



**13.4** IN PRINCIPLE APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS 2022/23 AND PERFORMANCE STATEMENT 2022/23

**EXECUTIVE MEMBER:** LACHLAN JOHNSON, GENERAL MANAGER, 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 2023.

**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 31 August 2023.
- 2.3 The statements are audited by BDO Australia, agents appointed by the Victorian Auditor-General's Office.
- 2.4 The performance statement includes results for 2022/23 and 2021/22. 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 2022/23:
- 2.6.1 An overall low risk rating on VAGO financial sustainability indicators.
  - 2.6.2 A cumulative cash surplus of \$8.4 million which has been used to fund a 2.8 percent rates increase, 20 percent lower than the rates cap of 3.5 percent for Budget 2023/24.
  - 2.6.3 A positive net operating result of \$24.0 million (9.4 percent of total revenue).
  - 2.6.4 Significant improvement in financial performance due to greater recovery post COVID-19 than anticipated.
  - 2.6.5 An investment portfolio of \$150 million.



- 2.6.6 A healthy working capital ratio of 452 percent.
- 2.6.7 Permanent ongoing efficiency savings of over \$1.1 million in addition to the \$1.5 million included in Budget 2022/23. This builds on the \$4.9 million in the last three budgets of this council. Cumulative savings since the introduction of rates capping in 2016/17 are more than \$91 million.
- 2.7 Material movements and events impacting the financial results are discussed in detail under section 4.

### 3. RECOMMENDATION

That Council:

- 3.1 Notes the sound financial performance for financial year 2022/23 which includes an operating surplus and a low-risk rating on the Victorian Auditor General's Office Financial Sustainability.
- 3.2 Gives in principle approval to the annual financial statements and performance statement (the statements) for the financial year ended 30 June 2023.
- 3.3 Authorises the Mayor, Councillor Heather Cunsolo, and Deputy Mayor, Councillor Andrew Bond, or delegates to certify the annual financial statements and performance statement for the financial year ended 30 June 2023.
- 3.4 Approves the materiality threshold in the performance statement at +/- 10 percent of Council's 2021/22 result for the explanation of variances between the 2022/23 and 2021/22 result.
- 3.5 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 \$24.0 million operating surplus, which is needed to fund capital investment. It is a slight decrease of \$2.6 million from the 2021/22 operating surplus.
- 4.1.2 Overall financial performance improved as Council returned to full operations for the twelve-month period enabling an increase in the delivery of services, projects and service improvements valued by our community.
- 4.1.3 Results were impacted by high inflation due to volatile economic markets which presented challenges during negotiation of a new staff Enterprise Agreement, and contract pricing, which was hit with the flow on of high fuel and material (construction) costs.
- 4.1.4 Operating income/revenue increased by \$10.8 million or 4.4 percent due to the following offsetting factors:
  - i. Increased parking fees and infringement revenue due to increased utilisation in tourist areas and fully resourced enforcement team (\$7.5 million).
  - ii. Improved rates of return on investments (from 1.4% to 4.51%) increasing interest income by \$3.9 million.



- iii. Rates revenue increase in line with the Victorian Government 1.75% rate cap and property assessment growth (\$3.4 million).
  - iv. Decreased operating and capital grants received due to timing of Financial Assistance grants, and completion of non-recurrent capital projects in prior years (\$4.6 million)
- 4.1.5 Operating expenditure increased by \$13.4 million or 6.3 percent due to the following:
- i. Materials and services were significantly impacted by increased contract payments across all services as a direct result of high inflation and CPI movement on contract rates, as well as a full year of service levels post-pandemic (\$12.7 million)
  - ii. Employee costs increased due to the 3.1% wage increase follow the implementation of the 2022 Enterprise Agreement, and the legislated 0.5% increase in superannuation. In addition, agency staffing costs increased due to staff vacancy backfills and project delivery needs post-pandemic years (\$6.7 million).
  - iii. Net loss on asset disposals decreased by \$6.5 million due to the prior year non-cash asset transfers (not occurring in 2022/23) and transport asset renewals note resulting in full asset disposal.
- 4.1.6 The Comprehensive Income statement reports the comprehensive result (which also equates to the movement in the Balance Sheet see 4.1.7). This includes net operating surplus/(deficit) plus other comprehensive income from net asset valuation increments for Council's Property Infrastructure Plant and Equipment assets. The comprehensive result has decreased from \$220.2 million in 2021/22 to \$96.0 million in 2022/23 because of a decrease in valuation increments (\$121.6 million) for land, buildings and road assets which were formally revalued in 2022/23. The key driver is the movement in land which was more significant in the prior year (2022/23 \$31 million, 2021/22 \$159 million).
- 4.1.7 Council's Balance Sheet increased by \$96.0 million as discussed in 4.1.6. This increased Total Equity/ Net Assets to \$3.66 billion, from \$3.56 billion in 2021/22.
- 4.1.8 The Balance Sheet should be read noting the following significant movements during the financial year:
- \$79.4 million increase in property, infrastructure, plant and equipment due to asset revaluation increments and capital expenditure of \$29.3 million.
  - \$7.8 million increased trade and other receivables due to rate increases and assessment growth as well as increased parking infringement debtors.
  - \$2.5 million increased cash and financial assets because of delayed spending on capital and operating projects and improved market performance impacted rate of return on investments.
  - \$85.5 million increase in reserve balances due to the increase in the asset revaluation reserve and \$13.6 million transferred to reserves to ringfence funds for future projects including project deferrals (\$5.7 million), tied grants (\$2.5 million), asset renewal (\$1.8 million), waste charge (\$0.84 million) and Palais Theatre (\$0.83 million)



- 4.1.9 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 \$8.38 million, which is in line with the forecasted cash surplus of \$8.37 million.

## 4.2 PERFORMANCE STATEMENT

- 4.2.1 The form and content for the performance statement to 30 June 2023 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 2022/23 and 2021/22. 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 2021/22 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 service performance indicators and sustainable capacity indicators there are nineteen measures that fall outside the threshold but only seven are outside the expected range. Key items are discussed below:
- Expenses per head of municipal population increased unfavourably by 14.62 per cent (\$2,218.10 in 2022/23 compared to \$1,935.21 in 2021/22). The increase is due to the significant impact of CPI and inflation on expenditure, specifically on materials and contract charges, where costs have significantly increased as a direct result of the economic climate and the return to full services compared to the prior-pandemic years compared to budget.
  - Infrastructure per head of municipal population increased favourably by 14.53 per cent (\$7,558.25 in 2022/23 compared to \$6,599.59 in 2021/22) from prior year due to the formal revaluation of roads, footpaths, bridges and building assets, as well as the completion of capital projects (increased spend from prior years).

# MEETING OF THE PORT PHILLIP CITY COUNCIL

## 6 SEPTEMBER 2023



- Population density per length of road experienced 8.40 per cent decrease from last year (386.01 in 2022/23 compared to 421.40 in 2021/22). While length of local roads remained consistent, estimated resident population decreased by 7% in 2022/23 and this attributed to the reduction in population density per length of road this year. This is below the expected target of 462.98.
- Own-source revenue per head of municipal population favourably increased by 18.12 per cent (\$2,222.38 in 2022/23 compared to \$1,881.44 in 2021/22) because of higher income received from user and statutory fees and charges and interest on investment, which were reduced in prior years due to waivers and deferrals in response to COVID-19 restrictions.
- Staff turnover rate has improved, decreasing by 14.05 per cent this year (17.40% in 2022/23 compared to 20.25% in 2021/22) following an increase in 2021/22 due to the pandemic. While this number is still higher than pre pandemic times, it is welcoming to see this reduction this year. We do however still face labour market challenges and competitive environments with other organisations both public and private sector. City of Port Phillip continues to be a sought-after organisation and holds a good reputation in the market. The result is unfavourable compared to the target of less than 10%.
- Participation in MCH service slightly decreased by 2.38 per cent (76.71% in 2022/23 compared to 78.58% in 2021/22) and is outside of the expected range. This is due to the increased number of appointment cancellations following on from COVID-19. Families are advised to not attend their appointment if anyone in the family is unwell. In 2022/23, the MCH Service had 1,197 appointments that were cancelled. In 2021/2022 there were 1,195. Enrolments in the MCH Service have decreased in the past 12 months with 200 less children enrolled for 2022-2023 period.
- Satisfaction with sealed local road resealing decreased by 10.61 per cent (59 in 2022/23 compared to 66 in 2021/22). The result in 2022/23 is mainly due to the increased amount of large development works within the municipality and increase to the service authority works within road reserves. Council is continuing to work on improving the maintenance response time and the road renewal program to help increase community satisfaction of the sealed local roads. This remains within the expected range between 50 to 100.
- The number of planning decisions upheld at VCAT in 2022/23 has seen an increase on previous years (83.33% in 2022/23 compared to 74.19% in 2021/22) and exceeds our target of 70 per cent. If we took into consideration the mediated and withdrawn outcomes, Council decisions upheld at VCAT is increased to 94.5 per cent.
- Kerbside collection waste diverted from landfill increased by 7.31% (34.9% compared to 32.5% in 2021/22). This is mainly due to the rollout of the FOGO service in January. Although this is below out target of 40%, the result is expected to increase in 2023/24.



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 Efficiency, Liquidity, Obligations, Operating position, and Stability. The following variances were noted:

- **Liquidity**

Current assets compared to current liabilities increased from 390.1% to 452% in 2022/23. This ratio remains high because of project spend delays and asset sales ringfenced in the Strategic Property reserve for future investments. In addition, strong investment returns due to financial market performance impacted this balance. We expect this ratio to continue at high levels as no new borrowings are forecast to be undertaken, however anticipate funds will be drawn down in future years to fund our long-term capital program.

Councils unrestricted cash ratio has declined from -104.4% to -183.7% in 2022/23 due to more funds being placed in long term investments because of Councils ongoing commitment to increase investment returns and source green products. Overall, we hold \$150 million in cash and other financial assets, which is more than the total cash 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.

- **Operating position**

The adjusted underlying surplus of 6.64% has improved from the prior year result of 5.0%. 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 increases in recurring income from interest, fines, user fees and charges which were significantly lower in prior years due to fee waivers and deferrals in response to the pandemic. This ratio is expected to remain consistent in future years.

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 BDO Australia 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 31 August 2023 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 30 September 2023.
- 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 \$8.38 million is \$6.83 million more than the \$1.55 million surplus that was determined when the Budget 2022/23 was adopted. The cash surplus will fund a rates increase of 2.8 percent for 2023/24, which is lower than the rates cap of 3.5%.

**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 2022/23 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 2022/23 and financial position as at 30 June 2023 include:



- 2022/23 financial year saw Councils post COVID-19 recovery result in an increase in the delivery of services and infrastructure, in addition to delivering priority projects and service improvements valued by our community. This allowed us to continue our commitment to continuous improvement and efficiency and keeping rates affordable. Our City is continuing to deal with the financial impacts of a post-pandemic world. High inflation because of the volatile economic market has presented unprecedented challenges, however we are not complacent and understand the increasing expectation our community has that we are prudent in our management of their funds and our stewardship of the community assets particularly in these unprecedented times.
- Councils strong financial position is demonstrated by:
  1. An overall low risk rating on VAGO financial sustainability indicators.
  2. Significant improvement in financial performance due to greater recovery post COVID-19 than anticipated.
  3. A cumulative cash surplus of \$8.4 million which has been used to fund a rates increase of 2.8 percent which is lower than the rates cap of 3.5 percent for Budget 2023/24.
  4. A positive net operating result of \$24.0 million (9.4% of total revenue)
  5. An investment portfolio of \$150 million
  6. A healthy working capital ratio of 452%
  7. Permanent ongoing efficiency savings of over \$1.1 million (in addition to the \$1.5 million included in Budget 2022/23).
  8. Cumulative savings since the introduction of rates capping of over \$91 million.
  9. Formal asset revaluations for Land, Building and Roads assets increased asset values by \$72 million driven by property market changes and increases in contract and unit rates.

## 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. 2022/23 Annual Financial Statements
2. 2022/23 Performance Statement
3. 2022/23 Governance and Management Checklist