



14.3 **IN PRINCIPLE APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS 2017/18 AND PERFORMANCE STATEMENT 2017/18**

EXECUTIVE MEMBER: **CHRIS CARROLL, GENERAL MANAGER, CUSTOMER AND CORPORATE SERVICES**

PREPARED BY: **ELIZABETH ERSKINE, COORDINATOR FINANCIAL ACCOUNTING AND SERVICES**

1. PURPOSE

- 1.1 To obtain Council's in principle approval of the annual financial statements and performance statement for the financial year ending 30 June 2018.

2. EXECUTIVE SUMMARY

- 2.1 Council is required by the Local Government Act to:
- 2.1.1 Prepare an annual report each financial year that contains a report on operations, an audited performance statement, audited financial statements and copies of the auditor's report on the statements.
 - 2.1.2 Pass a resolution giving its in principle approval to the financial statements and performance statements and submit the statements to the auditor as soon as possible after the end of the financial year for reporting on the audit.
 - 2.1.3 Authorise two specific Councillors to certify the statements in their final form after any changes recommended or agreed to by the auditor have been made.
- 2.2 The financial statements and performance statement have been prepared by appropriate council officers and were reviewed by the Audit and Risk Committee on 23 August 2018.
- 2.3 The statements are audited by HLB Mann Judd, agents appointed by the Victorian Auditor-General's Office for 2017/18 to perform the audit on their behalf.
- 2.4 The performance statement will include results for 2017/18 and 2016/17. Councils are required to establish materiality thresholds for the explanation of movements between each reporting year. If the current year result falls outside the range for the materiality threshold, councils are required to explain this movement in the performance statement as a material variation.
- 2.5 Material movements in the financial results are discussed in detail under section 4.



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3. RECOMMENDATION

That Council:

- 3.1 Gives in principle approval to the annual financial statements and performance statement (the statements) for the financial year ending 30 June 2018.
- 3.2 Authorises the Mayor, Councillor Bernadene Voss and Councillor Dick Gross or delegates to certify the annual financial statements and performance statement for the financial year ending 30 June 2018.
- 3.3 Sets the materiality threshold in the performance statement at +/- 10 per cent of Council's 2016/17 result, for the reporting of explanations for variances between 2017/18 and 2016/17 result.

4. KEY POINTS/ISSUES

4.1 Annual Financial Statements

- 4.1.1 Council's 2017/18 operating surplus is \$7.17 million which is a decrease of \$26.47 million compared to the \$33.64 million operating surplus in 2017/18.
- 4.1.2 The decrease in Council's annual operating surplus for 2017/18 is primarily due to the inclusion of contributions-non-monetary totalling \$20.6 million in 2016/17, detailed at f) below. Also contributing to the reduction in operating surplus is the \$9.34 million increase in other expenses as a result of Council's contribution to the Victorian Pride Centre. Other offsetting income and expense movements have contributed to the overall operating surplus. Explanations for the major changes are outlined below:
 - a) Rates and charges income increased by \$3.93 million or 3.4% in line with the adopted 2017/18 budget from \$117.19 million in 2016/17 to \$121.12 million in 2017/18. This reflected a rate increase of 2.0% and a \$0.59 million increase in supplementary rates revenue received.
 - b) Statutory fees and fines income increased by \$0.72 million or 3.20% from \$22.23 million in 2016/17 to \$22.95 million in 2017/18. This increase is due to an increase in parking infringement fees because of new parking restrictions in Fishermans Bend.
 - c) User fees income has increased by \$1.04 million from \$34.62 million to \$35.66 million primarily due to increased parking ticket machine income because of 50 machines being upgraded to accept payment by credit card. Additional income was also received for unclaimed road reinstatement deposits written back to revenue.
 - d) Capital grant income increased by \$2.0 million from \$1.87 million in 2016/17 to \$3.87 million in 2017/18. This is due to the receipt of grant income for specific capital works projects during the financial year



including the Peanut Farm Pavilion redevelopment (\$0.99 million) and the Palais Theatre (\$0.93 million).

- e) Contributions income has increased by \$1.41 million from \$9.11 million in 2016/17 to \$10.52 million in 2017/18. This is primarily due to the receipt of forward funding of \$2.16 million for the Ferrars Street Education and Community Precinct and Kirrip Park precinct developer contributions from the State Government. Offsetting this increase is a reduction in open space contributions received during the financial year for St Kilda Hill and Port Melbourne.
- f) Contributions- non- monetary have decreased by \$20.38 million from \$20.60 million in 2016/17 to \$0.22 million in 2017/18. This was due to the 2016/17 receipt State Government contributions for the Palais Theatre redevelopment and leaseholder contributions in excess of insurance payouts for the rebuild of the Stokehouse Restaurant. Both assets are owned or controlled by Council. These contributions were treated as income in accordance with Accounting Standards and inflated the 2016/17 operating surplus however are excluded from key financial indicators and the cash surplus due to their non-cash nature.
- g) Other income has increased by \$3.78 million from \$13.66 million in 2016/17 to \$17.44 million in 2017/18. In accordance with Australian Accounting Standards lease income is recorded as the full market rental with an offsetting cost where subsidies are applied captured in expenditure. Council introduced this treatment in 2017/18 which increased property rental income by \$1.07 million. In addition, specific rental agreements have a deferred rental payment component and this was recognised as income impacting the 2017/18 result by \$0.24 million. Further increases in property rental values and the South Melbourne Market stallholder income also impacted the 2017/18 result.
- h) Employee costs have increased by \$3.75 million or 4.45% from \$84.18 million to \$87.93 million. The growth in labour related expenditure has been driven by the Enterprise Bargaining Agreement increase of 2.0% (\$1.68 million) and growth in staffing numbers. This growth includes additional FTE for the Ferrars Street Education and Community Precinct, street cleaning and risk mitigation and legislative compliance. This reflects council's investment in maintaining service delivery and planning for increased demand on services with ongoing significant property development and future population growth within the municipality.
- i) Bad and doubtful debts have increased by \$0.93 million or 25.27% from \$3.66 million in 2016/17 to \$4.59 million in 2017/18. During the financial year Fines Victoria (formerly Infringements Court) changed their computer system which resulted in significant delays in issuing letters of demand. This impacted the recovery of parking infringement debt owing to Council and resulted in an increase to the provision for doubtful debts. Notices of final demand have now been issued with debt recovery expected to improve in the 2018/19 financial year.

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- j) Other expenses have increased by \$9.34 million from \$8.61 million to \$17.95 million primarily due to the \$8.86 million cash contribution to the Victorian Pride Centre acquisition.
 - k) Net loss on disposal of property, infrastructure, plant and equipment has increased by \$4.83 million from \$1.61 million in 2016/17 to \$6.44 million in 2017/18. In 2016/17 Council sold five properties compared to one sale in 2017/18 seeing a reduction in sale proceeds. In addition, Council disposed of land and building assets located at Pickles Street, which were transferred to the State Government.
- 4.1.3 Council is required to report a comprehensive result in the Comprehensive Income Statement as part of the financial statements (see attachment 1). This includes other comprehensive income, which has occurred because of net asset revaluation increments. Council has reported a decrease of \$73.78 million in its comprehensive result from \$318.93 million in 2016/17 to \$245.14 million in 2017/18. This is primarily due to a 10% increase in Council land asset values of \$239.55 million in 2017/18 and \$314.32 million (16%) in 2016/17.
- 4.1.4 Council's underlying result for 2017/18 is a \$7.0 million deficit compared to a \$2.5 million surplus in 2016/17. This is largely due to Council's cash contribution of \$8.86 million for the Victorian Pride Centre.
- 4.1.5 Council's Balance Sheet has been impacted by the non-cash adjustment of \$245.14 million for asset revaluation increments, including a \$239.55 million or 10% increase in Council owned or managed land values that are driven by the buoyant property market conditions.
- 4.1.6 Council's liquidity, as measured by its working capital ratio (current assets to current liabilities) of 265% puts it in a position where it can comfortably meet its short term financial commitments. This working capital ratio has been influenced by the large current cash and financial investments balances held at the end of financial year of \$84.74 million which is required to meet operational and future capital works obligations.
- 4.1.7 Council's total net assets have increased by \$252.31 million to \$3.2 billion. This movement is attributable to the net asset revaluation increase of \$245.14 million and Council's operating surplus of \$7.17 million.
- 4.1.8 Council's principal financial planning report is an Income Statement converted to Cash (or Rate Determination statement) which determines a budget position based on the net cash position including capital expenditure, borrowings and reserve transfers. Under this calculation, Council has a cumulative \$2.59 million cash surplus at 30 June 2018. This cash surplus is \$2.22 million higher than the budgeted surplus of \$0.37 million.
- 4.1.9 Council has transferred \$12.62 million to its cash backed general and statutory reserves in 2017/18. This is \$4.69 million more than the budgeted transfer from reserves of \$7.91 million. The main drivers for this variance is \$3.6 million savings from portfolio underspend transferred to reserves to fund future



asset renewal, \$6.2 million transferred to fund project deferrals, \$5.4 million transferred to reserves for tied grants that will be expended in 2018/19 and an increase to budget of \$4.0 million in developer open space contributions.

4.2 Performance Statement

- 4.2.1 The form and content for the performance statement to 30 June 2018 is prepared in accordance with the Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014.
- 4.2.2 The performance statement includes:
- a) a description of the municipal district including its size, location and population
 - b) a set of prescribed sustainable capacity indicators
 - c) a set of prescribed service performance indicators
 - d) a set of prescribed financial performance indicators including forecast results for the next four years from the 10 Year Financial Plan.
- 4.2.3 Local government performance reporting results will be reported for 2017/18 and 2016/17. Council's must establish materiality thresholds. The threshold will set a movement range for comparing current year results with prior year results, and current year results for the forecast results (for financials only). Each council will set their own materiality threshold based on assessments of their previous year results. If a current year result falls outside the range for the materiality threshold, councils are required to explain this movement as a material variation.
- 4.2.4 Officers propose materiality thresholds at +/- 10 per cent of Council's 2016/17 result. This is based on the example thresholds outlined by the Local Government Performance Reporting Framework and reinforced by feedback from other councils.
- 4.2.5 In relation to the prescribed sustainable capacity and service performance indicators, there are four service measures that fall outside this threshold:
- a) Animal management prosecutions had a 200 per cent increase compared to previous years and reflects an increase in proactive action from our animal management service and remains under our target of less than 10.
 - b) Participation in the MCH service by Aboriginal children had a 12 per cent increase compared to previous years as a result of the transition to the state-wide Child Development Information System (CDIS). As a result of the transition, more accurate data, reduced duplication and targeted appointment reminders has improved participation. The result achieved our target of greater than 85 per cent.



- c) Council planning decisions upheld at VCAT decreased by 13 per cent, however when we include mediated and withdrawn outcomes Council decisions upheld at VCAT is 83 per cent, which is a minor increase from last year. The result is below our annual target of 80 per cent.
- d) Permanent staff resignations and terminations as a percentage of the average number of permanent staff in 2017/18 increased by 18 per cent. This remains in alignment with expectations of an organisation with over 840 employees.

4.2.6 The key objective of the financial performance indicators is to measure the financial management of Council and assess this in the context of the following five dimensions.

a) Operating position

This performance indicator measures council's ability to generate an underlying surplus. Council's adjusted underlying result of -3.34% in 2017/18 has decreased from the 2016/17 result of 1.25% which is largely due to the one-off cash payment of \$8.85 million to the Victorian Pride Centre.

b) Liquidity

This performance indicator measures council's ability to generate sufficient cash to pay bills on time. Working capital of 265% in 2017/18 increased by 33% from 232% in 2016/17 due to increased cash and financial assets of \$84.74 million held in short term investment, up \$10.18 million from \$74.56 million in 2016/17.

Council's unrestricted cash balance compared to current liabilities has decreased to -50.19% in 2017/18 from -41.14% in 2016/17. The calculation of this indicator excludes current financial assets (investments). The decrease is due to more funds being placed in longer term investments in the 2017/18 year. Including financial assets this ratio would be 125.62% indicating Council is in a strong position to meet its financial obligations.

c) Obligations

This performance indicator measures council's level of debt and other long term financial obligations.

Council's asset renewal ratio has decreased in 2017/18 to 57.58% from 91.98% in 2016/17. This is primarily due to capital works underspend on infrastructure assets. Several significant projects have been deferred for completion in future years which will see an improvement in this ratio going forward.

Loans and borrowings compared to rates ratio has favourably declined to 6.79% in 2017/18 from 7.47% in 2016/17. This is a result of increased rates revenue received during the financial year while interest bearing loans and borrowing levels have declined due to a reduction in vehicles held under finance lease.



Loans and borrowings repayments compared to rates of 0.82% in 2017/18 has improved from the 2016/17 result of 0.92% in line with the movement in rates revenue and loans and borrowing levels discussed above.

d) Stability

This performance indicator measures council's ability to generate revenue from a range of sources. The rates concentration ratio for 2017/18 is 57.51% compared to 58.67% in 2016/17. This is due to increases in non-recurrent revenue sources including capital grants and contributions- monetary which are excluded from the calculation.

Council's reliance on rate income is reflected as rates revenue compared to property values within the municipality and has remained consisted in 2017/18 at 0.20%.

e) Efficiency

This performance indicator measures whether a council is using resources efficiently. Council's expenditure level indicator measures total expenditure per total number of property assessments and was \$3,006.31 in 2017/18 compared to \$2,799 in 2016/17. This is primarily due to the increase in other expenses because of the one-off cash contribution for the Victorian Pride Centre.

Council's workforce turnover has increased to 11.75% in 2017/18 from 10.0% in 2016/17.

f) The calculations and supporting documentation used in determining these results will be subject to verification by external audit.

CONSULTATION AND STAKEHOLDERS

- 4.3 The preliminary audit has been conducted by HLB Mann Judd Cameron acting on behalf of and appointed by the Victorian Auditor-General.
- 4.4 The City of Port Phillip's Audit and Risk Committee reviewed the draft financial statements and performance statement at its meeting on 23 August 2018 and have recommended these to Council for adoption.
- 4.5 The preparation of the statements has been informed by the model template that is released annually by Local Government Victoria following review by a Model Accounts working group which includes representation from professional accounting practitioners, the Australian Society of Certified Practising Accountants and Local Government Finance Professionals committee (FINPRO).

5. LEGAL AND RISK IMPLICATIONS

- 5.1 In principle approval of the financial statements and performance statement is required to enable Council to meet its legislative obligation to lodge the Annual Report with the Minister for Local Government by 30 September 2018.



- 5.2 A failure to meet this deadline will result in Port Phillip City Council being named in a report that is presented to the Victorian Parliament and this will have a negative impact on Council's reputation.

6. FINANCIAL IMPACT

- 6.1 Council's cumulative cash surplus of \$2.59 million is \$2.22 million more than the \$0.37 million surplus that was determined when adopting the 2017/18 Budget, which included risk factors in the calculation.

7. ENVIRONMENTAL IMPACT

- 7.1 Not applicable.

8. COMMUNITY IMPACT

- 8.1 Not applicable.

9. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 9.1 Consistent with the Council Plan strategic direction Our Commitment to you, Council is a financially sustainable, high performing, well-governed organisation which is clearly demonstrated in the financial results for 2017/18.

10. IMPLEMENTATION STRATEGY

10.1 TIMELINE

- 10.1.1 Council to give 'in-principle' approval to the statements and authorise two Councillors to certify the statements in their final form.
- 10.1.2 The statements are then forwarded and reviewed by the Victorian Auditor-General who may recommend further changes. Final changes (if required) will be made to the statements which are then certified by the Principal Accounting Officer, two Councillors and the Chief Executive Officer.
- 10.1.3 Final changes (if required) will be made to the statements which are then certified by the Principal Accounting Officer, two Councillors and the Chief Executive Officer.
- 10.1.4 The Victorian Auditor-General certifies the statements and issues an independent Audit Report expressing an opinion on the statements.
- 10.1.5 The statements and the independent Audit Report are incorporated in the Annual Report which needs to be sent to the Minister for Local Government by 30 September 2018.

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10.2 COMMUNICATION

- 10.2.1 Council is required to consider the Annual Report at an open Council meeting within 30 days of the Annual Report being sent to the Minister. This meeting will be advertised in the local media. Council must also advertise that the statements have been audited.
- 10.2.2 The Annual Report will be produced in hard copy and displayed at municipal offices and libraries and made available electronically on Council's website.
- 10.2.3 Council's key messages in regard to financial performance for 2017/18 and financial position as at 30 June 2018 include:
- a) In 2017/18, the Council has maintained services and infrastructure in addition to delivering priority projects and service improvements valued by our community. In doing so it has continued our commitment to continuous improvement and efficiency and keeping rates affordable.
 - b) Council's strong financial position is demonstrated by:
 - A positive net operating result of \$7.2 million (3.2 percent of total revenue)
 - An investment portfolio of \$77.5 million
 - Low levels of debt (6.8 percent of rates revenue)
 - A healthy working capital ratio of 265%
 - Permanent ongoing efficiency savings of over 2 million (taking the total to over \$9 million over the past four years).

11. OFFICER DIRECT OR INDIRECT INTEREST

- 11.1 No officers involved in the preparation of this report have any direct or indirect interest in the matter.

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ATTACHMENTS

1. COPP 2018 Financial Statements
2. COPP 2018 Performance Statement