

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 2013-14 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 2013-14 this represents the consolidated performance of the Council and Dandenong Market Pty Ltd.

Council's 2013-14 Comprehensive Income Statement highlights that Council achieved an overall surplus for the financial year of \$137.94 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 deficit in 2013-14 of \$2.70 million (surplus of \$5.02 million in 2012-13). The major contributor to the deficit result relates to Victoria Grants Commission funding of 50% (or \$5.42 million) of the 2013-14 full year allocation received early in 2012-13 due to the Victoria Grants Commission resuming to a regular payment schedule. No early payments were received in 2013-14.

Beyond the underlying net result for the year, Council received \$9.15 million in capital grant funding and \$2.05 million in capital contributions (cash). A further \$51.18 million was received in the contribution of non-monetary assets from developers leading to a net surplus accounting result for the year of \$54.54 million.

Finally a review of Council's asset valuations led to a revaluation increment of \$83.40 million in the value of Council's land and building assets leading to a Comprehensive Income Statement surplus outcome of \$137.94 million.

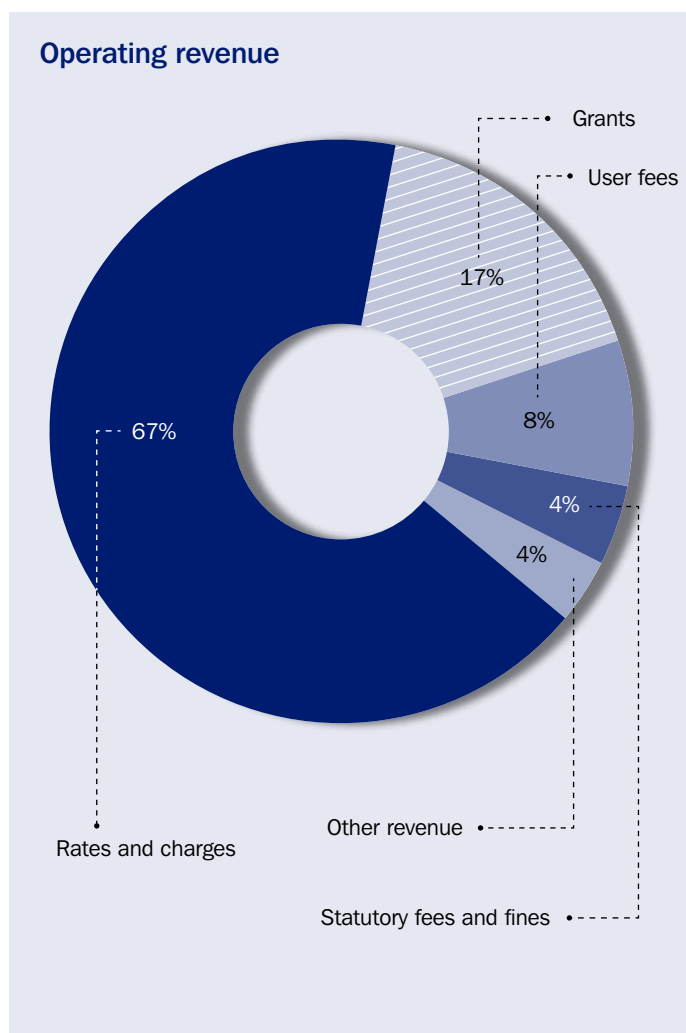
Comprehensive Income Statement

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.

Revenue

Council's operating revenue for 2013-14 was \$153.03 million (\$150.49 million in 2012-13) including rates and charges revenue (\$102.69 million), operating grants (\$25.76 million), and fees and charges (\$19.12 million). The breakdown of operating revenue by major categories is depicted in the graph below:



Council's non-operating revenue for 2013-14 was \$63.50 million (\$35.99 million in 2012-13) including capital grants (\$9.15 million), capital contributions (cash) (\$2.05 million) gain on sale of assets (\$1.11 million) and contributions of non-monetary assets, mainly from sub division activity (\$51.18 million).

Rate and charges 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 \$5.42 million (which includes \$679,000 for local roads), and tied grants of \$20.35 million which were essentially for community care and community wellbeing services. Capital grants received were \$9.15 million of which \$4.32 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).

Capital contributions (cash) of \$2.05 million received were mainly for public open space development. Capital non-monetary contributions of \$51.18 million were mainly from "gifted" assets from developer activity.

Fees, charges and fines – Revenue from these sources were \$19.12 million for the year (\$17.86 million in 2012-13). The major sources of revenue are:

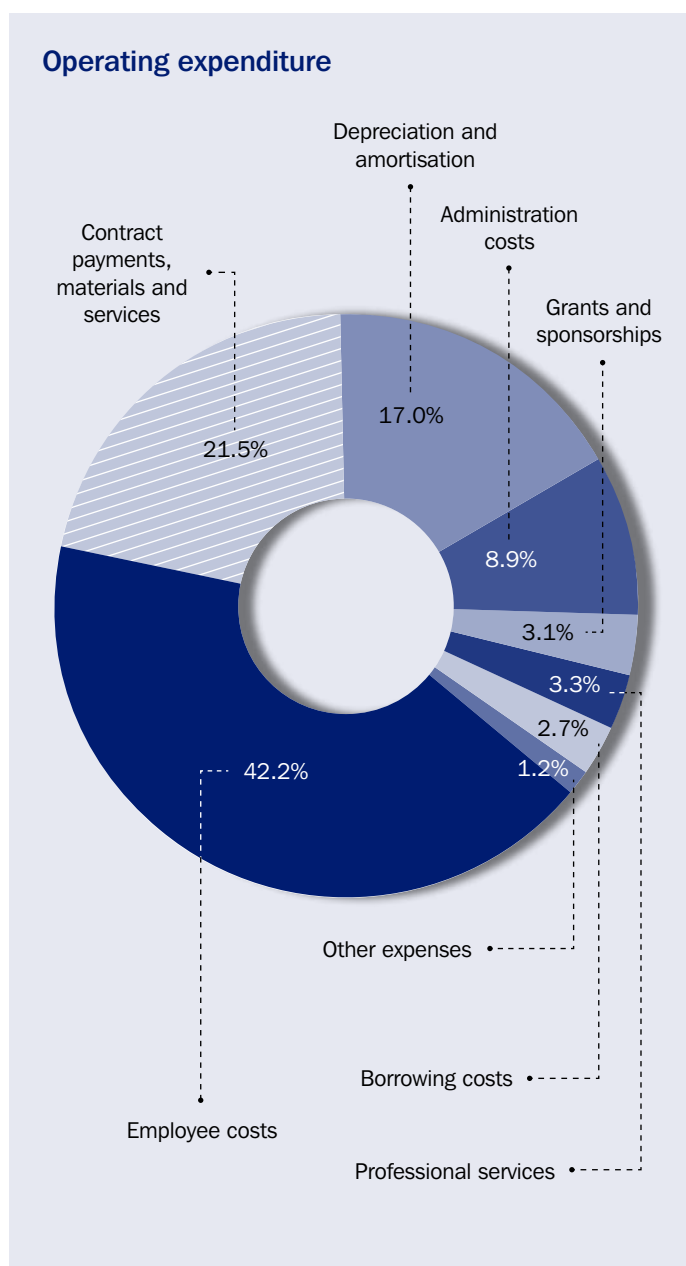
Dandenong Market stall income	\$5.13 million
Statutory and other fees	\$6.52 million
Parking fees and fines	\$4.47 million
Hire of Council facilities	\$1.68 million
Aged care services	\$1.33 million

Other income (\$5.46 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 2013-14 including depreciation was \$155.72 million (\$145.47 million in 2012-13).

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



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Contract payments, materials & services (\$33.52 million) – Included in this category are the following major costs relating to:

Waste collection and disposal	\$10.21 million
Maintenance and repairs of roads, drains and buildings	\$6.39 million
Park services	\$5.13 million
Street lighting	\$1.86 million
Dandenong Market	\$1.74 million
Street cleansing	\$0.91 million

Grants, sponsorships and contributions – (\$4.80 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 services (\$5.20 million) – Mainly includes consultancy costs, professional services including legal costs for various services (\$4.46 million). Other costs include statutory fees and audit costs. Refer note 14 of the Financial Report.

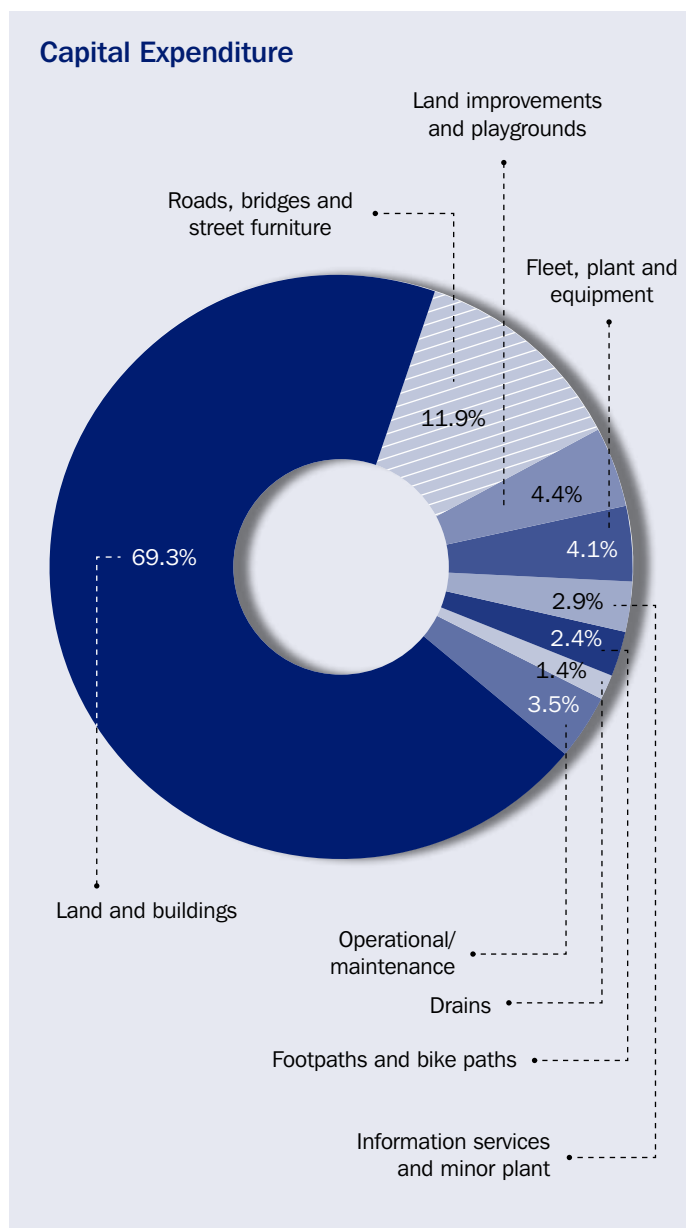
Administration costs (\$13.83 million) – Administration costs include information management expenses (\$1.99 million), insurance costs (\$1.06 million), printing, publications and promotions of (\$3.27 million) and motor vehicle maintenance of (\$1.47 million). It also includes occupancy costs (\$3.10 million) for rent, electricity, gas, telephone and water. Refer to note 15 in the Financial Report.

Borrowing costs (\$4.24 million) – represents interest on Council’s long term borrowings.

Depreciation and amortisation (\$26.54 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.

Capital Expenditure (as per the Capital Works Standard Statement)

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



Council spent \$63.58 million on capital expenditure during the year. This comprises expansion/upgrade (\$7.03 million), renewal (\$14.67 million) and new assets (\$39.65 million). The most significant project being the Municipal Building Project (\$33.64 million) which was completed in March 2014.

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.
- ▶ Financial assets refer to a security deposit 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 accrued salary and leave entitlements.
- ▶ Superannuation liability refers to monies owed to the superannuation fund for future superannuation benefits of staff on a defined benefits plan, and
- ▶ 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.
- ▶ Asset revaluation reserve: this 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: Includes 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 \$137.94 million during the year, made up of a surplus of \$54.54 million and an asset revaluation increment of \$83.40 million. The difference between the assets and liabilities amounting to \$1.53 billion is the net worth of the Council to its ratepayers and community (\$1.39 billion in 2013).

Council's borrowing at 30 June 2014 was \$66.75 million, which is 65% of rate revenue (Government prudential limit is 80%). Loan repayments of \$18.51 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 and land improvements	751.72	45.62
Roads and bridges	307.57	18.67
Buildings (including leasehold improvements)	209.89	12.74
Drainage	136.02	8.26
Cash and other assets	83.70	5.06
Footpaths and bike paths	74.49	4.52
Works in progress	14.08	0.85
Land under roads	30.33	1.84
Plant, furniture and playground equipment	23.95	1.46
Car parks	11.83	0.72
Inventory property	3.70	0.23
Other non-current assets	0.55	0.03
	1,647.83	100.00

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Council's liabilities (what Council owes) comprise:

	\$M	%
Long-term borrowing	66.75	58.22
Creditors	18.74	16.34
Employee entitlements	15.53	13.54
Trust funds and deposits	13.64	11.90
	114.66	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 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. 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. 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 and the cash received from the sale of these assets.

Cash flows from financing activities

Cash flows from financing activities includes proceeds from borrowing and the repayment of loans, movement in cash held in trust deposits and 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.

During the 2013-14 financial year Council repaid \$4.04 million of its long term debt and borrowed \$4.90 million to fund the Municipal Building Project.

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 and Standard Statements.