



**14.6** **IN PRINCIPLE APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS 2019/20 AND PERFORMANCE STATEMENT 2019/20**

**EXECUTIVE MEMBER:** **CHRIS CARROLL, GENERAL MANAGER, CUSTOMER, OPERATIONS AND INFRASTRUCTURE**

**PREPARED BY:** **ELIZABETH ERSKINE, HEAD OF FINANCIAL ACCOUNTING & 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 2020.

**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, audited financial statements, an audited performance statement, 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 these to the Auditor-Generals Office as soon as possible after the end of 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 audit 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 8 September 2020.

2.3 The statements are audited by HLB Mann Judd, agents appointed by the Victorian Auditor-General's Office for 2019/20 to perform the audit on their behalf.

2.4 The performance statement will include results for 2019/20 and 2018/19. Councils are required to establish materiality thresholds to explain movements between reporting periods. If the current year result falls outside the materiality threshold range, councils are required to explain the movement as a material variance.

2.5 Material movements and events impacting the financial results are discussed in detail under section 4.

**3. RECOMMENDATION**

That Council:

3.1 Gives in principle approval to the annual financial statements and performance statement (the statements) for the financial year ended 30 June 2020.

3.2 Authorises the Mayor, Councillor Bernadene Voss, and Councillor Tim Baxter or delegates to certify the annual financial statements and performance statement for the financial year ended 30 June 2020.



- 3.3 Approves the materiality threshold in the performance statement at +/- 10 percent of Council's 2018/19 result for the explanation of variances between the 2019/20 and 2018/19 result.

#### 4. KEY POINTS/ISSUES

##### 4.1 Annual Financial Statements

- 4.1.1 Council has reported a \$6.91 million operating surplus, a slight decrease of \$0.24 million from the 2018/19 operating surplus. This result has been impacted by several factors.
- 4.1.2 In the second half of 2019/20, COVID-19 was declared a global pandemic by the World Health Organisation which had significant impacts on global and local economies, public health and social outcomes.
- 4.1.3 The financial impact on Council was substantial as a result of government restrictions during the first wave which saw business closures, Council services reduced and less visitors to the municipality.
- 4.1.4 Through strong financial management Council was able to address income reductions, contain spend and provide a \$2.8 million Economic and Social Emergency relief package to community members, tenants and businesses impacted by COVID-19.
- 4.1.5 Additionally, the financial results have been impacted by the first-year application of three new accounting standards for lease and revenue accounting, as well as some accounting adjustments.
- 4.1.6 Significant income and expenditure movements in 2019/20 are explained below:
- a) Statutory fees and fines decreased by \$1.92 million or 9% primarily due to a reduction in parking infringement income (\$1.78 million). This was driven by:
    - 1) A freeze on transferring infringements to the court which incurs additional fees for infringers.
    - 2) Extended parking times allowed to support the community financially during the pandemic.
    - 3) Reduction in visitors to the city as a result of Government enforced lockdowns resulting in reduced parking infringement volumes.
  - b) User fees decreased by \$1.94 million or 4.9% due to the following:
    - 1) \$2.20 million reduced parking ticket machine income as a result of government restrictions impacting travel and local business operation.
    - 2) \$0.61 million decreased childcare income due to a reduction in demand for service due to COVID-19, and reduced accessibility to services for essential workers only during Stage 3 restrictions.
    - 3) \$0.32 million decrease in income from leisure and community facilities due to Stage 3 lockdowns (\$0.32 million).
    - 4) These decreases were offset by an increase in permits \$1.42 million primarily for street occupation fees as developers occupied greater spaces for longer periods due to the government restrictions.



- c) Capital Grants decreased by \$0.88 million or 21.6% due to the receipt of non-current grants in 2018/19 for capital projects which have been completed, specifically JL Murphy Reserve Pavilion and South Melbourne Life Saving Club.
- d) Other income increased by \$25.03 million or 38.4% but was impacted by the following significant movements:
  - 1) \$2.72 million reduction in rental income due to waivers and deferrals offered for tenants in Council commercial properties and the South Melbourne Market, as well as community groups using Council facilities who were significantly impacted by the government restrictions.
  - 2) \$0.48 million decrease in interest income due to global economic downturn significantly impacting interest rates.
  - 3) \$1.53 million increased income from the sale of right of ways.
  - 4) \$10.05 million increase in rental income for the non-cash accounting adjustment to recognise the subsidised market value of rent to community groups (\$3.03 million in 2018/19). This is offset by a \$10.05 million increase in subsidised rent expenditure in other expenses. The large adjustment in this financial year resulted from the adoption of the updated property policy which applied new valuation methodology.
- e) Employee costs increased by \$3.03 million or 3.3% from 2018/19 primarily due to:
  - 1) The \$1.8 million impact of the 2019/20 Enterprise Agreement pay rise
  - 2) The recognition of the \$0.9 million WorkCover scheme shortfall contribution identified in 19/20 due to COVID-19 impacting the schemes investments.
- f) Amortisation - right of use assets of \$0.7 million, and Finance Costs - Leases of \$0.08 million were recognised in 2019/20 due to the first-time application of the lease accounting standard AASB 16. This standard brings all leases onto the balance sheet as right of use assets and depreciates them over the lease period, accounting for interest on repayment. These costs will increase in future years as rights of use to assets under new contracts are reviewed and accounted for.
- g) Bad and doubtful debts decreased by \$1.41 million or 23% due to the following:
  - 1) Deferred parking infringements registrations with Fines Victoria, to assist the community during COVID-19.
  - 2) Reduced parking infringement volumes this financial year compared to the prior year where a large adjustment was made to the provision calculation in response to ongoing Fines Victoria issues.
  - 3) Lower sundry debtor balances at the end of 2019/20 as a result of waivers in response to COVID-19.



- h) Other expenses increased by \$7.28 million or 66.0% due to the subsidised rent expenditure of \$10.05 million which offsets to subsidised rent income as discussed above at (d)(4). In 2018/19 the subsidy was \$3.03 million, an increase of \$7.02 million.
  - i) Net loss on disposal of property, infrastructure, plant and equipment decreased by \$4.31 million or 79.4% due to deferral of capital renewal projects to 2020/21 as a result of industry shutdowns and Council decisions in response to the pandemic.
- 4.1.7 Council reports a comprehensive result in the Comprehensive Income statement. This includes other comprehensive income from net asset valuation increments for Council's Property Infrastructure Plant and Equipment assets. The comprehensive result has decreased from \$55.42 million in 2018/19 to \$19.61 million in 2019/20 as a result of reduced valuation increments (\$12.70 million) due to market valuation uncertainty resulting from COVID-19 impacts.
- 4.1.8 Council's Balance Sheet increased by \$19.61 million, which is attributable to the net operating surplus of \$6.91 million, and the net asset revaluation increments of \$12.70 million, discussed above at 4.1.7. This increased Total Equity/ Net Assets to \$3.28 billion, from \$3.26 billion in 2018/19.
- 4.1.9 The Balance Sheet should be read noting the following significant movements during the financial year:
- a) \$8.38 million increased cash and financial assets as a result of deferred spending on capital and operating projects
  - b) \$0.62 million increased trade and other receivables due to the deferral of rate payment collections, offset by reductions in other debtors as a result of debt waivers to support our community.
  - c) The first-time recognition of \$1.34 million of right of use (leased) assets, and current and non-current lease liabilities of \$1.37 million to comply with the new lease accounting standard AASB 16, discussed above.
  - d) \$10.57 million decrease in Trade and Other Payables due to deferrals in project expenditure as well as all invoices from March 2020 being paid immediately to support businesses and community members cash flow during the pandemic.
- 4.1.10 Council's liquidity, as measured by the working capital ratio (current assets to current liabilities), has increased to 360% in 2019/20 from 268% as a result of the impacts of COVID-19. Spend in the final quarter declined due to restrictions and deferrals discussed above. This resulted in large cash and financial investment balances held at the end of financial year of \$94.64 million which is required to meet operational and future capital works obligations, and trade payable liabilities. This result emphasises that Council can comfortably meet its short-term financial commitments.
- 4.1.11 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 reserves transfers. Under this calculation, Council has a cumulative cash deficit



of \$0.27 million, which is an improvement from the forecasted cash deficit of \$1.95 million.

4.1.12 Council has transferred \$14.84 million to its cash backed general and statutory reserves in 2019/20. The following impacted reserve movements during the financial year:

- a) Council received over \$10 million of Open Space Contributions particularly in the following neighbourhoods; \$3.2 million St Kilda Road, \$1.4 million Elwood/Ripponlea, \$1.3 million South Melbourne and \$2.0 million Fishermans Bend (Montague, Sandridge and Wirraway).
- b) Net deferrals in 2019/20 of \$8.5 million as a result of project delays caused by COVID-19 and the decision to delay projects to partly address the financial impacts of COVID-19.
- c) \$1.5 million of Right of Way sales quarantined in the Strategy Property Reserve for future use.
- d) \$2.8 million drawdown on general reserve 2018/19 to fund South Melbourne Life Saving Club Redevelopment which was ahead of schedule. Replenishment was required in 2019/20 in order to reinstate general reserve.
- e) \$5.0 million drawdown on Smart Technology reserve to fund CX program (internal borrowing). We expect productivity and efficiency savings from this program equivalent to \$40 million over the 10-Year period.
- f) \$2.6 million drawdown as several projects were funded from the Asset Renewal Reserve including the following material projects: St Kilda Town Hall Accommodation Renewal, South Melbourne Town Hall Compliance Works, Cora Graves Accessibility Improvements.

## 4.2 Performance Statement

4.2.1 The form and content for the performance statement to 30 June 2020 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 2019/20 and 2018/19. 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 Councils 2018/19 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 eight service measures that fall outside the threshold:
- a) Decisions made at meetings closed to the public experienced a decrease in 2019/20 with 6.62 per cent compared to 9.35 per cent. Port Phillip City Council made 268 of its 287 resolutions at meetings open to the public. A small proportion of Council's resolutions were made at meetings closed to the public.
  - b) Physical library collection usage decreased from of 4.31 in 2018/19 to 3.73 in 2019/20. Borrowing of physical items continues to decline while digital loans increase. The impact of COVID-19 social distancing restrictions and library closures from March through to June of 2020 has also affected physical utilisation.
  - c) Cost of Maternal and Child Health (MCH) service indicates an increase from \$75.54 in 2018/19 to \$84.67 in 2019/20. The COVID-19 pandemic created an adjustment of the MCH service as per recommendation of Department of Health and Human Services. The MCH service offered a flexible platform either via telehealth or face to face, according to explicit criteria and guidelines, with a focus on more vulnerable families, while endeavouring to keep transmission rates of COVID-19 low.
  - d) Participation in MCH service has increased from 74.28 per cent in 2018/19 c to 87.38 per cent in 2019/20. Given the current pandemic, the need is great because we are one of the very few community services that are engaging face to face with their clients.
  - e) Participation in the MCH service by Aboriginal children highlights an increase from 80 per cent in 2018/19 to 95 per cent in 2019/20. Twenty Aboriginal children were enrolled in the service and 19 visits occurred providing a participation rate of 95 per cent.
  - f) Cost of sealed local road reconstruction highlights a decrease from \$91.10 in 2018/19 to \$65.31 in 2019/20. The cost of local road resealing changes every year and dependent on the project requirements, market forces and material prices.
  - g) Planning applications decided within required time frames has increased from 56.53 per cent in 2018/19 to 67.55 per cent in 2019/20. This increase reflects process improvements.
  - h) Cost of kerbside recyclables collection service highlights an increase from \$46.55 in 2018/19 to \$51.38 in 2019/20. The ongoing increased costs to the recycling industry in Australia led to an increase in processing costs for Council.



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) Liquidity

This performance indicator measures Council's ability to generate enough cash to pay bills on time. Current assets compared to current liabilities increased from 2018/19 of 267.52 per cent to 360.39 in 2019/20. Council can comfortably meet its short-term financial commitments. The increased ratio is largely driven by a reduction in trade and other payables of \$10 million from prior year. In response to the COVID-19 global pandemic Council commenced paying all suppliers within 7 days. In addition, the assets, finance and procurement modules of the new Enterprise Resource Planning went live on 1 July 2020 which required all invoices in the old system to be paid. Cash holdings increased by \$8 million from prior year due to increased rates revenue, and delivery of the 2019/20 capital works program not meeting forecast expectations which was directly impacted by COVID-19. In future years when operations return to optimal levels this ratio is expected to decline as cash is drawn down.

Council's unrestricted cash ratio has decreased to -207.81% in 2019/20 compared to -85.93 per cent in 2018/19 due to funds being placed in longer term investments, including current financial assets. This has enabled Council to achieve optimal investment returns during a global economic downturn as a result of the COVID-19 pandemic and reflects strong cash management practices. Council has \$94.642 million of cash and other financial assets (investments) \$74.896 million of which is restricted. This will in part be used to fund the completion of projects in future years, placing Council in a strong position to continue to meet its financial obligation, as reflected in the working capital ratio.

b) Obligations

This performance indicator measures council's level of debt and other long-term financial obligations. Council's loans and borrowings repayments compared to rates decreased to 5.81 per cent in 2019/20 compared to 7.15 per cent in 2018/19 because of the new accounting standard for leases (AASB 16) applied to all non-profit entities. This has resulted in lease liabilities (formerly known as Finance leases) recognised separately from other interest-bearing loans and borrowings. As a result, this ratio has declined slightly reflecting the exclusion of these liabilities. Council has a 7-year fixed interest loan which is due for repayment in the 2021/22. With no other borrowings planned the ratio will remain consistent in future years.

c) Operating position

This performance indicator measures Council's ability to generate an underlying surplus. This measure has improved from the 2018/19 result of -3.37 percent to -2.89 per cent in 2019/20. This result is negative due to a reduction in recurrent revenue streams which have been directly impacted by Covid-19. In response to the pandemic and to support the community Council provided relief packages which resulted in deferral and waivers of fees and charges. In addition, the Stage 3 restrictions and lockdowns



during the State of Emergency resulted in a significant reduction in parking income and income from other Council run programs. The improvement from prior year is attributable offsetting expenditure reductions for bad and doubtful debts and losses on asset disposals. As restrictions ease enabling programs and operations to return to normal, this ratio is expected to improve year on year.

#### Sustainable capacity Indicators

Staff turnover decreased from 18.04 per cent in 2018/19 to 14.24 per cent in 2019/20. Although turnover continues to be higher than target, the result has continued to reduce as the year progressed and we have finished the year closer to the metropolitan benchmark Succession planning and talent management remain as a high priority for the CEO. In addition, COVID-19 has contributed to improved retention in Children's Services, and funding in Aged Care until 2022 has ensured staff retention, with increased workloads as a result of the pandemic.

## 5. CONSULTATION AND STAKEHOLDERS

- 5.1 The preliminary audit has been conducted by HLB Mann Judd acting on behalf of and appointed by the Victorian Auditor-General.
- 5.2 The City of Port Phillips' Audit and Risk Committee reviewed the draft financial statements and performance statement at its meeting on 8 September 2020 and have recommended these to Council for adoption.
- 5.3 The preparation of the statements is in line with the model accounts template released annually by Local Government Victoria and reviewed by a working group of representatives from professional accounting bodies and Local Government Finance Professionals (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 November 2020. This date has been extended in 2019/20 for Councils to address the impacts of COVID-19 on their financial results.
- 6.2 Failure to meet this deadline will result in Council being named in a report presented to Victorian Parliament, which will have a negative impact on Council's reputation.

## 7. FINANCIAL IMPACT

- 7.1 Council's cumulative cash deficit of \$0.27 million is \$0.70 million less than the \$0.43 million surplus that was determined when the Budget 2019/20 was adopted. This has been impacted primarily by the impacts of COVID-19 which the Council worked hard to mitigate.

## 8. ENVIRONMENTAL IMPACT

- 8.1 Not applicable.

## 9. COMMUNITY IMPACT

- 9.1 Not applicable.





## 10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 Consistent with the Council Plan strategic direction Our Commitment to you, Council is a financially sustainable, high performing, well governed organisation which is demonstrated in the 2019/20 financial results.

## 11. IMPLEMENTATION STRATEGY

### 11.1 TIMELINE

- 11.1.1 Council to give 'in-principle' approval to the statements and authorise two Councillors to certify the statements in their final form,
- 11.1.2 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.
- 11.1.3 The Victorian Auditor-General certifies the statements and issues an independent Audit Report expressing an opinion on the statements.
- 11.1.4 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 November 2020.

### 11.2 COMMUNICATION

- 11.2.1 Council is required to consider the Annual Report at an open Council meeting within 30 days of the 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.
- 11.2.2 The Annual Report will be produced in hard copy and displayed at municipal offices and libraries and made electronically available on Council's website.
- 11.2.3 Council's key messages regarding financial performance for 2019/20 and financial position as at 30 June 2020 include
- a) In 2019/20, Council had to navigate a global pandemic, which saw the City endure significant detrimental Public health, economic and social outcomes. The financial impacts as result of COVID-19 have been substantial. Council maintained its focus on supporting the community and strong financial management and has continued to maintain 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 \$6.91 million (2.9 percent of total revenue)
    - An investment portfolio of \$90 million
    - Low levels of debt (5.8 percent of rates revenue)
    - A healthy working capital ratio of 360%



- Permanent ongoing efficiency savings of over \$5.6 million (taking the total to over \$12.6 million over the last four budgets of this council).
- Delivered a targeted \$2.8 million Economic and Social Emergency Relief Package to our community members impacted by COVID-19.
- Addressed the \$9.5 million income reduction caused by COVID-19 with expenditure cost containments, efficiency and project deferrals

## 12. OFFICER DIRECT OR INDIRECT INTEREST

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

**TRIM FILE NO:** 34/15/08

**ATTACHMENTS**

1. COPP 2020 Annual Report 020920
2. Performance Statement 19/20