

Financial Overview



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Understanding the Financial Report

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 2014–15 financial year.

The financial statements comprise of consolidated financial statements of Council and those entities over which Council has the power to govern the financial and operating policies so as to obtain the benefits from their activities. For 2014–15 this represents the consolidated performance of the Council and Dandenong Market Pty Ltd. Council's financial statements have been prepared in accordance with the Local Government Model Financial Report as required by the *Local Government (Planning and Reporting) Regulations 2014*.

Council's 2014–15 Comprehensive Income Statement highlights that Council achieved a surplus for the financial year of \$48.66 million (\$54.54 million in 2013–14). 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.

It should be kept in mind that the surplus for the year is not a cash based result but remains an accounting surplus which includes capital grants and capital contributions, but excludes net asset revaluation increments.

Finally a review of Council's asset valuations led to a revaluation increment of \$74.41 million in the value of Council's infrastructure assets (roads and drains) leading to a Comprehensive Income Statement surplus outcome of \$123.06 million.

Comprehensive Income Statement

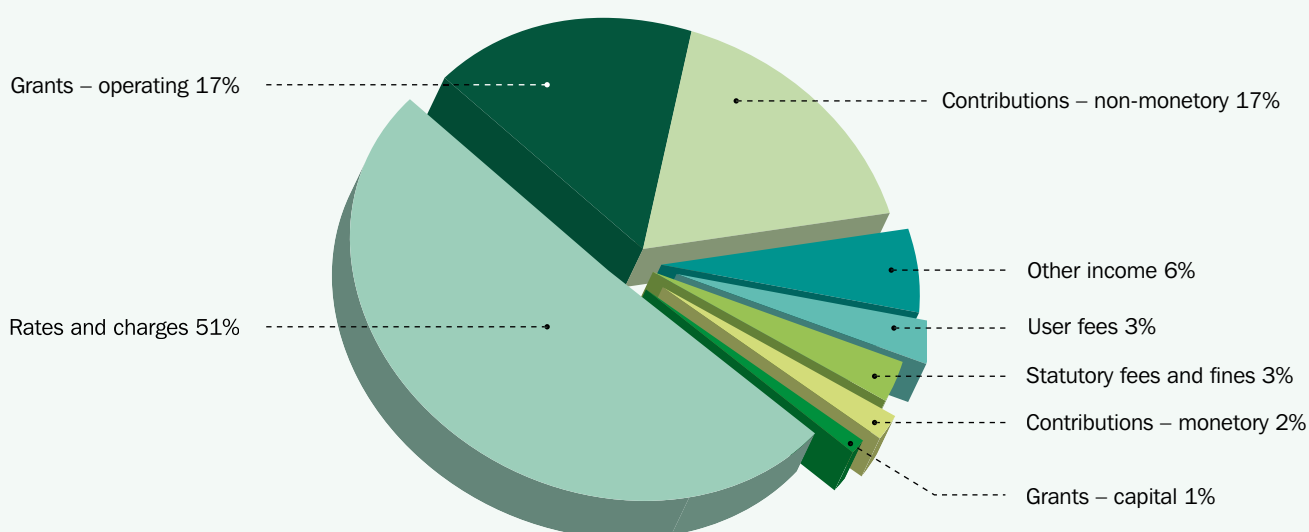
This Statement shows:

- ▶ The sources of Council's revenue under various income headings.
- ▶ The expenses incurred in running the Council during the year. These expenses relate only to the operations' and do not include the cost associated with capital purchases or the building of assets. While capital purchase costs are not included in the expenses there is an item for 'Depreciation'. This value is the value of the assets 'used up' during the year.

Income

Council's operating income for 2014–15 was \$213.65 million (\$212.72 million in 2013–14) including rates and charges income (\$110.74 million), fees and charges (\$12.58 million), operating grants (\$37.54 million), capital grants (\$2.44 million), monetary contributions (\$3.13 million), contributions of non-monetary assets, mainly from subdivision activity (\$36.62 million) and other income (\$13.61 million). The breakdown of operating income by major categories (excluding net loss on Property, infrastructure, plant and equipment) is depicted in the graph below:

Operating income



Rate and charges income (including waste collection charges) – general rate income 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 income for the year was in line with budget expectations. Refer note 3 of Financial Report for further details on rate income.

Fees, charges and fines – income from these sources were \$12.58 million for the year (\$12.74 million in 2013–14). The major sources of income are:

Statutory fees and fines	\$5.66 million
Parking fees	\$2.71 million
Aged care services	\$1.15 million

Grants operating – operational grant income comprises a general purpose grant of \$16.15 million (which includes \$2.07 million for local roads), and tied grants of \$21.39 million which were essentially for community care and community wellbeing services.

Grants capital – capital grants received were \$2.44 million. These grants are mainly non-recurrent in nature essentially for the purposes of funding the capital works program and are expended on these services in addition to the funds allocated by Council from other sources of revenue. (Refer Note 6 of Financial Report).

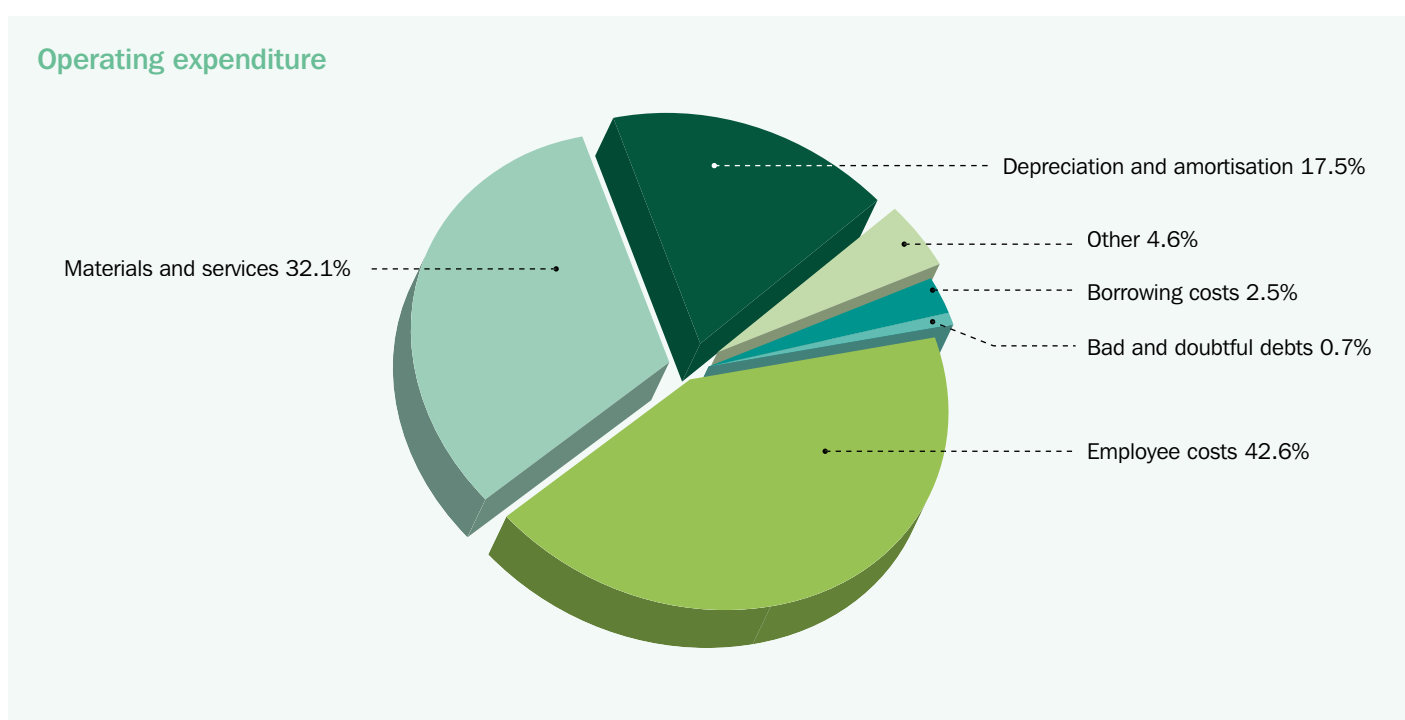
Contributions monetary and non-monetary – contributions monetary (cash) of \$3.13 million received were mainly for public open space development. Capital non-monetary contributions of \$36.62 million were mainly from “gifted” assets from developer activity.

Other income (\$13.61 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.

Expenditure

Total operating expenditure for 2014–15 including depreciation was \$164.99 million (\$158.18 million in 2013–14).

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



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Employee costs (\$70.26 million) – employee and labour costs including salary-oncosts such as WorkCover premium, provision for employee entitlements and Council’s superannuation contributions on behalf of employees.

Materials and services (\$52.88 million) – included in this category are the following major costs relating to:

Contract payments	\$28.01 million
Office administration	\$6.03 million
Other materials and services	\$4.02 million
Consultants and professional services	\$4.00 million
Utilities	\$3.83 million
Building and general maintenance	\$2.73 million
Information technology	\$1.85 million

Bad and doubtful debts – (\$1.09 million) – mainly relates to new provisions recognised during the year for parking fine debtors (\$806,000) and other debtors (\$289,000).

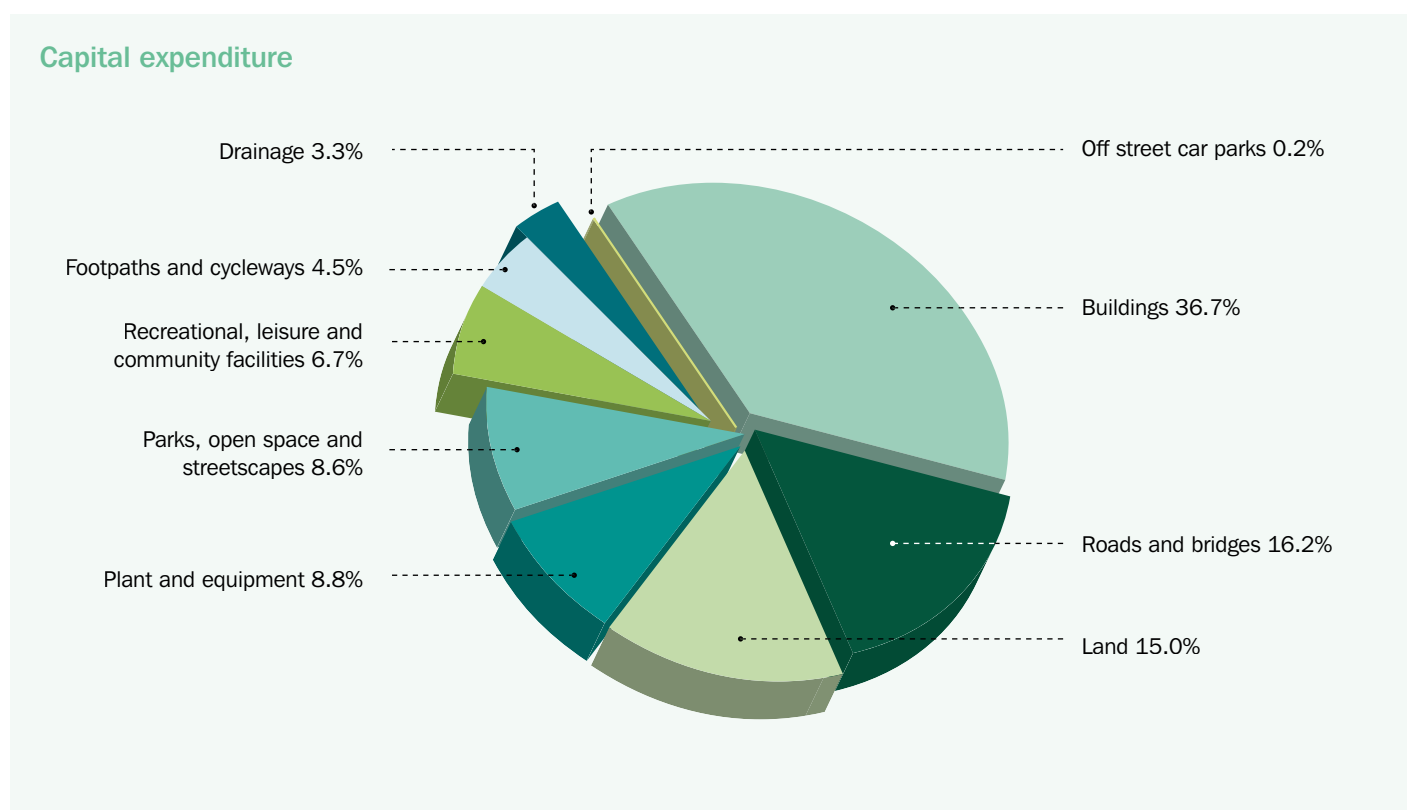
Depreciation and amortisation (\$28.95 million) – the depreciation expense reflects the diminution in the value of assets due to wear and tear and obsolescence. It has no impact on the cash position of Council. Cash flow is impacted only at the time of purchase and sale of assets.

Borrowing costs (\$4.14 million) – represents interest on Council’s long term borrowings.

Capital Expenditure (as per the Statement of Capital Works)

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

Council spent \$38.77 million on capital expenditure during the year. This comprises expansion (\$236,000) upgrade (\$4.73 million), renewal (\$18.12 million) and new assets (\$15.68 million).



Balance Sheet

The Balance Sheet discloses Council's net worth and clearly defines what the Council owns as assets and what it owes as liabilities. Assets and liabilities are further separated into current and non-current categories. Current assets or current liabilities are those which will fall due in the next 12 months, or cannot be deferred for greater than 12 months.

Net assets or total equity represents Council's accumulated net worth and includes many infrastructure and community assets such as buildings, land, parks, roads and drains.

The components of the Balance Sheet include:

Current and non-current assets

- ▶ Cash and cash equivalents includes cash and investments, i.e. cash held in the bank and in petty cash and the market value of Council's investments.
- ▶ Trade and other receivables are monies owed to Council by Ratepayers and others.
- ▶ Non-current assets held for sale contains land and buildings which are in the market or under contract for sale.
- ▶ Other assets are prepayments of next year's expenses and monies owed to Council, other than from trading, that is not yet received.
- ▶ Other financial assets refer to shares held by Council.
- ▶ Property, infrastructure, plant and equipment is the largest component of Council's worth and represents the value of all the land, buildings, roads, vehicles, equipment, etc. which has been built up by Council over many years.

Current and non-current liabilities

- ▶ Trade and other payables is the value to which Council owes money as at 30 June.
- ▶ Trust funds and deposits represent monies held in trust by Council.
- ▶ Provisions include leave entitlements.
- ▶ Income received in advance represents payments received for works or services yet to be done.

Net assets

This term is used to describe the difference between the value of total assets and the value of total liabilities. It represents the net worth of Council as at 30 June.

Total equity

This always equals net assets. It is made up of the following components:

- ▶ Accumulated surplus: this is the value of the Council, other than the asset revaluation reserve and other reserves that has been accumulated over time.
- ▶ Reserves: this includes Asset revaluation reserve and other reserves. Asset revaluation reserve is the value by which the purchase cost of assets has changed over the years and arises as assets are revalued to their replacement cost from time to time. Other reserves include both statutory reserves and discretionary reserves. The statutory reserves apply where funds are gained from the application of legislative requirements to contribute – and where expenditure of the funds is not entirely discretionary (i.e. the funds need to be used for certain expenditure only). These funds are held for future expenditure.

Council's financial position improved by \$123.06 million during the year, made up of a surplus of \$48.66 million and an asset revaluation increment of \$74.41 million. The difference between the assets and liabilities amounting to \$1.66 billion is the net worth of the Council to its ratepayers and community (\$1.54 billion in 2014).

Council's borrowing at 30 June 2015 was \$65.97 million, which is 59.57% of rate revenue (Government prudential limit is 80%). Loan repayments of \$21.92 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 assets (what Council owns) comprise:

	\$M	%
Assets:		
Land	792.75	44.50
Roads and bridges	305.62	17.16
Drainage	238.88	13.40
Buildings (including leasehold improvements)	209.83	11.78
Footpaths and cycleways	55.24	3.10
Works in progress	23.26	1.31
Recreational, leisure and community facilities	16.98	0.95
Parks, open space and streetscapes	15.73	0.88
Plant and equipment	13.24	0.74
Off street car parks	12.75	0.72
Cash and other assets	96.14	5.40
Other non-current assets	0.56	0.03
Non-current assets classified as held for sale	0.50	0.03
	1,781.48	100.00

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Council's liabilities (what Council owes) comprise:

	\$M	%
Long-term borrowing	65.97	55.64
Trust funds and deposits	20.46	17.26
Employee entitlements	16.39	13.82
Creditors	15.75	13.28
	118.57	100.00

Statement of changes in equity

During the course of the year the value of total equity, as set out in the Balance Sheet, changes. This Statement shows the values of such changes and how these changes arose. The main reasons for a change in equity stem from:

- ▶ The surplus for the year is the value that income exceeded operating costs as described in the Comprehensive Income Statement.
- ▶ Net asset revaluation increment reflects the change in the replacement value of assets.
- ▶ Transfer of monies to or from Council's reserves shows the money withdrawn from reserves and used during the year, or placed into reserves for future use.

Cash Flow Statement

The Cash Flow Statement summarises Council's cash payments and cash receipts for the year. This Statement is presented according to a very specific Australian Accounting Standard and needs some care in analysis. It excludes non-cash expenses such as depreciation but includes payments in relation to capital works projects, proceeds from assets sales and movements in cash that Council may hold as a result of holding trust deposits. The values may differ from those shown in the Comprehensive Income Statement because the Comprehensive Income Statement is prepared on an accrual accounting basis and the Cash Flow Statement is based on the timing of cash receipts and payments.

Council's cash arises from, and is used in, three main areas:

Cash flows from operating activities

All cash received into Council's bank account from ratepayers and others who owed money to Council.

- ▶ Receipts include the interest earnings from Council's cash investments and movement in trust deposits taken. It does not include the costs associated with the sale of assets.
- ▶ Payments include all cash paid by Council from its bank account to staff, creditors and other persons. Also includes movement in trust monies repaid. It does not include the costs associated with the creation of assets.

Cash flows from investing activities

Cash flow from investing activities shows the cash invested in the creation or purchase of property, infrastructure, plant and equipment assets, cash received from the sale of these assets and the movement in term deposits between short term (up to 90 days) and longer term. For the purpose of the Cash Flow Statement, and in accordance with accounting policy, only term deposits with terms of less than 90 days are treated as cash on hand.

Cash flows from financing activities

Cash flows from financing activities include proceeds from borrowing, the repayment of loans, and finance costs (interest on borrowings).

During the 2014-15 financial year Council repaid \$9.23 million of its long term debt which included the repayment of \$4.90 million of loan borrowings on an interim loan facility arrangement and Local Government Funding Vehicle (LGFV) commenced.

The bottom line of the Statement of Cash Flows represents cash at the end of the financial year. This shows the capacity of Council to meet its cash debts and other liabilities.

Note: – *The above financial report summary does not form part of the statutory reporting and hence is 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.*