

2018 / 2019 ANNUAL REPORT



Victorian Regional Channels Authority Annual Report 2018 - 2019

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Chairman's report

On behalf of the Board of Directors, I am pleased to report that Victorian Regional Channels Authority (VRCA) has met its legislated obligations throughout the 2018/2019 year and maintained financial self-sufficiency whilst delivering on a range of capital and operating initiatives.

Safety remains of paramount importance. There were no major shipping or environmental incidents in VRCA-managed port waters during the year which is a credit to the effectiveness of policies and procedures and the vigilance of our operations staff. The Board has initiated an increased focus on the Authority's risk management framework which forms the basis of assessing, mitigating and controlling risks.

Two major capital projects have been undertaken during the year as VRCA continues its commitment to safety. In Geelong, VRCA has commissioned an advanced system utilising radars, cameras, automatic identification systems combined with communication capability to provide marine control with significantly enhanced situational awareness of all on-water activity in port waters as part of the Authority's efforts to ensure safety for all water users and reduce the risk of marine incidents. At Hastings, VRCA is replacing the old, high maintenance steel buoy channel markers with low maintenance polyethylene buoys complete with state-of-the-art navigation aids. VRCA has maximised local content in the development and execution of these two projects.

In December 2018, VRCA provided a draft of the 2018 port of Geelong Port Development Strategy (PDS) required under the Transport Integration Act 2010 to the Minister for Ports and Freight. The PDS identifies the need for improved road and rail connections for current and potential port users and the need for port and industrial land to be protected from encroachment. VRCA is committed to reinforcing the requirements of planning schemes that were designed to ensure that current and future port operations are not compromised recognising that ports are key infrastructure assets for the State of Victoria.

A great number of people and organisations contribute to the success of VRCA. In particular, I would like to thank my fellow Directors and the management team lead by Michael Harvey for their continued focus on improvement and innovation.

Kate Roffey
Chairman

Chief Executive Officer's report

2018/2019 has been a year of significant change, innovation and improvement in the way that we VRCA conducts its business.

VRCA's commitment to navigational safety delivered another year without major incident in the port waters of Geelong and Hastings. This reflects positively on the Authority's focus on continuous review and improvement of operating policies and protocols, identifying and managing risk and working collaboratively with port service providers to deliver safe outcomes.

VRCA posted before tax profits of \$1.4 million for 2018/2019 on a turnover of \$9 million with expenses of \$7.6 million.

Total cargo traded through the Port of Geelong decreased by 9.9% to 12.8 million tonnes, mainly due to drought conditions and record low grain shipments. Cargo traded through the Port of Hastings increased 2.2 % to 1.5 million tonnes.

Port of Geelong		2018/2019	2017/2018
Crude oil / petroleum products		57.2%	50.2%
Fertiliser		11.2%	11.8%
Woodchips		10.5%	11.0%
Grains		3.5%	15.9%
Imports	(Mt)	9.7	8.8
Exports	(Mt)	3.1	5.4
Total	(Mt)	12.8	14.2
Number of vessels		599	631
Gross tons	(Mt)	13.4	15.9
Port of Hastings			
Gas products (kt)		445	546
Petroleum products (kt)		700	571
Steel products (kt)		364	371
Number of vessels		120	112
Gross tons	(Mt)	2.2	2.1

VRCA has continued to deliver the outcomes that are defined within the Authority's corporate objectives:

Licence to Operate

With the completion of the 2018 Port Development Strategy for the port of Geelong, VRCA has focused on driving the recommendations and in particular the development of transport connections into and out of the port of Geelong and issues related to land encroachment.

In June 2019, VRCA received certification of the safety and environmental management plan (SEMP) for the port of Geelong and is coordinating with other related SEMP's within the port to ensure a continued coordinated approach to safety and environmental management.

VRCA, in conjunction with other port managers, continues to support new business opportunities and specifically new port trades. At Hastings, VCRA is continuing to address operational issues in support of the AGL gas importation project.

Our new mobile device friendly website was launched in April along with new branding that better reflects the key role of navigational safety.

Operational Delivery

VRCA has changed the marine control outsourcing model and directly employed marine controllers in both Hastings and Geelong during the year and divided the responsibility of marine control and mooring supervision to improve situational awareness and operational effectiveness. When combined with enhanced port procedures and protocols, VRCA continues to ensure safety 'so far as is reasonably practicable'.

VRCA has completed the software installation of the marine traffic monitoring system in the port of Geelong along with lease arrangements to host system hardware. Commissioning and full operation is expected by the end of September 2019. This advanced system will provide VRCA marine control with full situational awareness of commercial and recreational vessels operating in and around port waters with the aim of identifying and reducing the potential for marine incidents.

In conjunction with Maritime Safety Victoria, VRCA and other port managers have been reviewing and improving the training and licensing standards for marine pilotage in Victoria.

Commercial Effectiveness

VRCA continues to provide fair and reasonable channels access to port users in Geelong and Hastings and tariffs were not increased in 2018/2019 and will not increase in 2019/2020. Efficiencies from a new finance system along with reduced scheduled maintenance costs have ensured a stable cost base which, despite revenue fluctuations, has allowed VRCA to pass on these efficiencies to port users.

Asset Management

A \$2 million capital programme to replace high maintenance steel buoy channel markers at Hastings is underway and will be completed early in the next financial year. The new polyethylene buoys have an expected life in excess of 20 years and will only require periodic cleaning. New synthetic tethers and anchor blocks will also reduce maintenance costs.

Further geotechnical investigation within the Wilson Spit Channel in Geelong has been undertaken to assess the competency of an area of hard rock and options for its removal as part of the overall Geelong channel deepening investigation. VRCA remains committed to ensuring that all options for future channels depths are explored and evaluated in order to meet the shipping requirements of port users for the future.

I would like to thank all VRCA staff for their support during the year and in particular for facilitating the relocation of VRCA's head office to North Geelong where for the first time we will combine operational and corporate functions.

VRCA has productive relationships with a wide range of stakeholders, both in Geelong and Hastings and I would like to thank each of them for their continued support during the year.

Michael Harvey

Chief Executive Officer

Purpose

To deliver the highest quality, safest and most cost-effective services to Geelong and Hastings port users in the short, medium and long term.

Vision

Recognised as the most innovative and efficient provider of port infrastructure and maritime services.

Mission

VRCA's mission is to develop channel infrastructure and systems that provide safe navigation in order to facilitate the growth of import and export trade through Victoria's regional ports

Scope of operations

Victorian Regional Channels Authority (VRCA) is established under the *Transport Integration Act 2010* to manage channels in the port waters of Geelong and Hastings and oversee channel operations in the Port of Portland. VRCA commenced operations on 1 April 2004.

The principal functions of VRCA, as provided in Part 6 of Division 3B of the *Transport Integration Act 2010*, are to:

- establish, manage, dredge and maintain the channels in port waters and provide and maintain navigation aids in port waters in accordance with standards of the Safety Director, Maritime Safety Victoria;
- provide general direction and control of the movement of vessels within port waters in accordance with the *Marine Safety Act 2010*;
- provide technical advice and support to port managers about the management and operation of port waters and channels in port waters; and
- assist port managers, at their request and with the approval of the Minister, with integrated planning, development, management and promotion activities for the port.

VRCA is directly responsible for shipping control in the port waters of Geelong and Hastings and contracts the shipping control and navigation channel services for the Port of Portland to the operator of that port.

VRCA provides channel access, navigational aids and marine control services to vessels to ensure safe navigation.

Additional responsibilities of VRCA in relation to preparation of the Port Development Strategy for the port of Geelong are contained in Part 6B of the *Port Management Act 1995*. This responsibility came into effect in 2012.

VRCA reports to the Minister for Ports and Freight with respect to industry policy and to the Treasurer with respect to shareholder and governance matters. VRCA has a three-member Board of Directors.

Establishment and functions

VRCA is defined as a Transport Corporation under the *Transport Integration Act 2010* with the responsibility of managing the shipping channels in the Port of Geelong and the Port of Hastings and an overseeing the channel in the Port of Portland.

VRCA aims to:

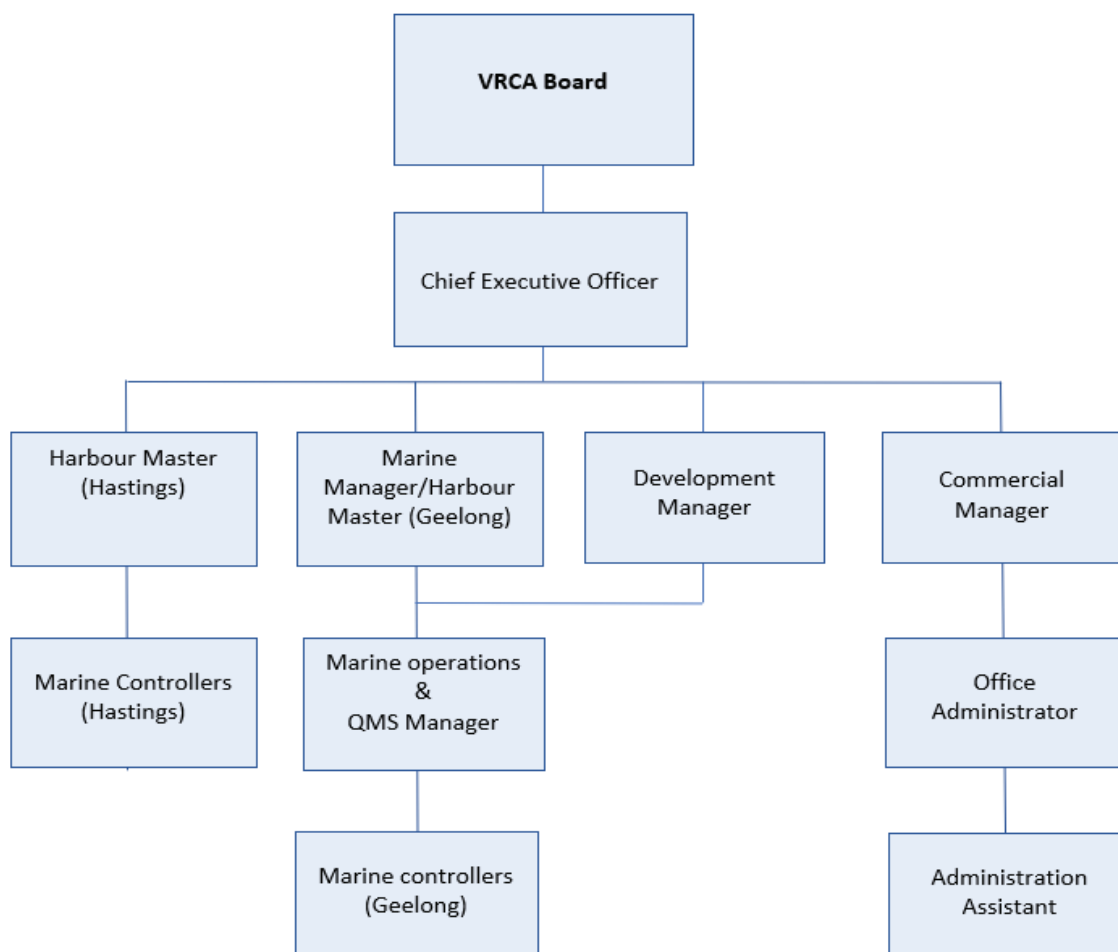
- Be efficient and effective;
- Minimise risk to people, the environment and to property;
- Innovate and improve;
- Be fair to all.

Staff establishment

VRCA has a Board of Directors of three and an establishment of sixteen staff. In 2018/2019 staff numbers have increased as a result of marine control at both Geelong and Hastings changing from an outsourced/contractor model to bringing the function in-house.

Given the small establishment size, key services such as hydrographic survey, dredging, maintenance of navigation aids, IT services, human resources and payroll are outsourced and contracted to third parties.

Organisational structure



Trading summary

Income and pricing

VRCA is a self-funded transport corporation, obtaining income from commercial vessels visiting port waters. Charges on vessels are levied, in common with many other ports on the gross tonnage (GT) of the vessel being a measure of internal volume of the vessel. VRCA has no contracts for revenue and is vulnerable to trade conditions and in particular the seasonal variation in the agri-bulks sector. Charges are set on the basis of port user forecasts and historical trade volume trends.

VRCA reviews charges annually and sets its prices for a year in advance. The 2018/2019 Geelong channel usage charge was 44 cents per gross ton. An additional charge is levied on deep draught users of the deepened Geelong channels.

The 2018/2019 Hastings channel usage charge was 50 cents per gross ton.

Financial performance

Total turnover for VRCA for the 12 months ended 30 June 2019, incorporating revenue from non-operating activities, was \$9 million. This resulted in a before-tax profit of \$1.4 million. The reported profit after tax was \$1.2 million which included a tax expense of \$0.2 million

Five-year financial summary

	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000
Total revenue	8,987	12,662	10,612	8,887	8,206
Total expenses	7,567	7,540	6,449	5,830	4,814
Net profit before income tax	1,420	5,122	4,163	3,057	3,392
Net cash flow from operating activities	3,063	5,625	4,131	3,347	5,396
Total assets	53,860	53,697	46,581	44,466	43,249
Total liabilities	3,283	3,636	1,427	1,168	929
Net assets	50,577	50,061	45,154	43,298	42,320

Operating expenses

Operating expenses for 2018/2019 amounted to \$7.6 million. This was in line with budget expectations.

Dividend distribution targets

Dividend is as determined by the Treasurer in accordance with Section 41 of the PSA after discussion with VRCA's Board. During 2018/2019 VRCA paid a dividend of \$780,000 to the State.

Operating performance

Gross tonnage handled

In 2018/2019 total gross tonnage of ships entering Geelong's port was 13.4 million gross tonnes, an overall decrease of 2.5 million tonnes on the previous year, mainly due to drought conditions and record low grain shipments. The major cargo types passing through the port of Geelong were crude oil, petroleum products, woodchips, fertiliser and wind turbines.

Grain shipments were 77 % (1.4 million tonnes) less than last year and fertiliser was also down 12%.

In 2017/2018 total gross tonnage of ships entering Hastings port was 2.2 million gross tonnes similar to the previous year. The major cargo types passing through the Port of Hastings were steel, LPG, crude oil and petroleum products.

Gross tonnage and number of ships

Gross tonnage and number of cargo ships visiting for the last 10 years:

	Geelong		Hastings	
Year	Gross tonnage handled	Ship visits	Gross tonnage handled	Ship visits*
2009/2010	10.6 million	435		
2010/2011	14.2 million	508		
2011/2012	16.0 million	630	2.2 million	95 *
2012/2013	16.3 million	770	2.3 million	68 *
2013/2014	16.5 million	661	2.4 million	76 *
2014/2015	14.5 million	639	2.0 million	65 *
2015/2016	15.2 million	651	1.9 million	112 *
2016/2017	15.5 million	588	2.1 million	101 *
2017/2018	15.9 million	631	2.1 million	94
2018/2019	13.4 million	599	2.2 million	104

*Not managed by VRCA

Corporate Objectives

The corporate objectives are defined by VRCA's legislative obligations, purpose and mission and have been constructed as four pillars to provide a clear statement of intent for employees and stakeholders.

Pillar 1 - Licence to operate

- 🚩 Meet all legislative and regulatory obligations in a timely manner;
- 🚩 Integrate whole of port of Geelong strategic planning to optimise port development and facilitate trade and regional economic growth;
- 🚩 Manage commercial shipping in an environmentally sustainable manner;
- 🚩 Meet the expectations of local and regional stakeholders;
- 🚩 Continue to develop productive community relationships.

Pillar 2 - Operational delivery

- 🚩 Continuously improve operational capability and effectiveness to deliver safe and efficient navigation for all vessels in port waters of Geelong and Hastings;
- 🚩 Through innovation, deploy technology solutions to optimise commercial shipping opportunities in the ports of Geelong and Hastings.

Pillar 3 - Commercial effectiveness

- 🚩 Continuously improve the cost effectiveness of service;

- ✘ Maintain financial self-sufficiency at each regional port;
- ✘ Ensure fair and equitable access and tariff regimes;
- ✘ Deliver acceptable returns to 'shareholders'.

Pillar 4 - Asset management

- ✘ Ensure channel declared depths are maintained;
- ✘ Develop and invest in technology to exceed IALA requirements for aids to navigation;
- ✘ Investigate, plan and implement channel improvements to meet the future shipping requirements of port users in Geelong and Hastings.

Additional information

Trading results

VRCA's profit for the year was \$1.4 million (2017/2018 \$5.1 million) after allowing for an income tax expense of \$0.2 million (2017/2018 \$1.5 million).

Reporting

VRCA reports to the Minister for Ports and Freight, Melissa Horne MP.

Events subsequent to balance date

Subsequent Events

No matters or circumstances have arisen since the end of the financial year that require disclosure

Directors' benefits

No director of VRCA has, since the end of the previous financial period, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by VRCA, a controlled entity or a related body corporate with a director or with a firm of which the director has a substantial financial interest.

Information on Directors

Kate Roffey (Chairman) Kate was appointed a Director of VRCA on 1 June 2016 and re-appointed in July 2018. She has extensive experience as a CEO and senior executive within the commercial, government and not-for-profit sectors.

Kate is currently the Director of Deals, Investment and Major Projects at Wyndham City, where she has played a critical role in securing a new A League team for Melbourne's west and developing a public-private partnership deal that will see Australia's first privately owned sports stadium built in Wyndham. Prior to that, Kate was the CEO of the Committee for Melbourne where she successfully led a broad cross-section of Melbourne's most influential companies and institutions to develop initiatives that ensured Melbourne continued to grow as a prosperous globally connected city and retain its mantle as the 'world's most liveable city'. As an industry leader in this role, Kate led influential policy discussions around the key issues of infrastructure development, economic growth, urban optimisation and liveability.

Prior to joining the Committee, Kate held an executive position at Tennis Australia as Manager of the Melbourne Park Redevelopment, where she played a leadership role in developing the masterplan vision of, and secured almost \$1 billion in government funding for, the substantial upgrading of facilities for the Australian Open Tennis Championships.

In addition to her executive roles, Kate is also an experienced non-executive director and is a graduate member of the Australian Institute of Company Directors. In addition to her role at the Victorian Regional Channels Authority, Kate is Vice President of the Melbourne Football Club, is the Chair of the Metro Trains Advisory Board, Member of the Ministerial Review into Planning and Essential Services Board as well as being a member of the Ministerial Freight Advisory Council.

Desmond Powell (Deputy Chairman) Desmond was appointed a Director of VRCA on 1 June 2016 and re-appointed in July 2018. He brings extensive experience in executive management and board roles in the public, private and not-for-profit sectors. In particular he has specialist expertise in the ports and freight and logistics sector in both Australia and Asia.

He is a Sessional Commissioner for Victorian Commission for Gambling and Liquor Regulation, Director and Chair of TAFE Gippsland, Director of Barwon Water Corporation, Director Mercy Connect Ltd and Director of Mercy Education Limited.

Peter Niblett (Director) Peter was appointed a Director of VRCA on 4 April 2017. Peter is currently an independent non-executive director having retired from EY (Ernst & Young) in November 2016.

At EY he was an executive director in Advisory Services at EY's Melbourne office, having returned from their London office in 2006. He was the client service partner (CSP) for the Emergency Services Cluster of accounts (ESTA, CFA, MFB and SES), the Victorian Auditor-General's Office, Tasmanian Government, TAC and WorkSafe.

Peter's skill set compliments his ability to deliver quality professional advice on a diverse range of industry segments. He is a specialist in governance, risk and compliance, program advisory services, IT effectiveness, procurement and probity advisory services, risk management, program assurance and new evolution issues in human resource planning.

Peter is currently a council member of Deakin University Council, member VAGO Audit and Risk Committee and patron of Encompass Community Services Inc.

Board meetings

The number of Board meetings held in the period during the financial year and the number of meetings attended by each director:

Director	Number held	Number attended
Kate Roffey	6	6
Desmond Powell	6	5
Peter Niblett	6	5


Pecuniary interests









The directors, chief executive officer and senior managers have completed a statement of pecuniary interests.

Audit & Risk Committee membership and role

The Audit & Risk Committee consists of all the members of the Board of VRCA and Mr. Robert Hogarth who joined in July 2018. Desmond Powell was the Committee Chairman from 1st July 2018 to 31st January 2019 and Peter Niblett was Chairman from 1st February to 30th June 2019.

The main responsibilities of the Audit and Risk Committee are to:

-  Determine the scope of the internal audit function and ensure that its resources are adequate and used effectively including co-ordination with the external auditors;

- 
 Oversee the effective operation of the risk management framework;
- 
 Review VRCA's internal control environment covering;
 - 
 Reliability of financial reporting;
 - 
 Compliance with applicable laws and regulations;
- 
 Review risk management;
 - 
 Monitor the continuing assessment of the risk environment;
 - 
 Oversee the review of the risk register; and
 - 
 Monitor the reliable reporting of risks and operational controls.

Audit & Risk Committee meetings

The number of finance and audit committee meetings held in the period during the financial year and the number of meetings attended by each director:

Director	Number held	Number attended
Desmond Powell	4	3
Kate Roffey	4	4
Peter Niblett	4	3
Rob Hogarth	4	4

Workforce data

On 30 June 2019:

- VRCA employed 16 staff (15.4 full time equivalent) compared to 9 staff (8.8 full time equivalent) as at 30 June 2018. The increase in staff numbers reflects the change from outsourcing marine control services in Geelong and Hastings to direct employment.
- The proportion of women is 12.5% a reduction from 33% at 30 June 2018.

Classification	2018-19		2017-18	
	Number (headcount)	FTE	Number (headcount)	FTE
Executive Officers	4	4	4	4
Senior Managers	2	2	2	2
Operational	8	7.4	0	0
Administration Staff	2	2	3	2.8
TOTAL	16	15.4	9	5.2
Male	14	13.4	6	6
Female	2	2	3	2.8
TOTAL	16	15.4	9	8.8

All figures reflect employment levels during the last full pay period of June of each year.

Employment and conduct principles

VRCA has introduced policies and procedures that are consistent with VPSC's employment standards and provide for fair treatment, career opportunities and the early resolution of workplace issues. VRCA has advised its employees about how to avoid conflicts of interest, how to respond to offers of gifts and how it deals with misconduct including fraud.

Indemnification of officers

During the financial year, VRCA took out insurance to indemnify Directors and executive officers against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than VRCA) incurred in their position as director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

Government changes

Department of Transport

As a result of a Machinery-of-Government (MoG) change effective on 1 January 2019, the Department of Economic Development, Jobs, Transport and Resources (DEDJTR) became the Department of Transport (DoT). DoT assumed the transport portfolios of DEDJTR and the non-transport portfolios were transferred to the newly established Department of Jobs, Precincts and Regions (DJPR). DoT is now the lead department for VRCA.

The new Department of Transport plans to give Victoria a singular, integrated focus on tackling the big transport issues and will plan and operate the transport system in a way that matches the people and freight that travel on it.

Statutory requirements

Freedom of Information Act

There were no requests under the Freedom of Information Act 1982 received during the year. VRCA complied with the Act.

Competitive neutrality

VRCA complies with Victorian Government policy on competitive neutrality.

Occupational Health and Safety (OH&S)

VRCA reported no significant incidents or lost time injuries for the year. This is consistent with previous years

Protected Disclosure Act (2012)

VRCA is committed to the aims and objectives of the *Protected Disclosure Act (2012)*

No disclosures have been received or investigations made by VRCA and it has not referred any disclosures to the Anti-corruption Commission for any reasons. Neither has the Anti-corruption Commission referred any disclosures or made any recommendations to VRCA.

Disability Act

VRCA is committed to the aims and objectives of the Victorian Disability Act 2006 with regard to respecting the rights and needs of people with a disability.

Multicultural awareness

VRCA is committed to promoting culturally appropriate policies, programmes and strategies.

Disclosure of the relevant legislative

Freedom of Information Act 1982

Building Act 1993

Protected Disclosure Act 2012

Local Jobs Act 2003

Financial Management Act 1994

Other disclosures

Consultancy payments

During the 2018/2019 reporting period, VRCA engaged 15 consultants with a total fee of \$10,000 or greater. The total cost of this advice was \$ 1,008,708 (ex GST).

Full details are displayed at **www.vrca.vic.gov.au**

There were 11 consultants engaged during the year for a fee less than \$10,000.

Advertising expenditure

VRCA's expenditure in the 2018/2019 reporting period on Government campaign expenditure did not exceed \$100,000 (ex GST).

Information and communication technology (ICT) expenditure

VRCA's expenditure in the 2018/2019 reporting period on ICT amounted to \$134,098 (ex GST). All ICT expenditure related to business as usual expenditure.

Capital projects

During 2018/2019 there were no capital projects completed with the value exceeding \$10 million or funded by the State budget.

Local jobs first – Victorian Industry Participation Policy (VIPP)

No VIPP applicable procurement project was undertaken and completed.

Compliance with Building Act 1993

VRCA does not own or control any government buildings and consequently is exempt from notifying its compliance with the building and maintenance provisions of the *Building Act 1993* (for publicly owned buildings controlled by VRCA)

Victorian Regional Channels Authority Financial Management Compliance

I, Kate Roffey, on behalf of Victorian Regional Channels Authority has complied with the applicable Standing Directions 2018 under the Financial Management Act 1994 and Instructions.

Additional Information available upon request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect of the items listed below have been retained by Victorian Regional Channels Authority and are available on request, subject to the provisions of the Freedom of Information Act 1982.

- ❑ a statement that declarations of pecuniary interests have been duly completed by all relevant officers;
- ❑ details of publications produced by the entity about itself, and how these can be obtained;
- ❑ details of changes in prices, fees, charges, rates and levies charged by the entity;
- ❑ details of any major external reviews carried out on the entity;
- ❑ details of major research and development activities undertaken by the entity;
- ❑ details of overseas visits undertaken including a summary of the objectives and outcomes of each visit;
- ❑ details of major promotional, public relations and marketing activities undertaken by the entity to develop community awareness of the entity and its services;
- ❑ details of assessments and measures undertaken to improve the occupational health and safety of employees;
- ❑ a general statement on industrial relations within the entity and details of time lost through industrial accidents and disputes;
- ❑ a list of major committees sponsored by the entity, the purposes of each committee and the extent to which the purposes have been achieved; and
- ❑ details of all consultancies and contractors including: consultants/contractors engaged, services provided and expenditure committed to for each engagement.

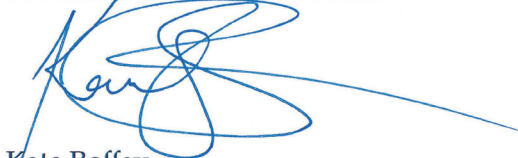
The information is available on request from:

Victorian Regional Channels Authority

GPO Box 1135, Geelong, Vic 3220

Ph. (03) 5225 3500

For and on behalf of the Board



Kate Roffey
Chairman
Geelong



Peter Niblett
Director
Geelong



FINANCIAL STATEMENTS

For the year ended 30 June 2019

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VICTORIAN REGIONAL CHANNELS AUTHORITY
COMPREHENSIVE OPERATING STATEMENT
For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Continuing operations			
Income			
Channel revenue	2.1	8,843	12,468
Other revenue	2.1	1	54
Profit on disposal of fixed assets		-	2
Other income	2.1	143	138
Total income		8,987	12,662
Expenses			
Employee benefits	2.2	1,881	1,529
Depreciation and amortisation	2.2	1,631	1,686
Maintenance		235	688
Rental expense	2.2	260	258
Insurance		120	132
Marine services	2.2	1,066	1,210
Vessel expenses		33	44
Consultancies and contractors		469	352
Public awareness campaign		225	229
Projects		781	602
Loss on disposal of fixed assets		30	-
Other expenses		836	810
Total expenses		7,567	7,540
Profit for the year before income tax expense		1,420	5,122
Income tax expense	2.3	239	1,539
Profit for the year	6.2	1,181	3,583
Other economic flows – other comprehensive income			
Changes in physical asset revaluation surplus	3.1	-	4,604
Deferred taxes on asset revaluation		-	(1,381)
Total other economic flows – other comprehensive income		-	3,223
Total comprehensive result		1,181	6,806

The above comprehensive operating statement should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
BALANCE SHEET
As at 30 June 2019

	Note	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents	5.1	6,064	6,940
Prepayments		182	225
Trade and other receivables	4.1	1,320	1,672
Total current assets		7,566	8,837
Non-current assets			
Infrastructure, property, plant and equipment	3.1	46,011	44,662
Intangible assets	3.2	143	-
Deferred tax asset	2.3	140	198
Total non-current assets		46,294	44,860
Total assets		53,860	53,697
Current liabilities			
Trade and other payables	4.2	1,214	1,002
Provisions	5.2	261	1,028
Total current liabilities		1,475	2,030
Non-current liabilities			
Provisions	5.2	79	21
Deferred tax liability	2.3	1,729	1,585
Total non-current liabilities		1,808	1,606
Total liabilities		3,283	3,636
Net assets		50,577	50,061
Equity			
Contributed capital	6.2	57,883	57,883
Reserves	6.2	3,951	3,836
Retained earnings	6.2	(11,257)	(11,658)
Total equity		50,577	50,061

The above balance sheet should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2019

	Contributed capital \$'000	Reserves \$'000	Retained profit/ (accumulated losses) \$'000	Total equity \$'000
Balance at 30 June 2017	57,883	613	(13,342)	45,154
Profit for the year (refer note 6.2)	-	-	3,583	3,583
Other comprehensive income	-	3,223	-	3,223
Total comprehensive income for the year	-	3,223	3,583	6,806
Transactions with owners in their capacity as owners:				
Dividends provided for or paid (refer note 6.1)	-	-	(1,899)	(1,899)
Balance at 30 June 2018	57,883	3,836	(11,658)	50,061
Profit for the year (refer note 6.2)	-	-	1,181	1,181
Adjustment for deferred taxes due to change in tax rates on revalued assets	-	115	-	115
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	115	1,181	1,296
Transactions with owners in their capacity as owners:				
Dividends provided for or paid (refer note 6.1)	-	-	(780)	(780)
Balance at 30 June 2019	57,883	3,951	(11,257)	50,577

The above statement of changes in equity should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
CASH FLOW STATEMENT
For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from trade and other debtors		10,542	13,284
Payments to trade creditors, other creditors and employees		(6,013)	(5,444)
Goods and services tax (paid to) / refunded from the Australian Taxation Office		(563)	(898)
Interest received		165	136
Income tax paid		(1,068)	(1,453)
Net cash inflow from operating activities	2.4	3,063	5,625
Cash flows from investing activities			
Payments for infrastructure, property, plant and equipment		(3,180)	(4,937)
Proceeds from sale of infrastructure, property, plant and equipment		21	130
Net cash (outflow) from investing activities		(3,159)	(4,807)
Cash flows from financing activities			
Dividends paid	6.1	(780)	(1,899)
Net cash (outflow) from financing activities		(780)	(1,899)
Net increase / (decrease) in cash and cash equivalents		(876)	(1,081)
Cash and cash equivalents at the beginning of the financial year		6,940	8,021
Cash and cash equivalents at the end of the financial year	5.1	6,064	6,940

The above cash flow statement should be read in conjunction with the accompanying notes.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

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VICTORIAN REGIONAL CHANNELS AUTHORITY

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1.1. Corporate information

Victorian Regional Channels Authority (VRCA) is a Government Business Enterprise established by the Victorian Government under the *Port Management Act 1995 (Vic)*. The financial statements cover VRCA as an individual reporting entity. The Board of VRCA is directly accountable to the Victorian Government through the Minister for Ports and Freight and the Treasurer. The principal address of VRCA is East 1E, 13-35 Mackey Street, North Geelong Vic 3215.

The principal activities of VRCA are outlined under Section 21 of the *Port Management Act 1995 (Vic)* and cover the management and maintenance of the Geelong & Hastings shipping channels and direction and control of vessels within the Geelong & Hastings port waters. Additionally, VRCA is responsible for ensuring the port operator in port of Portland is managing and maintaining the Portland shipping channels in accordance with the Channel Operating Agreement. The main objective of VRCA is to ensure that port waters and channels are managed for access on a fair and reasonable basis.

These annual financial statements represent the audited general purpose financial statements for VRCA for the period ending 30 June 2019. The purpose of the report is to provide users with information about VRCA's stewardship of resources entrusted to it.

The financial statements incorporate all activities of VRCA.

1.2. Statement of compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994 (FMA)* and applicable Australian Accounting Standards (AAS) which include Interpretations, issued by the Australian Accounting Standards Board (AASB).

In particular, they are presented in a manner consistent with the requirements of the AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The annual financial statements were authorised for issue by the Board of VRCA on 27 August 2019.

1.3. Basis of accounting preparation and measurement

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AAS that have significant effects on the financial statements and estimates relate to the fair value of the navigation aids, channel assets, plant and equipment (refer Section 3.1).

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 1. ABOUT THIS REPORT *(continued)*

1.3. Basis of accounting preparation and measurement *(continued)*

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

VRCA has been assessed as a for-profit entity under *Financial Reporting Direction (FRD) 108C*.

These financial statements are presented in Australian dollars, and prepared in accordance with the historical cost convention except for non-financial physical assets which, subsequent to acquisition, are measured at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amounts do not materially differ from their fair value.

Consistent with *AASB 13 Fair Value Measurement*, VRCA determines the policies and procedures for both recurring fair value measurements such as property, plant and equipment and financial instruments and for non-recurring fair value measurements such as non-financial physical assets held for sale, in accordance with the requirements of *AASB 13* and the relevant Financial Reporting Directions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, VRCA has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, VRCA determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

VRCA monitors changes in the fair value of each asset and liability through relevant data sources to determine whether revaluation is required.

The financial statements of VRCA also comply with IFRS as issued by the International Accounting Standards Board (IASB).

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2019 and the comparative information presented for the year ended 30 June 2018.

1.4. Scope and presentation of financial statements

Comprehensive operating statement

The comprehensive operating statement comprises three components, being 'net result from transactions' (or termed as 'Profit for the year before income tax expense'), 'income tax expense', as well as 'other comprehensive income'. The sum of the former two, together with the net result from any discontinued operations, represents the net profit.

The net profit is equivalent to profit or loss derived in accordance with AASs.

'Other comprehensive income' are changes arising from market remeasurements.

They include:

- revaluations and impairments of non-financial physical and intangible assets (including deferred tax liabilities resulting from the valuation); and
- remeasurement arising from defined benefit superannuation plans.

This classification is consistent with the whole of government reporting format and is allowed under *AASB 101 Presentation of Financial Statements*.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 1. ABOUT THIS REPORT (continued)

1.4. Scope and presentation of financial statements (continued)

Balance sheet

Assets and liabilities are presented as current and non current assets and liabilities (non current being those assets or liabilities expected to be recovered or settled more than 12 months after the reporting period).

Cash flow statement

Cash flows are classified according to whether or not they arise from operating, investing, or financing activities. This classification is consistent with requirements under *AASB 107 Statement of Cash Flows*.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet.

Statement of changes in equity

The statement of changes in equity presents reconciliations of non-owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balances at the end of the reporting period. It also shows separately changes due to amounts recognised in the 'Comprehensive result' and amounts related to 'Transactions with owner in its capacity as owner'.

Rounding

Amounts in the financial statements have been rounded to the nearest thousand dollars or in certain cases to the nearest dollar, unless otherwise stated. Figures in the financial statements may not equate due to rounding.

1.5. Critical accounting estimates and judgements

In the application of AAS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that may have a financial or disclosure impact on VRCA and are believed to be reasonable under the circumstances.

Critical accounting judgements

Critical judgements that management has made in the process of applying VRCA's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are:

Impairment of non-financial assets

VRCA assesses impairment of all assets at each reporting date by evaluating conditions specific to VRCA and to the particular asset that may lead to impairment. These include obsolescence or physical damage, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

Fair value of infrastructure, property, plant and equipment

All non-current physical assets are measured initially at cost and subsequently revalued at fair value in accordance with FRD 103H.

In 2019, in accordance with FRD 103H, a fair value assessment was undertaken and determined that the carrying amount of all non-current physical assets reasonably approximated fair value.

The fair value of channel assets was assessed using the same principles as that used in the independent valuation to value the channel assets in 2015 and navigation aids. Channel assets were valued using a discounted cash flow method (value in use). This method was used as there was no market based evidence of fair value (value through sale) of the channel assets given the specialised nature of the assets in question (the channel assets would rarely be sold (if ever), except as part of a continuing business). Navigation aids were valued using the current replacement cost method. Refer to Note 3.1 for the assumptions applied in 2019 and 2018.

In 2018, in accordance with FRD 103G, an adjustment was required to the carrying amount of non-physical assets based on the fair value assessment undertaken by management.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 1. ABOUT THIS REPORT *(continued)*

1.5. Critical accounting estimates and judgements

In the absence of observed market inputs, future-oriented estimates are necessary to measure the recoverable amount of classes of infrastructure, property, plant and equipment. Determining the carrying amounts of the channel assets requires estimation of the effects of uncertain future events on the channel assets at the end of the reporting period. The major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of the channel asset within the next financial year are as follows:

Estimate	Assumption	2019	2018
Volumes (year 1)	Management expectations based on historical data	15.1M tonnes	16.0M tonnes
Annual volumes growth rate	Management expectations based on historical data	1%	0% - 1%
CPI	10 year historical average	1.57%	1.63%
Discount rate	Refer Section 3.1	5.0% to 5.8%	5.3% to 6.6%

There is a relationship between CPI, volumes and the discount rate. A significant increase in CPI, volumes (ie: the year 1 volume or the volume growth rate) would result in an adjustment to the discount rate. The adjustment to the discount rate would consider the additional risk in achieving the increased volumes or CPI. Conversely, a significant decrease in volumes or CPI would result in an adjustment to the discount rate.

Given the unique nature of the channel assets, it is impracticable to disclose the extent of the possible effects a change of an estimate would have on the other assumed estimate at the end of the reporting period. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the channel assets.

As it is impracticable to disclose the extent of the possible effects a change of an estimate would have on the other assumed estimate, the below table details the percentage change of one specific estimate before resulting in a material adjustment to the carrying amount of the channel assets.

Estimate	Percent Change in Estimate	Adjustment to Carrying Value (% increase) *	Percent Change in Estimate	Adjustment to Carrying Value (% decrease) *
Volumes (year 1)	2.3%	10%	(2.4%)	(10%)
Annual volumes growth rate	27%	10%	(31%)	(10%)
CPI	(100%)	** 4.5%	92%	(10%)
Discount rate	(10%)	10%	12%	(10%)

* FRD 103H requires a change in carrying value of 10% to be adjusted.

** Reduction of CPI to zero would result in a decrease of carrying value to 4.5%.

Recovery of deferred tax asset

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise these temporary differences.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 2. PERFORMANCE

Introduction

Victorian Regional Channels Authority's overall mission is to provide safe, secure and environmentally responsible navigational services to users and operators of Victoria's regional commercial ports.

To enable VRCA to fulfil its mission, it receives income from commercial use of the channels. Section 2.2 in this note discloses the costs associated with delivery of the services.

Structure

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2.4.	Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	16

2.1. Revenue and Income

	2019 \$'000	2018 \$'000
Revenue from Continuing Operations		
<i>Revenue from contracts with customers:</i>		
(a) Channel revenue		
Channel access fees	6,805	8,469
Excess draft fees	1,985	3,958
Anchorage fees	53	41
Total channel revenue	8,843	12,468
(b) Other revenue		
Sundry revenue	1	54
Total other revenue	1	54
<i>Other income:</i>		
(c) Other income		
Interest income	143	138
Total other income	143	138

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 2. PERFORMANCE (continued)

2.1 Revenue and Income (continued)

	2019 \$'000
Disaggregation of revenue from contracts with customers	
<i>Timing of revenue recognition</i>	
At a point in time	8,844
Over time	-
Total	8,844
<i>Type of revenue</i>	
Provision of services	8,844
Total	8,844

VRCA has applied AASB 15 from 1 July 2018. The comparative information has not been restated as the application of the new accounting policy did not impact the revenue recognition and measurement under the old policy (under AASB 118 and AASB 111). The details of accounting policies under AASB 118 and AASB 111 are disclosed separately since they differ from those under AASB 15.

Revenue recognition in the comparative period

Before 1 July 2018, VRCA recognised revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to VRCA and specific criteria have been met for each of VRCA's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the revenue have been resolved. VRCA based its assessment on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue recognition in the current period

From 1 July 2018, revenue arising from an enforceable contract that imposes a sufficiently specific performance obligation on VRCA to transfer goods or services is recognised upon the fulfilment of the performance obligation. A transaction price is allocated to each performance obligation in a contract and revenue is recognised only when the related obligation is satisfied.

Revenue is measured at fair value of the transaction price that is allocated to the performance obligation (generally the consideration received or receivable).

The nature of VRCA's revenue can be allocated into the following which represent contractual obligations with customers:

- (i) **Channel revenue**
Channel revenue represents revenue earned from the levying of channel fees (use of shipping channels). The performance obligation allocated to the contract with the customer is when VRCA has fulfilled its contractual obligations (generally the use of the shipping channel by a customer).
- (ii) **Sundry revenue**
Sundry Income represents income from contracts with customers other than Channel Fees. The performance obligation allocated to the contract with the customer is when VRCA has fulfilled its contractual obligations.

Interest income

Interest income represents revenue received or receivable on at-call and short-term deposits invested by VRCA. It is recognised as the interest accrues to the net carrying amount of the financial assets using the effective interest rate method. At-call and short-term deposits are brought to account at fair value.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 2. PERFORMANCE (continued)

2.2. Expenses

	2019 \$'000	2018 \$'000
(a) Employee benefits		
Salary and wages	1,766	1,349
Superannuation	146	104
Annual and long service leave (movements in provision)	(156)	(29)
Other employee expenses (fringe benefits tax, payroll tax, workcover levy, etc)	125	105
Total employee benefits	1,881	1,529
(b) Depreciation and amortisation		
Navigation aids	483	605
Plant and equipment	81	124
Channel assets	1,062	957
Software	5	-
Total depreciation and amortisation	1,631	1,686
(c) Operating Leases		
Building rentals	256	248
Storage rentals	-	6
Equipment rentals	4	4
Total rental expense	260	258
(d) Marine Services		
Channel surveys	237	200
Marine controllers	829	1,010
Total marine services expense	1,066	1,210

Operating lease

Operating lease payments, including any contingent rentals, are recognised as an expense in the comprehensive operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the nature of incentive or form or the timing of payments.

In the event that lease incentives are received to enter into operating leases, the aggregate cost of incentives are recognised as a reduction of rental expense over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 2. PERFORMANCE (continued)

2.3. Income tax expense

	2019 \$'000	2018 \$'000
1) Reconciliation of income tax expense to prima facie tax payable/(receivable)		
Profit from continuing operations before income tax expense	1,420	5,122
Tax at the Australian tax rate of 27.5% (2018 – 30%)	390	1,537
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible items and other reconciling items	(14)	2
Over provision from prior year	(137)	-
Income tax expense	239	1,539
2) Income tax expense		
Current taxation	308	1,645
Movement in deferred tax asset (refer 2.3.3)	41	(27)
Movement in deferred tax liability (refer 2.3.4)	276	(79)
Over provision from prior year	(137)	-
Amendment to prior years income tax return	(249)	-
Income tax expense recognised in the statement of comprehensive income	239	1,539
<i>Weighted average effective tax rate (before over provision from prior year)</i>	26.5%	30.00%
By direction of the Treasurer of Victoria under the <i>State Owned Enterprises Act 1992</i> , VRCA is subject to the National Tax Equivalent Regime (NTER).		
The amount recognised for current tax is based on the profit or loss for the year and adjusted for non-assessable and non-deductible items. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.		
	2019 \$'000	2018 \$'000
3) Deferred tax asset		
Opening balance	198	171
Temporary differences	(41)	27
Change in tax rates (2019 – 27.5%, 2018 – 30.0%)	(17)	-
Closing balance	140	198
Represented by:		
Amounts allocated to comprehensive operating statement		
Pooled assets	5	7
Accrued expenses	42	93
Annual and long service leave provisions	93	98
	140	198
4) Deferred tax liabilities		
Opening balance	1,585	283
Temporary differences	276	(79)
Change in tax rates (2019 – 27.5%, 2018 – 30.0%)	(132)	1,381
Closing balance	1,729	1,585

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 2. PERFORMANCE (continued)

2.3 Income tax expense (continued)

	2019 \$'000	2018 \$'000
Represented by:		
Amounts allocated to comprehensive operating statement		
Accrued revenue	-	7
Infrastructure, property, plant and equipment	1,729	1,578
	1,729	1,585

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of assets and liabilities as determined under income tax legislation.

In principle, deferred tax liabilities are recognised for all taxable temporary differences as management considers that it is probable that future taxable profits will be available to utilise these temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities (other than as a result of the acquisition of an entity or operation) which affects neither taxable income nor the total comprehensive result.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the carrying amount of the asset or liability is recovered or settled. Deferred tax is recognised as an expense or benefit in the profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

The NTER is administered by the Australian Taxation Office on behalf of the States and Territories. Income tax is paid or payable to the State.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and VRCA intends to settle its current tax assets and liabilities on a net basis.

2.4. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	2019 \$'000	2018 \$'000
Profit for the year	1,181	3,583
Depreciation and amortisation	1,631	1,686
Net deferred tax movement on revaluation	-	(1,382)
(Profit) / loss on sale of assets	30	(2)
Asset write off	5	-
Change in operating assets and liabilities:		
(Increase) / decrease in trade & other receivables & prepayments	837	(440)
(Increase) / decrease in interest accrued	22	(2)
(Decrease) / increase in trade & other payables	174	743
(Decrease) / increase in provisions	12	164
(Increase) / decrease in deferred tax asset and tax refund	(829)	1,275
Net cash flows from operating activities	3,063	5,625

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS

Introduction

Victorian Regional Channels Authority controls infrastructure that is utilised in fulfilling its objectives and conducting its activities. The core assets represent the resources that have been entrusted to VRCA to be utilised for delivery of its responsibilities.

Fair value measurement

Where the assets included in this section are carried at fair value, additional information is disclosed in Section 3.1 in connection with how those fair values were determined.

Structure

3.1.	Infrastructure, property, plant and equipment.....	17
3.2.	Intangible assets.....	27
3.3.	Impairment of assets.....	28

3.1. Infrastructure, property, plant and equipment

Table 3.1: Classification by 'purpose groups' – carrying amounts⁽ⁱ⁾

	(\$'000)			
	Transportation and Communications		Total	
Table disclosure reference	Table 3.3			
	2019	2018	2019	2018
Nature based classification				
Plant, equipment and vehicles at fair value	313	167	313	167
Assets under construction at cost	881	-	881	-
Infrastructure at fair value	44,817	44,495	44,817	44,495
Net carrying amount	46,011	44,662	46,011	44,662

Notes:

- (i) Infrastructure, property, plant and equipment are classified primarily by the 'purpose' for which the assets are used, according to one of six purpose groups based upon government purpose classifications. All assets in a purpose group are further sub categorised according to the asset's 'nature' (i.e. buildings, plant and equipment, etc.), with each sub category being classified as a separate class of asset for financial reporting purposes.

Table 3.2: Gross carrying amount and accumulated depreciation

	(\$'000)					
	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2019	2018	2019	2018	2019	2018
Plant, equipment and vehicles at fair value	1,354	1,573	(1,041)	(1,406)	313	167
Assets under construction at cost	881	-	-	-	881	-
Infrastructure at fair value	52,443	50,765	(7,626)	(6,270)	44,817	44,495
Net carrying amount	54,678	52,338	(8,667)	(7,676)	46,011	44,662

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

Table 3.3: Classification by 'transportation and communications' purpose group – movements in carrying amounts⁽ⁱ⁾

	(\$'000)			
	Plant, equipment and vehicles at fair value		Assets under construction at cost	
	2019	2018	2019	2018
Opening balance	167	230	-	-
Additions	252	174	881	-
Disposals	(25)	(111)	-	-
Depreciation	(81)	(126)	-	-
Closing balance	313	167	881	-

	Infrastructure at fair value		Total	
	2019	2018	2019	2018
Opening balance	44,495	36,704	44,662	36,934
Additions	1,893	4,763	3,026	4,937
Disposals	(26)	(16)	(51)	(127)
Revaluation	-	4,604	-	4,604
Depreciation	(1,545)	(1,560)	(1,626)	(1,686)
Closing balance	44,817	44,495	46,011	44,662

VRCA performs annual impairment testing of its assets. Independent valuations were obtained channel assets and navigation aids in 2014/15. There were no impairment losses recognised in 2018/2019 (nil 2017/2018).

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

Table 3.4: Fair value measurement hierarchy for assets as at 30 June 2019

	(\$'000)			
	Carrying amount as at 30 June 2019	Fair value measurement at end of reporting period using:		
		Level 1 ⁽ⁱ⁾	Level 2 ⁽ⁱ⁾	Level 3 ⁽ⁱ⁾
Plant, equipment and vehicles at fair value				
Vehicles ⁽ⁱⁱ⁾	80	-	-	80
Plant and equipment	233	-	-	233
Total of plant, equipment and vehicles at fair value	313	-	-	313
Infrastructure at fair value				
Channel assets	38,051	-	-	38,051
Assets under construction	881	-	-	881
Navigation aids	6,766	-	-	6,766
Total of infrastructure at fair value	45,698	-	-	45,698
	Carrying amount as at 30 June 2018	Fair value measurement at end of reporting period using:		
		Level 1 ⁽ⁱ⁾	Level 2 ⁽ⁱ⁾	Level 3 ⁽ⁱ⁾
Plant, equipment and vehicles at fair value				
Vehicles ⁽ⁱⁱ⁾	101	-	-	101
Plant and equipment	66	-	-	66
Total of plant, equipment and vehicles at fair value	167	-	-	167
Infrastructure at fair value				
Channel assets	39,113	-	-	39,113
Navigation aids	5,382	-	-	5,383
Total of infrastructure at fair value	44,495	-	-	44,495

Notes:

- (i) Classified in accordance with the fair value hierarchy, see section 1.3
- (ii) Current replacement cost is used in estimating the fair value.

There have been no transfers between levels during the period.

Vehicles

Vehicles are valued using the current replacement cost method. VRCA acquires new vehicles and at times disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by management who set relevant depreciation rates during use to reflect the utilisation of the vehicles.

Plant and equipment

Plant and equipment is held at fair value. When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the current replacement cost method.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

Channel assets and Navigation aids

Managerial assessments of the value of VRCA's non-current physical assets were conducted in the current year. An independent fair value valuation was conducted in 2015 for channel assets and navigation aids. Channel assets were valued using a discounted cash flow method (value in use). This method was used as there was no market based evidence of fair value (value through sale) of the channel assets given the specialised nature of the assets in question (the channel assets would rarely be sold (if ever), except as part of a continuing business). Navigation aids were valued using the current replacement cost method.

As there is no active or secondary market for channel assets, the fair value measurements for the channel assets (in its entirety) fall within level 3 of the fair value hierarchy.

The following inputs have been applied in the discounted cashflow model used to assess the fair value of the channel asset:

Input	Input Used	2019	2018
Cashflows:			
Cashflow period	Management expectations based on historical data	40 years	40 years
Volumes (year 1)	Management expectations based on historical data	15.1M ton	16.0M ton
Annual volumes increase	Management expectations based on historical data	1%	0% -1%
Excess draft fee (year 1)	Management expectations based on historical data	\$1,900,000	\$2,256,000
Operating costs	Management expectations based on historical data	\$5,001,000	\$4,370,952
CPI	10 year historical average	1.57%	1.63%
Discount rate:		5.0% to 5.8%	5.3% to 6.6%
Risk Free Rate	10yr Commonwealth bond rate	1.65%	2.63%
Equity market risk premium	Industry valuations practices survey	6% -6.50%	6% -6.75%
Equity Beta	Professional judgement based on Australian and international companies who operate Infrastructure assets or operating in the marine transportation industry	0.56 to 0.71	0.45 to 0.67
Alpha Risk	Nil rate applied	Nil	Nil

Alpha risk represents additional risks regarding the operations, nature and ownership of the channel in accordance with the revised strategic plan. These risks include the lack of an active market, single use asset, potential port capacity limitations, channel capacity limitation and single (non-diversified) operation.

The adjustments to the inputs from 2018 to 2019 are explained below:

Input	Reason for Movement
Cashflows:	
Cashflow period	No movement
Channel fees (year 1)	Annual decrease to channel revenue due to management expectations resulting from adverse weather conditions impacting agricultural cargo.
Volumes (year 1)	Based on historical average and management expectations.
Annual volumes increase	Increase growth rate for Hastings. No change for Geelong.
Itinerant income (year 1)	Decrease based on management expectations due to reduction in estimated volumes.
Operating costs	Increase due to increased budgeted expenditure required to achieve future strategic goals.
CPI	Reduction in 10 year historical average.
Discount rate:	
Risk Free Rate	Decrease in 10 year Commonwealth bond rate
Equity market risk premium	Decrease noted in industry valuations survey
Equity Beta	Increase in available market Beta information
Alpha Risk	No movement

The fair value assessment at 30 June 2018 indicated that a managerial revaluation of Infrastructure assets was required under FRD103G. In accordance with FRD103G management recorded a revaluation to reflect the fair value of the channel assets and navigation aids at 30 June 2018 (refer to Table 3.5). The fair value assessment at 30 June 2019 does not indicate a managerial revaluation of infrastructure assets is required under FRD103H.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

Navigation aids

No fair value adjustment has been recorded at 30 June 2019.

A fair value adjustment was recorded at 30 June 2018 for the navigation aids at Hastings. Navigation aids were valued using the current replacement cost method.

There were no changes in valuation techniques throughout the period to 30 June 2019.

For all assets measured at fair value, the current use is considered the highest and best use.

Table 3.5: Reconciliation of Level 3 fair value

	(\$'000)				
2019	Vehicles	Plant and equipment	Channel assets	Navigation aids	Assets under construction
Opening balance	101	66	39,113	5,382	-
Net purchases and disposals	14	216		1,894	881
Gains or losses recognised in profit/(loss)	(3)	-	-	(27)	-
Depreciation	(32)	(49)	(1,062)	(483)	-
Subtotal	80	233	38,051	6,766	881
Gains or losses recognised in other comprehensive income					
Revaluation	-	-	-	-	-
Subtotal	-	-	-	-	-
Closing balance	80	233	38,051	6,766	881

2019	Total				
Opening balance	44,662				
Net purchases and disposals	3,005				
Gains or losses recognised in profit/(loss)	(30)				
Depreciation	(1,626)				
Subtotal	46,011				
Gains or losses recognised in other comprehensive income					
Revaluation	-				
Subtotal	-				
Closing balance	46,011				

	(\$'000)				
2018	Vehicles	Plant and equipment	Channel assets	Navigation aids	Total
Opening balance	130	100	31,722	4,982	36,934
Net purchases and disposals	3	59	4,623	124	4,809
Gains or losses recognised in profit/(loss)	4	(2)	-	-	2
Depreciation	(36)	(91)	(957)	(603)	(1,686)
Subtotal	101	66	35,388	4,503	40,058
Gains or losses recognised in other comprehensive income					
Revaluation	-	-	3,725	879	4,604
Subtotal	-	-	3,725	879	4,604
Closing balance	101	66	39,113	5,382	44,662

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

Table 3.6: Description of significant unobservable inputs to Level 3 valuations

		2019		
	Valuation technique	Significant unobservable inputs	Range / weighted average	Sensitivity of fair value measurement to changes in significant unobservable inputs
Vehicles	Current replacement cost	Cost per unit	\$37,200 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of vehicles	4 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.
Plant and equipment	Current replacement cost	Cost per unit	\$12,100 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of plant and equipment	2-10 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.
Channel asset	Discounted cash flow	Discount rate	5.0% to 5.8%	A significant increase or decrease in discount rate would result in a significantly higher or lower fair value.
		Useful life	40 years	A significant increase or decrease in the useful life would result in a significantly higher or lower fair value.
		CPI Rate	1.57%	A significant increase or decrease in CPI rate would result in a significantly higher or lower fair value.
		Volume growth rate	1%	A significant increase or decrease in volume growth rate would result in a significantly higher or lower fair value.
Navigation aid	Current replacement cost	Cost per unit	\$37,700 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of navigation aids	1-40 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.

The significant unobservable inputs have remained unchanged from 2018.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

Table 3.6: Description of significant unobservable inputs to Level 3 valuations (continued)

2018				
	Valuation technique	Significant unobservable inputs	Range / weighted average	Sensitivity of fair value measurement to changes in significant unobservable inputs
Vehicles	Current replacement cost	Cost per unit	\$39,000 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of vehicles	4 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.
Plant and equipment	Current replacement cost	Cost per unit	\$11,900 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of plant and equipment	2-10 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.
Channel asset	Discounted cash flow	Discount rate	5.3% to 6.6%	A significant increase or decrease in discount rate would result in a significantly higher or lower fair value.
		Useful life	40 years	A significant increase or decrease in the useful life would result in a significantly higher or lower fair value.
		CPI Rate	1.63%	A significant increase or decrease in CPI rate would result in a significantly higher or lower fair value.
		Volume growth rate	0% - 1%	A significant increase or decrease in volume growth rate would result in a significantly higher or lower fair value.
Navigation aid	Current replacement cost	Cost per unit	\$90,000 per unit	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of navigation aids	1-40 years	A significant increase or decrease in useful life of the asset would result in a significantly higher or lower fair value.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

In the absence of observed market inputs, future-oriented estimates are necessary to measure the recoverable amount of classes of infrastructure, property, plant and equipment. Determining the carrying amounts of the channel assets requires estimation of the effects of uncertain future events on the channel assets at the end of the reporting period. The major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of the channel asset within the next financial year are as follows:

Estimate	Assumption	2019	2018
Volumes (year 1)	Management expectations based on historical data	15.1M tonnes	16.0M tonnes
Annual volumes growth rate	Management expectations based on historical data	1%	0% - 1%
CPI	10 year historical average	1.57%	1.63%
Discount rate	Refer Section 3.1	5.0% to 5.8%	5.3% to 6.6%

There is a relationship between CPI, volumes and the discount rate. A significant increase in CPI, volumes (ie: the year 1 volume or the volume growth rate) would result in an adjustment to the discount rate. The adjustment to the discount rate would consider the additional risk in achieving the increased volumes or CPI. Conversely, a significant decrease in volumes or CPI would result in an adjustment to the discount rate.

Given the unique nature of the channel assets, it is impracticable to disclose the extent of the possible effects a change of an estimate would have on the other assumed estimate at the end of the reporting period. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the channel assets.

As it is impracticable to disclose the extent of the possible effects a change of an estimate would have on the other assumed estimate, the below table details the percentage change of one specific estimate before resulting in a material adjustment to the carrying amount of the channel assets.

Estimate	Percent Change in Estimate	Adjustment to Carrying Value (% increase) *	Percent Change in Estimate	Adjustment to Carrying Value (% decrease) *
Volumes (year 1)	2.3%	10%	(2.4%)	(10%)
Annual volumes growth rate	27%	10%	(31%)	(10%)
CPI	(100%)	** 4.5%	92%	(10%)
Discount rate	(10%)	10%	12%	(10%)

* FRD 103H requires a change in carrying value of 10% to be adjusted.

** Reduction to CPI to zero would result in a decrease of carrying value to 4.5%.

All non-financial physical assets, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. For the 'plant, equipment and vehicles' class, current replacement cost is used as a reasonable approximation of fair value. The level of the fair value hierarchy in which the fair value has been measured is Level 3.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

All non-financial physical assets, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. For the 'plant, equipment and vehicles' class, current replacement cost is used as a reasonable approximation of fair value. The level of the fair value hierarchy in which the fair value has been measured is Level 3.

(i) Revaluations of non-financial physical assets

Non-financial physical assets are measured at fair value, in accordance with the Financial Reporting Directions (FRDs) issued by the Minister for Finance. An independent revaluation occurs every five years, based upon the asset's government purpose classification but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations. Certain infrastructure assets are revalued using specialised valuers. Any interim revaluations are determined in accordance with the requirements of *FRD 103H*.

Revaluation increments or decrements arise from differences between an asset's carrying value and fair value.

Net revaluation increases (where the carrying amount is increased as a result of a revaluation) are recognised in the other comprehensive income as a credit in equity under the asset revaluation reserve net of tax effect. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same asset previously recognised as an expense in the net result.

Net revaluation decreases are recognised in 'other comprehensive income' to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of infrastructure, property, plant and equipment. Otherwise, the net revaluation decrease is recognised immediately as other economic flows in the net result. The net revaluation decreases recognised in 'other comprehensive income' reduce the amount accumulated in equity under the asset revaluation surplus.

Revaluation increases and decreases relating to individual assets in a class of property, plant and equipment, are offset against one another in that class but are not offset in respect of assets in different classes. The asset revaluation surplus is not transferred to accumulated funds on derecognition of the relevant asset.

Managerial assessments of the value of VRCA's non-current physical assets were conducted in the current year. In 2015, a formal valuation of VRCA's non-current physical assets were performed to determine fair value as follows:

Class	Method	Valuer
Channel assets	Discounted cash flows	Pitcher Partners
Plant, equipment and vehicles	Current replacement cost	Management's Assessment
Navigation aids	Current replacement cost	AssetVal

(ii) Depreciation

All infrastructure assets, channels, plant and equipment and other non-financial physical assets (excluding items under operating leases) that have finite useful lives are depreciated. Depreciation is calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate.

The following are typical estimated useful lives for the different asset classes for current and prior years.

Asset class	Useful life
Channels	40 years
Navigation aids	1-40 years
Office furniture, fittings and equipment	2-10 years
Vehicles	4 years

(iii) Changes in accounting estimates

The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial reporting period and, where changed, are accounted for as a change in an accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (continued)

3.1. Infrastructure, property, plant and equipment (continued)

(iv) Recoverable amount

An asset's carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its estimated recoverable amount (refer to Section 3.2).

(v) Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of the assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition.

Infrastructure, property, plant and equipment represent non-current assets comprising channels, navigation aids, vehicles and plant and equipment used by VRCA in its operations. Items with a cost or value in excess of \$1,000 (2018: \$1,000) and a useful life of more than one year are recognised as assets. All other assets are expensed as acquired.

(vi) Repairs and maintenance

Routine maintenance, repair costs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold, the cost is capitalised and depreciated.

(vii) Major maintenance dredging costs

The shipping channels in port waters are subject to deterioration through siltation, which reduces the depth of water available to commercial shipping. The channels are restored to proper depths by routine maintenance dredging. Dredging and associated costs (including all costs incurred under the dredging contract to restore the channels to proper depths) are capitalised and will be amortised once the asset is ready for use.

(viii) Channel safety and capacity Improvements

Channel safety and capacity improvements that provide a future benefit to the channel asset through an increase in the fees charge to use the channel are capitalised and form part of the channel asset. Work in progress, such as survey costs, environmental and engineering studies and dredging works that relate to channel safety improvements are capitalised in accordance with AASB116 and tested for impairment annually. Where work in progress has been capitalised and the safety improvement project are not probable to proceed, the work in progress is derecognised in accordance with AASB116. Derecognised work in progress is expensed to the comprehensive operating statement.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (*continued*)

3.2. Intangible assets

	(\$'000)			
	Computer Software		Total	
	2019	2018	2019	2018
Gross carrying amount				
Opening balance	-	-	-	-
Additions	148	-	148	-
Closing balance	148	-	148	-
Accumulated depreciation, amortisation and				
Opening balance	-	-	-	-
Depreciation of intangible produced assets	5	-	5	-
Closing balance	5	-	5	-
Net book value at end of financial year	143	-	143	-

The consumption of intangible produced assets is included in 'depreciation' line item on the comprehensive operating statement.

Significant intangible assets

VRCA has capitalised software development expenditure for the development of its accounting software. The carrying amount of the capitalised software development expenditure is \$148,000 (2018: nil). Its useful life is five years and will be fully amortised in 2024.

Initial recognition

Purchased intangible assets are initially recognised at cost. When the recognition criteria in AASB 138 Intangible Assets is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Depreciation and amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- an intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Subsequent measurement

Intangible produced assets with finite useful lives, are amortised as an 'expense from transactions' on a straight line basis over their useful lives. Produced intangible assets have useful lives of 5 years. Intangible non-produced assets with finite lives are amortised as an 'other economic flow' on a straight line basis over their useful lives. The amortisation period is 3 to 5 years.

Impairment of intangible assets

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified. The policy in connection with testing for impairment is outlined in section 3.3.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 3. CORE ASSETS (*continued*)

3.3. Impairment of assets

All of VRCA's assets, except financial assets and deferred tax assets, are assessed annually for indications of impairment (i.e. as to whether their carrying value exceeds their recoverable amount). The conditions that are evaluated include obsolescence or physical damage, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off by a charge to profit or loss except to the extent that the write-down can be debited to an asset revaluation surplus amount applicable to that asset.

If there is an indication that there has been a change in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. This reversal of the impairment loss occurs only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

It is deemed that, in the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of current replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 4. WORKING CAPITAL

Introduction

This section sets out those assets and liabilities that arose from VRCA's controlled operations.

Structure

4.1.	Receivables	29
4.2.	Payables	30

4.1. Receivables

	2019 \$'000	2018 \$'000
Current		
Contractual		
Trade receivables* (section 6.3)	837	1,650
Sundry receivables	21	-
Interest receivable	-	22
	858	1,672
Statutory		
GST receivable	37	-
Income tax receivable	425	-
	462	-
	1,320	1,672

* The average credit period for trade receivables is 30 days. Interest may be charged on arrears in accordance with Section 79 of the Port Management Act 1995. Refer to section 6.3 for ageing and risk analysis.

Receivables consist of:

- contractual receivables, such as debtors in relation to goods and services, loans to third parties and accrued investment income; and
- statutory receivables, such as amounts owing from the Victorian Government and Goods and Services Tax (GST) input tax credits recoverable.

Contractual receivables are classified as financial instruments and categorised as financial assets at amortised costs (refer to section 6.3 Financial Instruments for recognition and measurement).

Statutory receivables, are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from a contract.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Details about VRCA's impairment policies, exposure to credit risk and calculation of the loss allowance are set out in note 6.3.(ii).

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 4. WORKING CAPITAL (*continued*)

4.2. Payables

	2019 \$'000	2018 \$'000
Current unsecured		
Contractual *		
Trade creditors (section 6.3)	861	604
Other creditors and accruals	254	295
	1,115	899
Statutory		
Superannuation payable	18	-
Payroll tax payable	21	-
GST payable	-	63
Fringe benefits tax	8	14
PAYG payable	52	26
	99	103
	1,214	1,005

* The average credit period is 30 days. No interest is charged on the payables. Refer to section 6.3 for the nature and extent of risks arising from contractual payables.

Payables consist of:

- contractual payables, such as accounts payable, and unearned income. Accounts payable represent liabilities for goods and services provided to VRCA prior to the end of the financial year that are unpaid, and arise when VRCA becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, such as goods and services tax and fringe benefits tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost. Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

Trade and other payables are recorded at amortised cost. Due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to VRCA prior to the end of the financial year that are unpaid as at year end. The amounts are unsecured and are usually paid within 30 days of recognition.

Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, except where GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 5. OTHER ASSETS AND LIABILITIES

Introduction

This section sets out those other assets and liabilities that arose from VRCA's controlled operations.

Structure

5.1.	Cash and cash equivalents.....	31
5.2	Provisions	32

5.1. Cash and cash equivalents

	2019 \$'000	2018 \$'000
Cash at bank and on hand	6,064	140
Short term deposits	-	6,800
	6,064	6,940

Cash at bank

During the year VRCA established a facility with Westpac Banking Corporation Limited (WBC) that is part of the Central Banking System scheme introduced by the Victorian Government. The cash at bank and on hand as at 30 June 2019 represent funds on deposit with WBC.

Short term deposits

All deposits of VRCA are limited instruments directly accepted by an authorised bank or issued by a Government Treasury or Authority and guaranteed by a State or Commonwealth Government. These deposits had a floating interest rate of 1.85% to 2.69% (2017/18 1.65% to 2.53%).

Cash and cash equivalents

Cash and deposits recognised on the balance sheet comprise cash on hand and cash at bank, deposits at call and those highly liquid investments (with an original maturity of three months or less), which are held for the purpose of meeting short term cash commitments rather than for investment purposes, and readily convertible to known amounts of cash with an insignificant risk of changes in value.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as borrowings on the balance sheet.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 5. OTHER ASSETS AND LIABILITIES

5.2 Provisions

	2019 \$'000	2018 \$'000
(a) Current		
Employee benefits (section 7.1)	234	278
Employee on-costs (section 7.1)	27	28
Provision for income tax	-	722
	261	1,028
(b) Non-current		
Employee benefits (section 7.1)	75	20
Employee on-costs (section 7.1)	4	1
	79	21

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

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

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

VICTORIAN REGIONAL CHANNELS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

SECTION 6. CAPITAL AND RISK MANAGEMENT

Introduction

Victorian Regional Channels Authority is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information.

This section also outlines disclosures relating to equity and dividend policy in accordance with *Port Management Act 1995 (Vic)*.

Structure

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6.1. Dividend policy

VRCA pays dividends in accordance with a determination of the Treasurer of Victoria under the *Port Management Act 1995 (Vic)*. The obligation to pay a dividend arises after consultation between VRCA's Board, the Minister for Ports and Freight and the Treasurer of Victoria. Following this consultation process, the Treasurer makes a formal determination. Dividends declared on or before the reporting date are recognised as a liability and are generally determined based on a percentage of profits for the year.

6.2. Equity

Contributed capital

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners.

Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners.

	2019 \$'000	2018 \$'000
Balance at the beginning of the year	57,883	57,883
Balance at the end of the year	57,883	57,883

Capital management

Management controls the capital of VRCA in order to maintain a good debt to equity ratio and ensure that it can fund its operations and continue as a going concern. VRCA's debt and capital includes contributed capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages VRCA's capital by assessing its financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 6. CAPITAL AND RISK MANAGEMENT *(continued)*

6.2. Equity (continued)

Reserves

	2019	2018
	\$'000	\$'000
Asset Revaluation Reserve *		
Balance at the beginning of the year	3,836	613
Revaluation increments in infrastructure assets	-	4,604
Adjustment to deferred tax liability resulting from change in tax rates	115	-
Deferred Tax Liability resulting from revaluation	-	(1,381)
Balance at the end of the year	3,951	3,836

The revaluation reserve records revaluations of non-current assets net of tax effect.

* The Asset Revaluation reserve relates to the infrastructure asset class.

Retained profit/(accumulated losses)

	2019	2018
	\$'000	\$'000
Movements in retained profits/(accumulated losses) were as follows:		
Retained profits/(accumulated losses) at the beginning of the year	(11,658)	(13,342)
Profit for the year	1,181	3,583
Dividends paid	(780)	(1,899)
Retained profits/(accumulated losses) at the end of the year	(11,257)	(11,658)

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 6. CAPITAL AND RISK MANAGEMENT (continued)

6.3. Financial Instruments

Financial risk management objectives and policies

VRCA's principal financial instruments comprise of:

- cash and cash equivalents;
- receivables (excluding statutory receivables); and
- payables (excluding statutory payables).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument above are disclosed in notes to the financial statements. The main purpose in holding financial instruments is to prudentially manage VRCA's financial risks within the Government policy parameters. VRCA's main financial risks include credit risk, liquidity risk, market risk and interest rate risk. VRCA manages these financial risks in accordance with its financial risk management policy

(i) Categorisation of financial instruments and net holding gain/(loss) on financial instruments by category

	Notes	Contractual financial assets at amortised cost \$'000	Contractual financial liabilities at amortised cost \$'000	Total \$'000
2019				
Contractual financial assets				
Current assets				
Cash and cash equivalents	5.1	6,064	-	6,064
Trade and other receivables	4.1	858	-	858
Total contractual financial assets		6,922	-	6,922
Contractual financial liabilities				
Current liabilities				
Trade and other payables	4.2	-	1,115	1,115
Total contractual financial liabilities		-	1,115	1,115
Net holding gain/(loss) on financial instruments by category				
Total interest income/(expense)	2.1	143	-	143
Total		143	-	143
2018				
Contractual financial assets				
Current assets				
Cash and cash equivalents	5.1	6,940	-	6,940
Trade and other receivables	4.1	1,672	-	1,672
Total contractual financial assets		8,612	-	8,612
Contractual financial liabilities				
Current liabilities				
Trade and other payables	4.2	-	899	899
Total contractual financial liabilities		-	899	899
Net holding gain/(loss) on financial instruments by category				
Total interest income/(expense)	2.1	138	-	138
Total		138	-	138

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 6. CAPITAL AND RISK MANAGEMENT (continued)

6.3 Financial Instruments (continued)

(i) Categorisation of financial instruments and net holding gain/(loss) on financial instruments by category (continued)

The net holding gains or losses disclosed above are determined as follows:

- for cash and cash equivalents, loans or receivables and available for sale financial assets, the net gain or loss is calculated by taking the movement in the fair value of the asset, the interest income, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result.

(ii) Credit risk

Credit risk refers to the possibility that a counterparty will default on its financial obligations as and when they fall due. VRCA's exposure to credit risk arises from the potential default of a counter party on their contractual obligations resulting in financial loss to VRCA. Credit risk is measured at fair value and is monitored on a regular basis.

VRCA manages credit risk by obtaining credit checks for new counterparties prior to establishing credit facilities and by conducting checks for existing customers on a regular basis. Receivables are monitored on an ongoing basis, resulting in minimal exposure to bad debts. Receivables are 30 day accounts and paid within the trading terms. Credit risk is also minimised by investing surplus funds with financial institutions that maintain a high credit rating.

There are no material financial assets which are individually determined to be impaired. VRCA does not hold any collateral as security or credit enhancement relating to any of its financial assets. VRCA does not engage in hedging for its contractual assets. VRCA only deals with banks with high credit ratings.

(iii) Credit quality of contractual financial assets that are neither past due nor impaired

	Notes	Financial institutions (AAA credit rating) \$'000	Other \$'000	Total \$'000
2019				
Contractual financial assets				
Current assets				
Cash and cash equivalents	5.1	-	* 6,064	6,064
Trade and other receivables	4.1	-	858	858
Total contractual financial assets		-	6,922	6,922
2018				
Contractual financial assets				
Current assets				
Cash and cash equivalents	5.1	4,800	2,140	6,940
Trade and other receivables	4.1	-	1,672	1,672
Total contractual financial assets		4,800	3,812	8,612

* During the year VRCA established a facility with Westpac Banking Corporation Limited (WBC) that is part of the Central Banking System introduced by the Victorian Government. As at 30 June 2019, the credit rating for WBC was AA- (as issued by Standard and Poor's). The cash and cash equivalents as at 30 June 2019 represent funds on deposit with WBC.

Impairment of financial assets under AASB 9 – applicable from 1 July 2018

From 1 July 2018, VRCA has been recording the allowance for expected credit loss for the relevant financial instruments, replacing AASB 139's incurred loss approach with AASB 9's Expected Credit Loss approach. Subject to AASB 9 impairment assessment include VRCA's contractual receivables and statutory receivables.

Equity instruments are not subject to impairment under AASB 9. Other financial assets mandatorily measured or designated at fair value through net result are not subject to impairment assessment under AASB 9. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 6. CAPITAL AND RISK MANAGEMENT *(continued)*

6.3 Financial Instruments *(continued)*

(iii) Credit quality of contractual financial assets that are neither past due nor impaired (continued)

Contractual receivables at amortised cost

VRCA applies AASB 9 simplified approach for all contractual receivables to measure expected credit losses using a lifetime expected loss allowance based on the assumptions about risk of default and expected loss rates. VRCA has grouped contractual receivables on shared credit risk characteristics and days past due and select the expected credit loss rate based on the VRCA's past history, existing market conditions, as well as forward-looking estimates at the end of the financial year.

The expected credit loss has been assessed as 0%. No loss allowance was recognised at 30 June 2018 under AASB 139. No additional loss allowance is required upon transition into AASB 9 on 1 July 2018.

Credit loss allowance is classified as other economic flows in the net result. Contractual receivables are written off when there is no reasonable expectation of recovery and impairment losses are classified as a transaction expense. Subsequent recoveries of amounts previously written off are credited against the same line item.

In prior years, a provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected, and bad debts are written off when identified. A provision is made for estimated irrecoverable amounts from the sale of goods when there is objective evidence that an individual receivable is impaired. Bad debts considered as written off by mutual consent.

Statutory receivables at amortised cost

VRCA's non-contractual receivables arising from statutory requirements are not financial instruments. However, they are nevertheless recognised and measured in accordance with AASB 9 requirements as if those receivables are financial instruments.

The statutory receivables are considered to have low credit risk, taking into account the counterparty's credit rating, risk of default and capacity to meet contractual cash flow obligations in the near term. As the result, the loss allowance recognised for these financial assets during the period was limited to 12 months expected losses. No loss allowance recognised at 30 June 2018 under AASB 139. No additional loss allowance required upon transition into AASB 9 on 1 July 2018.

(iv) Financial Risk Management

VRCA maintains a comprehensive Risk Management System, which is integrated with its business planning processes. There is a formally documented Risk Management Policy, guidelines and a framework, which is consistently applied across the business. Risk assessment reports are presented to the Audit Committee and the Board regularly, which outlines all corporate risks including financial risks. Each risk is assessed regularly against the risk matrix to ensure the level of risk is appropriate and the treatment and controls are adequate.

There are no material financial assets which are individually determined to be impaired. VRCA does not hold any collateral as security or credit enhancement relating to any of its financial assets. VRCA does not engage in hedging for its contractual assets. VRCA only deals with banks with high credit ratings.

(v) Liquidity risk

Liquidity risk is the risk that VRCA would be unable to meet its financial obligations as and when they fall due. VRCA operates under the Government's fair payment policy of settling financial obligation within 30 days and in the event of a dispute making payments within 30 days of resolution.

VRCA's maximum exposure to liquidity risk is the carrying amount of financial liabilities as disclosed on the face of the balance sheet.

VRCA manages its liquidity risk to ensure that adequate cash funds are available at all times to meet its commitments as they arise. This objective is met through:

- an efficient and effective banking structure;
- sound cash management practices;
- regular identification and monitoring of the maturity profile of liquid assets and liabilities together with regular cash flow forecasting; and
- investments that are limited to highly liquid and secure assets.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 6. CAPITAL AND RISK MANAGEMENT (continued)

6.3 Financial Instruments (continued)

(v) Liquidity risk (continued)

The Treasury Corporation of Victoria ensures adequate access to financial markets for VRCA and hence, the liquidity risk faced by VRCA is not considered significant in view of VRCA's cash holding. Contractual obligations for payables is equal to the carrying amounts disclosed in note 4.2. Payables held at 30 June 2019 mature within 30 days (2018: 30 days).

(vi) Market risk

Market risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

VRCA's exposure to market risk is primarily through interest rate movements in respect of cash and cash equivalents with a variable interest rate. An increase in interest rates by 1% will have a favourable impact of \$60,600 (2018: \$69,400). A decrease in interest rates will have an equal and opposite effect.

(vii) Interest rate risk analysis

The exposure to interest rate risks and the effective weighted average interest rates for financial assets and financial liabilities at the reporting date are as follows:

	Floating Interest \$'000	Non-interest bearing \$'000	Total \$'000
2019			
Financial assets:			
Cash and cash equivalents	6,064	-	6,064
Trade and other receivables	-	858	858
	6,064	858	6,922
<i>Weighted average interest rate</i>	<i>1.51%</i>		
Financial liabilities:			
Trade and other payable	-	1,115	1,115
	-	1,115	1,115
Net financial assets/(liabilities)	6,064	(257)	5,807
2018			
Financial assets:			
Cash and cash equivalents	6,940	-	6,940
Trade and other receivables	-	1,672	1,672
	6,940	1,672	8,612
<i>Weighted average interest rate</i>	<i>1.59%</i>		
Financial liabilities:			
Trade and other payable	-	899	899
	-	899	899
Net financial assets/(liabilities)	6,940	773	7,713

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 6. CAPITAL AND RISK MANAGEMENT (continued)

6.3 Financial Instruments (continued)

(viii) Net fair value of financial assets and liabilities

The net fair value of VRCA's cash and deposits and non-interest bearing financial assets and liabilities is equal to their carrying value.

Comparison between carrying amount and fair value

	Notes	Carrying amount 2019 \$'000	Fair value 2019 \$'000	Carrying amount 2018 \$'000	Fair value 2018 \$'000
Contractual financial assets					
Current assets					
Cash and cash equivalents	5.1	6,064	6,064	6,940	6,940
Trade and other receivables	4.1	858	858	1,672	1,672
Total contractual financial assets		6,922	6,922	8,612	8,612
Contractual financial liabilities					
Current liabilities					
Trade and other payables	4.2	1,115	1,115	899	899
Total contractual financial liabilities		1,115	1,115	899	899

Fair value measurements in the balance sheet

Certain financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1, 2 or 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with level 1 that are observable for the asset or liability either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2019 and 30 June 2018, no financial assets or liabilities held by VRCA required fair value measurement subsequent to initial recognition.

(ix) Ageing analysis of contractual financial assets

	Notes	Carrying amount \$'000	Not past due and not impaired \$'000	1 to 3 months \$'000	3 months to 1 year \$'000	1 to 5 years \$'000
2019						
Contractual financial assets						
Trade and other receivables	4.1	858	858	-	-	-
Total contractual financial assets		858	858	-	-	-
2018						
Contractual financial assets						
Trade and other receivables	4.1	1,672	1,404	268	-	-
Total contractual financial assets		1,672	1,404	268	-	-

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 6. CAPITAL AND RISK MANAGEMENT (continued)

6.3 Financial Instruments (continued)

(x) Nature and extent of risk arising from investments and other financial assets

There are no material financial assets which are individually determined to be impaired. Currently VRCA does not hold any collateral as security nor credit enhancements relating to any of its financial assets. There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated.

(xi) Maturity analysis of contractual financial liabilities

	Notes	Carrying amount \$'000	Nominal amount \$'000	Less than 1 month \$'000	1to 3 months \$'000	3 months to 1 year \$'000
2019						
Contractual financial liabilities						
Trade and other payables	4.2	1,115	1,115	1,004	111	-
Total contractual financial assets		1,115	1,115	1,004	111	-
2018						
Contractual financial liabilities						
Trade and other payables	4.2	899	899	885	14	-
Total contractual financial assets		899	899	885	14	-

Maturity analysis is presented using the contractual undiscounted cash flows. The carrying amounts disclosed exclude statutory amounts (e.g. GST payables).

VICTORIAN REGIONAL CHANNELS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

6.3 Financial Instruments (continued)

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of VRCA's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example taxes, fines and penalties). Such assets and liabilities do not meet the definition of financial instruments in *AASB 132 Financial Instruments: Presentation*.

Guarantees issued on behalf of VRCA are financial instruments because, although authorised under statute, terms and conditions for each financial guarantee may vary and are subject to an agreement.

From 1 July 2018, VRCA applies AASB 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

Categories of financial assets under AASB 9

(a) *Financial assets at amortised cost*

Financial assets are measured at amortised costs if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by VRCA to collect the contractual cash flows, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interests.

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

VRCA recognises the following assets in this category:

- cash and cash equivalents;
- receivables (excluding statutory receivables); and
- term deposits.

Categories of financial assets previously under AASB 139 that are not recognised under AASB 9

(b) *Loans and receivables*

Loans and receivables and cash are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method (and for assets, less any impairment). VRCA recognises the following assets in this category:

- cash and cash equivalents;
- receivables (excluding statutory receivables); and
- term deposits.

(c) *Held to maturity financial assets*

Held to maturity financial assets: If VRCA has the positive intent and ability to hold nominated investments to maturity, then such financial assets may be classified as held to maturity. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. VRCA makes limited use of this classification because any sale or reclassification of more than an insignificant amount of held to maturity investments not close to their maturity, would result in the whole category being reclassified as available-for-sale. The held to maturity category includes term deposits for which VRCA intends to hold to maturity.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

6.3 Financial Instruments (continued)

Categories of financial liabilities under AASB 9 and previously under AASB 139

(d) Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest bearing liability, using the effective interest rate method. VRCA recognises the following liabilities in this category:

- payables (excluding statutory payables); and
- borrowings (including finance lease liabilities).

Derivative financial instruments are classified as held for trading financial assets and liabilities. They are initially recognised at fair value on the date on which a derivative contract is entered into. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives after initial recognition are recognised in the consolidated comprehensive operating statement as an 'other economic flow' included in the net result.

(e) Offsetting financial instruments

Financial instrument assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, VRCA has a legal right to offset the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Some master netting arrangements do not result in an offset of balance sheet assets and liabilities. Where VRCA does not have a legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default, insolvency or bankruptcy, they are reported on a gross basis.

(f) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- VRCA retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- VRCA has transferred its rights to receive cash flows from the asset and either:
 - has transferred substantially all the risks and rewards of the asset; or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where VRCA has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of VRCA's continuing involvement in the asset.

(g) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an 'other economic flow' in the comprehensive operating statement.

(h) Reclassification of financial instruments

Subsequent to initial recognition reclassification of financial liabilities is not permitted. Financial assets are required to be reclassified between fair value through net result, fair value through other comprehensive income and amortised cost when and only when the VRCA's business model for managing its financial assets has changes such that its previous model would no longer apply. If under rare circumstances an asset is reclassified, the reclassification is applied prospectively from the reclassification date and previously recognised gains, losses or interest should not be restated. If the asset is reclassified to fair value, the fair value should be determined at the reclassification date and any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in net result.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 7. PEOPLE

Introduction

This section provides an account of the expenses incurred by Victorian Regional Channels Authority in relation to its employees and key management personnel.

Structure

7.1.	Employee benefits	43
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7.3.	Key management personnel disclosures	46

7.1. Employee benefits

	2019 \$'000	2018 \$'000
(a) Employee benefits		
<i>Current</i>		
Annual Leave		
- Unconditional and expected to wholly settle within 12 months	120	44
- Unconditional and expected to wholly settle after 12 months	35	30
Long Service Leave		
- Unconditional and expected to wholly settle after 12 months	79	204
	234	278
<i>Non-current</i>		
Long Service Leave		
- Conditional (representing less than 7 years of continuous service)	75	20
	75	20
<i>Note:</i>		
▪ Employee benefits consist of annual leave and long service leave accrued by employees inclusive of leave loading. On costs such as payroll tax, superannuation and workers' compensation insurance are not employee benefits and are reflected as a separate provision.		
▪ Amounts are measured at present values.		
(b) Employee on-costs		
<i>Current</i>		
Provisions for on-costs		
- Unconditional and expected to settle within 12 months	18	10
- Unconditional and expected to settle after 12 months	9	18
	27	28
<i>Non-current</i>		
Provisions for on-costs		
- Conditional and expected to settle after 12 months	4	1
	4	1
<i>Note:</i>		
▪ Employee benefits consist of annual leave and long service leave accrued by employees inclusive of leave loading. On costs such as payroll tax, superannuation and workers' compensation insurance are not employee benefits and are reflected as a separate provision.		
▪ Amounts are measured at present values.		

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 7. PEOPLE (continued)

7.1. Employee benefits (continued)

	2019 \$'000	2018 \$'000
(c) Employee benefits and on costs		
Current employee benefits		
Annual Leave	155	74
Long Service Leave	79	204
Non-current employee benefits	234	278
Long service Leave	75	20
Total employment benefits	309	298
Current on-costs	27	28
Non-current on-costs	4	1
Total on costs	31	29
Total employment benefits and on-costs	340	327
(d) Reconciliation of on-costs		
Carrying amount at 1 July	29	36
Add: New provisions raised	28	33
Less: Reductions arising from payments	26	40
Carrying amount at 30 June	31	29

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries are all recognised in the provision for employee benefits as 'current liabilities', because VRCA does not have an unconditional right to defer settlements of these liabilities.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries, annual leave and sick leave are measured at:

- undiscounted value - if VRCA expects to wholly settle within 12 months; or
- present value - if VRCA does not expect to wholly settle within 12 months.

(ii) Long service leave

Long service leave entitlements are assessed at balance date having regard to expected employees' remuneration rates on settlement, employment related on-costs and other factors including expected accumulated years of employment on settlement and experience of employees' departure per year of service. Commonwealth bond rates are used for discounting future cash flows.

Unconditional long service leave is disclosed as a current liability even when the liability is not expected to settle within 12 months because there is not the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months. The component of leave expected to be settled within 12 months is measured at nominal value and the component expected to be settled beyond 12 months is measured at present value.

Conditional long service leave is disclosed as a non-current liability as there is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. Conditional long service leave is disclosed as a non-current liability measured at present value.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 7. PEOPLE (continued)

7.2. Superannuation

One VRCA employee was a member of a defined benefit superannuation scheme. All other employees are members of accumulation schemes. Expenses recognised by VRCA in relation to contributions made during the year to defined contribution and benefits superannuation plans of which VRCA's employees are members are as follows:

Fund	Contributions made		Contributions outstanding	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Asgard Super (Accumulation)	5	-	1	-
Australian Super (Accumulation)	52	10	6	-
BT SuperWrap (Accumulation)	23	21	2	-
Cbus (Accumulation)	-	1	-	-
Colonial First State (Accumulation)	14	13	1	-
First State (Accumulation)	3	-	-	-
FMC Super Fund (Accumulation)	6	-	1	-
Hesta (Accumulation)	5	5	-	-
SERF (Accumulation)	26	11	5	-
State Superannuation Scheme (Defined Benefit)*	21	12	-	-
Vic Super (Accumulation)	35	18	1	-
Various other funds (Accumulation)	13	13	1	-
Total	203	104	18	-

*VRCA does not recognise any defined benefit liability in respect of the defined benefit plan because it has no legal or constructive obligation to pay future benefits relating to its employees. Its only obligation is to pay superannuation contributions as they fall due.

One VRCA employee was a member of a defined benefit superannuation scheme. During the year this member ceased employment with VRCA. These defined benefit funds are closed to new members. All other employees are members of accumulation schemes.

The amount recognised in the comprehensive operating statement in relation to employer contributions for members of defined benefit superannuation plans is simply the employer contributions that are paid or payable to these plans during the reporting period. The level of these contributions will vary depending upon the relevant rules of each plan, and is based upon actuarial advice.

The Department of Treasury and Finance (DTF) in its Annual Financial Statements, disclose on behalf of the State as the sponsoring employer, the net defined benefit cost related to the members of these plans as an administered liability. Refer to DTF's Annual Financial Statements for more detailed disclosures in relation to these plans.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 7. PEOPLE (continued)

7.3. Key management personnel disclosures

In accordance with the Ministerial Directions issued by the Assistant Treasurer under the *Financial Management Act 1994 (FMA)*, VRCA has prepared the key management personnel disclosures for the year based on reasonable enquiries made by management in relation to the portfolio minister and their related parties and the information available to the organisation.

(a) Responsible persons

The names of persons who were responsible persons of VRCA at any time during the financial year were:

(i) Responsible ministers:

Hon Luke Donnellan	1 July 2018 to 18 December 2018	Minister for Ports
Hon Melissa Horne	19 December 2018 to 30 June 2019	Minister for Ports and Freight
Hon Tim Pallas	1 July 2018 to 30 June 2019	Treasurer of Victoria

(ii) Directors:

Ms Kate Roffey	1 July 2018 to 30 June 2019	Chair
Mr Desmond Powell	1 July 2018 to 30 June 2019	Deputy Chair
Mr Peter Niblett	1 July 2018 to 30 June 2019	Director

(iii) Accountable officer:

Mr Michael Harvey	1 July 2018 to 30 June 2019 (ceased 31 July 2019)
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	2019 \$'000	2018 \$'000
Responsible person's remuneration (*)		
Short-term employee benefits accountable officer	228	224
Short-term employee benefits other	117	114
Total base remuneration	345	338
Bonuses paid, payable or accrued during the year pursuant to employment contracts excluded in the above remuneration. ⁽¹⁾	46	58
Total remuneration paid or payable (including bonuses and superannuation) during the year to all responsible persons by VRCA.	391	396

(*) The minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968*. Amounts relating to ministers are reported in the financial statements of the Department of Parliamentary Services' Financial Report. For information regarding related party transactions of ministers, the register of members' interests is publicly available from www.parliament.vic.gov.au/publications/register-of-interests.

⁽¹⁾ Includes bonuses accrued for the 2019 financial year. The comparative year includes bonus accrued for the 2017/18 year and actual bonus paid in the 2017/18 year that related to the 2016/17 year.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 7. PEOPLE (continued)

7.3. Key management personnel disclosures (continued)

(a) Responsible persons (continued)

The number of responsible persons and their total and base remuneration during the reporting period are shown below in their relevant income bands. Base remuneration includes superannuation and other benefits but is exclusive of bonus payments, long service leave payments, redundancy payments and retirement benefits.

	Total Remuneration		Base Remuneration	
	2019	2018	2019	2018
\$0 to \$9,999	-	-	-	-
\$20,000 to \$29,999	-	-	-	-
\$30,000 to \$39,999	2	2	2	2
\$40,000 to \$49,999	-	-	-	-
\$50,000 to \$59,999	1	1	1	1
\$220,000 to \$229,999	-	-	1	-
\$270,000 to \$279,999	1	-	-	-
\$280,000 to \$289,999	-	1	-	-
Total numbers	4	4	4	4
Remuneration \$'000	391	396	345	331

Remuneration received or receivable by the accountable officers' in connection with the management of VRCA during the reporting period was in the range \$270,000 – \$279,999 (\$280,000 - \$289,999 in 2017/18).

During the 2018/19 financial year, the total remuneration for accountable officers' includes bonuses accrued for the 2019 financial year (2017/18 includes bonus accrued in 2018 financial year and 2017 bonus paid).

(b) Executive Officers' remuneration

The number of executive officers, other than ministers and accountable officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period. Remuneration comprises employee benefits (as defined in AASB 119 *Employee Benefits*) in all forms of consideration paid, payable or provided by VRCA, or on behalf of VRCA, in exchange for services rendered. Accordingly, remuneration is determined on an accrual basis, and only short-term employee benefits have been paid during the reporting period. No other employee benefits were paid during the reporting period.

	2019 \$'000	2018 \$'000
Remuneration of executive officers		
Short-term employee benefits	501	49
Total base remuneration	501	49
Total number of executives	4	
Total annualised employee equivalent (AEE)	4	
Bonuses paid, payable or accrued during the year pursuant to employment contracts excluded in the above remuneration. ⁽¹⁾	80	15
Payment of employee entitlements upon termination	160	
Total remuneration paid or payable (including bonuses and superannuation) during the year to all executive officers by VRCA.	741	64

⁽¹⁾ Includes bonuses accrued for the 2019 financial year. The comparative year includes bonus accrued for the 2017/18 year and actual bonus paid in the 2017/18 year that related to the 2016/17 year.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 7. PEOPLE (continued)

7.3. Key management personnel disclosures (continued)

(b) Executive Officers' remuneration (continued)

The number of executive officers, other than responsible persons, and their base and total remuneration during the financial year are shown in the table below in their relevant income bands. Total remuneration includes base remuneration, bonus paid, payable or accrued (that were not accrued in the prior year) and termination and retirement type payments. Base remuneration is exclusive of bonus paid, payable or accrued and termination and retirement type payments.

	Total Remuneration		Base Remuneration	
	2019	2018	2019	2018
\$10,000 to \$19,999	1	-	1	-
\$80,000 to \$89,999	-	-	-	1
\$110,000 to \$119,999	-	-	-	2
\$120,000 to \$129,999	-	1	-	-
\$130,000 to \$139,999	-	1	-	-
\$140,000 to \$149,999	-	1	-	-
\$150,000 to \$159,999	-	-	1	-
\$160,000 to \$169,999	-	-	2	-
\$170,000 to \$179,999	-	-	-	1
\$190,000 to \$199,999	2	-	-	-
\$240,000 to \$249,999	-	1	-	-
\$330,000 to \$339,999 ⁽¹⁾	1	-	-	-
Total number of executives	4	4	4	4
Total annualised employee equivalent (AEE)	4	3	4	3
Total Remuneration \$'000	741	648	501	492

⁽¹⁾ Includes payment of employee entitlements upon termination.

(c) Loans and other transactions with responsible persons and their related entities

There were no related party transactions between VRCA and any of the responsible persons or their related entities.

(d) Contractors with significant management responsibilities

There were no contractors with significant management responsibilities engaged during the period.

(e) Payments to other personnel

There were no payments to other personnel (including contractors) charged with significant management responsibilities.

VICTORIAN REGIONAL CHANNELS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

SECTION 8. OTHER INFORMATION

Introduction

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.

Structure

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8.1. Events occurring after reporting date

The Accountable Officer, Mr Michael Harvey, ceased employment with VRCA on 31 July 2019. At the date of signing this report, Mr Ian Clydesdale was the acting Accountable Officer.

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

8.2. Related Party transactions

The Victorian State Government prepares consolidated financial statements relating to its controlled entities. For the purpose of preparing the State government's financial statements, transactions which VRCA has undertaken with other State Government controlled entities, have been eliminated in the State Government's statements.

As noted in Section 1, VRCA is a government business enterprise and is accountable to the Victorian government through the Minister for Ports and Freight, and the Treasurer. During the year VRCA transacted with the following Victorian Government entities.

- Treasury Corporation of Victoria – deposits held at 30 June 2019 was nil (2018: \$4,800,000) and VRCA earned interest revenue of \$75,000 (2018: \$93,000) during the year.
- Dividend of \$780,000 (2018: \$1,899,000) was paid to the Department of Treasury and Finance.
- Port of Hastings Development Authority (PoHDA) received \$132,884 from VRCA during the year for provision of office space, maintenance services and replacement buoy deployment.

Key management personnel (KMP) of VRCA includes the Portfolio Ministers, the Hon. Melissa Horne and the Hon. Tim Pallas, Directors, Kate Roffey, Desmond Powell and Peter Niblett, Accountable officer, Michael Harvey and the executive officer team. The KMP's remuneration is detailed in Section 7.3.

There were no related party transactions that involved KMP, their close family members and their personal business interests during the 2019 financial year.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 8. OTHER INFORMATION (*continued*)

8.3. Remuneration of auditors

	2019 \$'000	2018 \$'000
During the year the following fees were paid or payable for services provided by the auditor of VRCA:		
Victorian Auditor-General's Office		
Audit of financial statements	31	30

8.4. Contingencies

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

As at the reporting date there were no events that would give rise to a contingency.

8.5. Commitments

	2019 \$'000	2018 \$'000
(a) Operating lease commitments		
<i>Non cancellable operating leases contracted for but not capitalised in the financial statements</i>		
Commitments for minimum lease payments:		
Payable no later than 1 year	162	280
Payable 1-5 years	595	17
Total commitment (incl GST)	757	297
Less: GST	69	27
Net commitment (ex GST)	688	270
(b) Operating commitments		
Total expenditure contracted for operating expenditure at balance date but not incurred or recognised as liabilities:		
Payable no later than 1 year	603	750
Payable 1-5 years	304	443
Total commitment (incl GST)	907	1,193
Less: GST	82	108
Net commitment (ex GST)	825	1,085

VRCA has no capital commitments at 30 June 2019 and 30 June 2018.

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 8. OTHER INFORMATION (*continued*)

8.6. Change in accounting policies

Initial application of AASB 9: Financial Instruments

From 1 July 2018, VRCA applies AASB 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. Previously VRCA had applied AASB 139. The change in accounting policy has resulted in 'loans and receivables' under AASB 139 to be reclassified to 'financial assets at amortised cost'.

Initial application of AASB 15: Revenue from Contracts with Customers

VRCA has adopted AASB 15 with a date of initial application of 1 July 2018. As a result, VRCA has changed its accounting policy on revenue recognition as detailed in Section 2.1.

There was not adjustment required after applying AASB 15 as new revenue accounting policy did not have an impact on the recognition or measurement of revenue.

8.7. Other accounting policies

At the date of this financial report the following standards and interpretations, which are applicable to VRCA, have been issued but are not yet operative. A discussion of their future requirements and their impact on VRCA follows:

Reference	Summary	Application date (financial years beginning)	Impact on VRCA's financial statements
AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i>	This Standard principally amends AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.	1 Jan 2020	The assessment has indicated that there will be no significant impact for VRCA; it will continue to be monitored and assessed.
AASB 16 <i>Leases</i>	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet which has an impact on net debt.	1 Jan 2019	<p>The assessment has indicated that as most operating leases will come on balance sheet and will be recognised as right to use assets with a corresponding lease liability.</p> <p>Rather than expensing the lease payments, depreciation of right-of-use assets and interest on lease liabilities will be recognised in the income statement.</p> <p>VRCA has operating leases that will be recognised on the balance sheet, and it will continue to monitor and assess any future contractual obligations.</p>

VICTORIAN REGIONAL CHANNELS AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

SECTION 8. OTHER INFORMATION (*continued*)

8.7. Other accounting policies (*continued*)

AASB 16 <i>Leases (continued)</i>		<p>On initial recognition as at 1 July 2019, right of use assets and lease liability will increase by approximately \$986,760.</p> <p>For the year ending 30 June 2020, VRCA will make payments relating to operating leases recognised on the balance sheet of approximately \$126,927. Amortisation expense relating to the right to use assets for this period will be approximately \$103,947 and interest expense for the lease liability will be approximately \$46,391.</p>
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In addition to the new standards above, the AASB has issued a list of amending standards that are not effective for the 2018-19 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting. The AASB Interpretation in the list below is also not effective for the 2018-19 reporting period and is considered to have insignificant impacts on VRCA's reporting.

- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments*
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015 – 2017 Cycle*
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendments, Curtailment or Settlement*
- AASB 2018-3 *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*

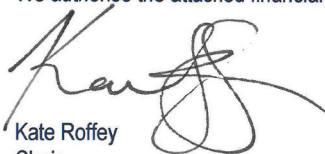
**VICTORIAN REGIONAL CHANNELS AUTHORITY
ACCOUNTABLE OFFICER'S, CHIEF FINANCIAL OFFICER'S AND BOARD MEMBERS
DECLARATION
30 June 2019**

The attached financial statements for Victorian Regional Channels Authority have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2019 and financial position of VRCA at 30 June 2019.

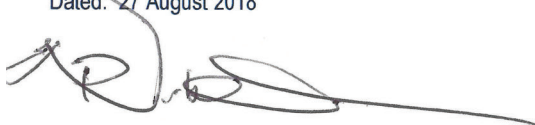
At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 27 August 2018.



Kate Roffey
Chair

Dated: 27 August 2018



Peter Niblett
Director and Chair of the Audit and Risk Committee

Dated: 27 August 2018

I. Clydesdale

Ian Clydesdale
Commercial Manager (CFO)¹

Dated: 27 August 2018

¹ At the date of signing this report, Mr Ian Clydesdale was the acting Chief Executive Officer (acting Accountable Officer).

Independent Auditor's Report

To the Board of Directors of the Victorian Regional Channels Authority

Opinion	<p>I have audited the financial report of the Victorian Regional Channels Authority (the authority) which comprises the:</p> <ul style="list-style-type: none">• balance sheet as at 30 June 2019• comprehensive operating statement for the year then ended• statement of changes in equity for the year then ended• cash flow statement for the year then ended• notes to the financial statements, including significant accounting policies• accountable officer's, chief financial officer's and board members declaration. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the authority as at 30 June 2019 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the authority in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Board of Directors' responsibilities for the financial report	<p>The Board of Directors of the authority is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Board of Directors determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Board of Directors is responsible for assessing the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>

Auditor's responsibilities for the audit of the financial report	<p>As required by the <i>Audit Act 1994</i>, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.</p> <p>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:</p> <ul style="list-style-type: none"> • identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control • evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors • conclude on the appropriateness of the Board of Directors' 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 authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the authority 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. <p>I communicate with the Board of Directors 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.</p>
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MELBOURNE
3 September 2019


 Simone Bohan
as delegate for the Auditor-General of Victoria

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