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Overview

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# Financial Overview

## Financial Overview

Understanding Council's financial performance from financial statements prepared in accordance with Australian Accounting Standards can frequently be problematic and the purpose of this overview is to provide readers with greater clarity about the financial outcomes for the 2012–13 financial year.

Council's 2012–13 Income Statement highlights that Council achieved an overall surplus for the financial year of \$52.79 million. This result is, however, impacted upon by a combination of items – some of which are operational in nature and occur every year and others which are highly dynamic and change significantly each year.

The most important outcome from Council's perspective is the underlying operational outcome and ensuring that the operational activities that Council conducts on an annual basis results in a surplus result. Whilst the one-year result is not of any great consequence, it is essential for Council's long-term financial viability that provision of annual operating services is not eroding the net asset value of Council.

It should be kept in mind that the underlying result (or 'Net Result prior to capital and asset items') is not a cash based result but remains an accounting surplus which includes non-cash items such as depreciation and excludes cash items such as capital expenditure and loan repayments.

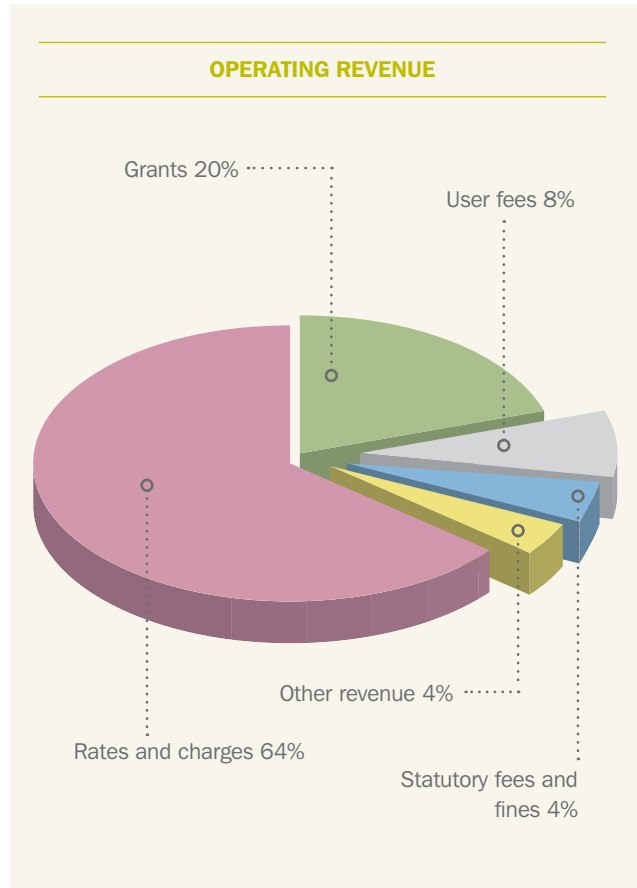
The City of Greater Dandenong recorded an underlying surplus in 2012–13 of \$4.95 million (deficit of \$1.17 million in 2011–12). Council's underlying operating result has improved by \$6.12 million on the 2011–12 result. This improvement was due to the 2011–12 result including the recognition of the defined benefits superannuation liability in its entirety (\$10.57 million).

Beyond the underlying net result for the year, Council received \$7.38 million in capital grant funding and \$5.19 million in capital contributions. A further \$22.95 million was received in the contribution of non-monetary assets from developers leading to a net surplus accounting result for the year of \$36.59 million.

Finally a review of Council's asset valuations led to a revaluation increment of \$16.20 million in the value of Council's assets (bridges) leading to a comprehensive income statement outcome of a surplus of \$52.79 million.

## Revenue

Council's operating revenue for 2012–13 was \$150.96 million (\$145.32 million in 2011–12) including rates and charges revenue (\$96.34 million), operating grants (\$30.92 million), and fees and charges (\$18.33 million). The breakdown of operating revenue by major categories is depicted in the graph below:



Council's non-operating revenue for 2012–13 was \$35.98 million (\$24.46 million in 2011–12) including capital grants (\$7.38 million), capital contributions (\$5.18 million) gain on sale of assets (\$0.46 million) and contributions of non monetary assets, mainly from sub division activity (\$22.95 million).

**Rate revenue** (including waste collection charges) – general rate revenue is based on the Capital Improved Value of properties and a 'rate in the dollar' applied against each category of property. Waste collection charges are based on the number of bins and frequency of collections. Council's rate revenue for the year was in line with budget expectations. Refer note 3 of Financial Report for further details on rate revenue.

**Grants and contributions** – Operational grant revenue comprises a general purpose grant of \$10.11 million (which included \$1.24 million for local roads), and tied grants of \$20.81 million which were essentially for community care and community wellbeing services. Capital grants received were \$7.38 million of which \$2.93 million related to the Municipal Building Project. These grants are expended on these services in addition to the funds allocated by Council from other sources of revenue. (Refer Note 4 of Financial Report). Cash contributions of \$5.19 million received were mainly for works completed in accordance with Development Contribution Plans and public open space development. Non-monetary contributions of \$22.95 million were mainly from “gifted” assets from developer activity.

**Fees, charges and fines** – Revenue from these sources were \$18.33 million for the year (\$17.49 million in 2011–12). The major sources of revenue are:

Dandenong Market stall income	\$5.32 million
Hire of council facilities	\$1.72 million
Aged care services	\$1.73 million
Parking fees and fines	\$3.89 million
Statutory and other fees (building permits, infringements, infringement court recoveries, etc.)	\$3.70 million

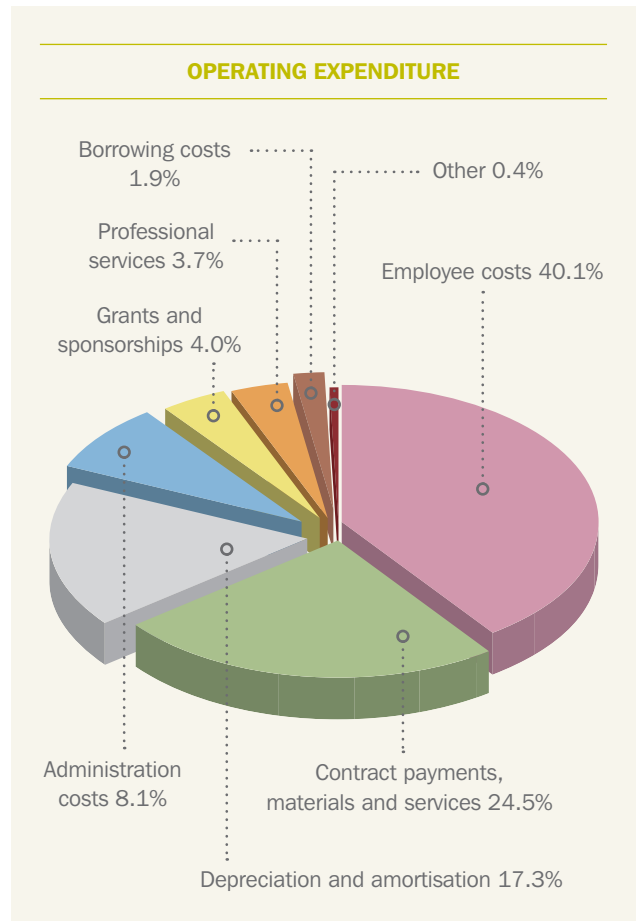
**Other income** (\$5.37 million) – This item of income essentially relates to fees for provision of valuation data to State Revenue Office, interest received on investments and other sundry income.

The most important outcome from Council’s perspective is the underlying operational outcome and ensuring that the operational activities that Council conducts on an annual basis results in a surplus result.

## Expenditure

Total operating expenditure for 2012-13 including depreciation was \$146.01 million (\$146.49 million in 2011–12).

The major items of operating expenditure are depicted in the graph below:



**Employee costs (\$58.52 million)** – Employee and labour costs including salary-oncosts such as WorkCover premium, provision for long service leave entitlements and Council’s superannuation contributions on behalf of employees.

**Contract payments, materials & services (\$35.71 million)** – Included in this category are the following major costs relating to:

Waste collection and disposal	\$10.14 million
Maintenance and repairs of roads, drains and buildings	\$6.10 million
Park services	\$4.95 million
Dandenong Market	\$3.33 million
Street lighting	\$1.76 million
Street cleansing	\$0.89 million

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**Grants, sponsorships and contributions – (\$5.79 million)** – Council provides grants to various sporting and cultural bodies to assist in promoting the city's diversity. It also provides an annual amount towards Council's Family Day Care program.

Professional fees and other expenses (\$5.39 million) – Mainly includes consultancy costs, and legal costs for various services (\$4.73 million). Other costs include statutory fees and audit costs. Refer note 14 of the Financial Report.

**Administration costs (\$11.80 million)** – Administration costs include information management expenses (\$1.90 million), insurance costs (\$1.22 million), printing, publications and promotions of \$2.05 million and motor vehicle maintenance of \$1.31 million. It also includes occupancy costs (\$2.68 million) for rent, electricity, gas, telephone and water. Refer to note 15 in the Financial Report.

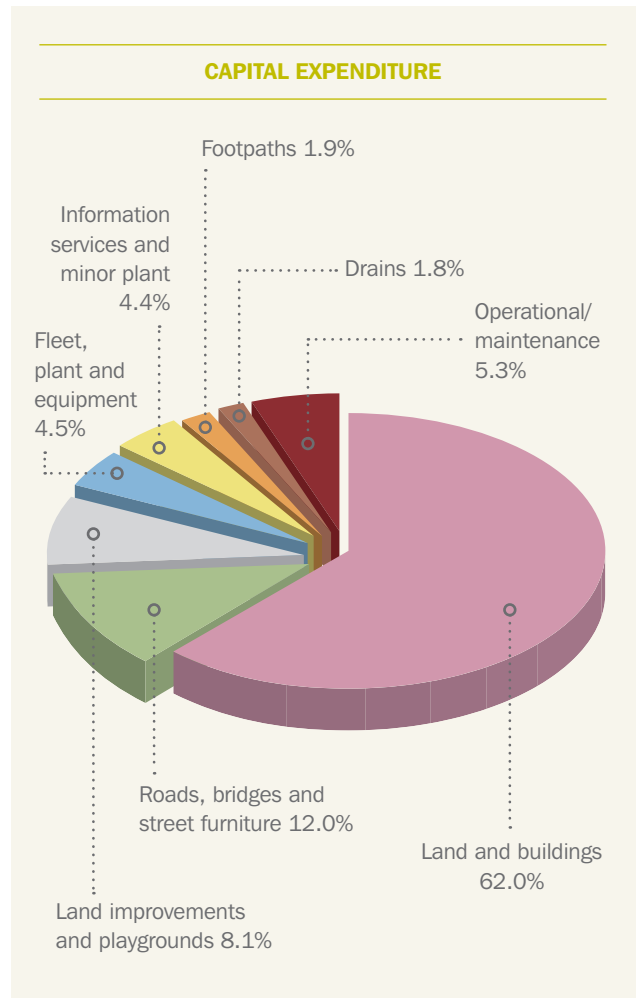
**Borrowing costs (\$2.84 million)** – represents interest on Council's long term borrowings.

**Depreciation and amortisation (\$25.33 million)** – The depreciation expense reflects the diminution in the value of assets due to wear and tear and obsolescence. It has no impact on the cash position of Council. Cash flow is impacted only at the time of purchase and sale of assets.

Council's 2012–13 Income Statement highlights that Council achieved an overall surplus for the financial year of \$52.79 million. This result is, however, impacted upon by a combination of items – some of which are operational in nature and occur every year and others which are highly dynamic and change significantly each year.

## Capital Expenditure (as per the Capital Works Standard Statement)

The major items of expenditure are depicted in the chart below:



Council spent \$50.032 million on capital expenditure during the year. This comprises expansion/upgrade (\$4.17 million), renewal (\$16.60 million) and new assets (\$26.63 million).

The major projects include:

Municipal Building Project (\$23.16 million);

Springvale Civic Project (\$1.14 million);

Pavilion upgrade program (\$0.24 million);

Tattersson Park Northern Precinct (\$1.25 million);

Coomoora Reserve (\$0.16 million);

## Cash Flows (Refer Standard Cash Flow Statement)

*Net inflows from operating activities* – Council generated a net cash inflow from operating activities of \$40.26 million. Included in this result are:

- higher interest on investments received \$2.89 million against a budget of \$1.67 million, resulting from higher cash holdings during the year due to expenditure delays for major capital projects in 2012–13 and part due to the drawdown of borrowings \$33.10 million in early April 2013.
- government grants received \$38.25 million (against a budget of \$33.40 million) due to the receipt of additional operational funding for home and community care \$0.43 million and National Disaster Relief funding for the remediation of the Hammond Road bridge \$0.68 million. Council was also successful in the receipt of additional capital grant funding that was not provided for in the adopted budget including funding for the new Municipal Building and Community Complex totalling \$2.93 million.
- contributions were less than the budget due to the change in accounting treatment of Development Contribution Plan (DCP) cash contributions being recognised as a liability rather than income. This change occurred after adoption of the 2012–13 budget; and
- higher than expected cash payments to employees during the financial year due to Council directing an early payment of \$5.50 million towards its share of the Local Authorities Defined Benefits Superannuation Scheme shortfall (\$10.57 million). An early payment discount of \$0.22 million was received. The remaining balance of \$4.85 million was subsequently paid in full in July 2013.

**Note:** The specific line items making up the cash flows from operations in the Financial Report differs from the Standard Statements in that the cash flows in the financial report are inclusive of Goods and Services Tax.

*Net outflows from investing activities* – Investing activities refer mainly to Council's sale and purchase of non-current assets and payments for financial assets (term deposit investments with a maturity date greater than three months at 30 June 2013). Council spent a net amount of \$42.57 million in purchase of assets and \$39.55 million in payment for financial assets.

*Financing activities* – Financing activities refer to Council's borrowings. Council repaid \$3.26 million of its long term debt during the year and borrowed \$33.10 million for Municipal Building Project.

### Borrowings

Council's borrowing at 30 June 2013 was \$65.89 million, which is 68.39% of rate revenue (Government prudential limit is 80%). \$6.75 million of further borrowings are planned in 2013–14 for the Municipal Building Project and balance of the superannuation liability. Loan repayments of \$21.04 million are planned over the next five years under Council's borrowing strategy.

Council intends to retire these debts through cash flows generated from operations.

### Council's Financial Position

Council's financial position improved by \$52.79 million during the year, made up of a surplus of \$36.59 million and an asset revaluation increment of \$16.20 million. The net worth of Council at 30 June 2013 was \$1.38 billion (\$1.32 billion in 2012), made up of the following assets and liabilities:

#### Council's assets (what Council owns) comprise:

	\$M	%
<b>Assets:</b>		
Land and land improvements	629.20	42.20
Roads and bridges	303.41	20.35
Buildings (including leasehold improvements)	159.24	10.68
Drainage	125.77	8.44
Cash and other assets	107.53	7.21
Footpaths and bike paths	72.02	4.85
Works in progress	37.89	2.54
Land under roads	20.44	1.37
Plant, furniture and playground equipment	20.39	1.37
Car parks	11.07	0.74
Investment property	3.70	0.25
Other non-current assets	0.24	0.02
	<b>1,490.90</b>	<b>100.00</b>

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**Council's liabilities (what Council owes) comprise:**

	\$M	%
Long term borrowing	65.89	58.00
Creditors	17.81	15.68
Employee entitlements	14.59	12.84
Trust funds and deposits	10.47	9.21
Superannuation liability	4.85	4.27
	<b>113.61</b>	<b>100.00</b>

The difference between the assets and liabilities amounting to \$1.38 billion is the net worth of the Council to its ratepayers and community.

**Note:** *The above financial report summary does not form part of the statutory reporting and hence not subject to audit certification. It has been written to assist the Greater Dandenong community in better understanding the financial operations and financial position of their Council. Commentary must be read in conjunction with the Financial Report and Standard Statements.*