

MANAGEMENT COMMENT ON THE FINANCIAL STATEMENTS

Overview

The 1999-2000 operating result and financial position of the Council was greatly influenced by the revaluation of all council's assets during the year. All Councils in Victoria were required by Local Government Accounting Regulations to revalue their assets, including roads, drains, footpaths, land and buildings during 1999-2000. This revaluation was done as at 1 January 2000 to coincide with the revaluation of all properties in the municipality.

This revaluation of Council's assets resulted in an overall increase in the value of assets of \$207M. The main increases were in roads (\$114.7M), buildings (\$24.4M), drainage (\$38.9M) and footpaths (\$18.3M). It also directly impacts the 1999-2000 Operating Statement through an increase in the allowance for depreciation.

Depreciation (which recognises the decrease in value of assets due to wear and tear) is based on asset values and the useful lives of assets. The increased valuation resulted in an increase in depreciation for 1999-2000 and will result in increased depreciation in future years.

The City of Greater Dandenong achieved an operating surplus before depreciation of \$15.4M compared to \$8.5M in 1998-1999. Depreciation for 1999-2000 was \$12.6M, of which \$3.7M was due to the increase in the value of Council's assets following their revaluation on 1 January 2000.

The operating result for the year after this increase in depreciation is a deficit of \$2.8M.

Excluding this increase in depreciation, Council's operating result for 1999-2000 was a surplus of \$0.9 million, in line with budget expectations.

Revenue

Council's revenue for 1999-2000 was \$56.7M (\$54.3M in 1998-1999) including rate revenue (\$33.6M), government grants (\$11.6M) and Fees and Charges (\$4.5 M).

Rate Revenue - Rate revenue is based on the Capital Improved Value of properties and a "rate in the dollar" applied against each category of property. Council's rate revenue exceeded budget expectations due to better than expected revenue from supplementary rates resulting from improvements to properties during the year.

Grants - Grants revenue comprises a General Purpose Grant of \$5.6M, which included an untied Road Funding Grant of \$0.8M. The balance of Grants revenue of \$6.0M was essentially for community services such as home care, aged care and youth services. These grants are fully expended on these services in addition to funds allocated by council from other sources of revenue.

Expenditure

Total recurrent expenditure for 1999-2000 excluding depreciation was \$46.97M (46.85M in 1998-1999). This included the following major items of expenditure.

Employee Costs (\$19.4M) - Employee costs were lower than in 1998-1999 (\$20.9M) mainly due to the reduction in staffing levels following the outsourcing of the Home and Community Care Services (HACC).

Materials & Services (\$14.5M) - The increase in the expense from \$11.67M in 1998/99 to \$14.5M in 1999/2000 reflects the transfer of employee costs to outsourced HACC services.

Other Expenses (\$10.9M) - Other expenses include contractors/consultants (\$2.7M), grants to various community bodies (\$1.5M), and utilities such as telephone, electricity and gas (\$1.2M). Contractors and other expenses include approximately \$0.1M on the implementation of the Goods and Services Tax which came into effect on 1 July 2000.

Depreciation (\$12.6M)- The depreciation expense increased from 1 January 2000 following the revaluation of Council's assets. The revaluation increase in assets resulted in depreciation increasing by \$3.7M more than originally expected.

Abnormal Items - In accounting terminology, abnormal items are those that are unusually large considering Council's normal business operations.

1. Abnormal Revenue \$1.18M - This represents the value of assets that were previously not included in the financial statement, but brought in subsequent to the revaluation on 1 January 2000.
2. Abnormal Expense - \$22.77M - This is made up of two items:
 - a. An adjustment to depreciation for the last four years amounting to \$15.2M due to an incorrect basis of calculation.
 - b. Write off of road assets of \$7.56M that did not belong to Council, but had been included in previous valuations in error.

Council's Financial Position

Following the revaluation of Council assets and after taking into account abnormal items and increased depreciation, Council's assets (what the community owns) less liabilities (what the community owes) have increased by \$183 million from \$415M at 30 June 1999 to \$598M at 30 June 2000.

Council's assets comprise:

	\$M	%
Roads	185	29.6
Drainage	85	13.6
Land	183	29.3
Buildings	105	16.8
Footpaths & Bike Paths	29	4.6
Plant/Furniture, Playground Equipment	23	3.7
Cash and Investments	10	1.6
Receivables & Other	5	0.8
	625	100.0

Council's Liabilities comprise:

	\$M	%
Borrowing	14	51.8
Creditors	7	25.9
Employee entitlements	6	22.3
	27	100.0

The difference between the assets and liabilities of \$598M is the net worth of the Council to its ratepayers and community.

Note:- The above management comment 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.