

**C18/6156 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2017-2018 (REC)
(ATTACHMENT)**

Ward	: All
Category	: Operational
Subject Index	: Financial Reporting – Annual Financial Reports
Customer Index	: Grant Thornton Australia
Disclosure of any Interest	: No Officer involved in the preparation of this report has a declarable interest in this matter.
Previous Items	: Item C17/6156 – City of Melville Annual Financial Statements for 2016-2017 – Financial Management, Audit, Risk and Compliance Committee Meeting held 6 November 2017 and Ordinary Meeting of Council held 21 November 2017 Item C18/6156 – City of Melville Annual Financial Report for 2017-2018 – Financial Management, Audit, Risk and Compliance Committee Meeting held 5 November 2018
Works Programme	: Not Applicable
Funding	: Not Applicable
Responsible Officer	: Bruce Taylor Manager Financial Services

AUTHORITY / DISCRETION

DEFINITION

<input type="checkbox"/>	Advocacy	<i>When the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.</i>
<input type="checkbox"/>	Executive	<i>The substantial direction setting and oversight role of the Council. e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.</i>
<input type="checkbox"/>	Legislative	<i>Includes adopting local laws, town planning schemes & policies.</i>
<input type="checkbox"/>	Review	<i>When the Council operates as a review authority on decisions made by Officers for appeal purposes.</i>
<input type="checkbox"/>	Quasi-Judicial	<i>When the Council determines an application/matter that directly affects a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.</i>
<input checked="" type="checkbox"/>	Information	<i>For the Council/Committee to note.</i>

**C18/6156 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2017-2018 (REC)
(ATTACHMENT)****KEY ISSUES / SUMMARY**

- This report presents the 2017-2018 Annual Financial Report, the Independent External Auditors Audit Findings Report and a summary of variances. It is recommended that after review and discussion with the City's Auditors the Committee notes the report and recommends the report for further noting by the Council.
- The overall closing funds/unrestricted cash amount available to be carried forward to 2018-2019 is \$4,503,203. This is \$4,503,203 more than the opening funds required to balance the 2018-2019 Annual Budget.
- In accordance with Council resolution (Special Meeting of Council held 26 June 2018 Item C18/6161 – Consideration and Adoption of the 2018-2019 Budget) the surplus funds are transferred to the Rates Equalisation Reserve account.

BACKGROUND

The *Local Government Act 1995* (the Act) prescribes the following (but not limited to) in relation to the Annual Report:

- Section 5.53(1) requires a local government to prepare an Annual Report for each financial year.
- Section 5.53(2)(f) states that the Annual Report must contain the financial report for the financial year.
- Section 5.54 requires the Annual Report for a financial year is to be accepted by the local government no later than 31 December after that financial year.

The City refers to its Annual Report as the Community Annual Report and presents it in two parts:

- Part A – contains the full text summary and an extract of the Annual Financial Report
- Part B – contains the full Annual Financial Report and a copy of the independent audit letter

The Community Annual Report Parts A and B for 2017-2018 requires acceptance by the Council prior to the Annual General Meeting of Electors.

The Community Annual Report will be presented to Council at the Ordinary Meeting of Council on Tuesday 20 November 2018. This report is the vehicle whereby the Council will have presented for acceptance the full Annual Financial Report for 2017-2018 after consideration by the Financial Management, Audit, Risk and Compliance Committee (FMARCC).

The Annual General Meeting of Electors will be held on 5 December 2018.

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(ATTACHMENT)****DETAIL**

This item presents the City of Melville's Annual Financial Report for 2017-2018 and supporting analysis in the following attachments:

1. Variances Report on Rate Setting Statement [6156A](#)
2. Independent External Auditor's Audit Findings Report [6156B](#)
3. Audited Annual Financial Report (including):
[6156 Annual Financial Report 2017-2018](#)
 - a. Independent Auditor's Report
 - b. Statement by the Chief Executive Officer
 - c. Management Representation Letter
 - d. Statements of Comprehensive Income by Nature or Type
 - e. Statements of Comprehensive Income by Program
 - f. Statement of Financial Position
 - g. Statement of Changes in Equity
 - h. Statement of Cash Flows
 - i. Rate Setting Statement by Program and Sub-Program
 - j. Notes to and Forming Part of the Annual Financial Report.

The 2017-2018 Annual Financial Report shows a positive end to the 2017-2018 financial year for the City, with an overall cash surplus of \$4,503,203. This is \$4,503,203 more than the budgeted amount required to balance the 2018-2019 Annual Budget. In accordance with previous Council resolutions the surplus are transferred to the Rates Equalisation Reserve to be used to reduce the need to raise rates in future years or to meet any budget shortfalls identified during budget reviews. A brief analysis of the significant variances which contributed to this positive position is included in the Financial Implications section of this report and in the Variance Report on Rate Setting Statement Attachment [6156A](#).

The financial outcomes for the year are specified in the Audited Annual Financial Report and are summarised in the Financial Implications section of this report.

The Independent Auditor's Report provides an unqualified audit opinion in respect to the 2017-2018 Annual Financial Report. Four observations were made in the Independent External Auditor's Audit Findings Report, which at the time of distribution of the agenda, management were responding to. The final will be attached to the minutes of the meeting as attachment [6156B](#).

STAKEHOLDER ENGAGEMENT**I. COMMUNITY**

No external public consultation has been carried out.

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The City's independent external auditors Grant Thornton Australia have audited the 2017-2018 Annual Financial Report.

Grant Thornton Australia will be attending the FMARCC meeting to discuss the Audit Completion Report including the Audit Findings Report and the Independent Auditor's unqualified audit report prepared by them.

STATUTORY AND LEGAL IMPLICATIONS

Section 5.53 of the Act headed "Annual reports" specifies that:-

- "(1) The local government is to prepare an annual report for each financial year and that.*
- (2) The annual report is to contain... (f) the financial report for the financial year; ..."*

Section 5.54 of the Act headed "Acceptance of annual reports" specifies that the Annual Report for the financial year is to be accepted by the Local Government no later than 31 December after that financial year.

Section 5.27 of the Act specifies that a General Meeting of Electors is to be held within fifty-six (56) days after the local government accepts the Annual Report for the previous financial year.

Section 5.94 of the Act provides that *"a person can attend the office of a local government during office hours and, unless it would be contrary to section 5.95, inspect, free of charge, in the form or medium in which it is held by the local government and whether or not it is current at the time of inspection — ... (c) any annual report;"*

Section 6.4 of the Act headed "Financial report" specifies that:-

- "(1) A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.*
- (2) The financial report is to —*
 - (a) be prepared and presented in the manner and form prescribed; and*
 - (b) contain the prescribed information.*
- (3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —*
 - (a) the accounts of the local government, balanced up to the last day of the preceding financial year; and*
 - (b) the annual financial report of the local government for the preceding financial year."*

The Annual Financial Report has been prepared in accordance with all relevant legal requirements and accounting standards.

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FINANCIAL IMPLICATIONS

Operating Surplus

The net result for the 2017-2018 financial year was an operating surplus of \$36.82m as calculated in the Statement of Comprehensive Income.

The operating surplus is the result of:

- Operating revenue of \$118.86m
- Operating expenditure of \$97.18m
- Non-operating revenue of \$4.25m
- The City's share of the net result of the joint venture with the Southern Metropolitan Regional Council (SMRC) of \$1.86m profit.
- Revaluation increase of investment properties of \$10.43m
- Loss on asset disposals of \$1.40m

This operating surplus is different to the actual cash surplus, previously mentioned, of \$4.5m. The operating surplus measures the ability of the City to cover its operational costs and have revenues available for capital funding. The cash surplus is then calculated following the inclusion of the capital outlays and reserve transfers.

The Department of Local Government and Communities (DLGC) set an advanced target for the Operating Surplus Ratio of greater than 0.15 (the higher the better). The City achieved a ratio of 0.18 which is a positive result.

Cash Surplus

The cash surplus for the 2017-2018 financial year was \$4,503,203 as calculated in the Rate Setting Statement.

This is determined by the inclusion of the following items:

- Operating revenue
- Operating expenditure
- Non-operating revenue
- Capital expenditure
- Reserve account transfers
- Reversal of non-cash items (such as asset depreciation)

This surplus was carefully analysed to fully understand the drivers behind this variance. There are a number of variances that are offset by a corresponding value such as income, expenditure or a transfer to or from reserve. In these cases, the variance does not contribute to the overall surplus and have therefore not been reflected in the summary below. The following table outlines the key areas contributing to the \$4.50m surplus:

	Variance
General Purpose Funding positive variance	\$611,130
Operating Income positive variance	\$584,282
Operating Expenditure positive variance	\$3,606,374
Net Reserve transfers negative variance	(\$432,750)
Other positive variances	\$134,167
Total Surplus	\$4,503,203

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There were various positive and negative operating income variances across the organisation, with the key positive variances contributing to the surplus being income generated by building and planning application fees. Operating expenditure contributed \$3.6m to the surplus, being approximately 3.6% under budget. Savings were made across various areas of the organisation mainly in employee costs, materials and contractor expenses.

To be consistent with previous month end financial reports, a variance analysis at the Program/Sub Program level is detailed in the Variance Report on Rate Setting Statement Attachment [6156A](#).

The City budgeted for \$nil opening funds surplus for the 2017-2018 financial year when setting the Budget for 2018-2019. This has resulted in an unallocated surplus of \$4,503,203 that will be transferred to the Rates Equalisation Reserve to be used to offset future year's rate increases.

Trust Funds

The *Trustees Act 1962* prescribes the following in relation to trust investments:

The performance review of the trust investments, at least once in each year, as per Section 18(3) of the Act, the City always ensure that the investments are placed with the appropriate authority with high credit ratings using recognised rating criteria and maintain an adequate level of diversification.

The City manages trust investment with care and diligence that a prudent person would exercise.

According to City's investment policy, all the investments must be maintained within investment parameters and to confirm compliance with the legislative requirements on a monthly basis. The City must obtain not less than three quotations from authorised institutions with healthy credit ratings whenever the investment is propose or renew. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the maximum investment limits at respective credit rating.

Under the risk management guidelines for trust investments, if any of the funds / securities held are downgraded such that they no longer fall within the City's investment policy guidelines, they will be divested as soon as is practicable but, unless otherwise decided by the Council, not at an amount of more than 5% below the last reported mark to market book value.

The financial outcome of trust investment for the year 2017-2018, the City has earned interest of \$23,939 which is the weighted average interest rate of 2.55% compared favourably to the benchmark three month bank bill swap (BBSW) reference rate of 2.07%. The total trust investment holding as at 30 June 2018 is \$952,162.

Reserves

The City's cash backed reserves total \$146m as at 30 June 2018, which is an increase of \$21.34m from the previous financial year. The City uses a number of reserves to streamline funding needs and quarantine funds for specific purposes.

The increasing reserve balance is due mainly to the net result of the following:

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Reserve	Increase /(Decrease)	Comment
Various Reserves	\$3.34m	Investment earnings being transferred to reserves to maintain their value.
Alfred Cove East UGP & Streetscape Enhancement Reserve	\$1.35m	\$1.35m transfer to reserve. Funds are required for payment of Cash Calls identified in future years.
Melville North UGP & Streetscape Enhancement Reserve	\$1.18m	\$1.18m transfer to reserve. Funds are required for payment of Cash Calls identified in future years.
Commercial Refuse Reserve	\$486k	\$486k transfer to reserve as a result of commercial waste operations. Funds required for development of commercial operations.
Fleet Services Vehicles, Plant and Equipment Replacement Reserve	\$1.26m	\$2m transfer to reserve (as per asset management plan) compared with a lower transfer from reserve of \$743k. Funds are required in future years to ensure optimal life cycle replacement of assets.
Future Works Reserve	\$1.40m	\$1.7m transfer to reserve (as per asset management plans) compared with a lower transfer from reserve of \$300k. Funds are required for identified projects in future years.
Infrastructure Asset Management Reserve	\$4.26m	\$13.13m transfer to reserve (as per asset management plans) compared with a lower transfer from reserve of \$8.87m. Funds are required for identified projects in future years.
Land and Property Reserve	\$2.94m	Property sales transferred to reserve - \$1.57m from the sale of 85 Ardross St and \$1.37m from the sale of 15 Willcock St.
Recreation Centres Specialised Plant, Equipment and Structures Reserve	\$742k	\$890k transfer to reserve compared with a lower transfer from reserve of \$148k. Funds are required for identified projects in future years, including pool repairs.
Refuse Facilities Reserve	\$1.04m	\$1.04m transfer to reserve compared with a lower transfer from reserve of \$35k due mainly to lower waste disposal costs. Funds are required for identified projects in future years such as the implementation of the three bin FOGO waste collection system and rehabilitation of former tip sites.
Public Open Space and Urban Forest Reserve	\$565k	1% of rates is transferred to this reserve annually. This amount was higher than the transfer from reserve to fund projects. Funds are required for identified projects in future years.
Rates Equalisation Reserve	\$2.78m	The unallocated surplus (\$2.78m) from the 2016-2017 annual accounts was transferred to reserve.
	\$21.34m	

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Revaluation for fair value for financial reporting purposes and depreciation of assets is carried out in accordance with regulation 17A of the Local Government (Financial Management) Regulations and accounting standards AASB (Australian Accounting Standards Board) 113 and 116. Valuations are undertaken by an independent registered valuer appointed by the City. A full revaluation of all applicable asset classes is undertaken at least once every three years.

In the 2017-2018 financial year, the City was required to revalue the asset classes of Land & Buildings and Other Infrastructure assets. The last time this exercise was undertaken was in the 2014-2015 financial year. In that year the revaluation adjustment was an increase of \$433,932,549 for Land & Buildings. However, the final impact on asset valuations for the 2017-2018 financial year (excluding investment properties) was a decrement of \$320,505,544 of which \$304,128,098 derived from Land & Buildings. This amount is shown in the relevant financial statements as a 'change on revaluation of non-current assets'. The revaluation of Investment properties resulted in an increase of \$10,427,691. This amount is shown in the relevant financial statements as 'revaluation of investment properties'.

The 2017-2018 valuation of land has been conducted in accordance with AASB 13 and Valuation Standards. The valuation for parks and reserves lands has been undertaken by the current valuer using a measurement based on the fact that there is no observable or active market for these assets (Level 3 as per AASB13). The previous valuer predominantly applied Level 2 methodology which was more akin to market values and hence resulted in significantly higher land values being applied.

Financial Ratios

The overall financial performance for the City as reported in the Annual Financial Report and the accompanying notes is positive. However, the Asset Consumption Ratio is performing slightly below the recommended range. The City has historically performed very well in the Financial Health Indicator ranking (as calculated by the State Government) and this has continued with a calculated score of 98 (yet to be independently verified). This score remains unchanged when compared with both 2015-2016 and 2016-2017.

Financial ratios are designed to provide users of annual financial reports with a clearer interpretation of the performance and financial results of the City. The table below outlines the seven financial ratios for 2017-2018, with comparisons to 2016-2017. All of the City's financial ratios, except for the Asset Consumption ratio, continue to perform above the recommended benchmarks set by the Department of Local Government and Communities (DLGC).

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Ratio (higher the better)		DLGC Target	2017-2018	2016-2017	Comments
Liquidity Ratio					
Current Ratio	Ability to meet short-term financial obligations out of unrestricted current assets	> 1	1.61	1.49	Ratio has increased due to an increase in current assets relative to current liabilities.
Debt Ratio					
Debt Service Cover Ratio	Ability to produce enough cash to cover debt payments	> 5	77.93	73.07	Ratio has increased due to a higher operating surplus.
Coverage Ratio					
Own Source Revenue Coverage Ratio	Ability to cover costs through own taxing and revenue	> 0.90	1.17	1.12	Ratio has increased due to increasing own source revenue.
Financial Performance Ratio					
Operating Surplus Ratio	Ability to cover operational costs and have revenues available for capital funding or other purposes	> 0.15	0.18	0.16	Ratio has increased due to increasing operating surplus.
Asset Ratios					
Asset Sustainability Ratio	Extent to which assets are being replaced as they reach the end of their useful lives	between 0.90 and 1.10	1.35	1.28	Ratio has increased due to higher expenditure on assets relative to depreciation.
Asset Consumption Ratio	Extent to which depreciable assets have been consumed	between 0.60 and 0.75	0.56	0.65	Ratio has declined and is slightly below recommended range.
Asset Renewal Funding Ratio	Ability to fund projected asset renewals / replacements in the future	between 0.95 and 1.05	1.00	1.00	Ratio has remained the same.

STRATEGIC, RISK AND ENVIRONMENTAL MANAGEMENT IMPLICATIONS

There are no strategic, risk or environmental management implications associated with this report.

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(ATTACHMENT)****POLICY IMPLICATIONS**

CP - 025 Accounting Policy – defines the policy relating to the preparation of the Annual Financial Report. It should be noted that the Council Policy defines some of the accounting policies that are applied to the preparation of the annual financial report and other requirements are set and described in the Accounting Standards.

CP – 008 Financial Sustainability - Forward Financial Planning and Funding Allocation.

As part of the adoption of the 2018-2019 Budget (Item C18/6161 – Consideration and Adoption of the 2018-2019 Budget) the Council resolved –

That the Council note that an estimated Municipal Fund 30 June 2018 closing funds amount of \$nil has been used as an opening position in the 2018-2019 budget and that the final net closing funds amount will be determined following receipt of the 2017-2018 audited financial statements and approves the transfer of any net closing funds for the completed 2017-2018 financial year being transferred to the Rates Equalisation Reserve account.

ALTERNATE OPTIONS AND THEIR IMPLICATIONS

Should the Annual Report (which includes the Annual Financial Report) not be adopted by the Council, this would delay the annual general meeting of electors until such time as it is adopted.

CONCLUSION

The 2017-2018 Annual Financial Report has been completed and an unaudited extract will be included in the Community Annual Report for 2017-2018 (Part A), with the full audited Annual Financial Report (Part B) being made available on the City's web-site, at its five libraries, the Civic Centre and in printed form to individuals upon request.

An unqualified auditor's report was received following the final audit. This report will be discussed by the auditors with the FMARCC at its meeting to be held on 5 November 2018, following which the complete 2017-2018 Community Annual Report will be presented to the Council for acceptance.

The Annual Financial Report is presented to the Committee for noting and for recommendation to the Council for acceptance (along with the Community Annual Report for 2017-2018 that will be submitted to the Council) by absolute majority decision.

**C18/6156 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2017-2018 (REC)
(ATTACHMENT)****OFFICER RECOMMENDATION AND COMMITTEE RESOLUTION (6156) NOTING**

At 6.34pm Cr Wheatland moved, Mayor Aubrey seconded –

That the Financial Management, Audit, Risk and Compliance Committee:

Notes the City of Melville 2017-2018 Annual Financial Report, the Independent External Auditor's Audit Findings Report and Independent External Auditor's Unqualified Audit Report and recommends the report for further noting by the Council.

At 7.12pm the Presiding Member submitted the motion, which was declared

CARRIED (6/0)

Footnote:

- 1 The Independent External Auditor's Audit Findings Report had been received with four recommendations identified by the auditor. The report will be attached to the minutes of the meeting as attachment [6156B](#).**

- 2 When the Council accepts the Annual Community Report and the Independent External Auditor's Unqualified Audit Report as attached to this report, an extract of the Annual Financial Report will be included in the Community Annual Report Part A. Part B of the Community Annual Report will contain the full Annual Financial Report and Audit Letter. The extract from the Annual Financial Report will be included in the Community Report following consideration of and decision on Item C18/5583 City of Melville Community Annual Report 2017-2018, of the 20 November 2018 Ordinary Meeting of Council.**

COMMITTEE RECOMMENDATION (6156)**NOTING**

That the Council:

On the recommendation of the Financial Management, Audit, Risk and Compliance Committee notes the City of Melville 2017-2018 Annual Financial Report, the Independent External Auditor's Audit Findings Report and Independent External Auditor's Unqualified Audit Report.

Footnote:

- 1 The Independent External Auditor's Audit Findings Report had been received with four recommendations identified by the auditor. The report will be attached to the minutes of the meeting as attachment [6156B](#).**

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(ATTACHMENT)**

- 2** When the Council accepts the Annual Community Report and the Independent External Auditor's Unqualified Audit Report as attached to this report, an extract of the Annual Financial Report will be included in the Community Annual Report Part A. Part B of the Community Annual Report will contain the full Annual Financial Report and Audit Letter. The extract from the Annual Financial Report will be included in the Community Report following consideration of and decision on Item C18/5583 City of Melville Community Annual Report 2017-2018, of the 20 November 2018 Ordinary Meeting of Council.