

C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC)
(ATTACHMENT)

Ward : All
 Category : Operational
 Subject Index : Financial Reporting – Annual Financial Reports
 Customer Index : KPMG Australia under the supervision of the Office of the Auditor General (OAG)
 Disclosure of any Interest : No Officer involved in the preparation of this report has a declarable interest in this matter.
 Previous Item : Item C21/6188 City of Melville Annual Financial Report for 2020-2021 – 14 December 2021 Ordinary Meeting of Council
 Works Programme : Not Applicable
 Funding : Not Applicable
 Responsible Officer : Marten Tieleman
 Chief Executive Officer

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 (e.g., 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>

KEY ISSUES / SUMMARY

- Local Government Financial statement audits are conducted by the Office of the Auditor General (OAG). The OAG appointed KPMG to conduct the audit work for the City of Melville, with the OAG being responsible for issuing the audit opinion.
- This report presents the 2021-2022 Annual Financial Report and a summary of variances. It is recommended that after review and discussion with the OAG and KPMG, the Committee notes the report and recommends the report for consideration by the Council.
- The OAG will provide the Auditor's opinion once the Financial Statements have been considered by the Financial Management, Audit, Risk and Compliance Committee (FMARCC) and when they have received the signed management representation letter.
- Adoption of the Annual Report will take place at the Ordinary Meeting of Council on Tuesday, 13 December 2022.
- The overall closing funds/unrestricted cash amount available to be carried forward to 2022-2023 is \$1.55m. The 2022-2023 Annual Budget assumed that no budget surplus or deficit would be carried forward.
- In accordance with Council resolution (Ordinary Meeting of Council held 21 June 2022 Item C22/6191– Consideration and Adoption of the 2022-2023 Budget); the surplus funds will be transferred to the Rates Equalisation Reserve.
- This matter was considered by the Financial Management Audit Risk and Compliance Committee at their meeting held 8 December 2022.

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 letter from the Office of the Auditor General.

The Community Annual Report Parts A and B for 2021-2022 requires acceptance by the Council prior to the Annual General Meeting of Electors.

This report is the vehicle whereby the Council will adopt the full Annual Financial Report for 2021-2022 after consideration by the Financial Management, Audit, Risk and Compliance Committee (FMARCC.) The OAG will provide the Auditor's opinion once the Financial Statements have been considered by the FMARCC and when they have received the signed management representation letter.

C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC) (ATTACHMENT)

The Annual General Meeting of Electors will need to be scheduled. It is required to be held within 56 days of the adoption of the annual report by Council.

DETAIL

This item presents the City of Melville's Annual Financial Report for 2021-2022 and supporting analysis in the following attachments:

1. Variances Report on Rate Setting Statement [6188 Variances Report on Rate Setting Statement](#)
2. Audited Annual Financial Report (including):
[6188 Annual Financial Report 2021-2022](#)
 - a. Statements of Comprehensive Income by Nature or Type
 - b. Statement of Financial Position
 - c. Statement of Changes in Equity
 - d. Statement of Cashflow
 - e. Rate Setting Statement by Nature or Type
 - f. Notes to and forming part of the Annual Financial Report.

The 2021-2022 Annual Financial Report shows a positive result for the 2021-2022 financial year for the City, with an overall surplus of \$1.55m. In accordance with previous Council resolutions, the surplus is transferred to the Rates Equalisation Reserve to be used to minimise 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 [6188 Variances Report on Rate Setting Statement](#)

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

It is expected that the City will receive an unqualified audit opinion in respect to the 2021-2022 Annual Financial Report. The final report is yet to be received, however there are three general findings from the financial statement audit and four findings in relation to the Information Technology audit. Management will respond accordingly once the final report is received.

STAKEHOLDER ENGAGEMENT

I. COMMUNITY

No external public consultation has been carried out.

II. OTHER AGENCIES / CONSULTANTS

The 2021-2022 financial year is the City's fourth audit under the OAG with KPMG undertaking the work for the first time, on behalf of the OAG.

The OAG and KPMG will report at the FMARCC meeting to discuss the Audit Completion Report including the Audit Findings. The OAG will issue the final Auditor's opinion on the financial statements for 2021-2022 to the Mayor, the Chief Executive Officer (CEO), and the Minister for Local Government once the Financial Statements have been considered by the FMARCC, and when they have received the signed management representation letter. The adoption of the financial statements for 2021-2022, including the OAG signed opinion, is scheduled for the Ordinary Meeting of Council on Tuesday, 13 December 2022.

C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC) (ATTACHMENT)

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.

FINANCIAL IMPLICATIONS

Operating Surplus from Statement of Comprehensive Income

The net result for the 2021-2022 financial year was a net result of \$18.13m as calculated in the Statement of Comprehensive Income.

The operating surplus is the result of:

- Operating revenue of \$123.9m
- Operating expenditure of \$119.3m
- Non-operating revenue of \$7.5m
- Fair value adjustments to investment properties of \$7.61m
- The City’s share of the net loss of the joint venture with the Resource Recovery Group of \$1.66m
- The City’s share of the net loss of Carawatha Redevelopment of \$0.162m
- Profit on asset disposals of \$0.094m

C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC) (ATTACHMENT)

Surplus from Rate Setting Statement

The surplus for the 2021-2022 financial year was \$1.55m as calculated in the Rate Setting Statement. The surplus is what the City considers to be the funds that are in excess of current need and can be transferred to the Rates Equalisation Reserve. Funds in the Rates Equalisation Reserve can be used to meet unexpected costs or shortfall in funding.

This cash surplus 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 therefore these have not been reflected in the summary below. The key areas contributing to the \$1.55m surplus were:

	Variance
General Purpose Funding positive variance	\$169,782
Operating Income positive variance	\$1,139,489
Operating Expenditure negative variance	(\$662,368)
Net Capital Expenditure negative variance	(\$38,214)
Net Reserve transfers positive variance	\$549,787
Other positive variances	\$393,235
Total Surplus	\$1,551,711

It should be noted that the budget for the year was developed with a degree of uncertainty and included some assumptions around the post COVID-19 impact on the services provided by the City.

However, due to higher than anticipated activity levels, additional revenue was generated in the form of parks and reserve hire fees, building fees, LeisureFit fees, planning fees and several other revenue streams.

The operating savings were achieved in employment costs mainly due to vacant positions, as well as in training, travel, contracts and contractors, stores and materials, professional consultancies, and waste disposal costs. However, the significant increase to the provision for remediation costs at John Connell Reserve as a result of the recent independent cost review offset the aforementioned savings.

Rates Debtor Movement

The rates debtors balance as of 30 June 2022 was \$5.45m, compared to \$6.5m in 2020-2021. In the 2021-2022 financial year, the annual rates revenue was \$92.0m compared to \$81.4m in 2020-2021.

Rates collection progress for 2021-2022 was 95.8%, which is higher than the collection progress of 94.4% in the previous year.

Asset Revaluation

The amendments to the Local Government Act require the City to perform a revaluation of all applicable asset classes at least once every five years unless the fair value is materially different from the carrying amount. However, investment property is required to be annually valued under AASB 140.

In the 2021-2022 financial year, the City experienced significant and volatile changes in the fair value of major infrastructure asset classes due to current market conditions, including a high inflation rate. During the year, the revaluation of road, drainage, footpath, and irrigation asset classes was performed by both qualified internal staff and an independent qualified asset valuer using either the cost or the market approach; reflecting the current condition, location, size, year of build and remaining useful life of the assessment inputs. The revaluation adjustment for City infrastructure was an increase of \$81.99m and is shown in the “Other Comprehensive Income” as a change in the revaluation of non-current assets.

The fair value movement of \$7.61m to investment land was adjusted in the financial statements as a non-operating item in the Statement of Comprehensive Income. This process was carried out in accordance with Local Government (Financial Management) Regulations and accounting standards Australian Accounting Standards Board (AASB) 113 and 140. The formal revaluation of the City’s land including investment land has been scheduled for 2022-2023.

Provision for remediation of the John Connell Reserve

The City has a former landfill site; John Connell Reserve, which is classified as a contaminated site requiring remediation. As a result, the City is required to recognise the required remediation as a liability in accordance with Australian Accounting Standards Board (AASB) 137 in the financial statements.

The initial indicative cost of \$4.213m for remediation works was recognised as a liability in the 2019-2020 financial statements. These remediation costs were independently reviewed in 2022 and are now estimated at \$6.59m. This \$2.377m increase in the provision has been reflected in the 2021-2022 financial statements.

Recognition of joint venture in Carawatha Redevelopment Project

The City recognised the joint venture agreement for the Carawatha redevelopment project ‘The Gallery’ between Satterley Group and City of Melville and accounted for this using the equity method in the 2021-2022 financial statements. The City’s equity share is 50% and the City’s interest in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the financial statements.

Share in the loss of the joint arrangement of \$0.162m to the shareholding of 50% for Carawatha Redevelopment project during the year 2021-2022 is shown in the reporting.

Software as a Service (SaaS) Arrangements within the scope of IAS 38 Intangible Assets or IFRS 16 Leases.

SaaS Cloud computing arrangements are service contracts providing the customer with the right to access the cloud provider's application software over the contract period. The International Financial Reporting Standards Interpretations Committee (IFRIC) concluded that a SaaS Cloud contract that conveys to the customer only the right to receive access to the supplier's application software in the future is neither a software lease, nor an intangible software asset, but rather a service the customer receives over the contract term.

The current SaaS arrangements at the city are service contracts providing the City with the right to access the cloud provider's application software over the contract period.

Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received. The City does not have any intangible assets in its asset register as of 30 June 2022 which fall within this definition.

Reserves

The City's cash-backed reserves total \$156.44m as at 30 June 2022, which is a decrease of \$3.58m from the previous financial year. The City uses a number of reserves to streamline funding needs and quarantine funds for asset management and other specific purposes.

C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC)
(ATTACHMENT)

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

Reserve	Increase /(Decrease) \$	Comment
Community Facilities Reserve	(4.39m)	Transfer to the reserve of \$3.52m based on asset management plans, combined with a transfer from reserve of \$7.99m to fund the actual spend on the new, renewal and upgrade components of community facilities/buildings including Shirley Strickland Reserve Upgrade project and Tompkins Park Redevelopment project.
Fleet Services Vehicles, Plant and Equipment Replacement Reserve	(690k)	Transfer to reserve of \$1.78m which includes a reduction made to offset new staff and associated fleet costs related to foreshore and bushland restoration combined with a transfer from reserve of \$2.53m to fund actual spend on replacement of heavy plant, heavy vehicles and light fleet.
New / Upgrade Works Reserve	(1.58m)	Transfer to reserve of \$4.09m which includes \$3.81m based on asset management plans and \$427k for rates growth combined with a transfer from reserve of \$5.72m to fund the actual spend on the new and upgrade components of infrastructure assets and buildings including the Atwell House Ceramic Studio and Bob Gordon Reserve Premier Playspace.
Information Technology Reserve	494k	Transfer to reserve of \$1.58m which includes a reduction made to offset the additional costs for information technology and information management combined with a transfer from reserve of \$1.11m to fund actual capital spend on IT equipment software including Asset Management and Microsoft Office Online.

C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC)
(ATTACHMENT)

Reserve	Increase /(Decrease) \$	Comment
Infrastructure Asset Management Reserve	814k	Transfer to reserve of \$12.06m which includes \$10.50m based on asset management plans and \$1.56m being the roads component of the 2021-2022 financial assistance grant combined with a transfer from reserve of \$11.41m to fund the renewal of infrastructure assets including Le Souef Drive (North Lake Rd-Clews St) and Point Walter Golf Course Irrigation project.
Land and Property Reserve	(6.29m)	Transfer to reserve of \$2.8m which includes a \$2.25m transfer from the Rates Equalisation Reserve relating to capital paybacks in 2020-2021 for the Carawatha Redevelopment combined with a transfer from reserve of \$9.09m which includes a one-off transfer of \$6m to the Organisational Environment Sustainability Initiatives Reserve, \$1.45m released for the purchase of property for a Men's Shed and \$1.09m capital call expenses for the Carawatha Redevelopment during 2021-2022.
Organisational Environment Sustainability Initiatives Reserve	6.11m	Transfer to reserve of \$6.25m which includes a one-off transfer of \$6m from the Land and Property reserve. The \$6m is to be used in the ensuing years to make contributions towards a smart LED luminaires project run by Western Power.
Public Open Space and Urban Forest Reserve	(2.12m)	Transfer of \$903k being a portion of the annual rates income combined with a transfer from reserve of \$3.05m which includes funds released for Shirley Strickland Reserve Upgrade and Bob Gordon Reserve Premier Playspace.
Rates Equalisation Reserve	2.62m	Transfer to the reserve of \$2.71m includes the adjusted unallocated surplus of \$4.41m from the 2020-2021 audited annual accounts, \$550k used for the Kardinya UGP from this reserve in the previous financial year being returned and a transfer of \$2.25m to the Land and Property reserve for capital paybacks in 2020-2021 for the Carawatha Redevelopment.
Refuse Bins Reserve	299k	\$385k transfer to the reserve (as per budget) compared with a transfer from reserve of \$91k for actual spend on garbage bin purchases.
Unexpended Works and Specific Purpose Grants Reserve	1.13m	Transfer to reserve of \$2.54m mainly representing operating amounts carried forward to the next financial year combined with a transfer of \$1.42m from reserve to fund operating costs that were carried forward from the previous year.
Various Reserves	23k	
	(\$3.58m)	

**C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC)
(ATTACHMENT)**

Financial Ratios

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 Local Government Regulations Amendment (Financial Management and Audit) Regulations 2022 removed the requirement for an annual financial report by the city to include financial ratios and an auditor’s opinion on financial ratios, significant adverse trends and indications of non-compliance. These financial ratios are *not audited* by the OAG/KPMG but the information for the calculation is extracted from the audited financial statement for 2021-2022.

The City’s operating surplus ratio was 0.04, (which has improved from 0.003 in 2020-2021) and the current ratio was 1.09 compared to 1.20 in the last financial year

The overall financial performance for the City as reported in the Annual Financial Report and the accompanying notes are positive. While the City has maintained a healthy Financial Health indicator (FHI) since 2014-2015 of 98 or above, the current score for 2021-2022 increased to 86 from 76 for 2020-2021.

The table below outlines the seven financial ratios for 2021-2022, with comparisons to 2020-2021. All the City’s financial ratios, except for the Asset Consumption and Operating Surplus ratios, continue to perform above the recommended benchmarks set by the Department of Local Government and Communities (DLGC).

Ratio (higher the better)		DLGC Target	2021-2022	2020-2021	Comments
Liquidity Ratio					
Current Ratio	Ability to meet short-term financial obligations out of unrestricted current assets	> 1	1.09	1.20	The City is in a solvent position and has the ability to meet its liabilities (obligations) as and when they fall due from unrestricted funds.
Debt Ratio					
Debt Service Cover Ratio	Ability to produce enough cash to cover debt payments	> 5	87.80	45.25	Indicates a strong ability to produce enough cash to cover its debt payments.
Coverage Ratio					
Own Source Revenue Coverage Ratio	Ability to cover costs through own taxing and revenue	> 0.90	0.99	0.96	The City has the ability to cover its own operating expenses from its own source revenue.

**C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC)
(ATTACHMENT)**

Ratio (higher the better)		DLGC Target	2021-2022	2020-2021	Comments
Financial Performance Ratio					
Operating Surplus Ratio	Ability to cover operational costs and have revenues available for capital funding or other purposes	> 0.15	0.041	0.003	The ratio has improved due to there being no rating concessions in 2021-2022 but still remains below target due mainly to limited rate increases and lower investment income.
Asset Ratios					
Asset Sustainability Ratio	The extent to which assets are being replaced as they reach the end of their useful lives	between 0.90 and 1.10	1.79	1.48	The ratio has improved due to new capital projects and renewal of existing assets. The City is investing in assets to the degree that offsets the current consumption of its assets.
Asset Consumption Ratio	The extent to which depreciable assets have been consumed	between 0.60 and 0.75	0.54	0.51	The ratio is slightly below the recommended range due to the “aged” condition of the assets and higher replacement cost due to high inflation rate.
Asset Renewal Funding Ratio	Ability to fund projected asset renewals /replacements in the future	between 0.95 and 1.05	1.00	1.00	The ratio has remained the same.

STRATEGIC, RISK AND ENVIRONMENTAL MANAGEMENT IMPLICATIONS

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

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.

**C22/6188 – CITY OF MELVILLE ANNUAL FINANCIAL REPORT FOR 2021-2022 (REC)
(ATTACHMENT)**

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 2021-2022 Annual Financial Report has been completed and an unaudited extract will be included in the Community Annual Report for 2021-2022 (Part A), with the full audited Annual Financial Report (Part B) available on the City's website, at its five libraries, the Civic Centre and in printed form to individuals upon request.

COMMITTEE RESOLUTION (6188)

NOTING

That the Council:

- 1 notes the Office of the Auditor General's Audit Findings Report (Confidential Attachment) and**
- 2 notes the City of Melville 2021-2022 Annual Financial Report [6188 Annual Financial Report 2021-2022](#)**