



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 2020–21 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 2020–21 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* (as per the transitional provisions of the *Local Government Act 2020*).

Council's 2020–21 Comprehensive Income Statement highlights that Council achieved a surplus for the financial year of \$16.56 million (\$16.48 million in 2019–20). 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.

In particular, Council has noted the following significant impacts on its financial operations from pre-COVID-19 budget levels in the 2020–21 financial year:

Revenue reductions

- Parking related income of \$3.6 million (includes parking fines and recoveries net of costs, parking ticket meters and car park permits and machines).
- Interest income of \$1.5 million (due to low interest rates).
- Civic Facilities and Drum Theatre of \$1.3 million due to required closures in lockdown periods, restrictions on event sizes and social distancing.
- Statutory fees and fines of \$745,000 across a number of areas most notably health registrations, subdivisions, plan checking, property and stormwater information requests, planning permits, local laws, planning compliance and animal management.

Council support

Council eased the financial burden on Greater Dandenong residents, local businesses and community groups with the following waivers/programs:

- Dandenong Market – in response to the COVID-19 pandemic, City of Greater Dandenong (Council) waived the requirement for the Company to pay a return to Council in 2020–21. This has allowed the Company to provide support to Market traders in the form of rent relief and fee abatements as a response to Government restrictions and lockdowns of more than \$500,000.
- Commercial and community facility rentals waived (\$822,000).
- COVID-19 Business Grants Program (\$664,000).
- COVID-19 Material Aid Program (\$245,000).

Council also received a substantial amount of non-recurrent operating and capital grant income in 2020–21 due to COVID-19 initiatives and stimulus funding.

It is anticipated that some of these COVID-19 impacted items such as interest income and parking fees and fines will continue into the 2021–22 financial year. Council will continue to monitor the impacts during 2021–22 and will actively manage its budgets to ensure the financial outcomes to Council remain in alignment with Council budgets, strategies and plans. For the 2020–21 financial year, please refer to overview (section (b)) of the Financial Report for further information on COVID-19 impacts.

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 contributions, but excludes net asset revaluation increments.

Finally, a review of Council's asset valuations led to a revaluation increment of \$242.76 million mainly in the value of Council's land assets leading to a Comprehensive Income Statement surplus outcome of \$259.22 million. Since the last formal revaluation of land, the property market has experienced a substantial increase. An indexed revaluation of all land at fair value was performed at 30 June 2021 resulting in an increment of \$239 million (21%). The state of the property market continues to be influenced by the COVID-19 pandemic. 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

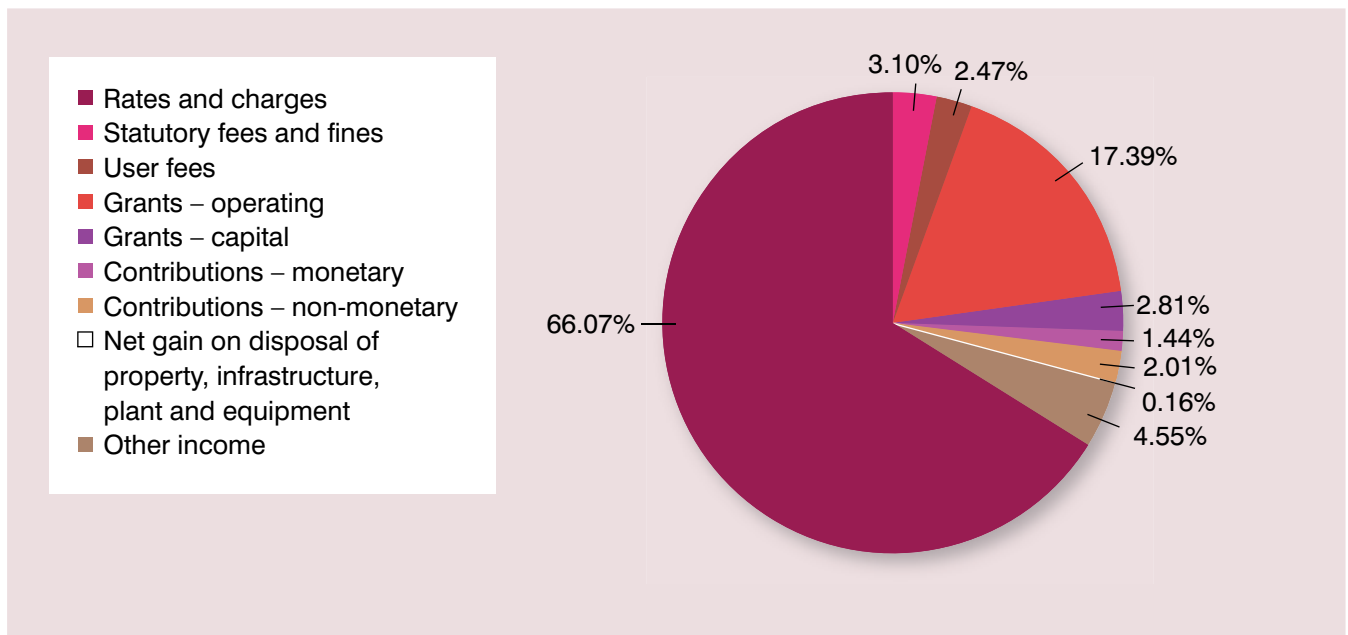
Council’s operating income for 2020–21 was \$230.39 million (\$219.97 million in 2019–20) including rates and charges income (\$152.23 million), fees and charges (\$12.83 million), operating grants (\$40.06 million), capital grants (\$6.47 million), monetary contributions (\$3.32 million), contributions of non-monetary assets, mainly from sub division activity (\$4.63 million), net gain on disposal of property, infrastructure, plant and equipment (\$368,000) and other income (\$10.49 million). The breakdown of operating income by major categories is depicted in the graph below:

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’ is applied against each category of property. Waste collection charges are based on the number of bins and frequency of collections. Refer note 3.1 of Financial Report for further details on rate income.

Fees, charges and fines – Income from these sources were \$12.83 million for the year (\$15.09 million in 2019–20). The major sources of income are:

	2020–21 (\$M)	2019–20 (\$M)	Movement %
Statutory fees and fines	7.13	8.15	↓ 12.5
Registrations and other permits	1.57	1.50	↑ 4.7
Parking fees	1.45	2.51	↓ 42.2
Aged care services	1.11	1.11	–

As can be seen from the above table, statutory fees and fines and parking fees decreased significantly from the prior year mainly due to COVID-19 impacts.



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Grants operating and capital

Where grants have 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).

Grants operating – operational grant income comprises:

- Financial Assistance Grants received via the Victoria Local Government Grants Commission of \$12.24 million (which includes \$1.65 million for local roads).
- Tied grants of \$27.82 million which includes specific COVID-19 initiatives and stimulus funding such as Working For Victoria Fund program (\$4.48 million), Local Partnership Program (\$700,000) and Outdoor Eating and Entertainment Package (\$500,000).

Grants capital – capital grants recognised of \$6.47 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. Council received a significant amount of capital grant funding in 2020–21 with \$13.12 million recorded as unearned income at 30 June 2021. This capital grant funding will be recognised as income as the performance obligation is satisfied (generally, as capital expenditure occurs). Refer to note 5.3(c) of the Financial Report for further details.

Contributions monetary and non-monetary –

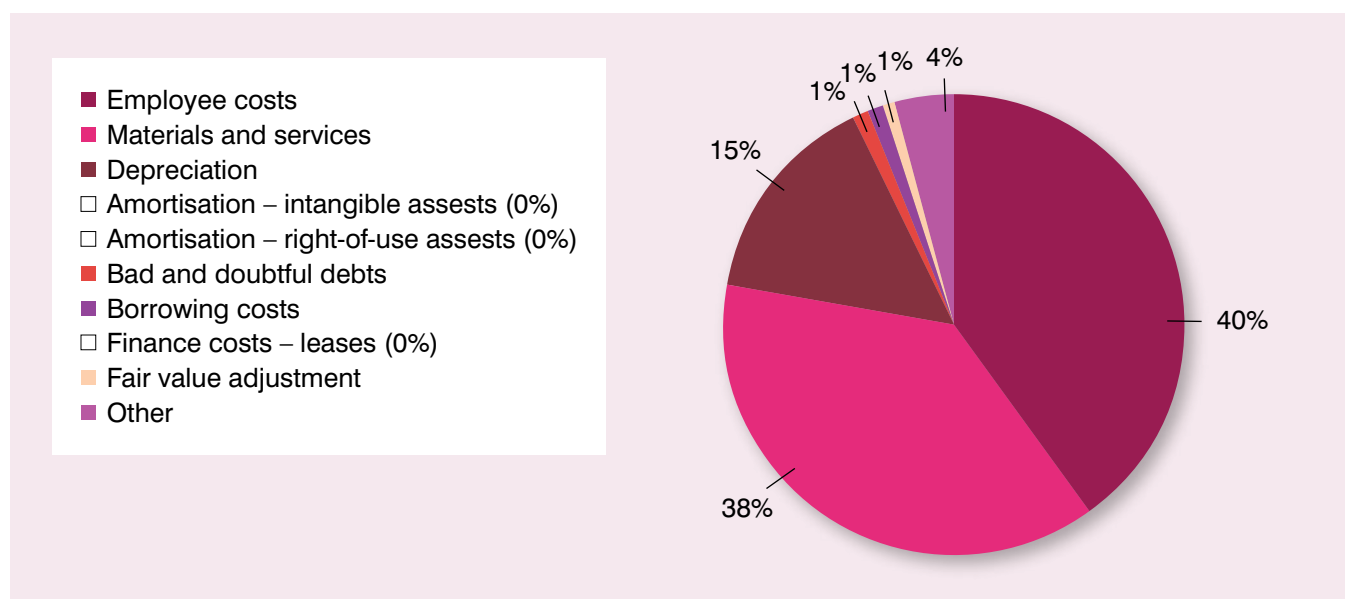
contributions monetary (cash) of \$3.32 million received were mainly for public open space development. Capital non-monetary contributions of \$4.63 million were mainly from “gifted” assets from developer activity.

Other income (\$10.49 million) – This comprises a number of income sources including Dandenong Market revenue from operations, recoveries, property rental, interest received on investments and other sundry income.

Expenditure

Total operating expenditure for 2020–21 including depreciation was \$213.83 million (\$203.49 million in 2019–20).

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





Ducks at Tirhatuan Park

Employee costs (\$84.57 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 (\$81.72 million) – Included in this category are the following major costs relating to:

Waste management services	\$17.21 million
Other contract payments	\$9.60 million
Building and general maintenance	\$8.30 million
Park maintenance services	\$7.02 million
Consultants and professional services	\$5.70 million
Office administration	\$5.13 million
Educator services	\$4.65 million
Utilities	\$3.82 million
Cleaning services	\$3.51 million
Information technology	\$3.15 million
Leisure centre contract and maintenance	\$2.85 million
Spring Valley landfill rehabilitation and monitoring costs	\$2.65 million

Depreciation (\$32.50 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 (\$97,000) – This expense item reflects the amortisation of computer software assets.

Amortisation – right-of-use assets (\$597,000) –

This expense item reflects the amortisation of leased (right-of-use) assets. Refer note 5.8 of Financial Report for further breakdown of amortisation on right-of-use assets.

Bad and doubtful debts – (\$1.13 million) – mainly relates to provisions recognised for bad and doubtful debts during the year for parking fine debtors (\$857,000) and other debtors (\$272,000). 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 (\$2.92 million) – represents interest on Council’s long-term borrowings.

Finance costs – leases (\$23,000) – This expense item relates to the interest on lease liabilities.

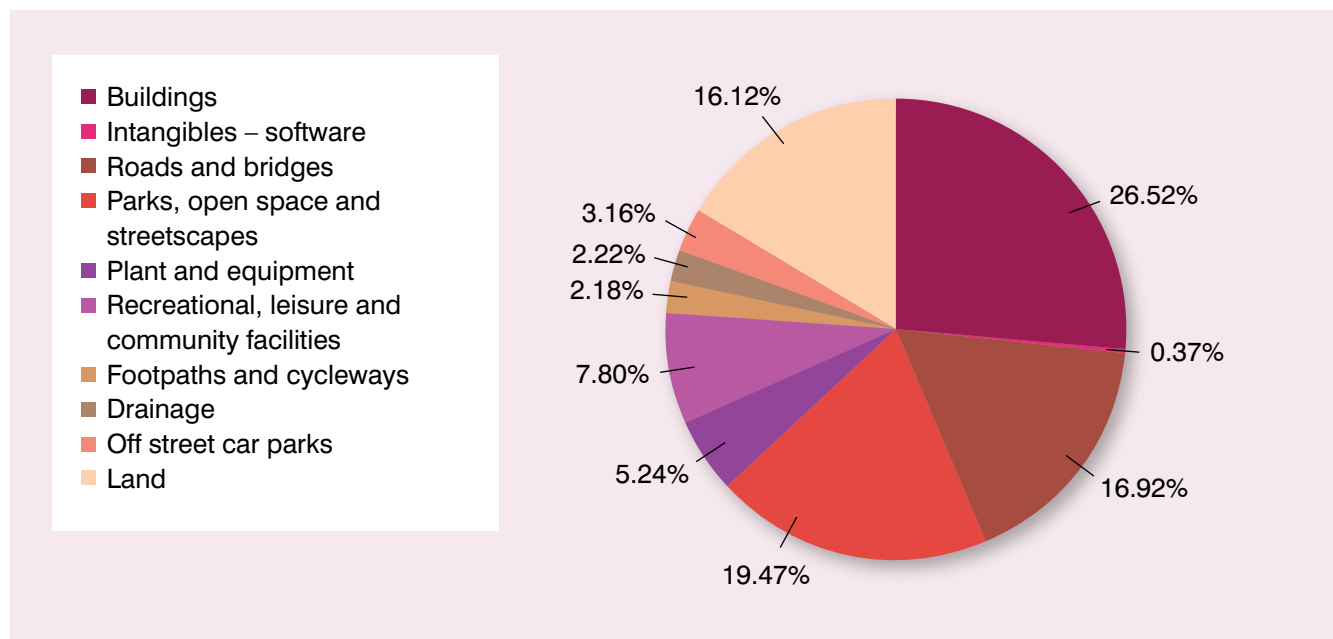
Fair value adjustment for investment property (\$954,000) – This is a non-cash item and relates to several land and building assets classified as ‘Investment property’ as they are held primarily to earn rental income. Australian Accounting Standards require any revaluation of these assets to fair value 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 \$47.09 million on capital expenditure during the year. This comprises upgrade (\$14.44 million), renewal and expansion (\$15.73 million) and new assets (\$16.92 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 greater than 90 days.
- 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. Includes property, fleet, IT and office equipment that have been leased under ordinary lease arrangements.
- Intangible assets represent computer software 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 revenue transactions where Council provides services or goods under contractual arrangements with specific performance obligations which have not been satisfied at balance date. This comprises mainly Development Contribution Plan contributions and grant agreements.
- Provisions include leave entitlements and landfill restoration works.
- Lease liabilities represents the lease repayment obligations for leased (right-of-use) assets 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 valued at fair value 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 \$259.22 million during the year, made up of a surplus of \$16.56 million, asset revaluation increments of \$242.76 million and an impairment (loss) reversal in the revaluation reserve of \$105,000. The difference between the assets and liabilities amounting to

\$2.50 billion is the net worth of the Council to its ratepayers and community (\$2.24 billion in 2019–20).

Council's borrowings at 30 June 2021 was \$56.64 million, which is 37.20% of rates and charges revenue (Government prudential limit is 80%). Loan repayments of \$27.13 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 owns) comprise:

	\$M	%
Assets:		
Land	1,403,227	52.56
Roads and bridges	319,495	11.97
Drainage	269,956	10.11
Buildings (including leasehold improvements)	290,290	10.87
Footpaths and cycle ways	62,709	2.35
Works in progress	25,678	0.96
Recreational, leisure and community facilities	23,147	0.87
Parks, open space and streetscapes	24,467	0.92
Plant and equipment	13,250	0.50
Off street car parks	14,574	0.55
Cash and other assets	210,626	7.89
Other non-current assets	295	0.01
Investment property	10,860	0.41
Intangible assets	202	0.01
Right-of-use assets	563	0.02
	2,669,339	100.00

Council's liabilities (what Council owes) comprise:

	\$M	%
Interest-bearing liabilities (long-term borrowing)	56,636	33.75
Trust funds and deposits	6,882	4.10
Unearned income	60,408	36.00
Provisions	23,962	14.28
Trade and other payables (creditors)	19,349	11.53
Lease liabilities	575	0.34
	167,812	100.00



Local Heroes

Bush foods are packed with goodness and flavour. They tend to be high in protein, fibre and nutrients and often have additional medical benefits. For example River Mint leaves crushed and sniffed can relieve headaches.

Bush food plants are habitat for native animals. Butterflies are attracted to the nectar of the Lemon Myrtle and Yam Daisy flowers; skinks shelter under Warrigal Greens and small birds nest within the protection of Prickly Current-bush.



You are standing in nature's supermarket!

What plants would you choose for dinner tonight?

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 the 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 or property held for resale and proceeds from investments.

Cash flows from financing activities

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

During the 2020–21 financial year Council repaid \$3.25 million of its long-term debt.

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 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.*