

# Management Comment on the Financial Report 2011-2012





## 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 2011–2012 financial year.

Council's 2011–2012 Income Statement highlights that Council achieved an overall surplus for the financial year of \$39.59 million. 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 most important outcome from Council's perspective is the underlying operational outcome and ensuring that the operational activities that Council conducts on an annual basis results in a surplus result. Whilst the one-year result is not of any great consequence, it is essential for Council's long-term financial viability that provision of annual operating services is not eroding the net asset value of Council.

It should be kept in mind that the underlying result (or 'Net Result prior to capital and asset items') is not a cash based result but remains an accounting surplus which includes non-cash items such as depreciation and excludes cash items such as capital expenditure and loan repayments.

The City of Greater Dandenong recorded an underlying deficit in 2011-2012 of \$1.17 million (surplus of \$3.16 million in 2010-2011). A key contributor to the outcome was the recognition of \$10.57 million as an expense relating to Council's requirement to contribute to the \$406 million shortfall in the Local Authority defined benefits superannuation scheme (as at 31 December 2011). After adjusting for this significant item, Council's underlying operating result would have resulted in a \$6.25 million improvement on the 2010-11 result and is inclusive of the 50% or \$5.43 million early receipt of the 2012-2013 Victoria Grants Commission allocation (2010-11, 25% or \$2.70 million).

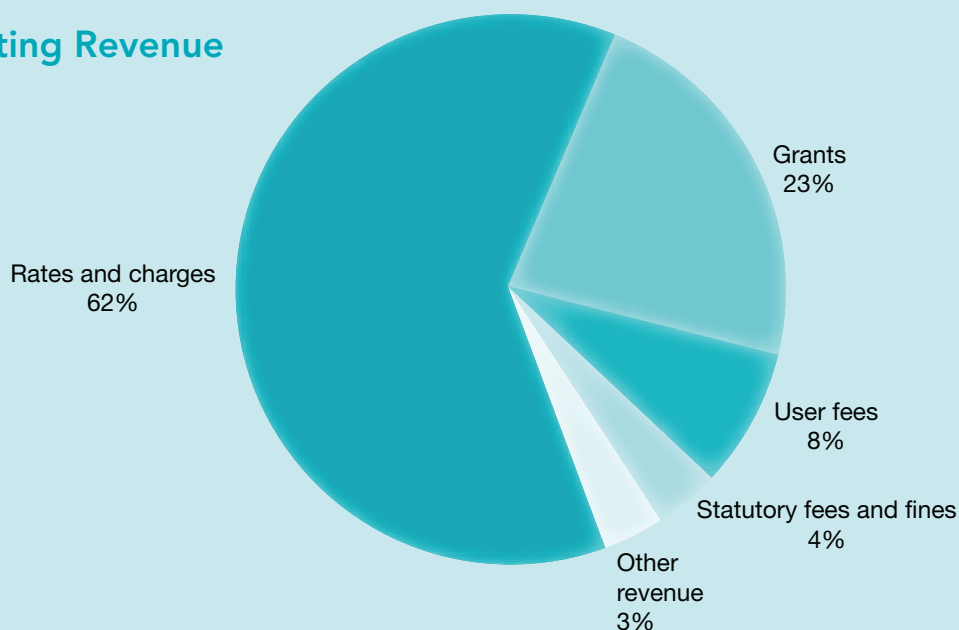
Beyond the underlying net result for the year, Council received \$5.82 million in capital grant funding and \$2.16 million in capital contributions. A further \$13.41 million was received in the contribution of non-monetary assets from developers leading to a net surplus accounting result for the year of \$22.45 million.

Finally a review of Council's asset valuations led to a revaluation increment of \$17.14 million in the value of Council's assets leading to a comprehensive income statement outcome of a surplus of \$39.59 million.

## Revenue

Council’s operating revenue for 2011–2012 was \$145.32 million (\$135.56 million in 2010-2011) including rates and charges revenue (\$89.61 million), operating grants (\$32.32 million), and fees and charges (\$17.49 million). The breakdown of operating revenue by major categories is depicted in the graph below:

### Operating Revenue



Council’s non-operating revenue for 2011–2012 was \$24.46 million (\$24.32 million in 2010-2011) including capital grants (\$5.82 million), capital contributions (\$2.16 million) gain on sale of assets (\$3.08 million) and contributions of non monetary assets, mainly from sub division activity (\$13.41 million).

**Rate revenue** (including waste collection charges) – general rate revenue 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. Council’s rate revenue for the year was in line with budget expectations. Refer note 3 of Financial Report for further details on rate revenue.

**Grants and contributions** – Operational grant revenue comprises a general purpose grant of \$13.23 million (which included \$1.57 million for local roads), and tied grants of \$19.74 million which were essentially for community care and community wellbeing services. Capital grants received were \$5.82 million. These grants are expended on these services in addition to the funds allocated by Council from other sources of revenue. (Refer Note 4 of Financial Report). Cash contributions of \$2.16 million received were mainly for public open space development. Non-monetary contributions of \$13.41 million were mainly from “gifted” assets from developer activity.

**Fees, charges and fines** - Revenue from these sources were \$17.49 million for the year (\$19.42 million in 2010-11). The major sources of revenue are:

- Dandenong Market stall income \$4.88 million
- Hire of council facilities \$1.74 million
- Aged care services \$1.61 million
- Parking fees and fines \$3.57 million
- Statutory and other fees (building permits, infringements, infringement court recoveries, etc.) \$3.67 million

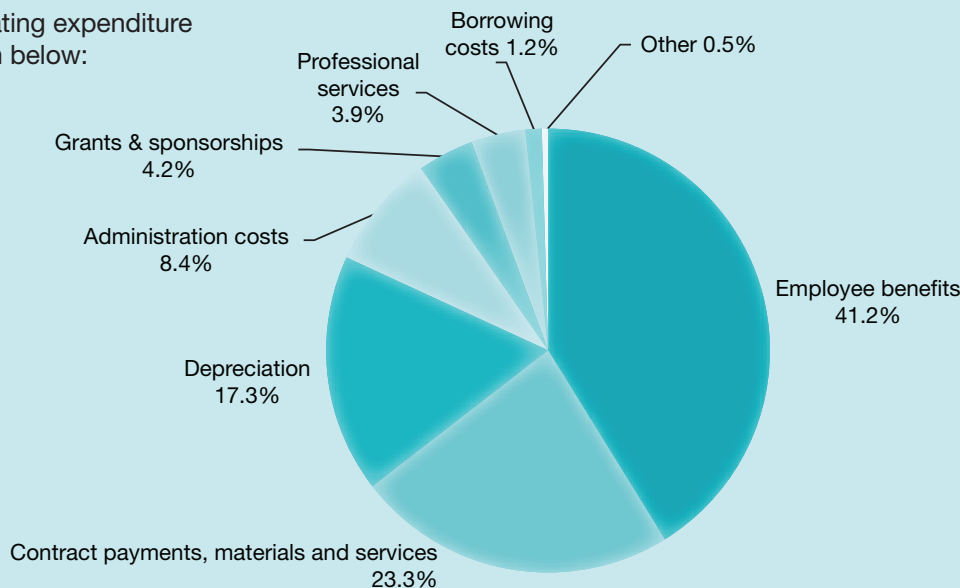
**Other income** (\$5.25 million) - This item of income essentially relates to fees for provision of valuation data to State Revenue Office, interest received on investments and other sundry income.

## Expenditure

Total operating expenditure for 2011–2012 including depreciation was \$135.92 million (\$130.22 million in 2010-2011). Council's contribution of \$10.57 million to the unfunded superannuation liability has been excluded.

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

### Operating Expenditure



**Employee benefits (\$56.03 million)** – Employee and labour costs including salary-oncosts such as WorkCover premium, provision for long service leave entitlements and Council's superannuation contributions on behalf of employees (excluding Council's contribution towards unfunded superannuation).

**Contract payments, materials & services (\$31.67 million)** – Included in this category are the following major costs relating to:

- Maintenance and repairs of roads, drains and buildings \$4.82 million
- Waste collection and disposal \$9.25 million
- Park Services \$4.17 million
- Dandenong Market \$3.15 million
- Street lighting \$1.56 million
- Fleet maintenance \$0.79 million

**Grants, sponsorships and contributions (\$5.75 million)** – Council provides grants to various sporting and cultural bodies to assist in promoting the city's diversity. It also provides an annual amount towards Council's Family Day Care program.

**Professional fees and other expenses (\$5.32 million)** – Mainly includes consultancy costs, and legal costs for various services (\$4.51 million). Other costs include statutory fees and audit costs. Refer note 14 of the Financial Report.

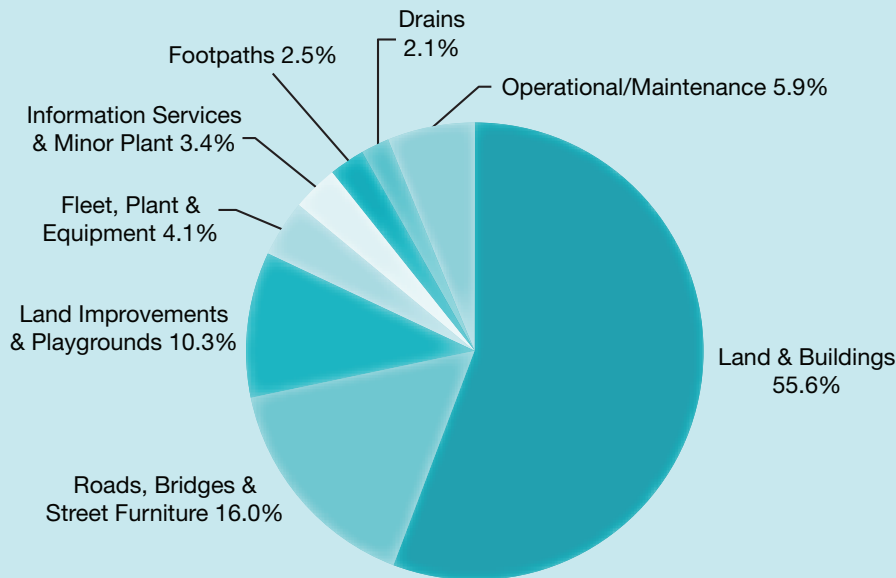
**Administration costs (\$11.35 million)** – Administration costs include information management expenses (\$2.04 million), insurance costs (\$1.64 million), printing, publications and promotions of \$1.99 million and motor vehicle maintenance of \$1.24 million. It also includes occupancy costs (\$2.36 million) for rent, electricity, gas, telephone and water. Refer to note 15 in the Financial Report.

**Borrowing costs (\$1.65 million)** – represents interest on Council's long term borrowings.

**Depreciation (\$23.51 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.

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

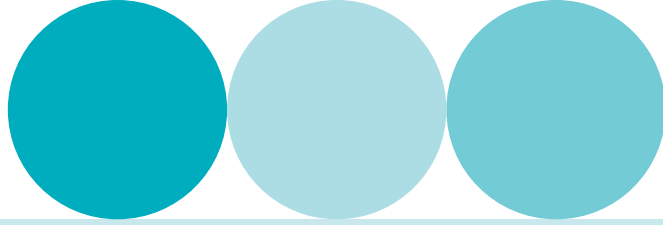
The major items of expenditure are depicted in the chart below.



Council spent \$45.56 million on capital expenditure during the year. This comprises expansion (\$2.31 million), renewal (\$18.24 million), upgrade (\$3.94 million) and new assets (\$18.37 million).

The major projects include:

- Noble Park Aquatic Centre (\$13.19 million)
- Municipal Building Project (\$5.78 million)
- Local roads surfacing/rehabilitation program (\$4.29 million)
- Fleet, plant and equipment (\$1.87 million)
- Springvale Civic Project (\$1.05 million)
- Library books renewal (\$0.97 million)
- Local roads rehabilitation program (implementing Roads to Recovery) (\$0.69 million)
- Playground improvements (\$0.55 million)
- Tree planting program (\$0.52 million).



## Cash Flows (Refer Standard Cash Flow Statement)

*Net inflows from operating activities* – Council generated a net cash inflow from operating activities of \$45.87 million. Included in this result are:

- higher interest received \$3.07 million against a budget of \$2.11 million, as a result of greater than expected cash balances carried during the year,
- government grants received \$38.79 million (against a budget of \$31.57 million) which included the early receipt of \$5.43 million of the 2012-2013 Victoria Grants Commission allocation, resulting in government grants exceeding the budget by \$7.22 million,
- contributions were less than the budget due to Development Contribution Plan (DCP) cash contributions being recognised as a liability rather than income; and
- higher than expected cash payments to employees and suppliers.

**Note:** The specific line items making up the cash flows from operations in the Financial Report differs from the Standard Statements in that the cash flows in the financial report are inclusive of Goods and Services Tax.

*Net outflows from investing activities* – Investing activities refer mainly to Council's sale and purchase of non-current assets. Council spent a net amount of \$43.80 million in purchase of assets.

*Financing activities* – Financing activities refer to Council's borrowings. Council repaid \$2.81 million of its long term debt during the year, but borrowed \$15.20 million for Noble Park Aquatic Centre and Municipal Building Project.

## Borrowings

Council's borrowing at 30 June 2012 was \$36.04 million, which is 40.22% of rate revenue (Government prudential limit is 80%). \$33.10 million of further borrowings are planned in 2012-2013 for the Municipal Building Project. Loan repayments of \$18.80 million are planned over the next five years under Council's borrowing strategy.

Council intends to retire these debts through cash flows generated from operations.

## Council's Financial Position

Council's financial position improved by \$39.52 million during the year, made up of a surplus of \$22.45 million and an asset revaluation increment of \$17.14 million. The net worth of Council at 30 June 2012 was \$1.308 billion (\$1.269 billion in 2011), made up of the following assets and liabilities:

### Council's assets (what Council owns) comprise:

	\$M	%
<b>Assets:</b>		
Land and land improvements	614.16	44.0%
Roads and bridges	264.09	18.9%
Buildings	160.45	11.5%
Drainage	123.41	8.8%
Cash and other assets	88.29	6.3%
Footpaths and bike paths	70.41	5.1%
Plant, furniture and playground equipment	24.05	1.7%
Works in progress	20.92	1.5%
Land under roads	17.88	1.3%
Car parks	10.09	0.7%
Trees	1.06	0.1%
	<b>1,394.81</b>	<b>100%</b>

### Council's Liabilities (what Council owes) comprise:

	\$M	%
Long term borrowing	36.04	41.6%
Creditors	24.28	28.0%
Trust monies	13.02	15.0%
Employee entitlements	13.36	15.4%
	<b>86.70</b>	<b>100%</b>

The difference between the assets and liabilities amounting to \$1.308 billion is the net worth of the Council to its ratepayers and community.

**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. As stated in the Overview, these comments must be read in conjunction with the Financial Report and Standard Statements that immediately follow these comments in this Annual Report.*