

# 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 2016–17 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 2016–17 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 2016-17 Comprehensive Income Statement highlights that Council achieved a surplus for the financial year of \$51.73 million (\$48.42 million in 2015-16). 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 \$215.16 million in the value of Council's land and buildings leading to a Comprehensive Income Statement surplus outcome of \$266.89 million.

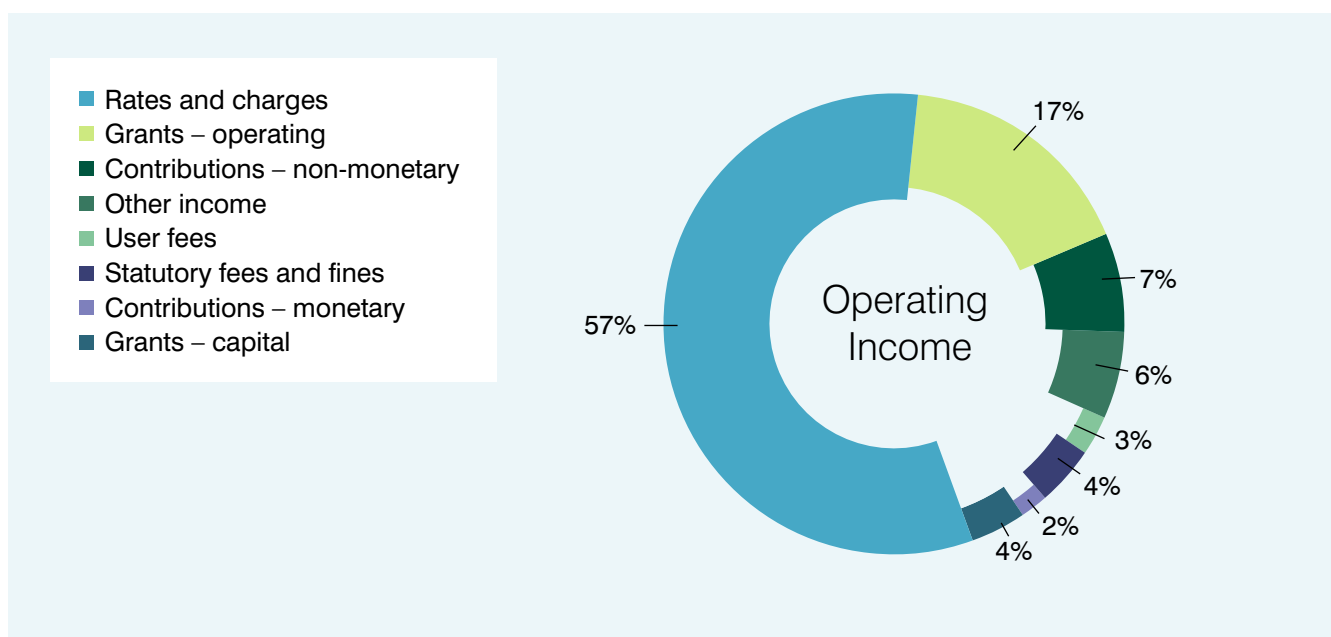
### Comprehensive Income Statement

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 2016–17 was \$225.44 million (\$221.27 million in 2015–16) including rates and charges income (\$127.66 million), fees and charges (\$17.12 million), operating grants (\$37.38 million), capital grants (\$8.99 million), monetary contributions (\$3.52 million), contributions of non-monetary assets, mainly from sub division activity (\$16.31 million), net gain on disposal of property, infrastructure, plant and equipment (\$181,000) and other income (\$14.28 million). The breakdown of operating income by major categories is depicted in the graph below:



**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. Refer note 3 of Financial Report for further details on rate income.

**Fees, charges and fines** – Income from these sources were \$17.12 million for the year (\$14.33 million in 2015–16). The major sources of income are:

Statutory fees and fines	\$7.89 million
Parking fees	\$4.13 million
Registrations and other permits	\$1.31 million
Aged care services	\$1.18 million

**Grants operating** – operational grant income comprises:

- ▶ Financial Assistance Grants received via the Victoria Grants Commission of \$15.89 million (which includes \$2.15 million for local roads). At the conclusion of the 2016–17 year, 50 per cent of the funding for 2017–18 or \$5.42 million was distributed early.
- ▶ Tied grants of \$21.49 million which were essentially for community care and community wellbeing services.

**Grants capital** – capital grants received were \$8.99 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 \$3.52 million received were mainly for public open space development. Capital non-monetary contributions of \$16.31 million were mainly from “gifted” assets from developer activity.

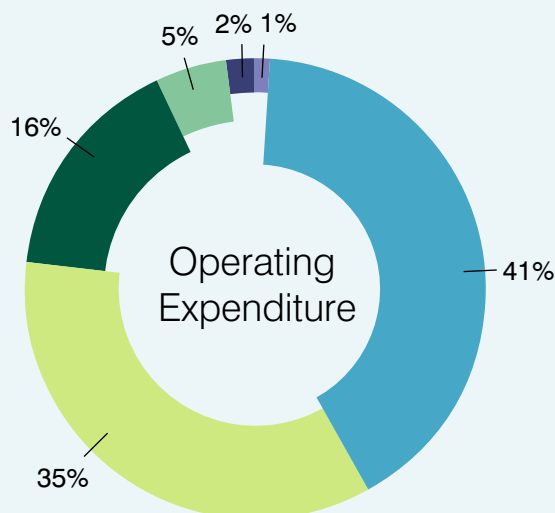
**Other income (\$14.28 million)** – This item of income essentially relates to fees for provision of valuation data to State Revenue Office, interest received on investments and other sundry income.

### Expenditure

Total operating expenditure for 2016–17 including depreciation was \$173.71 million (\$172.85 million in 2015–16).

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

- Employee costs
- Materials and services
- Depreciation, amortisation and impairment
- Other
- Borrowing costs
- Bad and doubtful debts



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**Employee costs (\$71.75 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 (\$60.67 million)** – Included in this category are the following major costs relating to:

Contract payments	\$33.36 million
Office administration	\$6.13 million
Building and general maintenance	\$5.51 million
Utilities	\$3.45 million
Consultants and professional services	\$3.28 million
Information technology	\$2.28 million

**Bad and doubtful debts – (\$911,000)** – mainly relates to new provisions recognised during the year for parking fine debtors (\$612,000) and other debtors (\$299,000).

**Depreciation, amortisation and impairment (\$27.96 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.

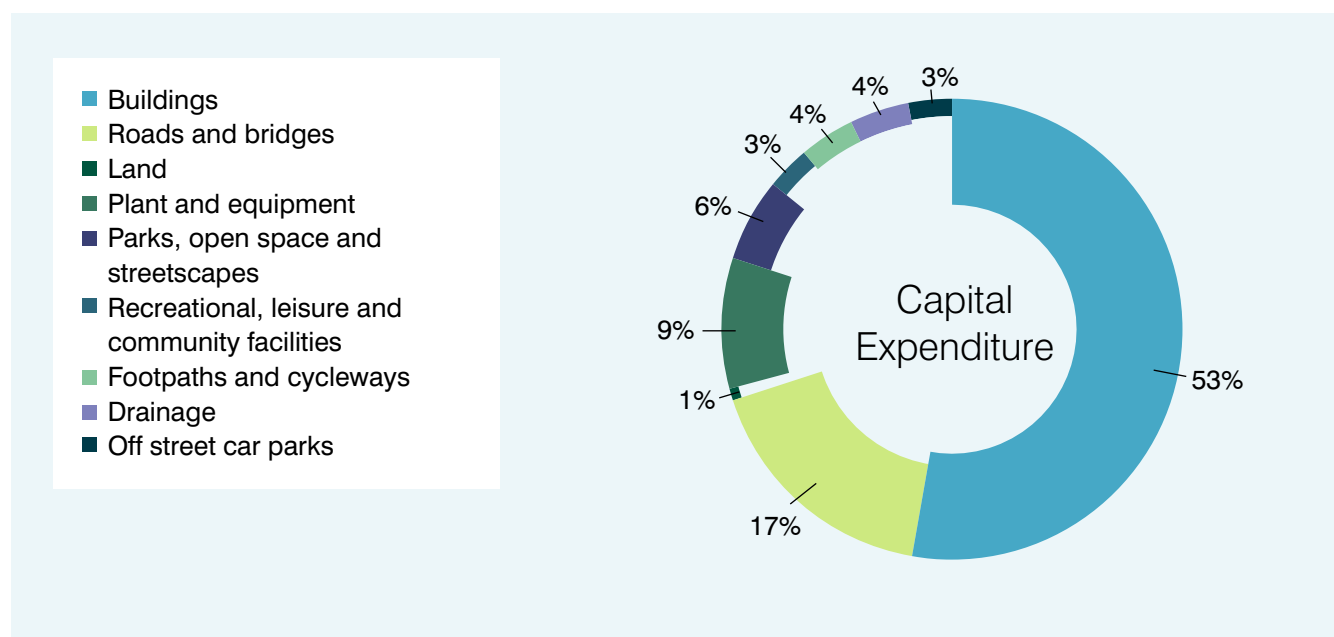
**Borrowing costs (\$3.70 million)** – represents interest on Council’s long term borrowings.

**Fair value adjustment for investment property** – Fair value adjustments for investment property of \$125,000, which is a non-cash item. This is the result of several land and building assets classified as ‘Investment property’ as they are held primarily to earn rental income. Australian Accounting Standards require any revaluation of these assets to fair value to be recognised in the Comprehensive Income Statement, rather than in the Asset Revaluation Reserve like other fixed assets held at fair value by Council.

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

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

Council spent \$44.76 million on capital expenditure during the year. This comprises expansion (\$27,000) upgrade (\$10.24 million), renewal (\$19.10 million) and new assets (\$15.39 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.
- ▶ Investment property represents land and building assets that are held for the primary purpose of earning rental income.

### *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 \$266.89 million during the year, made up of a surplus of \$51.73 million and an asset revaluation increment of \$215.16 million. The difference between the assets and liabilities amounting to \$2.19 billion is the net worth of the Council to its ratepayers and community (\$1.92 billion in 2016).

Council's borrowing at 30 June 2017 was \$54.91 million, which is 43.62% of rate revenue (Government prudential limit is 80%). Loan repayments of \$17.72 million are forecast over the next five years under Council's borrowing strategy. Council intends to retire these debts through cash flows generated from operations.

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

	\$'000	%
<b>Assets:</b>		
Land	1,198,856	51.78
Roads and bridges	319,160	13.79
Drainage	257,298	11.11
Buildings (including leasehold improvements)	232,739	10.05
Footpaths and cycle ways	57,436	2.48
Works in progress	31,810	1.37
Recreational, leisure and community facilities	18,491	0.80
Parks, open space and streetscapes	17,134	0.74
Plant and equipment	12,647	0.55
Off street car parks	10,275	0.44
Cash and other assets	148,451	6.42
Other non-current assets	564	0.03
Investment property	10,305	0.44
	<b>2,315,166</b>	<b>100.00</b>

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

	\$'000	%
Long-term borrowing	54,912	43.25
Trust funds and deposits	35,448	27.92
Employee entitlements	17,081	13.45
Creditors	18,276	14.40
Other interest-bearing liabilities	1,255	0.98
	<b>126,972</b>	<b>100.00</b>

## 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 to and from the following sources:

### *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 include 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, the cash received from the sale of these assets and cash received from sale of property held for resale.

### *Cash flows from financing activities*

Cash flows from financing activities includes proceeds from borrowing, the repayment of loans and repayment of other interest-bearing liabilities.

During the 2016–17 financial year Council repaid \$3.12 million of its long term debt. \$1.18 million payment of other interest-bearing liabilities relate to Council's agreement with VicTrack and Development Victoria (formerly Places Victoria) for the purchase of land parcels in the Dandenong Railway Precinct. The purchase price was established by the Valuer General Victoria, to be paid in equal instalments over three years with the final instalment in June 2018.

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 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.*