 Commercial Infrastructure function supports 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 2020

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

Function	Income				Total Income	Expenses		Total Expenses	Net Result	Assets
	Recurrent		Capital			Recurrent	Capital			
	Grants	Other	Grants	Other						
	$000's									
Year ended 30 June 2020										
Office of Mayor and CEO	4	(1)	-	-	3	(3,851)	-	(3,851)	(3,848)	-
Development Services	854	4,598	5,506	-	10,959	(27,119)	-	(27,119)	(16,160)	84
Organisational Services	8,925	110,658	2,145	34	121,762	(86,603)	(5,101)	(91,704)	30,058	510,664
Community and Client Services	1,494	6,669	-	-	8,163	(23,377)	-	(23,377)	(15,214)	2,128
Engineering	22	6,791	1,898	-	8,711	(30,287)	(2,768)	(33,056)	(24,344)	1,694,820
Commercial Infrastructure	210	123,859	7,975	156	132,199	(93,959)	(4,615)	(98,574)	33,626	1,285,855
Capital Works	2,536	1,488	39,899	803	44,726	(5,373)	-	(5,373)	39,353	-
Total	14,045	254,063	57,422	992	326,523	(270,568)	(12,484)	(283,052)	43,471	3,493,550
Year ended 30 June 2019										
Office of Mayor and CEO	462	0	-	-	462	(5,401)	-	(5,401)	(4,939)	-
Development Services	379	5,915	7,995	67	14,356	(29,058)	-	(29,058)	(14,702)	116
Organisational Services	10,567	111,176	7,173	217	129,133	(86,006)	(6,200)	(92,206)	36,927	495,162
Community and Client Services	1,052	9,474	-	-	10,526	(25,269)	-	(25,269)	(14,743)	866
Engineering	(15)	6,618	2,478	-	9,080	(29,383)	(664)	(30,047)	(20,967)	1,917,451
Commercial Infrastructure	81	123,339	5,681	28	129,129	(90,917)	(19,371)	(110,288)	18,841	1,291,174
Capital Works	5,218	878	19,303	158	25,557	(9,637)	-	(9,637)	15,920	-
Total	17,743	257,402	42,630	469	318,244	(275,673)	(26,235)	(301,908)	16,336	3,704,769

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's

3) Revenue analysis

a) Rates and charges

2020 Accounting Policy: Rates and charges are recognised as revenue at the beginning of the rating period to which they relate. Prepaid rates are recognised as a liability on the Statement of Financial Position until the beginning of the rating period to which they relate.

On transition to AASB 1058, $7.7M was adjusted against the opening balance of the retained surplus at 1 July 2019, to recognise unearned prepaid rates. If the previous accounting standards applied, the 30 June 2020 balance reported below would have been increased by $8.2M.

2019 Accounting Policy: Rates and associated revenue received prior to the commencement of the rating period is recognised in the period of receipt. Otherwise, it is recognised at the commencement of the rating period.

General rates	119,757	118,396
Separate and special rates and charges	4,170	4,624
Water consumption and utility charges	44,229	43,896
Sewerage utility charges	50,152	49,370
Waste management utility charges	22,223	21,611
	240,531	237,897
Less: discounts	(17,976)	(17,624)
Less: pensioner and other remissions	(2,304)	(2,275)
	220,251	217,998

b) Fees and charges

2020 Accounting Policy: Revenue from fees and charges is recognised as or 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, in accordance with the practical expedients available in these instances.

In late March 2020, MRC introduced various support measures to assist those impacted by the escalating COVID-19 crisis, including:

- Refunding all fees and charges for events cancelled due to COVID-19;
- Providing a 50% reduction in developer application fees for a 6-month period between April and September 2020;
- Providing free car parking within Mackay City Centre's main car parks between April 2020 and 30 June 2020; and
- Waiving park booking fees between 1 April 2020 and 30 June 2020.

As at 30 June, this represented a reduction in fees and charges income on the Statement of Comprehensive Income totalling $0.2M.

2019 Accounting Policy: Revenue from fees and charges is recognised upon unconditional entitlement to the funds. Generally, this is at the time of lodgement of the relevant applications or documents, issuing a notice or when the service is provided.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's
Application fees		1,615	1,620
Licence fees and registrations		2,077	2,005
Fines and penalties		447	514
Venues, events and cultural fees		973	2,003
Waste and recycling fees		6,123	6,078
Other fees and charges		4,747	4,877
		15,982	17,097

c) Rental income

To assist tenants experiencing hardship as a result of the COVID-19 crisis, MRC provided 3-month rent abatements to commercial tenancies, in the amount of $0.2M to 30 June 2020. This was recognised as a reduction in rental income in the Statement of Comprehensive Income.

Investment property income	406	436
Other property income	692	778
	1,098	1,214

d) Interest income

Interest earned on term deposits is accrued over the term of the investment.

Interest on investments	3,487	4,946
Interest on debtor arrears	536	663
	4,023	5,609

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.

Roads recoverable works	5,602	5,457
Water operations	621	1,075
Sewer operations	647	1,170
Other sales contracts and recoverable works	1,768	960
	8,638	8,662

4) Grants, subsidies, contributions and donations

2020 Accounting Policy: MRC assesses each grant agreement to fall within one of the following Australian Accounting Standards and recognises grant revenue accordingly.

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. This is deemed to be when MRC is liable for ongoing maintenance of the asset and there is sufficient data in the form of drawings and plans to determine the approximate specifications and values of such assets.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's

Enforceable capital grants received to enable MRC to acquire or construct a recognisable non-financial asset 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.

On transition to AASB 15 and AASB 1058, $8.5M was recorded as an adjustment to the opening balance of the retained surplus at 1 July 2019, to recognise contract liabilities where the revenue is to be recognised progressively as the performance obligations are satisfied, rather than at a point in time. If the previous standards applied, the 30 June 2020 comparative balances would have been increased by a) recurrent $0.9M b) capital $5.0M.

2019 Accounting Policy: Grants, subsidies and contributions that are non-reciprocal in nature are recognised as revenue in the year in which MRC obtains control over them. This includes non-cash contributions which are usually infrastructure assets received from developers. These are recognised when the development becomes "on maintenance" (i.e. MRC obtains control of the assets and becomes liable for any ongoing maintenance).

a) Recurrent

General purpose grants	6,278	5,848
Government grants and subsidies	6,680	11,190
Non-government grants and subsidies	131	317
Contributions and donations	956	388
	14,045	17,743

b) Capital

Government grants and subsidies	22,379	27,071
Contributions and donations	8,075	4,890
	30,454	31,961
Contributed non-current assets at fair value	26,968	10,669
	57,422	42,630

Capital revenue includes grants and subsidies received which are tied to specific projects for the replacement or upgrade of existing non-current assets and/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. These infrastructure charges remain within the scope of AASB 1058, as there is no associated enforceable performance obligation and are recognised upon receipt.

Non-cash contributions with a value in excess of the recognition threshold of $5K are recognised by increasing non-current assets and capital revenue. When the threshold is not met, an operating revenue and corresponding operating expense are recorded.

5) Employee benefits

Staff wages and salaries		59,396	56,066
Councillor remuneration		1,407	1,379
Annual, sick and long service leave entitlements		15,150	15,541
Special leave		39	-
Superannuation	24	9,071	8,449
Other employee related expenses		131	26
		85,194	81,461

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's

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. This expense is recorded as special leave.

The Mackay Regional Council Certified Agreement (2017) expired on 30 June 2020. As a result of the uncertainty caused by the escalating COVID-19 pandemic, negotiations on a new agreement were temporarily suspended in May 2020, until further notice. MRC staff will continue to be covered under the 2017 agreement, with no changes to current pay or terms and conditions of employment. Negotiations will re-commence as soon as practicable.

6) Materials and services

Advertising and marketing	1,081	1,330
Audit fees - Auditor General of Queensland	153	157
Communications and IT	1,707	1,784
Community facilities and entertainment	2,907	4,553
Consultants and services	12,101	10,321
Contractors	23,413	37,576
Donations, grants, subsidies and contributions	1,590	3,300
Electricity and public utilities	9,164	8,200
Equipment and hire fees	3,892	6,053
Fees and charges	2,481	3,603
Fuel and chemicals	2,979	2,792
Insurance	3,846	3,676
Registrations and subscriptions	2,248	2,292
Repairs and maintenance	19,690	17,508
Waste Levy payment	3,122	-
Waste Levy refund*	(3,122)	-
Other materials and services	5,072	3,843
	92,324	106,988

*The State Government rebated $3.3M to mitigate the direct impact of the Waste Levy on households. The portion of the refund not applied to the Waste Levy payment is reported in note 4 as government grants and subsidies.

7) Finance costs

Finance costs - Queensland Treasury Corporation	8,856	9,733
Bank charges	264	275
Interest on leases	19	-
Impairment of receivables	108	88
Unwinding of discount	266	299
	9,513	10,395

8) Depreciation and amortisation

Property, plant and equipment	82,245	75,670
Intangible assets	1,241	1,160
Right of use assets	53	-
	83,539	76,830

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's
9) Capital expenses			
Loss on disposal or sale			
Property, plant and equipment		4,727	3,892
Non-current assets held for sale		88	108
Intangible assets		407	(422)
		5,222	3,578
Revaluation (increase) or decrease			
Property, plant and equipment		-	1,242
Investment property		(113)	(23)
		(113)	1,219
Impairment loss on non-current assets held for sale		78	340
Other capital expenses [V]		7,296	21,097
		7,374	21,437
		12,483	26,234

[V] Refer to note 19 provisions.

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 its 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.

Cash at bank and on hand	3,143	2,516
Deposits at call	45,616	78,547
	48,759	81,063

MRC's cash and cash equivalents, including fixed term deposits are subject to internal and external policy restrictions that limit amounts available for discretionary or future use. Expenditure restrictions at the reporting date relate to:

Externally restricted		
Unspent grants and subsidies	4,239	8,095
Waste Levy refund paid in advance	-	3,250
	4,239	11,345
Internally restricted		
Separate and special rates and charges	4,231	3,965
Capital reserves	62,777	60,130
Donations	291	-
	67,300	64,095

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	Note	2020 $000's	2019 $000's

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 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.

Security deposits	1,653	1,165
	1,653	1,165

11) Investments

Current		
Fixed term deposits	130,000	105,000
	130,000	105,000
Non-current		
Investment property	6,157	3,921
Shares	2	2
	6,159	3,923
	136,159	108,923

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 LaSalle Public Sector Valuations Pty Ltd (JLL). JLL is a leading professional services firm, with highly skilled and experienced valuers in undertaking residential, commercial and rural valuations across the Mackay region.

The carrying value of investment property is assessed annually for impairment indicators. COVID-19 has impacted global financial markets and created much uncertainty, directly affecting market activity across many sectors. MRC purchased 1 new investment property during the period. This acquisition occurred prior to the declaration of COVID-19 as a global pandemic in March 2020. The property was assessed by qualified valuer, JLL, at 30 June to determine if impairment indicators were present, given the unprecedented pandemic crisis. Upon assessment, the valuer determined there was no market evidence to suggest the property should be impaired and as such, it is reported at cost within these financial statements.

Opening balance at 1 July	3,921	3,642
Transfers to or from property, plant and equipment	2,123	256
Fair value increase or (decrease)	113	23
Closing balance at 30 June	6,157	3,921

b) Shares

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

c) Term deposits

MRC has category 1 investment powers 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 of 12 months or less. All term deposits are intended to be held to maturity.

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Notes to the Financial Statements
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	Note	2020 $000's	2019 $000's

12) Trade and other receivables

Trade receivables are recognised at the amounts due at the time of sale or service delivery (i.e. the agreed purchase price/contract price). 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 was charged on overdue rates and charges at 9.83% per annum compounding. However, to assist those ratepayers who may be experiencing hardship as a result of COVID-19, interest generation was delayed between March and May 2020. Debt collection processes were also temporarily suspended from March 2020, to provide relief for financially distressed debtors.

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 receivables from individual customers, which comprises a large number of small balances. Loss rates are calculated using a "roll rate" method, based on the probability of the receivable progressing through the successive stages of delinquency 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 an overlay to account for the estimated impact on credit losses as a result of COVID-19. Impairment of receivables is recognised as a finance cost.

Current		
Rates and utility charges	10,050	9,535
Interest receivable	2,004	1,599
GST recoverable	1,795	3,820
Other debtors	14,711	9,327
Less: provision for impairment of debt	(314)	(217)
	28,246	24,064
Non-current		
Other debtors	2,049	2,314
Total receivables	30,295	26,378

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13) Property, plant and equipment

Asset values	Land	Site improvements	Buildings	Roads, bridges and drainage network	Water	Sewerage	Plant and equipment	Work in progress	Total
Basis of measurement	Valuation $000's						Cost $000's		$000's
Asset cost									
Opening balance at 1 July 2019	146,396	190,343	240,112	2,441,720	806,081	839,181	67,028	80,383	4,811,244
Adjustment to opening value	-	-	-	242,237	-	-	-	-	242,237
Restated balance at 1 July 2019	146,396	190,343	240,112	2,683,957	806,081	839,181	67,028	80,383	5,053,481
Additions comprise:									
Renewals	-	-	-	-	-	-	-	47,845	47,845
Other	7,042	4,198	152	-	-	-	11,812	21,483	44,688
Transfers from work in progress	-	-	4,691	37,212	10,169	5,680	-	(59,938)	(2,186)
Contributed assets	206	1,016	3,299	19,513	2,400	3,162	-	-	29,596
Disposals and write-offs	(6)	(242)	(1,539)	(3,325)	(3,626)	(679)	(8,204)	-	(17,621)
Revaluation	-	-	-	(141,223)	-	-	-	-	(141,223)
Transfers between classes	(399)	(279)	(133)	279	-	-	-	-	(532)
Closing balance at 30 June 2020	153,239	195,036	246,583	2,596,413	815,024	847,344	70,636	89,774	5,014,048
Accumulated depreciation									
Opening balance at 1 July 2019	-	72,461	94,620	567,681	316,136	255,304	29,010	-	1,335,212
Adjustment to opening value	-	-	-	94,434	-	-	-	-	94,434
Restated balance at 1 July 2019	-	72,461	94,620	662,115	316,136	255,304	29,010	-	1,429,646
Contributed assets	-	7	2,350	3	15	4	-	-	2,379
Disposals and write-offs	-	(118)	(1,368)	(668)	(2,379)	(619)	(5,944)	-	(11,096)
Depreciation	-	4,801	6,338	38,774	13,428	12,441	6,463	-	82,245
Revaluation	-	-	-	247,907	-	-	-	-	247,907
Transfers between classes	-	(125)	(1)	125	-	-	-	-	(1)
Closing balance at 30 June 2020	-	77,026	101,939	948,256	327,200	267,130	29,529	-	1,751,080
Written down value at 30 June 2020	153,239	118,010	144,644	1,648,157	487,824	580,214	41,107	89,774	3,262,968
Useful life range (years)	Indefinite	2 - indefinite	10 - 100	5 - indefinite	2 - 100	3 - 120	1 - 50		

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Asset values	Land	Site improvements	Buildings	Roads, bridges and drainage network	Water	Sewerage	Plant and equipment	Work in progress	Total
Basis of measurement	Valuation $000's						Cost $000's		$000's
Asset cost									
Opening balance at 1 July 2018	141,367	171,628	219,447	2,254,392	799,254	832,921	62,459	72,424	4,553,892
Adjustment to opening value*	8,739	-	-	-	-	-	-	-	8,739
Restated balance at 1 July 2018	150,106	171,628	219,447	2,254,392	799,254	832,921	62,459	72,424	4,562,631
Additions comprise:									
Renewals	-	-	-	-	-	-	-	48,387	48,387
Other	2,973	19,692	10,805	-	-	-	11,509	6,836	51,815
Transfers from work in progress	-	-	-	31,982	8,618	4,850	-	(47,264)	(1,814)
Contributed assets	700	35	-	6,858	1,223	1,953	15	-	10,784
Disposals and write-offs	(1,490)	(734)	(461)	(974)	(3,013)	(544)	(6,955)	-	(14,171)
Revaluation	(5,893)	-	10,185	149,320	-	-	-	-	153,612
Transfers between classes	-	(278)	136	142	(1)	1	-	-	-
Closing balance at 30 June 2019	146,396	190,343	240,112	2,441,720	806,081	839,181	67,028	80,383	4,811,244
Accumulated depreciation									
Opening balance at 1 July 2018	-	68,863	83,512	566,097	305,366	243,266	27,132	-	1,294,236
Contributed assets	-	-	-	97	13	5	-	-	115
Assets not previously recognised	-	-	-	-	-	-	-	-	-
Disposals and write-offs	-	(596)	(220)	(319)	(2,373)	(180)	(4,337)	-	(8,025)
Depreciation	-	4,201	5,742	34,169	13,131	12,212	6,215	-	75,670
Revaluation	-	-	5,583	(32,367)	-	-	-	-	(26,784)
Transfers between classes	-	(6)	3	3	(1)	1	-	-	-
Closing balance at 30 June 2019	-	72,462	94,620	567,680	316,136	255,304	29,010	-	1,335,212
Written down value at 30 June 2019	146,396	117,881	145,492	1,874,040	489,945	583,877	38,018	80,383	3,476,032
Useful life range (years)	Indefinite	2 - indefinite	10 - 100	5 - indefinite	4 - 100	3 - 120	1 - 50		

* As part of ongoing asset data improvements, an adjustment to the opening value of property, plant and equipment was bought to account during the reporting period. If these assets had been accounted for in the past, they would have been recorded in determining the net position in previous years, which would be included in equity in the current year. Consequently, MRC adjusted this value against the opening balance in the Statement of Changes in Equity. Given that the total of these adjustments were immaterial to both equity and property, plant and equipment balances, MRC has not adjusted any of the comparative figures or completed the prior period error disclosures as required under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Mackay Regional Council
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a) Recognition

Items of property, plant and equipment with a total value of less than $5,000, except for land which has a recognition threshold of $1, are treated as an expense in the year of acquisition. 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.

Contributed property, plant and equipment is brought to account as 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 whenever the associated work either renews, extends or upgrades the asset's 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.

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.

An analysis performed by management has indicated that, on average, the variance between an indexed asset value and the valuation by an independent valuer, when performed, is not significant and the indices used by MRC are sound. 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.

On revaluation, accumulated depreciation is restated proportionately with the change in the carrying amount of the assets 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.

d) Depreciation

Assets are depreciated from the year of acquisition or, in respect of internally constructed assets, from the time an asset is complete and commissioned ready for use; at which time they are re-classified from work in progress to the appropriate property, plant and equipment class.

Property, plant and equipment assets having a limited useful life are depreciated on a straight-line basis over their estimated useful lives.

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 methods, 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 possible 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.

COVID-19 has had significant impacts on market activity across many sectors. However, given that MRC's asset base largely consists of highly specialised infrastructure and other specialist assets for which there is no active market, significant changes in value as a result of COVID-19 are not anticipated. These classes of assets rarely experience volatility.

JLL advised, available economic, property and construction data does not suggest a material movement in fair value for non-infrastructure assets for the period ended 30 June 2020. However, it is noted that a downturn in market sentiment was starting to impact these sectors from March 2020.

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.

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.

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	Note	2020 $000's	2019 $000's

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. Indicia movement for the 12 months ended 30 June 2020 reported a 1% increase, as determined by independent valuers, JLL. This was determined to be immaterial by internal stakeholders, as it represented less than a 5% increase since the last comprehensive valuation of the class conducted as at 30 June 2019, by JLL. Accordingly, no adjustment to the fair value of land was made in the current financial year.

Non-specialised (level 2)	45,015	38,531
Specialised (level 3)	108,225	107,865
Total written down value at 30 June	153,240	146,396

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.

Site improvements		
Non-specialised (level 2)	772	772
Specialised (level 3)	117,238	117,109
Total written down value at 30 June	118,010	117,881

JLL reported a 1% increase in indicia movement for the 12 months ended 30 June 2020. This represents a cumulative increase of 2.5% since the last comprehensive valuation. This was determined to be immaterial by internal stakeholders, as it represented less than a 5% increase. Accordingly, no adjustment to the fair value of site improvements was made in the current financial year.

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 2020, JLL advised a 1.5% indicia movement. As this represented less than a 5% increase, it was determined to be immaterial by internal stakeholders. Accordingly, no adjustment to the fair value of buildings was made in the current financial year.

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.

Non-specialised (level 2)	5,861	6,665
Specialised (level 3)	138,782	138,827
Total written down value at 30 June	144,643	145,492

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 including allowances for preliminaries and professional fees.

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.

Roads, bridges and drainage network (level 3)
JLL were engaged by MRC to perform a comprehensive valuation of the roads, bridges and drainage network, effective 30 June 2020. JLL is a leading professional services firm, with highly skilled and experienced valuers who work closely with local governments across Australia.

Significant work was undertaken internally to validate, enhance and standardise data within the class. As part of this data improvement process, a number of assets of varying ages were recognised for the first time, or derecognised, as a result of duplicate data entry or being controlled by third parties, as at 1 July 2019.

A net increase of $147M was recognised against the opening balance of the retained surplus. Retrospective adjustments to prior year comparatives were not applied 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 at balance date. 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.

Water and sewerage (level 3)
The last comprehensive revaluation of water and sewerage infrastructure assets was performed by independent valuers, JLL as at 30 June 2018. The valuation methodology maintained that water and sewer assets can be broken into 2 broad groups:

- Active assets: pump stations, bore fields, reservoirs and treatment plants
- Passive assets: mostly 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.

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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.

JLL advised an indicia movement equal to a 0.5% increase for the 12 months ended 30 June 2020. Cumulatively, this represented a 3% increase since the last comprehensive valuation. This was determined to be immaterial by internal stakeholders, as it represented less than a 5% increase. Accordingly, no adjustment to the fair value of water and sewerage infrastructure was made in the current financial year.

14) Intangible assets

Intangible assets with a total value of more than $5K 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.

The majority of MRC's intangible assets are software assets and generally assigned useful lives between 1 and 15 years. The remaining intangible assets are land easements which have indefinite useful lives and as such are not amortised.

	Intangible assets	Intangible assets not yet capitalised	Total
	$000's		
2020			
Opening balance	5,251	2,071	7,322
Additions	-	506	506
Capitalised	2,735	(1,637)	1,098
Transfers to or from property, plant and equipment	62	-	62
Disposals and write-offs	(386)	-	(386)
Amortisation	(1,241)	-	(1,241)
Closing balance	6,421	940	7,361
2019			
Opening balance	3,984	-	3,984
Opening balance adjustment	-	2,544	2,544
Additions	-	1,430	1,430
Capitalised	1,246	(1,246)	-
Transfers to or from property, plant and equipment	2,216	(657)	1,559
Disposals and write-offs	(1,035)	-	(1,035)
Amortisation	(1,160)	-	(1,160)
Closing balance	5,251	2,071	7,322

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	Note	2020 $000's	2019 $000's

15) Contract balances

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 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.

Invoicing milestones not yet met	829	-
	829	-

Contract liabilities

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

On transition to AASB 15 and AASB 1058, $8.2M was adjusted against the opening balance of the retained surplus as at 1 July 2019, to recognise contract liabilities where the revenue is to be recognised progressively as the performance obligations are satisfied, rather than at a point in time. If the previous standards applied, no contract liabilities would have been recorded at 30 June 2020.

Funds received in advance to construct assets	4,239	-
	4,239	-

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.

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.

Right of use assets	Buildings	Other	Total
	$000's		
Adoption of AASB 16 at 1 July	54	873	927
Amortisation	(22)	(30)	(53)
Closing balance at 30 June	32	843	874

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's

	< 1 year	1 to 5 years	> 5 years	Total contractual cash flows	Carrying amount
	$000's				
Lease liabilities	68	1,659	203	1,930	910
Total	68	1,659	203	1,930	910

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 2020 there were no extension options available.

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. From March to June 2020, payment terms for all creditors were less than 30 days if invoice approval was available, to assist those creditors who may have been impacted by the COVID-19 crisis.

Liabilities are recognised for employee benefits such as wages and salaries and annual leave in respect of services provided by the employees up to the reporting date. The liability is calculated using the present value of remuneration rates that will be paid when the liability is expected to be settled and includes related on-costs. Further information is available in note 5 employee benefits.

Annual leave is classified as a current liability as MRC considers there is no right to defer settlement.

Current		
Creditors and accruals	21,975	22,479
Annual leave	8,670	7,843
Other payables	1,449	630
	32,094	30,952
Non-current		
Other payables	882	-
	882	-

18) Borrowings

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 QTC borrowings. In respect of the Department of Local Government, Racing and Multicultural Affairs (DLGRMA) loan, which is non-interest-bearing, principal repayments are made 6 monthly in arrears.

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. DLGRMA borrowings are expected to be repaid by 2021, while expected final payment dates vary from 2024 to 2033 for QTC borrowings. There have been no defaults or breaches of the loan agreement during the period.

The market value of QTC borrowings at the reporting date was $161M. 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.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's
Current			
QTC		15,209	14,311
DLGRMA		308	308
		15,517	14,619
Non-current			
QTC		117,284	132,153
DLGRMA		-	308
		117,284	132,461

Reconciliation of liabilities arising from financing activities

Borrowings	Balance at 1 July	Cash flows	Balance at 30 June
	$000's		
2020	147,080	(14,279)	132,801
Total	147,080	(14,279)	132,801
2019	160,482	(13,402)	147,080
Total	160,482	(13,402)	147,080

MRC has financial labilities including a purchase card facility totalling $0.5M. The following table sets out the liquidity risk in relation to borrowings held by MRC. It represents the remaining undiscounted contractual cashflows (principal and interest) of financial liabilities at the end of the reporting period.

	< 1 year	1 to 5 years	> 5 years	Total contractual cash flows	Carrying amount
	$000's				
2020					
Loans - QTC	22,828	87,366	58,857	169,050	132,493
Loans - DLGRMA	308	-	-	308	308
Total	23,136	87,366	58,857	169,358	132,801
2019					
Loans - QTC	22,828	91,310	77,740	191,878	146,464
Loans - DLGRMA	308	308	-	616	616
Total	23,136	91,618	77,740	192,494	147,080

The outflows 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 to cater for unexpected volatility in cash flows. Further details of cash deposits are disclosed in note 10 cash and cash equivalents.

19) Provisions

Long service leave

A liability for long service leave is measured as 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 value of the liability is calculated using current pay rates and projected future increases in those rates and includes related employee on-costs (further information is available in note 5 employee benefits). The estimates are adjusted for the probability of the employee remaining in MRC's employment which would result in MRC being required to meet the liability. Adjustments are then made to allow for the proportion of the benefit earned to date, and the result is discounted

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's

to present value. The interest rates attached to Commonwealth Government guaranteed securities at the reporting date are used to discount the estimated future cash outflows to their present value.

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.

Waste restoration and quarry rehabilitation
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 costs that 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.

Current		
Waste restoration	49,873	47,311
Quarry rehabilitation	245	460
Long service leave	10,672	10,782
Other	73	-
	60,863	58,553
Non-current		
Waste restoration	11,661	11,067
Quarry rehabilitation	5,603	5,463
Long service leave	1,664	1,154
	18,928	17,684

The projected cost of restoring waste sites is $65M and is expected to be incurred between 2022 and 2032, after site closure and allowing a period for settlement. The portion estimated to be payable during the next 12 months is $0.5M based on the schedule of works.

Golder Associates Pty Ltd (Golder) were engaged by MRC during the period, to determine landfill provision cost estimates, following the compilation of a landfill remediation and risk framework (the framework) in the prior year. Golder is 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.

[V] Remediation provisions increased by $17.5M in the 2019 reporting period, as a result of the findings of the framework. The increase is primarily reflective of a change in assumptions and inputs utilised. The corresponding expense has been recognised in note 9 capital expenses.

The projected cost of restoring quarry sites is $6.9M and is expected to be incurred between 2021 and 2059, after site closure and allowing a period for settlement. The portion estimated to be payable during the next 12 months is $0.2M based on the schedule of works.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's

MRC has determined estimates for quarry remediation costs internally, through the use of highly-skilled engineers and other specialists with appropriate expertise in this field. The estimates have been based on extensive site analysis, current legislative requirements and guidelines and encompass site disposal, remediation and revegetation costs.

	Waste restoration	Quarry rehabilitation	Long service leave	Other	Total
	$000's				
Opening balance at 1 July	58,378	5,923	11,936	-	76,237
Provisions recognised / derecognised	580	(291)	1,970	73	2,332
Amounts used / paid	-	(115)	(1,570)	-	(1,685)
Unwinding of discount	179	88	-	-	267
Discount rate adjustment	2,396	243	-	-	2,639
Closing balance at 30 June	61,533	5,848	12,336	73	79,790

20) Other liabilities

On adoption of AASB 1058 from 1 July 2019, prepaid rates are recognised as a liability until the beginning of the rating period to which they relate. Further disclosures are available in note 1(d) new and revised accounting standards adopted during the year and note 3(a) rates and charges.

Prepaid rates	8,249	-
Other liabilities	2,516	4,491
	10,765	4,491

21) 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 an 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.

	Balance at 1 July	Movement	Balance at 30 June
	$000's		
Land	53	-	53
Site improvements	15,910	84	15,994
Buildings	5,784	-	5,784
Roads, bridge and drainage network	981,309	(389,130)	592,179
Water	201,316	-	201,316
Sewerage	252,025	-	252,025
Total	1,456,397	(389,046)	1,067,351

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's

22) Commitments for expenditure

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

Waste	58,479	52,415
Other operational commitments	4,955	6,611
Other capital commitments	12,849	14,850
	76,283	73,876
This expenditure is payable:		
Within one year	29,411	30,977
Later than one year but not later than five years	41,156	33,366
Later than five years	5,716	9,533
	76,283	73,876

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

23) Contingent liabilities

Estimates of the potential financial effect of contingent liabilities that may become payable are as follows:

Legal matters
Various claims are pending against MRC. In the opinion of MRC's solicitors, the potential liability on all claims outstanding at 30 June was:

100	85

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 2020 the financial statements reported an accumulated surplus and it is not anticipated any liability will arise.

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:

1,740	1,734

24) 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*.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's

The scheme is a defined benefit plan, however MRC is not able to account for it as a defined benefit plan in accordance with AASB119 because LGIAsuper is unable to account for its proportionate share of the defined benefit obligation, plan assets and costs. Any amount by which the scheme is over or under funded may affect future benefits and result in a change to the contribution rate, but has not been recognised as an asset or liability of MRC.

Technically, MRC can 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 MRC's obligations will only be made on the advice of an actuary.

The last completed actuarial assessment of the scheme was undertaken as at 1 July 2018. The actuary indicated that "At the valuation date of 1 July 2018, the net assets of the scheme exceeded the vested benefits and the scheme was in a satisfactory financial position as at the valuation date." MRC is not aware of anything that has happened since that time that indicates the assets of the scheme are not sufficient to meet the vested benefits, as at the reporting date. LGIAsuper have considered the impacts of COVID-19 on the fund and note that no material impact has been experienced.

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

The next triennial actuarial review is not due until 1 July 2021.

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:

Superannuation contributions to the scheme		434	488
Other superannuation contributions for employees		8,637	7,961
	5	9,071	8,449

MRC expects to contribute $367K to the Regional Defined Benefits Fund for 2020-21.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

	Note	2020 $000's	2019 $000's
25) Reconciliation of net result for the year to net cash flow from operating activities			
Net result		43,470	16,336
Non-cash items			
Depreciation and amortisation	8	83,539	76,830
Finance costs		286	299
		83,825	77,129
Investing and development activities			
Grants, subsidies, contributions and donations	4(b)	(57,422)	(42,630)
Capital income		(992)	(469)
Capital expenses	9	12,483	26,235
		(45,931)	(16,864)
Movement in operating assets and liabilities			
Trade and other receivables		(12,425)	(2,593)
Other assets		(975)	(488)
Contract assets		(829)	-
Inventories		(481)	(147)
Trade and other payables		412	5,166
Provisions		472	565
Other liabilities		(1,382)	2,867
Contract liabilities		4,239	-
		(10,969)	5,370
Net cash inflow from operating activities		70,395	81,971

26) National Competition Policy

MRC applies the competitive code of conduct to the business activities of water, sewerage and waste services. 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 an activities cost(s) 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 CSOs by MRC.

The following operating statement is for activities subject to the code of competitive conduct for the period ended 30 June 2020:

Operating statement	Water and Sewerage Services	Waste Services
	$000's	
Revenue for services provided to MRC	2,373	626
Revenue for services provided to external clients	96,115	28,237
Community service obligations (community / sporting rebates)	209	48
	98,697	28,911
Less: expenditure	75,098	22,399
Operating result before tax and dividend	23,599	6,512

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

27) 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 library 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 controlled entities

During the reporting period, $40K was paid or payable to Artspace Mackay Foundation Ltd as trustee for Artspace Mackay Foundation Ltd (2019: $42K). A further $294K was received or receivable by MRC as at 30 June 2020 (2019: $2K). While, the amount of $0.1K was paid or payable to MRC by Mackay Region Enterprises Pty Ltd at 30 June 2020 (2019: $849K).

b) Transactions with key management personnel

Key management personnel (KMP) include the Mayor, CEO and the Strategy, Leadership and Performance 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.

	Compensation $000's	
	2020	2019
Short term employee benefits	3,367	3,254
Post employee benefits	365	340
Long term benefits	18	21
Total	3,751	3,615

c) 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 1,151 staff (2019: 1,115), of which only 3 (2019: 4) 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 $147K (2019: $289K). 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 5 employee benefits.

Mackay Regional Council
Notes to the Financial Statements
For the year ended 30 June 2020

28) Events after the reporting period

The COVID-19 crisis is expected to have an impact on the financial performance of MRC in 2021. Due to the escalating nature of the pandemic and the resulting continued uncertainty, it was difficult for MRC to fully quantify this financial impact by such time as the 2021 annual budget was adopted by Council. As additional impacts can be quantified, required budget amendments will be brought to account in recognition. Analysis indicates that the net impacts as a result of COVID-19, to the September quarter, are immaterial to MRC's financial position.

Through the 2021 budget, MRC has implemented a wide range of stimulus measures to assist the community, during a period of such unprecedented circumstances. These significant measures include:

Waiving of food licence fees for affected businesses	$0.2M
Waiving of other fees, including those for accommodation licences, caravan park licence fees, footpath dining licences and static vendor fees	$0.2M
Backflow charges waived	$0.2M
Trade waste licence fees waived for affected businesses	$0.5M
A 50% concession offered on development assessment and engineering related fees until 30 September 2020	$0.2M
Special grants package for not-for-profit community groups	$1.2M
0% overall increase in rates revenue	$3.7M
Removal of the City Centre Levy	$0.5M
Freezing of various fees and charges	$0.3M
	$7.0M

In addition, a three-month extension to December 2020, on the normal due date for the first half-yearly rates issue of 2021 was made available to all ratepayers.

Negotiations for a new certified agreement were suspended in May 2020 as a result of the uncertainty caused by the escalating COVID-19 pandemic. Negotiations recommenced in July 2020 and are currently ongoing. MRC staff continue to be covered under the 2017 agreement, with no changes to current pay or terms and conditions of employment until a new agreement is finalised.

MRC's long term financial forecast (LTFF) is underpinned by initiatives to support the community and focuses on meeting projected community needs over the long term. The LTFF demonstrates MRC's ability to manage challenges over the longer term by maintaining strong liquidity, adequate debt servicing capacity and a reasonable level of financial flexibility.

MRC continues to undertake significant asset data improvement processes to enhance the classification and attribute accuracy of infrastructure assets recorded within the roads, bridges and drainage infrastructure network class. The impact of this body of work is not yet known and the effects on the 2021 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
Financial Statements
For the year ended 30 June 2020

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 34, 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

24 NOV 2020
Date

Chief Executive Officer
Michael Thomson

24/11/2020
Date

Queensland Audit Office
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INDEPENDENT AUDITOR'S REPORT

To the Councillors of Mackay Regional Council

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Mackay Regional Council (the council).

In my opinion, the financial report:

a) gives a true and fair view of the council's financial position as at 30 June 2020, and of their 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 2020, 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 the 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 2020 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.

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- 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 2020:

a) I received all the information and explanations I required.

b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

25 November 2020

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

Mackay Regional Council
Financial Statements
For the year ended 30 June 2020

Current Year Financial Sustainability Statement

MRC's performance at 30 June 2020, 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%	-0.9%
Asset sustainability ratio (%) Capital expenditure on renewals divided by depreciation expense	> 90%	58.2%
Net financial liabilities ratio (%) (Total liabilities less current assets) divided by total operating revenue (excluding capital items)	< 60%	17.7%

Note 1 – 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 2020.

Mackay Regional Council
Financial Statements
For the year ended 30 June 2020

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

24 NOV 2020
Date

Chief Executive Officer
Michael Thomson

24/11/2020
Date

Queensland Audit Office
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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 (the council) for the year ended 30 June 2020 comprising the statement, explanatory notes, and the certificate of accuracy given by the Mayor and the Chief Executive Officer.

In accordance with section 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 2020 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 2020 was the general purpose financial statements and long-term financial sustainability statement.

The councillors are responsible for the other information.

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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.

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- 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.

25 November 2020

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

Mackay Regional Council
Financial Statements
For the year ended 30 June 2020

Long Term Financial Sustainability Statement (Unaudited)

Key financial sustainability metrics	Target	Actual	Projection for the financial year ended								
			2021	2022	2023	2024	2025	2026	2027	2028	2029
Operating surplus ratio (%) Operating result (excluding capital items) as a percentage of operating revenue	0% - 10%	-0.9%	-1.9%	-0.7%	0.1%	0.2%	1.6%	3.2%	3.8%	3.5%	4.3%
Asset sustainability ratio (%) Capital expenditure on renewals divided by depreciation expense	> 90%	58.2%	97.0%	77.0%	85.1%	98.1%	105.6%	104.6%	101.8%	94.6%	101.3%
Net financial liabilities ratio (%) (Total liabilities less current assets) divided by total operating revenue (excluding capital items)	< 60%	17.7%	23.4%	24.1%	25.9%	28.1%	29.5%	30.3%	28.7%	23.2%	24.5%

Mackay Regional Council's financial management strategy

Operating surplus ratio

MRC has initiated significant stimulus measures to be delivered through FY2021, to support the local community and invest in recovery. As a result, small operating deficits are forecast for the first two years of the long-term financial forecast. MRC's robust financial position has facilitated the ability to do this within the short term and return to strong operating surpluses relatively quickly and maintain this position for the remainder of the forecast.

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 isolated years may be below target, overall, the target is well exceeded for the life of the plan.

Net financial liabilities ratio

MRC's net financial liabilities ratio is within target for the life of the plan. This indicates the capacity to fund liabilities and increase loan borrowings if required. MRC has made a concerted effort to reduce debt and future borrowings in the short term. Despite drawing down on cash reserves and increasing debt in the latter half of the planning horizon to fund significant capital expenditure, MRC remains within the target range for this ratio.

Mackay Regional Council
Financial Statements
For the year ended 30 June 2020

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

24 NOV 2020
Date

Chief Executive Officer
Michael Thomson

24/11/2020
Date