

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. The purpose of this overview is to provide readers with greater clarity about the financial outcomes for the 2023-24 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. 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 2023-24 Comprehensive Income Statement highlights that Council achieved a surplus for the financial year of \$12.29 million (\$33.38 million in 2022-23). This result is, however, impacted 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 economic environment with sustained high inflation and interest rates have impacted (both favourably and unfavourably) on Council's operating result and capital program in 2023-24. Council experienced

very favourable interest returns on investments in 2023-24, but on the flip side, resulted in a higher interest rate on new borrowings of \$1 million in 2023-24 and may result in higher finance costs in the future as Council intends to draw down on significant borrowings to part fund major capital projects in the next three years. The economic conditions have also dampened development activity in some areas such as planning and building permits.

Council's commitment for the 2024-25 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.

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 increment of \$125.69 million leading to a Comprehensive Income Statement surplus of \$137.25 million. The revaluation increment occurred across several asset classes including drainage, bridges, parks, open space and streetscapes, recreational, leisure and community facilities and buildings. Refer to note 6.2 of the Financial Report for further information.

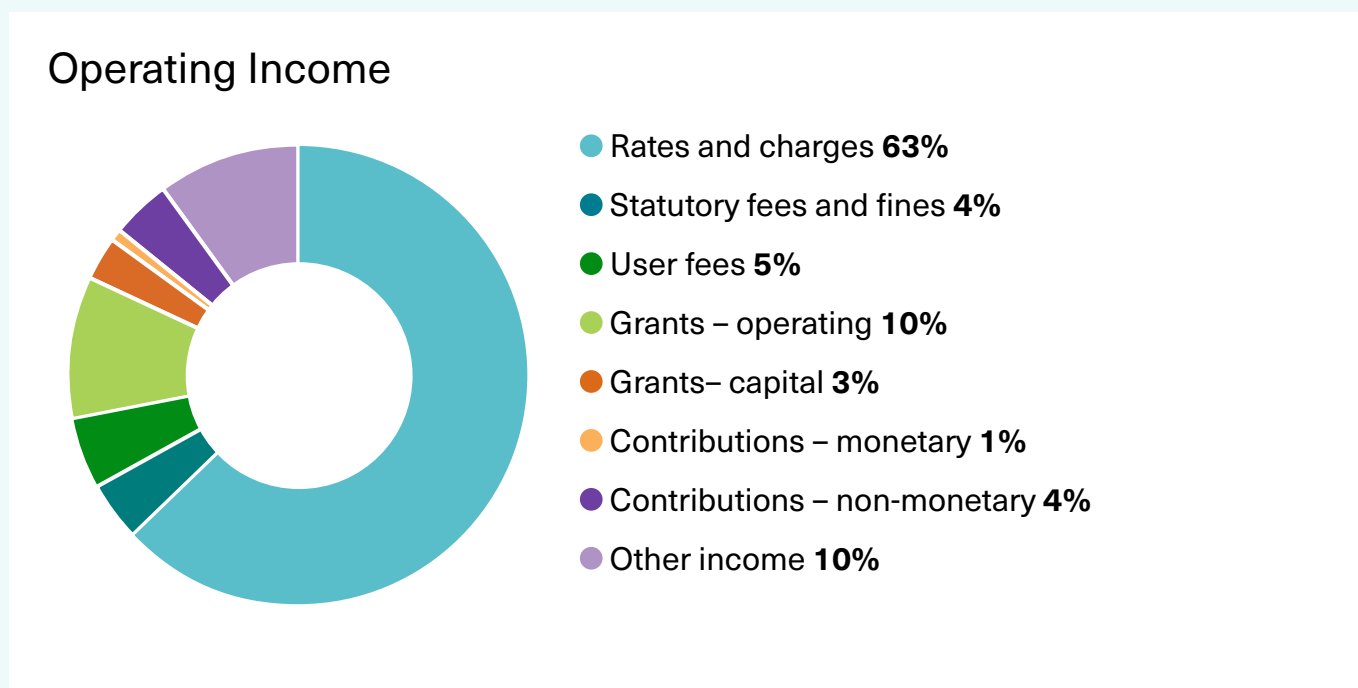
Comprehensive Income Statement

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

The consolidated operating income for 2023-24 was \$272.60 million (\$276.39 million in 2022-23) including rates and charges income (\$171.11 million), fees, charges and fines (\$25.06 million), operating grants (\$26.06 million), capital grants (\$8.28 million), monetary contributions (\$3.31 million), contributions of non-monetary assets, mainly from subdivision activity (\$12.10 million), net gain on disposal of property, infrastructure, plant and equipment (\$604,000) and other income (\$25.97 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 \$25.06 million for the year (\$20.69 million in 2022-23). The major sources of income are:

Fees, charges and fines

	2023-24 \$ million	2022-23 \$ million	Movement %
Statutory fees and fines	11.29	8.92	26.6%
Registrations and other permits	1.85	2.02	(8.4%)
Parking fees	3.28	2.53	29.6%
Aged care services	1.06	0.94	12.8%

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 mainly comprises tied grants of \$25.49 million across multiple ongoing and one off programs, mainly in Community Strengthening. Usually, Council’s most significant single source of grant funding is the Financial Assistance Grant received via the Victoria Local Government Grants Commission of around \$12-13 million. However, 100% of Council’s 2023-24 allocation (\$12.94 million) was received early in the prior financial year (in May 2023).

Grants capital – capital grants recognised of \$8.28 million (2022-23: \$9.76). 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. Capital grant income is recognised in the Income Statement as the performance obligations are satisfied (generally as capital expenditure is incurred). In 2023-24, Council was able to recognise the income based on capital expenditure incurred and performance obligations satisfied for a number of projects including:

- Keysborough South Community Hub (\$1.84 million).
- Federal Black Spot Works Program (\$1.40 million).
- Local Roads Community Infrastructure program (\$1.04 million).
- Roads to Recovery (\$969,000)

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

Contributions

Contributions monetary – contributions monetary (cash) of \$3.30 million received were mainly open space contributions (\$2.29 million, which are transferred to reserves).

Contributions non-monetary – Capital non-monetary contributions of \$12.10 million were mainly from fully depreciated assets that are still in use so were reinstated and “gifted” land and infrastructure assets from subdivisions and developer activity.

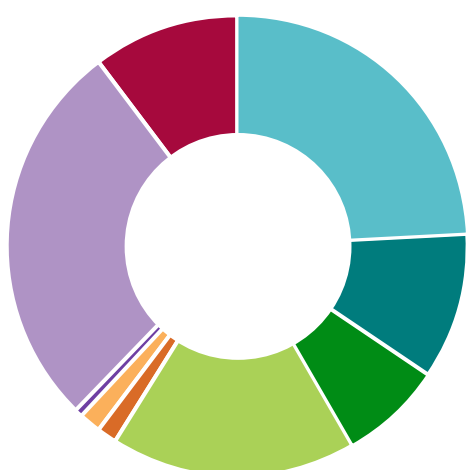
Other income (\$25.97 million) – This comprises a number of income sources including Dandenong Market revenue from operations, recoveries, property rental, interest received on investments and other sundry income.

Expenditure

Total operating expenditure for 2023-24 including depreciation was \$260.32 million (\$243.02 million in 2022-23).

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

Operating Expenditure



- Roads and bridges **27.19%**
- Parks, open space and streetscapes **11.33%**
- Plant and equipment **8.05%**
- Recreational, leisure and community facilities **19.17%**
- Footpaths and cycleways **1.40%**
- Drainage **2.00%**
- Off street car parks **0.13%**
- Land **0.01%**
- Buildings **30.72%**
- Parks, open space and streetscapes **11.33%**

Employee costs (\$102.32 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 (\$102.86 million)

– Included in this category are the following major costs relating to:

	2023-24 \$ million
Waste management	20.64
Other contract payments	11.43
Park maintenance	8.84
Consultants and professional services	7.42
Educator services	7.19
Cleaning services	7.10
Office administration	6.53
General maintenance	5.89
Information technology	5.47
Utilities	5.22
Building maintenance	3.55
Security services	2.19
Insurance	1.83

Depreciation (\$35.88 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 (\$44,000)

– This expense item reflects the amortisation of computer software assets.

Depreciation – right of use assets

(\$715,000) – This expense items reflects the depreciation of leased (right of use) assets. Refer note 5.8 of Financial Report for further breakdown.

Allowance for impairment losses

(\$3.27 million) – Mainly relates to provisions recognised for bad and doubtful debts during the year for parking fine debtors (\$2.27 million) and other debtors (\$995,000). 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 (\$2.58 million) –

Represents interest on Council's long-term borrowings.

Finance costs – leases (\$41,000) –
Relates to the interest on lease liabilities.

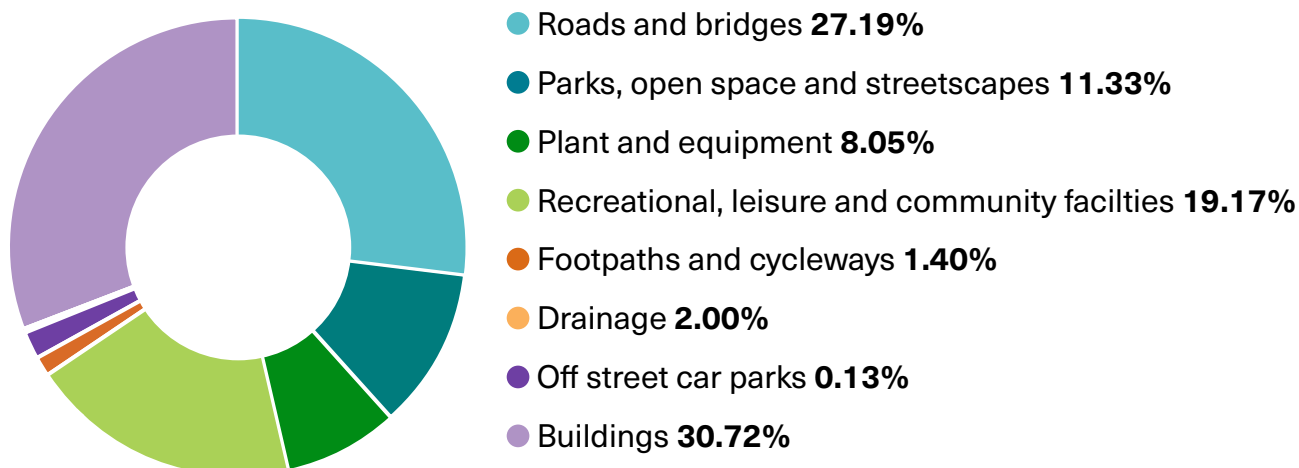
Fair value adjustment for investment property (\$115,000) – This is a non-cash item and relates to several land and building assets classified as ‘Investment property’ as they are held primarily to earn rental income. Australian Accounting Standards require any revaluation of these assets to fair value 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 \$50.17 million on capital expenditure during the year. This comprises upgrade (\$14.88 million), renewal and expansion (\$21.71 million) and new assets (\$13.58 million).

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

Capital Expenditure



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.
- Contract and other liabilities (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 represent 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 \$137.25 million during the year, made up of a surplus of \$12.29 million and net asset revaluation increments of \$124.96 million. The difference between the assets and liabilities amounting to \$2.72 billion is the net worth of the Council to its ratepayers and community (\$2.59 billion in 2022-23).

Council's borrowings at 30 June 2024 was \$47.18 million, which is 28% of rates and charges revenue (Government prudential limit is 80%). Loan repayments of \$31.55 million are forecast over the next five years under Council's borrowing strategy, as Council intends to draw down on \$73.97 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:

Assets	30-Jun-24	
	\$ million	%
Land	1,404,199	48.6
Roads and bridges	342,092	11.8
Drainage	350,346	12.1
Buildings (including leasehold improvements)	330,919	11.5
Cash and other assets	235,479	8.2
Footpaths and cycleways	64,844	2.2
Works in progress	46,088	1.6
Parks, open space and streetscapes	39,088	1.4
Recreational, leisure and community facilities	42,709	1.5
Off street car parks	12,309	0.4
Plant and equipment	12,207	0.4
Investment property	6,690	0.2
Right-of-use assets	1,169	0.0
Other non current assets	266	0.0
Intangible assets	40	0.0
	2,888,445	100.0

Council's liabilities (what Council owes) comprise:

Liabilities	30-Jun-24	
	\$ million	%
Borrowings	47,182	28.8
Trust funds	7,723	4.7
Unearned income	56,677	34.6
Provisions	22,695	13.9
Creditors	27,816	17.0
Lease Liabilities	1,236	0.8
Other interest-bearing liabilities	384	0.2
	163,713	100.0

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.

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 2023-24 financial year Council repaid \$3.60 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.*