



13.1 **IN PRINCIPLE APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS 2021/22 AND PERFORMANCE STATEMENT 2021/22**

EXECUTIVE MEMBER: **LACHLAN JOHNSON, GENERAL MANAGER, CUSTOMER, OPERATIONS AND INFRASTRUCTURE**

PREPARED BY: **PETER LIU, CHIEF FINANCIAL OFFICER**
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 2022.

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 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 2022.

2.3 The statements are audited by HLB Mann Judd, agents appointed by the Victorian Auditor-General's Office.

2.4 The performance statement includes results for 2021/22 and 2020/21. 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 Council is required under the Local Government (Planning and Reporting) Regulations to prepare the Governance and Management checklist, which is to be certified by the Mayor and Chief Executive Officer.

2.6 Key financial highlights for 2021/22:

2.6.1 An overall low risk rating on VAGO financial sustainability indicators.

2.6.2 A cumulative cash surplus of \$5.24 million.

2.6.3 A positive net operating result of \$26.6 million (10.9 percent of total revenue).

2.6.4 An investment portfolio of \$147 million.

2.6.5 Repayment of the \$7.5 million loan making Council debt free.

2.6.6 A healthy working capital ratio of 390 percent.



- 2.6.7 Permanent ongoing efficiency savings of over \$1.1 million (in addition to the \$14.9 million over the 2021/22 budget as well as the previous four budgets of this council). Cumulative savings since the introduction of rates capping of over \$70 million.
- 2.6.8 Delivered a targeted \$6.9 million Economic and Social Emergency Relief Package to our community members impacted by COVID-19.
- 2.6.9 Addressed the \$12.9 million income reduction caused by COVID-19 with expenditure cost containments, efficiency and project deferrals.
- 2.7 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 2022.
- 3.2 Authorises the Mayor, Councillor Marcus Pearl, and Deputy Mayor, Councillor Tim Baxter or delegates to certify the annual financial statements and performance statement for the financial year ended 30 June 2022.
- 3.3 Approves the materiality threshold in the performance statement at +/- 10 percent of Council's 2020/21 result for the explanation of variances between the 2021/22 and 2020/21 result.
- 3.4 Authorises the Mayor and Chief Executive Officer to certify the Governance and Management checklist.

4. KEY POINTS/ISSUES

4.1 ANNUAL FINANCIAL STATEMENTS

- 4.1.1 Council has reported a \$26.6 million operating surplus, which is an increase of \$14.2 million from the 2020/21 operating surplus. This result has been impacted by several factors.
- 4.1.2 Significant impacts on global and local economies, public health and social outcomes as a result of ongoing detrimental effects of COVID-19 have continued throughout 2021/22.
- 4.1.3 Government restrictions in the first half of the year resulted in ongoing service reductions and business closures, with local businesses and residents facing significant financial hardships.
- 4.1.4 Through strong financial management Council was able to address income reductions, contain spend and provide a \$6.9 million Economic and Social Emergency relief package to community members, tenants and businesses impacted by COVID-19.
- 4.1.5 As restrictions eased in the second half of the year enabling us to reopen and commence deliver of council services our community values.
- 4.1.6 Operating income increased by \$17.7 million or 7.9% and was directly impacted by the easing of government restrictions enabling visitors to return to the city and business and council services to begin the recovery to Covid normal. The following were significantly impacted:



- Statutory fees and fines of \$18.8 million increased by \$1.9 million or 11% primarily due to increased parking infringement and permit income (\$1.6 million).
 - User fees of \$33.7 million increased by \$2.5 million or 7.9% primarily due to increased parking ticket machine income.
 - Operating grants of \$17.2 million increased by \$3.7 million or 27.2% due to additional funding allocations received from the Commonwealth and State governments placemaking and business activation due to Covid-19, In addition we received \$2.4 million as prepayment of 2022/23 Victorian Grants commission funding was received in April 2022 as a pre-election payment.
 - Contributions - monetary of \$10.0 million increased by \$3.8 million or 60.5% due to developments recommencing across the city
 - Other Income of \$21.1 million increased by \$1.6 million or 8.1% due to reduced rent waivers compared to prior year.
 - Capital Grants of \$5.4 million increased by \$3.8 million or 41.1% due to the receipt of funding for construction of several capital projects undertaken during 2021/22 including EcoCentre redevelopment, Palais Forecourt and new netball courts.
- 4.1.7 Operating expenditure had a slight increase of \$3.6 million or 1.7% due to ongoing cost reviews and cost containment where possible in response to the ongoing impacts of government restrictions in 2021/22. The following were significantly impacted:
- Employee costs decreased by \$1.5 million or -1.6% due to the organisation closely monitoring staff retention and recruitment.
 - Materials and services decreased by \$0.71 million or -1.0% due to operating projects in response to the pandemic
- 4.1.8 Other expenditure movements contributing to the increase were:
- Other expenses decreased by \$1.3 million or -7.6% due to reduced non-cash rent subsidies.
 - Net loss on disposal of property, infrastructure, plant and equipment of \$7.3 million increased by \$7.1 million or 3,245% due to the non-cash transfer of Milton Street affordable housing to the State Government during the year.
- 4.1.9 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 increased from \$66.8 million in 2020/21 to \$220.2 million in 2021/22 as a result of an increase in valuation increments (\$193.6 million) for land, buildings, drainage and arts and heritage assets which were formally revalued in 2021/22. Land values increased significantly which is attributed to the attractive nature and location of Councils land.
- 4.1.10 Council's Balance Sheet increased by \$220.2 million, which is attributable to the net operating surplus of \$26.5 million, and the net asset revaluation increments of \$193.6 million, discussed above at 4.1.9. This increased Total Equity/ Net Assets to \$3.56 billion, from \$3.34 billion in 2020/21.



- 4.1.11 The Balance Sheet should be read noting the following significant movements during the financial year:
- \$27.5 million increased cash and financial assets as a result of deferred spending on capital and operating projects as a result of the pandemic.
 - \$7.2 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.
 - \$4.0 million increase in trade and other payables due to timing of expenditure and receipt of invoices in 2021/22.
 - \$1.8 million decrease in provisions due to staff turnover resulting in leave balances being paid out.
 - \$7.5 million decrease in interest-bearing liabilities due to Council fully repaying the seven-year loan in November 2021 with no further borrowing planned.
- 4.1.12 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 surplus of \$5.24 million, which is in line with the forecasted cash surplus of \$5.28 million.
- 4.1.13 Council has transferred \$36.6 million to its cash backed general and statutory reserves in 2021/22. The following impacted reserve movements during the financial year:
- Council received over \$10.0 million of Open Space Contributions mostly from St Kilda/ St Kilda West, St Kilda Road and Fishermans Bend neighbourhoods. This is a key funding source for the implementation of our Public Space Strategy.
 - Net deferrals in 2020/21 of \$5.2 million as a result of project delays caused by COVID-19, supply chain issues and experience resourcing issues both contractors and project management staff.
 - \$6.1 million transferred to the Asset Renewal Fund for future works.
 - \$9.7 million of asset sales quarantined in the Strategy Property Reserve for future use.
 - \$2.7 million of grants received (prepayments) and will be expenditure in 2022/3.
 - \$1.8 million reduction of internal borrowing mainly relating to the Customer Experience program.

4.2 PERFORMANCE STATEMENT

- 4.2.1 The form and content for the performance statement to 30 June 2022 is prepared in accordance with the Local Government Act 2020 and the Local Government (Planning and Reporting) Regulations 2020.
- 4.2.2 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 10 Year Financial Plan.
- 4.2.3 Local government performance reporting results will be reported for 2021/22 and 2020/21. Councils 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 2020/21 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 sixteen service measures that fall outside the threshold but only three are outside the expected range:
- A)** Animals rehomed decreased by 52 per cent (17.61% in 2020/21 compared to 8.43% in 2021/22) and is outside the expected range. Of the 178 animals collected, 95 were reclaimed by owners. Of the remaining 83, 15 were rehoused, 20 were euthanised and 48 were still being processed at the time the reports were generated. All avenues are explored to ensure animals find new homes.
 - B)** Cost of animal management service per population increased by 31.33% (\$7.61 in 2020/21 compared to \$9.99 in 2021/22) compared to previous years, is attributed additional work hours and increase in legal costs due to creation of the Domestic Animal Management Plan, and a back log of significant dog attack cases from previous years that were heard in last financial year. The cost remains well within the prescribed range.
 - C)** Cost of elected representation increased by 15.05% (\$44,131.55 in 2020/21 compared to \$50,775.11 in 2021/22), this includes Councillor allowances, training and development, travel and phone and equipment costs. This remains below the expected range of less than \$80,000.
 - D)** Physical library collection usage has decreased by 15.62% compared to (3.22 in 2021/22 compared to 3.82 in 2020/21) previous year as COVID-19 restrictions impacted our library services and therefore the collection usage but remained within the expected range.
 - E)** Cost of library service per population increased by 22.24% with \$37.04 compared to \$30.30 in 2021/21 though it remains within the expected range. This service was reduced as a result of COVID-19 restrictions.
 - F)** Cost of MCH service increased by 16.19% (\$88.86 in 2020/21 compared to \$103.25) though remains well with the budget as we incurred additional cost related to our response to COVID-19, including Personal Protection Equipment for nurses; SMS charges for COVID-19 related messages and increased usage of casual staff to assist with backfilling staff leave. Families were also provided with additional appointments to accompany



Key Age and Stage visits done via telehealth which required extra staffing to accommodate.

- G) Participation in the MCH service by Aboriginal children has decreased by 11.21% compared to (94.26% in 2020/21 to 83.72% in 2021/22) despite being within the expected range as COVID-19 impacted our service delivery and indigenous families are also accessing other aboriginal health services such as Victorian Aboriginal Health Service (VAHS).
- H) Sealed local roads requests decreased by 13.07% (51.13% in 2020/21 to 44.44% in 2021/22) compared to previous years. The results remain within the expected range and reflect on the improvement in maintenance response times and the expansion of the budget allocation in renewal programs which reduced the number of requests received.
- I) A decrease in cost of road resealing was experienced this year (57.39% - \$23.98 compared to \$56.29 in 2020/21). Overall cost of resealing has decreased as non-road resurface items (such as kerb and channel, and traffic management) were excluded when calculating the unit rate this year and remains within the expected range.
- J) An increase in kerbside bin collect requests was experienced (116.68 compared to 24.14 in 2020/21), driven by COVID-19 impacts and residents working from home. Implementation of new Council systems have also allowed more accurate reporting of customer requests and remains well within the expected range.
- K) Kerbside collection bin missed experienced an increase (4.95 compared to 2.05 in 2020/21) the financial year, driven by impacts of COVID-19 and residents working from home. Implementation of new Council systems have also allowed more accurate reporting of customer requests and remains well within the expected range.
- L) Cost of garbage bin collection service experienced an increase from previous years (\$157.54 compared to \$56.06 in 2020/21) due to increase in landfill levy and the change in the methodology for calculating the cost. Council now utilises the number of bins for calculation, which produces a more accurate result, instead of the number of properties.
- M) Cost of kerbside recyclable collections experienced an increase (\$119.64 compared to \$50.07 in 2020/21) compared to previous years due to contamination issues in the co-mingled recyclable stream and the change in the methodology for calculating the cost.
- N) The recurrent grants per head of municipal population increased to \$111.85 from \$83.12 in the year 2021/22. This result has been impacted by a lower value of grant funding recognised as unearned revenue in 2021/22 compared to prior years in accordance with Australian Accounting Standards AASB 15, as well as the early receipt of grant funding recognised in the current financial year.

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:

- **Liquidity**

Current assets compared to current liabilities increased from 309.5% in 2020/21 to 390.1% in 2021/22. This ratio remains high as a result of



project spend delays and asset sales ringfenced in the Strategic Property reserve for future investments. As with 2020/21 the capital works program was significantly impacted by ongoing Government restrictions in response to the COVID-19. In addition the \$7.5 million loan was repaid during 2021/22. We expect this ratio to continue at high levels as the economy recovers and no new borrowings are forecast to be undertaken. Councils unrestricted cash ratio has declined from the 2020/21 result of -104.4% to -141.1% in 2021/22 due to more funds being placed in long term investments as a result of limited investment options in the Covid-19 affected financial market, and Council's ongoing commitment to increasing investment returns and invest in green products where possible. Council holds \$147 million of cash and other financial assets, with \$135 million of this being restricted and or allocated to specific purpose. This will fund projects in future years, placing Council in a strong position to continue to meet its financial obligations, as reflected in the working capital ratio.

- **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 from 5.61% to 0% in 2021/22 due to Council's 7-year fixed interest loan being repaid in 2021/22.

Asset renewal and upgrade compared to depreciation has increased from 75.4% in 2020/21 to 100.4% in 2021/22. Council delivered \$22M of capital works in 2021/22 to renew, improve and expand community infrastructure assets. We have increased our capital portfolio program significantly for the next two financial years (2022/23 \$48.4 million and 2023/24 \$67.6 million) to address the low capital investments in the pandemic impacted years.

- **Operating position**

The adjusted underlying surplus of 5% has improved from the 2020/21 result of 3.5%. This measures the operating surplus less ad hoc and one-off transactions (such as capital grants and contributions – non-monetary). This result is impacted by reductions in expenditure in response to COVID-19 restrictions, as well as the early receipt of grant funding for ongoing programs which offset the impact of fee waivers and deferrals as part of Council's community support packages during the pandemic. As restrictions ease enabling programs and operations to return to normal, this ratio is expected to improve year on year.

- 4.2.7 The Local Government (Planning and Reporting) Regulations 2014 include a requirement for councils to certify a Governance and Management checklist as part of the report of operations in the Annual Report.
- 4.2.8 The Mayor and Chief Executive Office must certify that the information contained in the checklist presents fairly the status of Council's governance and management arrangements.

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 2022 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 technical 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 audit obligation to lodge the Annual Report with the Auditor General by 10 October 2022.

6.2 Failure to meet this deadline will have a negative impact on Council's reputation.

7. FINANCIAL IMPACT

7.1 Council's cumulative cash surplus of \$5.24 million is \$2.23 million more than the \$3.01 million surplus that was determined when the Budget 2021/22 was adopted. This has been impacted by cost containments throughout the year and the early receipt capital and operating grants to provide support to help fund COVID-19 recovery within the municipality.

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 5- Well Governed Port Phillip, Council is a financially sustainable, high performing, well governed organisation which is demonstrated in the 2021/22 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.

11.2 COMMUNICATION

11.2.1 Council is required to consider the Annual Report at an open Council meeting within 4 months of the end of the financial year. 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 2021/22 and financial position as at 30 June 2022 include

- In 2021/22, Council continued 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.
- Council's strong financial position is demonstrated by:
 - An overall low risk rating on VAGO financial sustainability indicators.
 - A cumulative cash surplus of \$5.24 million.
 - A positive net operating result of \$26.6 million (10.9% of total revenue)
 - An investment portfolio of \$147 million
 - Repayment of the \$7.5 million loan making Council debt free
 - A healthy working capital ratio of 390%
 - Permanent ongoing efficiency savings of over \$1.1 million (in addition to the \$14.9 million over the 2021/22 budget as well as the previous four budgets of this council).
 - Cumulative savings since the introduction of rates capping of over \$70 million.
 - Delivered a targeted \$6.9 million Economic and Social Emergency Relief Package to our community members impacted by COVID-19.
 - Addressed the \$12.9 million income reduction caused by COVID-19 with expenditure cost containments, efficiency and project deferments

12. OFFICER DIRECT OR INDIRECT INTEREST

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

ATTACHMENTS

1. Annual Financial Statements 2021/22  [Download](#)
2. Performance Statement 2021/22  [Download](#)
3. Governance & Management Checklist 2021/22  [Download](#)