

11 ANNUAL REPORT 2018-19

FILE REFERENCE INT1974502

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RECOMMENDATION

That the Annual Report for the year ended 30 June 2019 be received and noted.

Attachments

1 Annual Report 194 Pages

EXECUTIVE SUMMARY

To formally receive the Annual Report for the 2018-19 financial year.

BACKGROUND

As required by various provisions of the Local Government Act a report has been prepared detailing the Council's activities for the financial year to 30 June 2019.

The Report comprises the following:

- Report of Operations, including statutory information that highlights Council's activities and achievements for the year.
- Audited Performance Statement, and
- Audited Financial Report

The Annual Report was lodged with the Minister for Local Government prior to 30 September as required by Section 131(6) of the Local Government Act.

Section 131(10) of the Local Government Act stipulates that after the Annual Report has been submitted to the Minister Council must give public notice that the Annual Report has been prepared and is available for inspection. This notice has been given.

In addition, Section 134 of the Local Government Act stipulates that Council must consider the Annual Report at a meeting that must be held as soon as practicable after the Council has sent the Annual Report to the Minister and must be advertised for at least 14 days before the meeting is held. The Annual Report is now presented to the Council for consideration.

Council's financial result has been audited and a clear audit has been received.

The report contains the requisite information as required by both the Local Government Act 1989 and the Local Government (Planning and Reporting) Regulations 2014.

POLICY IMPLICATIONS

Nil.

RELEVANCE TO COUNCIL PLAN

Monitoring Council's financial position is directly relevant to the Council Plan goal of achieving long term financial sustainability and managing the municipality's finances and assets in a responsible manner

CONSULTATION/COMMUNICATION

Senior management have contributed to the details contained in the report of operations and highlighting Council's major achievements for the financial year.

Public notification that the Annual report is available for inspection at the Shire offices and on line has been given as required by Section 134 of the Local Government Act.

FINANCIAL AND RESOURCE IMPLICATIONS

The Financial Statements are prepared in accordance with Australian Accounting Standards, the *Local Government Act 1989*, *Local Government (Planning and Reporting) Regulations 2014* and the Local Government Model Financial Report (LGMFR) published by Local Government Victoria as required by the Regulations.

The Financial Statements are a general purpose financial report comprising a Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, Statement of Capital Works and accompanying notes.

Comprehensive Income Statement

Council achieved a Surplus for the year of \$97.98 million before Net asset revaluation increment, compared to a budget of \$4.94 million and last year's surplus of \$87.14 million.

The vast majority of this Surplus is non-cash income of \$66.27 million, which relates to the value of roads, drains, bridges, land and land under roads contributed by developers undertaking residential developments within the Urban Growth Corridor. These contributed assets were unbudgeted in this financial year. Also included are capital grants of \$12.24 million and capital contributions - monetary of \$16.06 million, which do not cover operating expenses but relate to capital expenditure for non-current assets summarised in the Statement of Capital Works. This is further detailed below.

The material factors that contributed to the 2018/19 surplus included:

- *Rates and charges* income was \$1.64 million above budget due to: an increase in the number of rateable properties increasing general and supplementary rates income \$0.69 million; higher than expected garbage charges \$0.31 million from an increase in new services; interest on rates and charges \$0.73 million; less lower green waste charge income \$0.08 million due to a lower number of services than budgeted.
- *Statutory fees and fines* income was \$0.80 million above budget mainly due to: traffic enforcement revenue \$0.11 million above budget due to increased enforcement; building lodgement fee and development plan fee income \$0.32 million above budget due to increased development; and actual landscape development fees \$0.23 million included in this category but budgeted in Other Income.
- *Operating grant income* was \$3.33 million higher than budget mainly due to: higher than budgeted grants received \$1.60 million, including Victorian Grants Commission general

purpose and local roads operating grants, Maternal & Child Health, Supported Parent Groups & Playgroups and School Crossing Supervisor grants. Unbudgeted grant income of \$1.73 million was recognised, including for the bushfire recovery and the Safer Together program.

- *Capital grant income was \$7.62 million higher than budget mainly due to \$8.98 million of unbudgeted grants, including for Comely Banks Recreation Reserve, Gembrook Leisure Playspace & Skatepark, My Place youth facility expansion and Bunyip Rover Road Blackspot project. Partly offsetting this is lower than budgeted grant income of \$1.36 million due to timing of the receipt of the Lang Lang sporting facilities grant.*
- *Contributions (monetary) income exceeded budget by \$15.45 million due to increased community infrastructure, developer and public open space levy income earned from higher than expected levels of development activity.*
- *Contributions (non-monetary) income of \$66.27 million related to the value of roads, drains, bridges, land and land under roads contributed by developers was unbudgeted.*
- *Net gain on roads and off street car park asset revaluation of \$1.33 million was unbudgeted.*
- *Other income was \$3.65 million above budget due to interest on investments \$2.09 million higher than budget and \$1.38 million of cost recovery income for expenditure incurred unbudgeted.*
- *Employee costs were \$1.67 million higher than budget largely due to the impact of new positions approved during the year \$0.94 million and the financial effect of other staffing changes \$0.45 million.*
- *Materials and services expenditure was \$5.62 million over budget due to: \$4.47 million of funded capital works expensed upon not meeting asset capitalisation criteria; unbudgeted bushfire recovery expenditure \$2.45 million. These have been partly offset by contract expenditure which is under budget (by \$1.54m), primarily in recycling processing.*
- *Borrowing costs were \$1.85 million under budget mainly due to budgeted loan borrowings not being drawn down.*
- *Net loss on disposal of assets \$1.24 million, including old roads, buildings, bridges and footpaths, resulting from capital works undertaken during the year.*

Balance Sheet

Net assets at 30 June 2019 were \$804.91 million higher than budget (\$181.19 million higher than 2017/18), which maintains Council's strong financial position.

Total Cash, cash equivalents and other financial assets \$111.29 million exceeded budget by \$73.75 million (\$1.98 million higher than 2017/18), mainly due to a \$65.05 million better starting cash position at 1 July 2018 than forecast, together with higher than expected cash from operating activities during the year of \$41.71 million, less increased payments for property, infrastructure, plant and equipment of \$11.24 million (despite \$45.86 million capital carried over to 2019/20 - 2025/26) and less \$23.11 loan borrowings not drawn down.

Council's cash and term deposits are subject to external restrictions of \$58.21 million (Trust funds and deposits and Developer contribution levy) and \$75.33 million intended allocations (discretionary reserves, including capital carried forward, unspent grants and employee long service leave entitlement provisions, other reserves and s86 Committees).

External valuers, Westlink Consulting, performed a full annual revaluation of Council's land, excluding land under road, and buildings and experienced internal council valuers performed an annual desktop review (unit rates) of infrastructure assets (full revaluation is every 3yrs) at

30 June 2019. These included the review of the carrying value of individual asset classes measured at fair value to ensure each asset materially approximated its fair value. Where the carrying value materially differed from the fair value at balance date, the class of asset was revalued. This resulted in a net \$84.08 million non-current physical asset valuation increment for 2018/19, with \$82.75 million credited to the asset revaluation reserve and \$1.33 million recognised as income.

The land valuation resulted in land assets increasing by \$42.56 million, consistent with the average movement in market values of properties by suburb by observing sales prices in the municipality since the last valuation. Buildings increased by \$7.29 million due to changes in unit rates and construction date analysis.

Council assessed Road assets value movements by analysing the changes in unit costs to determine their overall depreciated replacement cost. This resulted in a revaluation increment of \$16.81 million.

The desktop assessment of Council's drainage assets based on depreciated replacement cost resulted in a valuation increment of \$10.13 million due to changes in unit rates based on average developer rates, bridges increased by \$3.71 million and recreational, leisure and community facilities increased by \$3.69 million.

Statement of Capital Works

Expenditure on capital works of \$60.01 million for the year was \$4.46 million above budget (\$19.50 million higher than 2017/18), mainly as a result of the unbudgeted acquisition of Gin Gin Bin Reserve \$4.0 million. It was predominantly funded internally by cash flows from operating activities. Asset renewal represented 15% of this expenditure, with upgrade 30% and new assets 55%.

Works already underway totalling \$45.86 million that are carried over to 2019/20 – 2025/26 for completion include: Deep Creek Reserve. Emerald Netball Pavilion/Courts, Cardinia Cultural Centre Exhibition Space, Bunyip Soccer Facility, Worrell Reserve Pavilion construction, Road resurfacing, Roads Sealing Program, Integrated Children's Facility Timbertop, Lang Lang Bypass, Hills Hub and Peet Street Special Charge Scheme construction.

Statement of Cash Flows

Council's cash and investments with original maturities of 90 days or less were \$49.29 million at 30 June 2019, compared to \$57.81 million in the prior year. This was due to the net impact of the following:

- Increased net cash from operating activities \$13.79 million mainly through higher inflows from all income sources except user fees, particularly rates and charges, grants and contributions (monetary);
- Increased net cash used in investing activities \$18.34 million mainly due to increased capital outflows;
- Reduced cash used in financing activities \$1.42 million; and
- Lower cash balance at the start of the year \$5.39 million.

At 30 June 2019 loan borrowings were \$37.16 million, after \$4.51 million scheduled principal repayments made during the year.

CONCLUSION

The structure of the Local Government Act provisions is that the Annual Report must be forwarded to the Minister for Local Government prior to 30 September and then presented to a Council Meeting for consideration as soon as practicable thereafter.

It is appropriate for the Council to receive and note and the Annual Report.