



Little Athletics – Ross Reserve, Noble Park



# 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 2021-22 financial year.

The financial statements comprise 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 2021-22 this represents the consolidated performance of the Council, Dandenong Market Pty Ltd and South East Leisure 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 2020* and the *Local Government Act 2020*.

Council's 2021-22 Comprehensive Income Statement highlights that Council achieved a surplus for the financial year of \$33.94 million (\$16.56 million in 2020-21). 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.

While the impacts of the pandemic have abated somewhat in 2021-22, Council has noted the following impacts on its financial operations compared to pre-COVID budget levels:

- Revenue reductions of \$5.91 million in parking fines and fees, interest income, Drum Theatre, Community Care and statutory fees and fines. Reductions in these income sources of \$3.25 million were factored in the 2021-22 Original Budget.
- Dandenong Market (DMPL) – in response to the COVID-19 pandemic, Council waived the requirement for DMPL to pay a return to Council in 2021-22. This has allowed DMPL to provide support to Market traders in the form of rent relief and fee abatements of more than \$1.03 million.
- Rental relief was also provided to commercial and community facilities (\$386,000) of which \$65,000 was included in the 2021-22 Original Budget.

- Council continued to receive and was able to recognise a significant amount of non-recurrent grant income for COVID-19 initiatives and stimulus funding. Grant funding is generally offset by associated expenditure and does not represent an increase in Council's financial result.

Council's commitment for the 2022-23 year is to continue to invest in services and infrastructure in a financially responsible way by balancing the needs of our community while achieving long term financial sustainability and most importantly to recover and revive in a post COVID-19 environment.

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.

A review of Council's asset valuations led to a revaluation decrement of \$30.02 million mainly in the value of Council's land assets leading to a Comprehensive Income Statement deficit outcome of \$5.09 million. The land values were formally revalued by qualified independent valuers as at 1 January 2022. A full review of all land assessments was performed and most of Council's land represents specialised land holdings, which mean they are level 3 fair value valuations which contain unobservable inputs. This valuation reduction follows a \$239.02 million increment (21%) from an indexed revaluation of land at 30 June 2022. Refer to note 6.2 of the Financial Report for further information.

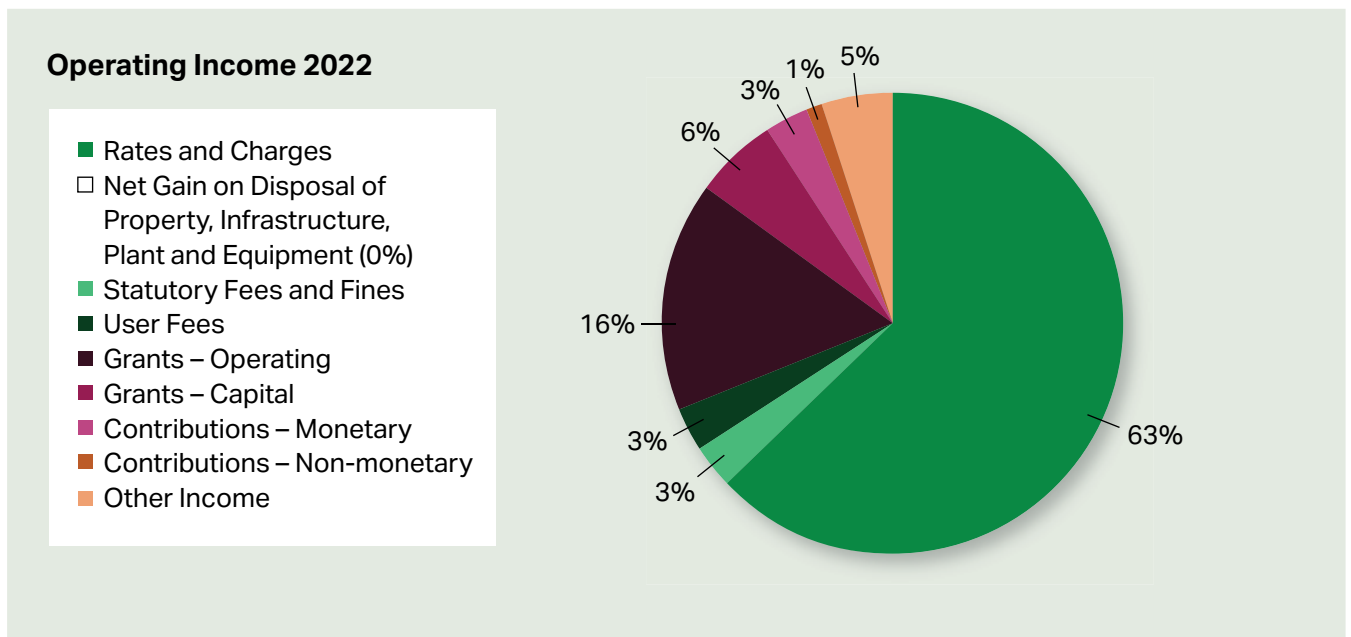
### Comprehensive Income Statement

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 is the value of the assets 'used up' during the year.

## Income

Council's operating income for 2021-22 was \$249.48 million (\$230.39 million in 2020-21) including rates and charges income (\$156.71 million), fees, charges and fines (\$14.45 million), operating grants (\$40.23 million), capital grants (\$13.92 million), monetary contributions (\$8.07 million), contributions of non-monetary assets, mainly from subdivision activity (\$3.69 million), net gain on disposal of property, infrastructure, plant and equipment (\$482,000) and other income (\$11.95 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 full cost recovery, 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 \$14.45 million for the year (\$12.83 million in 2020-21). The major sources of income are:

	2021-22 \$ million	2020-21 \$ million	Movement %
Statutory fees and fines	7.63	7.13	7.0%
Registrations and other permits	1.62	1.57	3.2%
Parking fees	1.63	1.45	12.4%
Aged care services	1.09	1.11	(1.8%)

As can be seen from the above table, statutory fees and fines, registration and other permits and parking fees increased compared to prior year due to improved business activity as a result of COVID-19 restrictions easing.

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## Grants

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 Victorian Local Government Grants Commission of \$15.11 million (which includes \$2.13 million for local roads). Note – 75% of Council's 2022-23 allocation was received early in April 2022.
- Tied grants of \$25.12 million across multiple ongoing and one off programs, mainly in community services.

**Grants capital** – capital grants recognised of \$13.92 million. These grants are mainly non-recurrent in nature essentially for the purposes of funding specific capital projects and are expended on these services in addition to the funds allocated by Council from other sources of revenue. Whilst most of the capital grant funding was received in the prior year, Council was able to recognise the income based on capital expenditure incurred and performance obligations satisfied for a number of projects including:

- Local Roads Community Infrastructure program (Phases 1 and 2 – \$3.38 million).
- Noble Park Aquatic Centre gym redevelopment (\$2.05 million).
- Roads to Recovery (\$1.51 million).

Refer to note 5.3(c) of the Financial Report for further details.

## Contributions

**Contributions monetary** – contributions monetary (cash) of \$8.07 million received were mainly for future maintenance responsibilities relating to assets transferred to Council as part of the Level Crossing Removal Authority project (\$4.69 million) and open space contributions (\$3.06 million, which are transferred to reserves).

**Contributions non-monetary** – Capital non-monetary contributions of \$3.69 million were mainly from "gifted" assets from developer activity.

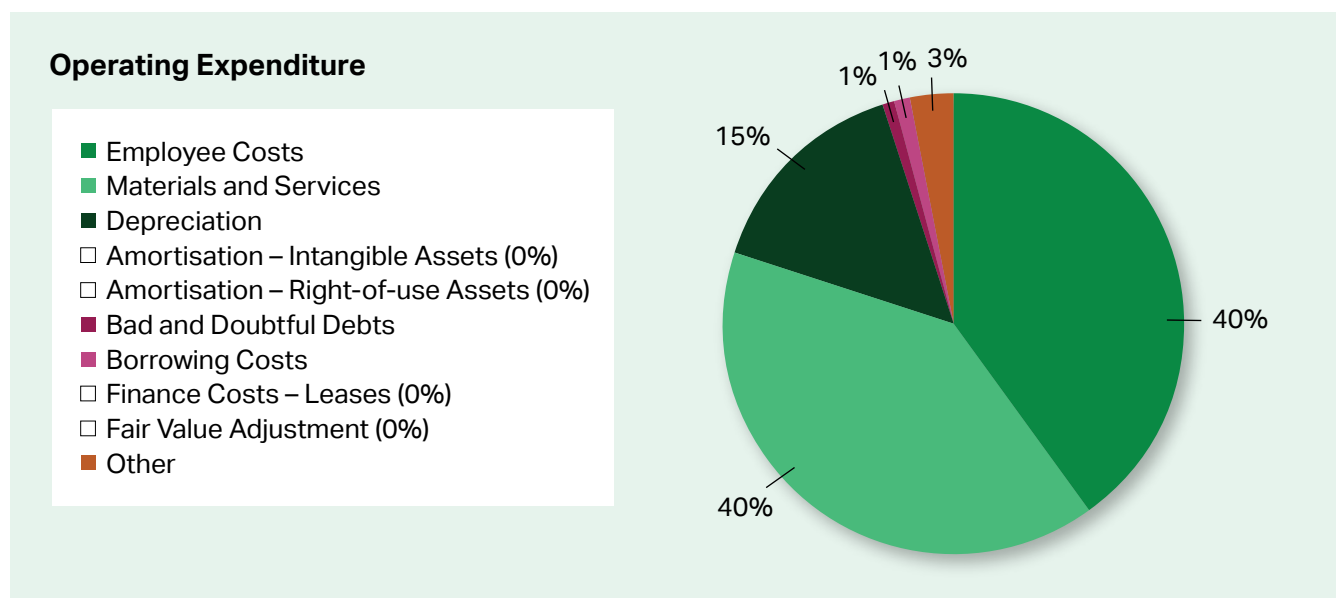
**Other income** (\$11.95 million) – This comprises a number of income sources including Dandenong Market revenue from operations, recoveries, property rental, interest received on investments and other sundry income.



## Expenditure

Total operating expenditure for 2021-22 including depreciation was \$215.55 million (\$213.83 million in 2020-21).

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



**Employee costs (\$86.25 million)** – Comprises 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 (\$85.89 million)** – Included in this category are the following major costs relating to:

	2021-22 \$ million
Waste management services	17.34
Other contract payments	9.03
Building and general maintenance	7.27
Park maintenance services	7.48
Consultants and professional services	6.64
Office administration	6.67
Educator services	6.00
Utilities	3.85
Cleaning services	4.51
Information technology	3.38
Leisure centre contract and maintenance	3.69
Spring Valley landfill rehabilitation and monitoring costs	3.04

**Depreciation (\$32.42 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 (\$103,000)** – This expense item reflects the amortisation of computer software assets.

**Amortisation – right-of-use assets (\$664,000)** – This expense items reflects the amortisation of leased (right-of-use) assets. Refer note 5.8 of Financial Report for further breakdown of the amortisation on right-of-use assets.

**Bad and doubtful debts (\$1.49 million)** – Mainly relates to provisions recognised for bad and doubtful debts during the year for parking fine debtors (\$1.18 million) and other debtors (\$307,000). 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 (\$2.80 million)** – Represents interest on Council's long-term borrowings.

**Finance costs – leases (\$30,000)** – Relates to the interest on lease liabilities.

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**Fair value adjustment for investment property (\$99,000)** – 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.

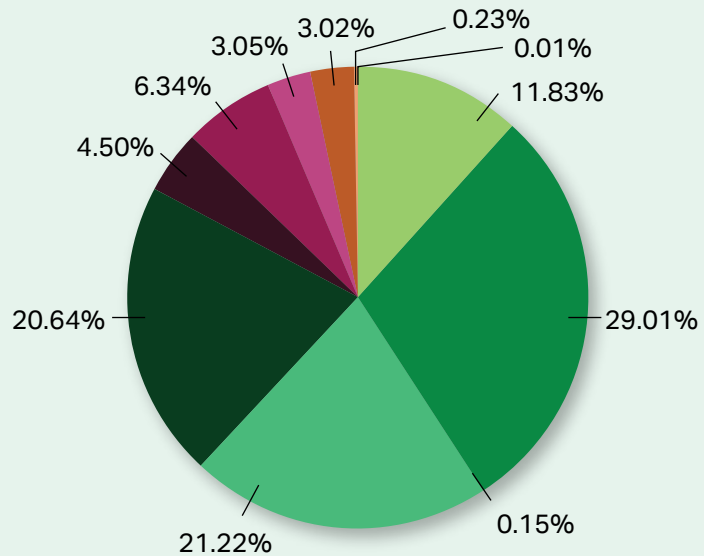
## Capital Expenditure (as per the Capital Works Statement)

Council spent \$52.05 million on capital expenditure during the year. This comprises upgrade (\$19.21 million), renewal and expansion (\$20.66 million) and new assets (\$12.18 million).

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

### Capital Expenditure

- Buildings
- Intangibles – Software (0.15%)
- Roads and Bridges
- Parks, Open Space and Streetscapes
- Plant and Equipment
- Recreational, Leisure and Community Facilities
- Footpaths and Cycleways
- Drainage
- Off Street Car Parks (0.23%)
- Investment Property (0.01%)
- Land



## 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 land, buildings, 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 (where the maturity term is less than 90 days).
- Trade and other receivables are monies owed to Council by ratepayers and others.
- Other financial assets relate to term deposits held by Council with original maturity greater than 90 days.
- Other assets are prepayments of next year's expenses and monies owed to Council, other than from trading, that is not yet received, combined with any inventory or stock on hand at balance date.
- 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 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 decreased by \$5.09 million during the year, made up of a surplus of \$33.94 million, asset revaluation decrements of \$39.02 million. The difference between the assets and liabilities amounting to \$2.50 billion is the net worth of the Council to its ratepayers and community (\$2.50 billion in 2020-21).



# Financial Overview

Council's borrowings at 30 June 2022 were \$53.26 million, which is 34% of rates and charges revenue (Government prudential limit is 80%). Loan repayments of \$38.52 million are forecast over the next five years under Council's borrowing strategy, as Council intends to draw down on \$71.7 million in new borrowings over the next three years to fund major capital projects (Keysborough South Community Hub and Dandenong Wellbeing Centre). Council will retire existing debts through cash flows generated from operations and a reduction in the capital program will fund the debt servicing costs of the new borrowings.

## Council's Assets (What Council Owns) Comprise:

	30-Jun-22	
Assets	\$'000	%
Land	1,325,926	49.8
Roads and bridges	320,190	12.0
Drainage	308,348	11.6
Buildings (including leasehold improvements)	287,010	10.8
Cash and other assets	221,953	8.3
Footpaths and cycleways	61,716	2.3
Works in progress	55,864	2.1
Parks, open space and streetscapes	24,224	0.9
Recreational, leisure and community facilities	22,288	0.8
Off street car parks	14,382	0.5
Plant and equipment	11,817	0.4
Investment property	6,336	0.2
Right-of-use assets	1,846	0.1
Other non-current assets	281	0.0
Intangible assets	195	0.0
	<b>2,662,376</b>	<b>100.0</b>

## Council's Liabilities (What Council Owes) Comprise:

	30-Jun-22	
Assets	\$'000	%
Borrowings	53,263	32.1
Trust funds	7,389	4.5
Unearned income/revenue	55,822	33.6
Provisions	22,984	13.9
Creditors	24,629	14.8
Lease Liabilities	1,848	1.1
	<b>165,935</b>	<b>100.0</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:

- Net asset revaluation movement reflects the change in the replacement value of assets.
- The surplus for the year is the value that income exceeded operating costs as described in the Comprehensive Income Statement.
- 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 as it is prepared on an accrual accounting basis and the Cash Flow Statement is based on the timing of cash receipts and payments.



Keysborough Primary School Kindergarten

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 2021-22 financial year Council repaid \$3.37 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 cash, combined with the cash invested and classified as 'other financial assets', 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.*