

Council Minutes Extract
13 November 2018

10.1 Auditors Report and Annual Financial Statements for the year ending 30 June 2018

Applicant/Proponent:	Audit Committee		
Responsible Officer:	David Ransom, Manager Finance		
Responsible Manager:	David Ransom, Manager Finance		
Executive:	Mal Osborne, Chief Executive Officer		
Authority/Discretion	<input type="checkbox"/> Advocacy	<input type="checkbox"/> Review	
	<input type="checkbox"/> Executive/Strategic	<input type="checkbox"/> Quasi-Judicial	
	<input checked="" type="checkbox"/> Legislative	<input type="checkbox"/> Information Purposes	
Attachments:	Appendix RAC-1: Auditor's Report and Annual Financial Report		

Summary

The Auditor's Report and Annual Financial Report of the City of Bunbury for the financial year ending 30 June 2018 are attached at Appendix RAC-1.

There are no qualifications to the audit opinion; however the Auditor's Report does note that the Asset Sustainability Ratio and Operating Surplus Ratio are below the Department of Local Government, Sport and Cultural Industries standard for the last 3 years.

Committee Recommendation

That Council accept the Auditor's Report and the Audited Annual Financial Report of the City of Bunbury for the financial year ending 30 June 2018.

Voting Requirement: Simple Majority Required

Strategic Relevance

Theme 4: Our City.

Goal: Civic leadership, partnerships and sound governance in delivering with and for the community.

Objective 4.4: A skilled organisation, which exercises responsible asset stewardship, sound financial management, and exemplary customer service.

Background

The Auditor General has audited the 2017/18 Annual Financial Report and has provided an Independent Auditor's Report (refer Pages 70 - 72 in Appendix RAC-1) as required under the relevant provisions of the *Local Government Act 1995* (the Act). The Auditor's Report and Annual Financial Report are commended to Council by the Audit Committee.

Furthermore, section 7.12A(2) of the Act requires a local government to meet with its Auditor at least once in every year. Ms Carly Meagher, Director Financial Audit, from the Office of the Auditor General WA, who is representing the Auditor General attended the Audit Committee meeting held on 11 October 2018 and discussed with the Committee the audit and any queries arising from the 2017/18 Audit.

Council Policy Compliance

N/A

Legislative Compliance

Section 7.9(1) of the Act requires the auditor to submit a report to the local government by 31 December each year.

Section 7.12A(2) of the Act requires a local government to meet with its Auditor at least once each year.

Officer Comments

The City's management and internal control systems are sound. In addition to being monitored internally on a daily and monthly basis, they are also strengthened by an independent assessment each year on the City's financial management systems and external audit reporting. The independent assessment reviews the City's financial position, financial management practices and compliance with the requirements of the Act, the Local Government (Financial Management) Regulations, and Accounting Standards.

There are five (5) primary financial statements:

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows
- Rate Setting Statement

Statement of Comprehensive Income: The Statement of Comprehensive Income (shown on pages 3 to 5 of the Financial Report) shows the extent to which operating expenditure has exceeded operating income during the financial year (i.e. operating deficit).

Key financial figures within the audited Annual Financial Report for the year ended 30 June 2018 include:

	<u>2018</u>	<u>2017</u>
Operating Revenue	\$ 56,243,651	\$ 56,515,216
Operating Expenses	\$ 58,023,133	\$ 55,739,045
Operating Surplus / (Deficit)	\$ (1,779,481)	\$ 776,171
Net Result	\$ 6,459,257	\$ 3,840,772

For the year ending 30 June 2018, the operating deficit was \$1.78M compared to an operating surplus of \$776K in 2016/17, a decrease of \$2.55M. Revenue decreased by \$271K and expenditure increased by \$2.28M.

Operating Revenue –The City received \$271K less in 2017/18 than in 2016/17. This was mainly due to receiving less Operating Grants & Subsidies (\$725K), Contributions, Reimbursement & Donations (\$207K) and Fees & Charges (\$1.12M); which was partially offset by receiving more in Rates (\$1.57M) and Interest Earnings (\$221K). Note: Operating Grants were greater in 2016/17 due to receiving an advance payment for 2017/18 of \$821K, and Fees and Charges were down in 2017/18 mainly due to lower Parking Fee income of \$1.07M.

Operating Expenditure – The increase in operating expenditure of \$2.28M from the previous year was mainly due to an increase in expenditure of Employee Costs (\$552K), Depreciation on Non-Current Assets

(\$1.12M) and Materials and Contract (\$645K). While offset by a reduction in the following expenditure: Consultants (\$144K), Insurance (\$119K) and Interest Expenses (\$65K).

Net Result - When Capital Grants (\$6.90M) and the Net Profit on Asset Disposal (\$1.49M) etc. are included, the Net Result was a surplus of \$6.46M. This compares to a surplus of \$3.84M in 2016/17.

The Statement also accounts for the Changes on Revaluation of Non-Current assets which was a decrease of \$2.18M in 2017/18 resulting in Total Comprehensive Income for 2017/18 of \$4.28M.

Statement of Financial Position: The Statement of Financial Position (shown on page 6 of the Financial Report) shows the assets and liabilities which make up the community equity as at the 30 June 2018.

Key financial figures within the Annual Financial Report for the year ended 30 June 2018 include:

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 39,244,271	\$ 45,864,990
Current Liabilities	\$ 10,371,209	\$ 10,330,650
Current Assets over Current Liabilities	\$ 28,873,062	\$ 35,534,340
Non-Current Assets	\$ 577,992,363	\$ 567,260,965
Non-Current Liabilities	\$ 13,431,449	\$ 13,638,280
Total Equity	\$ 593,433,975	\$ 589,157,025

The City's Current Assets exceed Current Liabilities by \$28.87M compared to \$35.53M in 2016/17, a decrease of \$6.66M. This is mainly due to a decrease in Unspent Grants of \$11.50M used for the Koombana Bay Foreshore expansion and upgrade, and a decrease in the following cash backed reserves: Asset Management and Renewal (\$2.36M), and Depot Construction (\$2.28M). This was offset by an increase in the General Parking reserve of \$6.23M mainly from the sale proceeds of the Cornwall Street Car Park; and an increase in the Building Restoration and Maintenance reserve of \$2.18M.

These changes together with a decrease in the Revaluation Surplus of \$2.18M (from the Revaluation of Non-Current Assets), increased the total community equity at 30 June 2018 by \$4.28M to \$593.43M.

Statement of Changes in Equity: The Statement of Changes in Equity (shown on page 7 of the Financial Report) shows the extent to which the community equity has been increased by the net result of the year's activities. For the year ending 30 June 2018, the Community Equity increased from \$589.15M to \$593.43M, an increase of \$4.28M.

Statement of Cash Flows: The Statement of Cash Flows (shown on page 8 of the Financial Report) shows the nature and amount of City's cash inflows and out flows from all activities. The City's cash held at the end of the reporting period was \$36.31M compared to \$42.55M in 2016/17.

Rate Setting Statement: The Rate Setting Statement (shown on pages 9 and 10 of the Financial Report) shows the amount of rates required to be raised to fund the City's operations during 2017/18. In 2017/18 \$37.18M in rates were raised, an increase of \$1.57M or 4.4% on 2016/17.

<u>Financial Information by Ratio:</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current Ratio	1.297	1.246	1.111
<i>Current Assets as a ratio of Current Liabilities.</i>			

(Measure of short term liquidity, i.e. the ability of the City to meet its liabilities when they fall due. A ratio of greater than 1.0 indicates the City has more current assets than current liabilities. The Department of Local Government indicates that the standard is met if the ratio is greater than 1.00).

Asset Sustainability Ratio	0.707	0.643	0.524
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Capital renewal and replacement expenditure as a ratio of depreciation expense.

(Measures the extent to which assets are being renewed/replaced compared to the amount consumed i.e. depreciation. The Department of Local Government indicates that the standard is met if the ratio is greater than 0.90, and is improving if the ratio is between 0.90 and 1.10. To improve this ratio the City will need to allocate more capital expenditure on the renewal or upgrade of existing assets).

Asset Consumption Ratio	0.601	0.621	0.620
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Depreciated replacement costs of assets as a ratio of current replacement costs of depreciable assets.

(Measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost. The Department of Local Government indicates that the standard is met if the ratio is greater than 0.50, and is improving if the ratio is between 0.60 and 0.75).

Asset Renewal Funding Ratio	0.943	0.743	0.748
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NPV of planning renewal over 10 years as a ratio of NPV of required capital expenditure over 10 years.

(Measures the ability of a local government to fund its projected asset renewal / replacements in the future. The Department of Local Government indicates that the standard is met if the ratio is between 0.75 and 0.95).

Debt Service Cover Ratio	3.592*	4.492	3.287
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Operating Surplus before Interest and Depreciation as a ratio of principal and interest expense for borrowings.

(Measures the City's ability to service debt out of its uncommitted or general purpose funds available for its operations. The Department of Local Government indicates that a Basic standard is achieved if ≥ 2.0 . An Advanced standard is ≥ 5.0).

*Note: The Debt Service Cover Ratio is distorted in the 2018 Financial Year as the City received an early repayment of a self-supporting loan from DFES. If this was ignored, the calculation disclosed in the 2018 column above would be 4.891

Operating Surplus Ratio	(0.009)	(0.005)	(0.066)
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Operating Revenue minus Operating Expenditure as a ratio of own source operating revenue.

(A result of lower than zero indicates that the City has an operating deficit. The Department of Local Government indicates that a Basic standard is achieved if the ratio is greater than zero. To improve this ratio the City needs to either reduce operating expenditure and/or increase operating revenue. Note: A significant operating expense is depreciation which was \$14.2M in 2017/18. This expenditure is currently being reviewed to ensure that this is not overstated).

Own Source Revenue Coverage Ratio	0.953	0.948	0.948
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Own source operating revenue as a ratio of operating expense.

(Measures the City's ability to cover operating expenses from own source revenue. The higher the ratio, the more self-reliant the local government is. The Department of Local Government indicates that an Advanced standard is achieved if the ratio is greater than 0.9).

Analysis of Financial and Budget Implications

There are no financial or budget implications for the Council to accept the Annual Financial Statements and draft Auditor's Report.

Community Consultation

An abridged Annual Financial Report will be included in the City's 2017/18 Annual Report.

Outcome – Council Meeting 13 November 2018

Pursuant to Standing Order 5.5 the recommendation (as printed) from the Executive was moved
Cr Cook seconded Cr Hayward and adopted ('en bloc') to become the Council's decision on the matter.

Council Decision 319/18

That Council accept the Auditor's Report and the Audited Annual Financial Report of the City of Bunbury for the financial year ending 30 June 2018.

CARRIED

12 votes "for" /nil votes "against"