



13.7 **IN PRINCIPLE APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS 2020/21 AND PERFORMANCE STATEMENT 2020/21**

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

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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 2021.

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 7 September 2021.
- 2.3 The statements are audited by HLB Mann Judd, agents appointed by the Victorian Auditor-General's Office for 2020/21 to perform the audit on their behalf.
- 2.4 The performance statement includes results for 2020/21 and 2019/20. 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 2021.
- 3.2 Authorises the Mayor, Councillor Louise Crawford, and Deputy Mayor Councillor Marcus Pearl (or delegates) to certify the annual financial statements and performance statement for the financial year ended 30 June 2021.



- 3.3 Approves the materiality threshold in the performance statement at +/- 10 percent of Council's 2019/20 result for the explanation of variances between the 2020/21 and 2019/20 result.

4. KEY POINTS/ISSUES

4.1 Annual Financial Statements

- 4.1.1 Council has reported a \$12.43 million operating surplus, which is an increase of \$5.52 million from the 2019/20 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 2020/21.
- 4.1.3 Government restrictions 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 \$7.7 million Economic and Social Emergency relief package to community members, tenants and businesses impacted by COVID-19.
- 4.1.5 .In addition, the implementation of the OneCouncil technology platform on 1 July 2020 enabled a thorough review of Councils asset portfolio, with updated useful lives seeing a reduction in depreciation expense of \$6.27 million, to \$19.53 million in 2020/21.
- 4.1.6 Significant income and expenditure movements in 2020/21 are explained below:
- Statutory fees and fines of \$16.94 million decreased by \$2.54 million or 13% primarily due to a reduction in parking infringement income (\$2.87 million). This was driven by:
 - A freeze on transferring infringements to the court which incurs additional fees for infringers.
 - Extended parking times allowed to support the community financially during the pandemic.
 - Reduction in visitors to the city as a result of Government enforced lockdowns resulting in reduced parking infringement volumes.
 - User fees of \$31.25 million decreased by \$6.44 million or 17.1% due to the following:
 - \$3.78 million reduced parking ticket machine income as a result of government restrictions impacting travel and local business operation.
 - \$1.76 million decreased registration and other permits due to fee waivers and deferrals for footpath trading, health registrations, due to business shutdowns, and decreased asset protection and building permits due to industry and business closures through Stage 4 restrictions.



- \$0.72 million decrease in income from events, festivals and markets due to lower utilisation of Council properties, cancellation of the St Kilda Festival, St Kilda Film Festival moving to online and reduction in fees due to restrictions impacting the St Kilda Esplanade and South Melbourne Markets.
- Operating grants of \$13.49 million increased by \$1.49 million or 12.4% due to additional funding allocations received from the Commonwealth and State governments for Home and domestic care services children's services and funding for placemaking and business activation due to Covid-19, In addition \$1.35 million of the 2021/22 Victorian Grants commission funding was received in June 2021.
- Capital Grants of \$3.86 million increased by \$0.61 million or 18.8% due to the receipt of \$1.6 million of Local Road and Community Infrastructure funding as part of the Commonwealths Covid-19 response. This is offset by the receipt of non-recurrent grant in 2019/20 for projects completed in the prior financial year.
- Contributions- monetary of \$6.23 million decreased by \$4.13 million or 39.8% due to delays in developments across the city in response to the pandemic.
- Contribution- non monetary of \$0.83 million increased by \$0.79 million or 100% due to the legislated transfer of committee of management of 3 bridges to Councils asset register in December 2020 under the Road Management Act.
- Other income of \$19.51 million decreased by \$5.52 million or 22.1% but was impacted by the following significant movements:
 - \$2.62 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.
 - \$0.94 million decrease in interest income due to global economic downturn significantly impacting interest rates and the Reserve Bank of Australia's fiscal policy.
 - \$1.53 million income from the sale of right of ways (road discontinuance) in 2019/20- none in 2020/21.
- Employee costs of \$92.9 million decreased by \$1.78 million or 1.9% primarily due to:
 - The organisational operating review which resulted in \$5.6 million of savings,
 - \$1.6 million savings from lower utilisation and temporary lockdown closure of Council services,
 - \$1.5 million savings from vacant positions put on hold unless necessary, with agency and contract spend minimised.



- These decreases were offset by:
 - Offsets included the 2% Enterprise Agreement pay rise,
 - \$1.0 million of additional Working for Victoria program expenditure funded by the Victorian Government,
 - \$0.74 million provision for Councils liability for the MAV Worksafe scheme shortfall
 - Expenditure for vulnerable staff and increased resourcing for Summer Management.
 - Materials and Services of \$77.26 million decreased by \$7.02 million or 8.3% due to the following:
 - \$6.29 million reduction in operational expenditure for building and admin costs due to lower utilisation of offices, lower spend on staff training and fleet running costs due to government restrictions in response to Covid
 - Reduction in non capital project related expenditure due to project deferrals as a result of Covid-19
 - \$0.77 million lower spend on consultants directly attributable to the Customer Experience Programs utilisation of in-house staff
 - This was offset by CPI increases in Councils main contractors as provided for under contract agreements.
 - Depreciation of \$19.53 million has decreased by \$6.27 million or 24.3% as a result of the implementation of the OneCouncil ERP on 1 July 2020 which allowed Council to thoroughly review all asset data and update the useful lives in the new system to correctly reflect their condition and remaining lives.
 - Amortisation - right of use assets of \$0.84 million increased by \$0.14 or 20.4% as new leases were identified during the 20/21 financial year which grant exclusive rights of use to Council. It is expected that these costs will increase in future years as rights of use to assets under new contracts are reviewed and accounted for.
 - Net loss on disposal of property, infrastructure, plant and equipment of \$0.22 million decreased by \$0.90 million or 80.4% due to the sale of surplus Council property in July 2020 bringing in proceeds of \$4.0 million. There were no asset sales in the 2019/20 financial year.
- 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 increased from \$19.61 million in 2019/20 to \$66.84 million in 2020/21 as a result of an increase in valuation increments (\$54.4 million) for land assets which were formally revalued in 2020/21 and were in a strong position at the time of valuation. This is attributed to the attractive nature and location of Councils land.
- 4.1.8 Council's Balance Sheet increased by \$69.26 million, which is attributable to the net operating surplus of \$12.43 million, and the net asset revaluation increments



of \$54.41 million, discussed above at 4.1.7. In addition, Council became aware of net \$2.04 million of asset transfers from the 2019/20 financial year that were adjusted through the opening retained earnings, as shown in the Statement of Changes in Equity. This increased Total Equity/ Net Assets to \$3.344 billion, from \$3.27 billion in 2019/20.

4.1.9 The Balance Sheet should be read noting the following significant movements during the financial year:

- \$25.2 million increased cash and financial assets as a result of deferred spending on capital and operating projects
- \$2.29 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.
- \$9.50 million increase in non current assets classified as held for sale due to two new properties valued at \$11.71 million being identified as surplus and approved for sale in 2021/22.
- \$4.86 million increase in trade and other payables due to timing of expenditure and receipt of invoices in 2020/21. At 30 June 2021 restrictions had lifted and the State had started to recover before further lockdowns in July and August.
- \$3.05 million increase in provisions due to less staff taking leave as a result of ongoing Covid-19 lockdowns and restrictions. In addition, Councils liability to the MAV WorkSafe scheme shortfall doubled to \$1.5 million.

4.1.10 Council's liquidity, as measured by the working capital ratio (current assets to current liabilities), has decreased to 309% in 2020/21 from 360%. This is still a very high ratio and is impacted by ongoing delays in project delivery and operational cost containment and the large cash and financial investment balances held at the end of financial year as a result of the impacts of COVID-19. The decline from prior year is due to the \$7.5 million loan being due for repayment in November 2021. 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 surplus of \$6.66 million, which is an improvement from the forecasted cash surplus of \$4.79 million.

4.1.12 Council has transferred \$13.78 million to its cash backed general and statutory reserves in 2020/21. The following impacted reserve movements during the financial year:

- Council received over \$6.0 million of Open Space Contributions particularly in the following neighbourhoods; \$1.63 million St Kilda/St Kilda West, \$0.70 million Elwood/Ripponlea, \$1.0 million South Melbourne and \$1.39 million Fishermans Bend (Montague, Sandridge and Wirraway).



- Net deferrals in 2020/21 of \$5.2 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.
- \$5.23 million transferred to the Asset Renewal Fund for future works.
- \$3.67 million of asset sales quarantined in the Strategy Property Reserve for future use.
- \$7.62 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.

4.2 Performance statement

4.2.1 The form and content for the performance statement to 30 June 2021 is prepared in accordance with the Local Government Act 2020 and the Local Government (Planning and Reporting) Regulations 2014.

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 2020/21 and 2019/20. 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 2019/20 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 six service measures that fall outside the threshold:

- a) Animals rehomed increased by 55 per cent (17.61 per cent in 2020/21 compared to 11.40 per cent in 2019/20). Of the 159 animals collected in total, 79 animals (49.6%) were reclaimed by their owners and 28 were rehomed (17.6%) to new owners. A further 25 animals were in foster care with the view of rehoming if suitable. All avenues are explored to ensure animals find new homes.
- b) The proportion of decisions made closed to the public slightly increased compared (up 11 per cent 7.38 per cent compared to 6.62% in 2019/20) to



previous years and remained below target. A total of 18 decisions were made closed to the public during the year.

- c) Cost of elected representation decreased by 16 per cent (\$44,131.55 compared to \$52,239.22 in 2019/20), this includes Councillor allowances, training and development, travel and phone and equipment costs. This remained below target of less than \$62,000.
- d) Cost of library service per population decreased by 15 per cent with \$30.30 compared to \$35.48 in 2019/20. This service was reduced as a result of COVID-19 restrictions.
- e) Sealed local roads requests increased by 195.65 per cent, returning to levels consistent with previous years. This years result was 51.13, compared to 17.29 in 201/20 and 53.21 in 2018/19. The result reflects a high standard of Council's local road network and requests received in relation to road assets.
- f) An increase in cost of sealed road reconstruction was experienced this year (21 per cent - \$79.08 compared to \$65.31 in 2019/20). This is dependent on the type, amount and thickness of material used.
- g) An increase in cost of road resealing was experienced this year returning to previous levels(101 per cent - \$56.29 compared to \$28.07 in 2019/20), however remained under target. This measure includes minor road alignments.
- h) A slight decrease in kerbside bin collect requests was experienced (11.89 per cent – 24.14 compared to 27.4 in 2019/20) and remained below target.
- i) Kerbside collection bin missed experienced a decrease of 33 per cent compared to 2019/20 (2.05 compared to 3.07) with a total of 494 missed garbage and 312 missed recycling bins for the financial year.
- j) Cost of kerbside recyclable collections were experienced an increase of 11 per cent compared to previous years and the result remained below target (\$56.06 compared to \$50.49 in 2019/20).
- k) The recurrent grants per head of municipal population decreased by 11 per cent from \$93.40 in 2019/20 to \$83.12 this year. This result has been impacted by the recognition of grant funding as unearned revenue in 2020/21 in accordance with Australian Accounting Standards AASB 15, due to the specific performance obligations in the grant agreement not being met.

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 decreased from 2019/20 of 360.4 per cent to 309.5 in 2020/21. Ongoing delays in project delivery and operational cost containment and the large cash and financial investment balances held at the end of financial year as a result of the impacts of COVID-19 have contributed to this ratio remaining at high levels. The decline from prior year is due to the \$7.5 million loan being due for repayment in November 2021. This result emphasises that Council can comfortably meet its short-term



financial commitments. In future years when operations return to optimal levels this ratio is expected to decline as cash is drawn down.

Councils unrestricted cash ratio has improved from the 2019/20 result of -207.81 to -104.4 per cent in 2020/21 due to more funds being placed in short term investments as a result of limited investment options in the Covid-19 affected financial market. This ratio excludes longer term investments, which bring the total cash and financial assets balance to \$119.9 million of cash and other financial assets (investments) \$64.3 million of which is restricted or 53.6 per cent.

- 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 5.81 per cent to 5.61 per cent in 2020/21 due to consistent debt levels from Councils 7-year fixed interest loan which is due for repayment in the 2021/22.

Asset renewal and upgrade compared to depreciation has increased slightly from 72.23 per cent in 2019/20 to 75.37 per cent in 2020/21. This is directly attributed to the updated asset useful lives data available in the OneCouncil reducing depreciation calculations to better reflect asset conditions.

Operating position

The adjusted underlying surplus of 3.50 per cent has improved from the 2019/20 result of -2.89 per cent in 2019/20 (an increase of 6.39 per cent). This measures the operating surplus less ad hoc and one-off transactions (such as capital grants and contributions- non monetary). This result is due to reductions in expenditure in response to COVID-19 restrictions, and improved depreciation and asset sales as well as the early receipt of grant funding for ongoing programs which offset the impact of fee waivers and deferrals as part of Councils community support packages. As restrictions ease enabling programs and operations to return to normal, this ratio is expected to improve year on year.

Sustainable capacity Indicators

Expenses per head of population has decreased to \$1,831.72 in 2020/21 (\$1,989.31 in 2019/20) due to significant reductions in expenditure across all areas due to, ongoing restrictions and State Government mandated shutdowns in response to Covid-19. Council has limited expenditure where possible to deliver essential services and support to community members.

Stability

Rates revenue as a % of total revenue from 57.73 per cent in 2019/20 to 60.46 per cent in 2020/21 due to a decline in other revenue streams which are related to fee waivers and deferrals to provide support to businesses and community members impacted by the ongoing government mandated COVID-19 restrictions.

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 7 September 2021 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 September 2021.
- 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 surplus of \$6.66 million is \$5.53 million more than the \$1.14 million surplus that was determined when the Budget 2020/21 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 2020/21 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 September 2021.



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 2020/21 and financial position as at 30 June 2021 include
- In 2020/21, 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:
 - A positive net operating result of \$12.4 million (5.5 percent of total revenue)
 - An investment portfolio of \$115 million
 - Low levels of debt (5.6 percent of rates revenue)
 - A healthy working capital ratio of 309%
 - Permanent ongoing efficiency savings of over \$2.3 million (in addition to the \$12.6 million over the last four budgets of this council).
 - Delivered a targeted \$7.7 million Economic and Social Emergency Relief Package to our community members impacted by COVID-19.
 - Addressed the \$20.4 million income reduction caused by COVID-19 with expenditure cost containments, efficiency and project deferments
 - A cumulative cash surplus of \$6.66 million.

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. 2020/21 Annual Financial Statements
2. 2020/21 Performance Statement