

FINANCIAL OVERVIEW





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 2019–20 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 to obtain the benefits from their activities. For 2019–20 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 2019-20 Comprehensive Income Statement highlights that Council achieved a surplus for the financial year of \$16.48 million (\$31.28 million in 2018–19). 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 COVID-19 pandemic has resulted in one of the most challenging and uncertain times in recent history. At balance date, the state of Victoria was subject to 'Stage 3' restrictions. On 2 August 2020, Victoria was declared a 'state of disaster' and metropolitan Melbourne became subject to 'Stage 4' restrictions.

In response to significant decrease in demand/government directive amidst the COVID-19 outbreak, Council's leisure centre facilities, libraries and community centres including The Drum Theatre were closed. On 14 April 2020, Council unveiled local economic support to our most vulnerable community members during the COVID-19 pandemic. A series of measures were introduced to ease the financial burden on Greater Dandenong residents, local businesses and community groups. The measures combined with other costs have impacted Council's operations for the financial year end 30 June 2020 in the following areas:

- Council extended its Financial Hardship Policy in response to COVID-19 on 14 April 2020. No interest was charged on outstanding rates and immediate relief was provided to residents by way of \$100 rate waivers to each of the City's 10,728 pensioners and

\$200 to those residents receiving the new Jobseeker allowance. Rate waivers provided up until 30 June 2020 resulted in foregone revenue \$1.15 million.

- Council provided rental waivers for all traders at the Dandenong Market at a cost of \$1.5 million to provide stimulus funding to encourage traders to remain open and allow the market to continue to be a source of fresh, affordable food.
- Council waived rents for many of Council's commercial leaseholders and for those that continued to trade, rent reductions of 50 per cent were provided from 1 April – 30 June 2020. Rental rebates were offered to sporting clubs for seasonal venue hire and other facilities that were forced to close. Council also suspended enforcement of time restrictions for parking in and around the municipality. The impact on Council's revenue at 30 June 2020 is as follows:
 - Statutory fees and fines and Council user fees decreased by \$2.37 million compared to the 2019–20 Original Budget.
 - Other income reductions – a loss in rental and venue hire income due to COVID-19 restrictions and waivers provided in areas such as The Drum Theatre, civic and community facilities and commercial properties (\$609,000).

Council will continue to monitor the impacts during 2020–21 and will actively manage its budgets to ensure the financial outcomes to Council remain in alignment with Council budgets. For the 2019-20 financial year, please refer to note 11 of the Financial Report for further information on COVID-19 impacts.

Council also implemented three new accounting standards in 2019–20. *AASB 15 Revenue from Contracts with Customers*, *AASB 16 Leases* and *AASB 1058 Income of Not-for-Profit Entities*, from 1 July 2019. This has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. Refer to notes 5.3, 5.8 and 10 of the Financial Report for further detail.

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 \$29.15 million in the value of Council's land and buildings leading to a Comprehensive Income Statement surplus outcome of \$44.89 million.

Council owned land and buildings were revalued as at 1 January 2020. At balance date, Council's contract valuers undertook a review of 'Annual Material Change' in the fair value of the land and building asset classes in the City of Greater Dandenong portfolio for the period 1 January 2020 to 30 June 2020. No material change was identified based on data available. The state of the property market within the review period is at present most influenced by the recent COVID-19 pandemic and resulting declaration of a State of Emergency. Market conditions are changing daily at present. The full extent of the effect of these conditions upon the property market and broader economic environment is unclear at best. For the period of the annual material change review, there is a market uncertainty resulting in significant valuation uncertainty. Refer to note 6.2 of the Financial Report for further information.

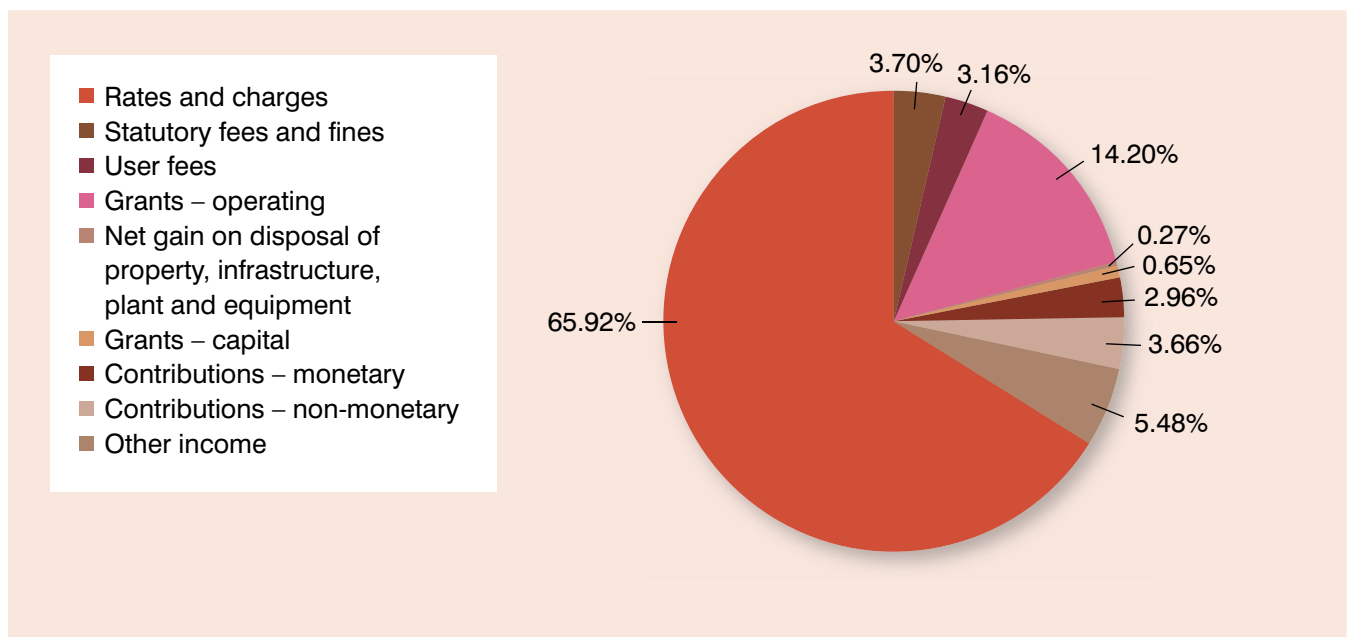
Comprehensive Income Statement

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 2019–20 was \$219.97 million (\$226.13 million in 2018–19) including rates and charges income (\$145.00 million), fees and charges (\$15.09 million), operating grants (\$31.23 million), capital grants (\$1.43 million), monetary contributions (\$6.52 million), contributions of non-monetary assets, mainly from sub division activity (\$8.04 million), net gain on disposal of property, infrastructure, plant and equipment (\$583,000) and other income (\$12.06 million). The breakdown of operating income by major categories is depicted in the graph below:



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Rates 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 to note 3.1 of the Financial Report for further details on rate income.

Fees, charges and fines – Income from these sources were \$15.09 million for the year (\$17.67 million in 2018–19). The major sources of income are:

Statutory fees and fines	\$8.15 million
Parking fees	\$2.51 million
Registrations and other permits	\$1.50 million
Aged care services	\$1.11 million

Grants operating and capital

In 2019–20 the introduction of two new income-related Accounting Standards were implemented. *AASB 15 Revenue from Contracts with Customers* requires revenue from contracts with customers to be recognised as Council satisfies the performance obligations under the contract and *AASB 1058 Income of Not-for-Profit Entities* requires income to be recognised as Council satisfies the performance obligations under the contract. Where the specific performance obligations that have not yet been satisfied at 30 June, the income has been recognised as unearned income in the Balance Sheet (refer note 5.3(c)) of the Financial Report.

The new requirements are expected to result in better matching of income and related expenses as income recognition will now be deferred when there is a performance obligation or any other liability.

Grants operating – operational grant income comprises:

Financial Assistance Grants received via the Victoria Grants Commission of \$11.83 million (which includes \$1.57 million for local roads). Tied grants of \$19.40 million which were essentially for community care and community wellbeing services.

Grants capital – capital grants received were \$4.43 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.

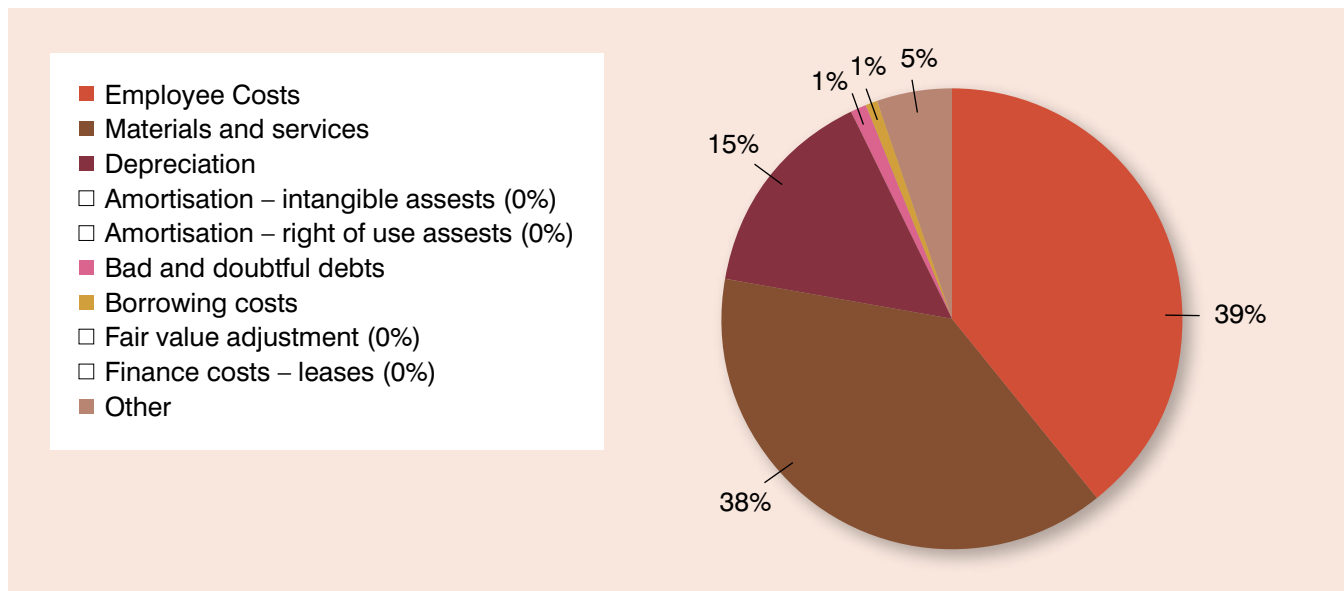
Contributions monetary and non-monetary – contributions monetary (cash) of \$6.52 million received were mainly for public open space development. Capital non-monetary contributions of \$8.04 million were mainly from “gifted” assets from developer activity.

Other income (\$12.06 million) – This item of income essentially relates to Dandenong Market revenue from operations, interest received on investments and other sundry income.

Expenditure

Total operating expenditure for 2019–20 including depreciation was \$203.49 million (\$194.85 million in 2018–19).

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





Employee costs (\$79.64 million) – Employee and labour costs including salary-on costs such as WorkCover premium, provision for employee entitlements and Council’s superannuation contributions on behalf of employees.

Materials and services (\$77.89 million) – Included in this category are the following major costs relating to:

Waste management services	\$16.79 million
Cleaning services	\$3.32 million
Park maintenance services	\$6.01 million
Educator services	\$4.22 million
Leisure centre contract and maintenance	\$2.58 million
Other contract payments	\$9.51 million
Office administration	\$5.39 million
Building and general maintenance	\$7.09 million
Utilities	\$4.13 million
Consultants and professional services	\$7.45 million
Information technology	\$2.97 million

Depreciation (\$31.26 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.

Amortisation – intangible assets (\$77,000) – a new expense item in 2019–20 as a result of transfer of computer software assets from Plant and Equipment to Intangibles.

Amortisation – right of use assets (\$562,000) – a new expense item relating to the amortisation of leased (right of use) assets in accordance with the new Accounting Standard AASB 16 ‘Leases’. Refer note 5.8 of Financial Report for further breakdown of amortisation on right-of-use assets.

Bad and doubtful debts – (\$1.30 million) – mainly relates to provisions recognised for bad and doubtful debts during the year for parking fine debtors (\$698,000) and other debtors (\$602,000). The provision for doubtful debts is recognised on an expected credit loss model. This model considers both historic and forward-looking information in determining the level of impairment.

Borrowing costs (\$3.04 million) – represents interest on Council’s long-term borrowings.

Finance costs – leases (\$34,000) – a new expense item relating to the interest on lease liabilities in accordance with the new Accounting Standard AASB 16 ‘Leases’.

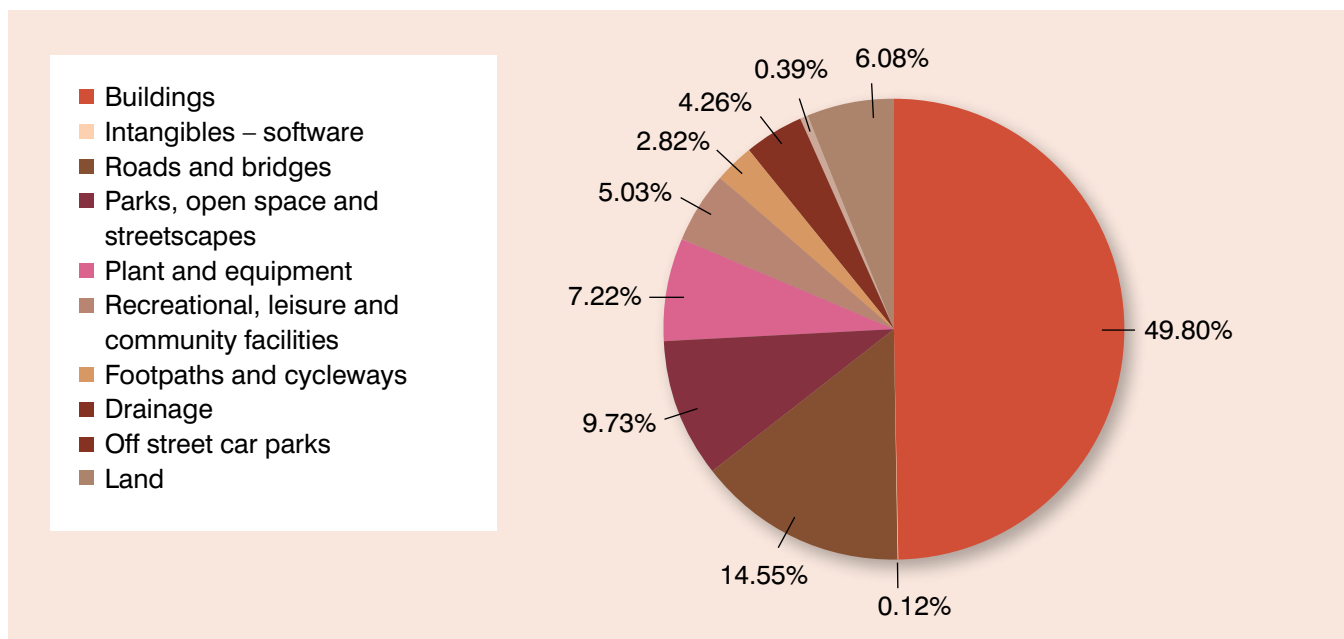
Fair value adjustment for investment property – Fair value adjustments for investment property of \$383,000, which is a non-cash item. This is the result of several land and building assets classified as ‘Investment property’ as they are held primarily to earn rental income. Australian Accounting Standards 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.

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Capital Expenditure (as per the Capital Works Statement)

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

Council spent \$58.03 million on capital expenditure during the year. This comprises upgrade (\$6.15 million), renewal and expansion (\$29.19 million) and new assets (\$22.69 million). The most significant items relating to new assets relates to the Springvale Community Precinct (\$12.77 million) and property purchases for open space (\$3.32 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 include 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 relate to Term Deposits held by Council with original maturity >90days.
- 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.
- Right-of-use assets represents leased (right of use) assets in accordance with the new Accounting Standard AASB 16 ‘Leases’. Includes property, fleet, IT and office equipment that have been leased under ordinary lease arrangements.

- Intangible assets represents computer software assets that were transferred from 'Property, infrastructure, plant and equipment' to 'Intangible assets'.

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.
- Unearned income relates to the introduction of two new income-related Accounting Standards, *AASB 15 Revenue from Contracts with Customers* applies to revenue transactions where Council provides services or goods under contractual arrangements, and *AASB 1058 Income of Not-for-Profit Entities* applies to income received where no contract is in place. This comprises mainly grant agreements.
- Provisions include leave entitlements and landfill restoration works.
- Lease liabilities represents the lease repayment obligations for leased (right of use) assets, in accordance with the new Accounting Standard *AASB 16 'Leases'* and are classified as current and non-current based on when the obligation is expected to occur. Includes repayments for property, fleet, IT and office equipment that have been leased under ordinary lease arrangements.

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 increased by \$44.89 million during the year, made up of a surplus of \$16.48 million, an asset revaluation increments of \$29.15 million and an impairment (loss) reversal of previous revaluation of \$743,000. The difference between the assets and liabilities amounting to \$2.24 billion is the net worth of the Council to its ratepayers and community (\$2.20 billion in 2019).

Council's borrowing at 30 June 2020 was \$59.89 million, which is 41.30% of rates and charges revenue (Government prudential limit is 80%). Loan repayments of \$21.01 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.

Council's assets (what Council owes) comprise:

	\$M	%
Assets:		
Land	1,154,749	48.26
Roads and bridges	323,751	13.53
Drainage	270,123	11.29
Buildings (including leasehold improvements)	291,316	12.18
Footpaths and cycle ways	60,016	2.51
Works in progress	20,116	0.84
Recreational, leisure and community facilities	20,774	0.87
Parks, open space and streetscapes	21,012	0.88
Plant and equipment	15,555	0.65
Off street car parks	13,583	0.57
Cash and other assets	187,367	7.83
Other non-current assets	305	0.01
Non-current assets held for sale	1,000	0.04
Investment property	11,814	0.49
Intangible assets	124	0.01
Right-of-use assets	998	0.04
	2,392,603	100.00

Council's liabilities (what Council owes) comprise:

	\$M	%
Interest-bearing liabilities (long-term borrowing)	59,891	39.85
Trust funds and deposits	9,023	6.00
Unearned income	40,340	26.84
Provisions	20,903	13.91
Trade and other payables (creditors)	19,127	12.73
Lease liabilities	1,013	0.67
	150,297	100.00

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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, cash received from sale of property held for resale and payment for investments.

Cash flows from financing activities

Cash flows from financing activities includes proceeds from borrowing, the repayment of loans and lease liabilities.

During the 2019–20 financial year Council repaid \$8.63 million of its long-term debt and borrowed \$10.00 million for the purpose of completing the Springvale Community Precinct major 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.*