



- 8.2** **IN PRINCIPLE APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS 2016/17 AND PERFORMANCE STATEMENT 2016/17**
- WARD:** **WHOLE OF MUNICIPALITY**
- GENERAL MANAGER:** **CHRIS CARROLL, ORGANISATIONAL PERFORMANCE**
- PREPARED BY:** **NAOMI PHILLIPS, BSO FINANCE**
ELIZABETH ERSKINE, SENIOR FINANCIAL ACCOUNTANT
- TRIM FILE NO:** **34/01/75**
- ATTACHMENTS:**
- 1. 2017 Annual Report- DRAFT_Watermark**
 - 2. Performance statement for the year end 30 June 2017**

PURPOSE

To obtain Council's in principle approval of the annual financial statements and performance statement for the financial year ending 30 June 2017.

1. RECOMMENDATION

That Council:

- 1.1 Gives in principle approval to the annual financial statements and performance statement (the statements) for the financial year ending 30 June 2017.
- 1.2 Authorises the Mayor, Councillor Bernadene Voss and Councillor Katherine Copsy or delegates to certify the annual financial statements and performance statement for the financial year ending 30 June 2017.
- 1.3 Sets the materiality threshold in the performance statement at +/- 10 per cent of Council's 2015/16 result, for the reporting of explanations for variances between 2016/17 and 2015/16 results.

2. BACKGROUND

- 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 24 August 2017.
- 2.3 The statements are audited by RSM Bird Cameron, agents appointed by the Victorian Auditor-General's Office for 2016/17 to perform the audit on their behalf.
- 2.4 The performance statement will include results for 2016/17 and 2015/16. 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. .

3. KEY INFORMATION

3.1 ANNUAL FINANCIAL STATEMENTS

- 3.1.1 Council's 2016/17 operating surplus is \$33.64 million which is an increase of \$24.04 million compared to the \$9.61 million operating surplus in 2015/16.
- 3.1.2 The increase in Council's annual operating surplus for 2016/17 is primarily due to total revenue increasing by \$35.2 million as a result of the inclusion of non-monetary assets totalling \$20.6 million described in 3.1.2.6 below. Also contributing to revenue is additional rates and charges of \$4.0 million, operating grants of \$2.7 million, contributions of \$2.3 million and statutory fees and fines of \$2.2 million. This is partially offset by expenditure increasing by \$12.7 million in 2016/17 mainly due to increased materials and services of \$9.1 million and employee costs of \$3.2 million. Explanations for the major changes are outlined below:
 - 3.1.2.1 Rates and charges income increased by \$4.0 million or 3.6% in line with the adopted 2016/17 budget from \$113.1 million in 2015/16 to \$117.2 million in 2016/17. This reflected a rate increase of 2.5% and growth in the rates base of 0.9%.
 - 3.1.2.2 Statutory fees and fines income increased by \$2.2 million or 10.7% from \$20.1 million in 2015/16 to \$22.2 million in 2016/17. This increase is due to an increase in parking infringement fees as well as additional infringements being issued as a result in workforce efficiency improvements including shift realignments.
 - 3.1.2.3 User fees income has increased by \$1.3 million from \$33.3 million to \$34.6 million primarily due to additional income received from street occupation permits as a result of increased development across the municipality, and the full year impact of the change in parking permit fee structure.



- 3.1.2.4 Operating grant income increased by \$2.7 million from \$8.9 million in 2015/16 to \$11.6 million in 2016/17. This is due to the early receipt of the 2017/18 Victorian Grants Commission instalment of \$1.3 million recognised as income in 2016/17. A \$1.3 million instalment for 2015/16 was received early and recognised in the 2014/15 year. It is noted that the timing of the payment of this grant varies each financial year and can significantly impact the operating result of Council each financial year.
- 3.1.2.5 Contributions income has increased by \$2.3 million from \$6.8 million in 2015/16 to \$9.1 million in 2016/17. This reflects an increase in developer contributions of as a result of increased development within the municipality, especially in St Kilda Road, Port Melbourne, South Melbourne, Ripponlea/Elwood and Albert Park/Middle Park.
- 3.1.2.6 Contributions- non monetary have increased by \$20.6 million from \$17,000 in 2015/16 to \$20.6 million in 2016/17. This is due 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 are treated as income in accordance with Accounting Standards and inflate the operating surplus however are excluded from key financial indicators and the cash surplus due to their non-cash nature.
- 3.1.2.7 Other income has increased by \$1.5 million from \$12.2 million in 2015/16 to \$13.7 million in 2016/17. This is primarily due to the biennial sale of valuations data to the State Revenue Office of \$420,000 and the receipt of income from the Victorian Electoral Commission for non-voting infringements of \$360,000, as well as increased income from property rentals of \$390,000.
- 3.1.2.8 Employee costs have increased by \$3.2 million or 4.0% from \$80.9 million to \$84.1 million. The growth in labour related expenditure has been driven by the Enterprise Bargaining Agreement increase of 2.5% (\$2 million) and the sign on bonus received by all staff under the new agreement (\$800,000). The increase in labour costs also reflects council's investment in maintaining service delivery and planning for increased demand on council's services with ongoing significant property development and future population growth within the municipality.
- 3.1.2.9 Materials and services expenditure has increased by \$9.1 million from \$67.1 million in 2015/16 to \$76.2 million in 2016/17. This is primarily driven by increased capital expenditure write offs to operating expenses of \$11.3 million in 2016/17 compared to \$4.3 million in 2015/16 as a result of significant project cost reallocations for Acland Street, Ferrars Street Education and Community Precinct, and the provision for site remediation for Buckhurst Street land, which are not capital in nature.



- 3.1.3 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 as a result of net asset revaluation increments. Council has reported an increase of \$93.9 million in its comprehensive result from \$225 million in 2015/16 to \$318.9 million in 2016/17. The comprehensive result includes asset revaluation increments mostly relating to a 16% increase in Council land asset values of \$314.3 million in 2016/17 and \$212.0 million (12%) in 2015/16 .
- 3.1.4 Council's underlying result for 2015/16 is a \$2.5 million surplus compared to \$1.5 million surplus in 2015/16. This is largely due to increases in all income streams as detailed above.
- 3.1.5 Council's Balance Sheet has been impacted by the non-cash adjustment of \$318.9 million for asset revaluation increments, including a \$314.3 million or 16% increase in Council owned or managed land values that are driven by the buoyant property market conditions.
- 3.1.6 Council's liquidity, as measured by its working capital ratio (current assets to current liabilities) of 232% 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 \$74.5 million which is required to meet operational and future capital works obligations.
- 3.1.7 Council's total net assets have increased by \$352.6 million to \$2.9 billion. This movement is attributable to the net asset revaluation increase of \$318.9 million and Council's operating surplus of \$33.6 million.
- 3.1.8 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 \$880,000 cash surplus at 30 June 2017. This cash surplus is \$254,000 higher than the budgeted surplus of \$626,000.
- 3.1.9 Council has transferred \$12.9 million to its cash backed general and statutory reserves in 2016/17. This is \$13.9 million more than the budgeted transfer from reserves of \$967,000. The main drivers for this variance is \$3.8 million transferred to reserves for investment in the Pride Centre in 2017/18, \$5.8 million savings from portfolio underspend transferred to reserves to fund future asset renewal and smart technology requirements, \$2.2 million transferred to fund capital project deferrals and an increase of \$2.3 million in developer open space contributions to \$9.1 million in 2016/17 compared to \$6.9 million in 2015/16.



3.2 PERFORMANCE STATEMENT

- 3.2.1 The form and content for the performance statement to 30 June 2017 is prepared in accordance with the Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014.
- 3.2.2 The performance statement includes:
- a description of the municipal district including its size, location and population
 - a set of prescribed sustainable capacity indicators
 - a set of prescribed service performance indicators
 - a set of prescribed financial performance indicators including forecast results for the next four years from the Strategic Resource Plan.
- 3.2.3 Local government performance reporting results will be reported for 2016/17 and 2015/16. 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.
- 3.2.4 Officers propose materiality thresholds at +/- 10 per cent of Council's 2015/16 result. This is based on the example thresholds outlined by the Local Government Performance Reporting Framework and reinforced by feedback from other councils.
- 3.2.5 In relation to the prescribed sustainable capacity and service performance indicators, there is one service measure that fall outside this threshold:
- 3.2.5.1 Animal management prosecutions had a 60 per cent decrease suggesting an improvement in the effectiveness of our service.
- 3.2.6 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.
- 3.2.6.1 Operating position
- This performance indicator measures council's ability to generate an underlying surplus. Council's adjusted underlying result of 1.25% in 2016/17 has improved from the 2015/16 result of 1.03% which is largely due to increases in all income streams as detailed above.
- 3.2.6.2 Liquidity
- This performance indicator measures council's ability to generate sufficient cash to pay bills on time. Working capital of 232% in 2016/17 decreased by 11% from 243% in 2015/16 due to the recognition of a current prepayment of \$6.3 million for 2-4



Buckhurst Street South Melbourne land in 2015/16, for which title and control of the land transferred to Council on 1 July 2016.

Council's unrestricted cash balance compared to current liabilities has decreased to -41.14% in 2016/17 from -10.44% (restated from 104.44%, refer below) in 2015/16. The calculation of this indicator has been adjusted to meet the reporting requirements of Local Government Victoria, which exclude current financial assets and prior year ratios have been restated. The decrease in this indicator is due to more funds being placed in longer term investments in the 2016/17 year. Including financial assets this ratio would be 136.8% indicating Council is in a strong position to meet its financial obligations.

3.2.6.3 Obligations

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

Council's asset renewal ratio has increased in 2016/17 to 92% from 72% in 2015/16. This is primarily due to the completion of major renewal projects including the Palais Theatre, Gasworks Theatre and core IT infrastructure which had been deferred from prior years.

Loans and borrowings compared to rates ratio has favourably declined to 7.5% in 2016/17 from 8% in 2015/16. This is a result of increased rates revenue received during the financial year while interest bearing loans and borrowing levels remain static.

Loans and borrowings repayments compared to rates of 0.92% in 2016/17 is consistent with the 2015/16 result of 0.98%.

3.2.6.4 Stability

This performance indicator measures council's ability to generate revenue from a range of sources. The rates concentration ratio for 2016/17 is 58.7% compared to 61.2% in 2015/16. This is due to increases in income from non-rates sources, particularly statutory fees, user fees and grants.

Council's reliance on rate income is reflected as rates revenue compared to property values within the municipality and is 0.20% for 2016/17 compared to 0.23% in 2015/16. This has declined as a result of the 14 per cent increase in municipal property values compared to a 2.5% increase in rates income.

3.2.6.5 Efficiency

This performance indicator measures whether a council is using resources efficiently. Council's revenue level indicator measures the average residential rate per residential property assessment and was \$1,430 in 2016/17 is in line with the 2015/16 result of \$1,434.

Council's expenditure level indicator measures total expenditure per total number of property assessments and was \$2,799 in 2016/17



compared to \$2,620 in 2015/16. This is due to the increase in materials and services as a result of the reallocation of capital expenditure to operating expense.

Council's workforce turnover has decreased to 10.0% in 2016/17 from 10.4% in 2015/16.

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

4. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

4.1 This report provides record of Council's performance against the Budget 2016/17 and is consistent with Council's policy as articulated in the Integrated Council Plan 2017-27 to be a financially, sustainable, high performing, well-governed organisation that puts the community first.

5. CONSULTATION AND STAKEHOLDERS

5.1 The preliminary audit has been conducted by RSM Bird Cameron acting on behalf of and appointed by the Victorian Auditor-General.

5.2 The City of Port Phillip's Audit and Risk Committee reviewed the draft financial statements and performance statement at its meeting on 24 August 2017 and have recommended these to Council for adoption.

5.3 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).

6. LEGAL AND RISK IMPLICATIONS

6.1 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 2017.

6.2 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.

7. SUSTAINABILITY – Triple Bottom Line

7.1 ENVIRONMENTAL IMPLICATIONS

7.1.1 Not Applicable

7.2 SOCIAL & CULTURAL IMPLICATIONS

7.2.1 Not Applicable

7.3 ECONOMIC IMPLICATIONS

7.3.1 Not Applicable



7.4 FINANCIAL IMPLICATIONS

- 7.4.1 Council's cumulative cash surplus of \$880,000 is \$254,000 million more than the \$626,000 million surplus that was determined when adopting the 2016/17 Budget.

8. IMPLEMENTATION STRATEGY

8.1 TIMELINE

- 8.1.1 Council to give 'in-principle' approval to the statements and authorise two Councillors to certify the statements in their final form.
- 8.1.2 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.
- 8.1.3 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.
- 8.1.4 The Victorian Auditor-General certifies the statements and issues an independent Audit Report expressing an opinion on the statements.
- 8.1.5 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 2017.

8.2 COMMUNICATION

- 8.2.1 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.
- 8.2.2 The Annual Report will be produced in hard copy and displayed at municipal offices and libraries and also made available electronically on Council's website.
- 8.2.3 Council's key messages in regards to financial performance for 2016/17 and financial position as at 30 June 2017 include:
- 8.2.3.1 Council's financial performance indicators for 2016/17, as reported in council's performance statement have remained within the threshold of +/- 10% with the exception of favourable improvements in council's asset renewal and underlying result and decreases in council's working capital, and unrestricted cash indicators, as detailed above.
- 8.2.3.2 Council's strong financial position is demonstrated by:
- A positive underlying result of \$2.5 million
 - A cumulative cash surplus of \$880,000.
 - An investment portfolio of \$74.6 million, which has increased by \$11.5 million from last year largely driven by increased open



space contributions received from developers in 2015/16, and proceeds from the sale of Council assets.

- Low levels of debt (7.5 per cent of rates revenue)
- A healthy working capital ratio of 232 per cent
- Permanent ongoing efficiency savings of over \$2 million (taking the total to over \$7 million over the past three years).

9. OFFICER DIRECT OR INDIRECT INTEREST

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