

The background of the page is a close-up photograph of several Australian coins and banknotes. In the foreground, a 1-dollar coin is prominent, featuring a stylized flame-like design and the text "Australia 1999" and "International Year of Older Persons". To its right, a 2-dollar coin is visible, showing a portrait of Queen Elizabeth II and the number "2". Other coins and banknotes are scattered in the background, some partially obscured. The overall color palette is warm, with gold and brown tones from the coins and banknotes, set against a dark red background.

Management Comment on the Financial Report 2009-2010

Financial matters

Overview

Understanding Councils 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 2009-2010 financial year.

Council's 2009-2010 Income Statement highlights that Council achieved an overall surplus for the financial year of \$176.535M. A great deal of this surplus however relates to items that do not relate to the provision of operational services to the City of Greater Dandenong community – and to a large extent are accounting based rather than cash based.

The biggest contributor to the above outcome is a revaluation that has been carried out on Council fixed assets, resulting in increased values of \$128.609M being recorded. The most significant components of this are increases in land values (\$95.146M), drains (\$15.588M) and roads (\$9.089M).

In addition to the above item, Council receives income and expenses for several items which are not related to the core operational service provision that have also added to the significant surplus result.

Council recorded a \$7.522M net surplus from disposal of assets. The majority of this surplus arose from sales of land in Metro 3175 which is managed on Councils behalf by VicUrban. The surplus was also contributed to by the sale of land to the developer of the Number 8 project in central Springvale.

Council received \$4.861M in capital grant funding with the largest component relating to Federal grant funding for the Noble Park Pool redevelopment project. Capital contributions of \$5.178M were received during 2009-2010 with these funds being derived from developers for either Open Space contributions or in relation to future infrastructure provision in Dandenong South.

In both of the above cases, these funds are considered non-operational as they relate to non-recurring projects and are provided on the basis of Council expending these funds on future capital works.

Finally Council received a book value of \$29.926M in assets that were physically constructed by developers and then transferred to Council to maintain in the future. These assets are comprised of Land, Land under Roads, Roads, Traffic Signals and Drains. This was a strong increase in assets transferred to Council compared to the previous financial year (\$8.085M)

Council's underlying result from operational services (net of all of the above) was \$2.577M (2008-2009 was \$4.903M). The underlying result highlights that Council operations are being managed in a financially sustainable fashion and are not eroding the net asset value of Council in the longer term.

Audit Qualification

Council has endeavoured in its presentation of the 2009-2010 Comprehensive Income Statement within the audited Financial Statements to present the above picture to readers. Council has separated out its operational revenues and expenses from those that it clearly believes are non-operational in nature to provide a clear understanding of financial performance both in 2009-2010 and likely financial performance in the years to come.

Non-operational revenues and expenses are clearly very volatile in nature and are essentially out of the control of Council. They will vary significantly from one financial year to the next. Council's underlying operational outcome however can be expected to remain quite constant in the years that follow.

In accordance with Australian Accounting Standard requirements, Council has however provided readers with the Total Revenue and Expenses from ordinary activities which include both operational and non-operational items.

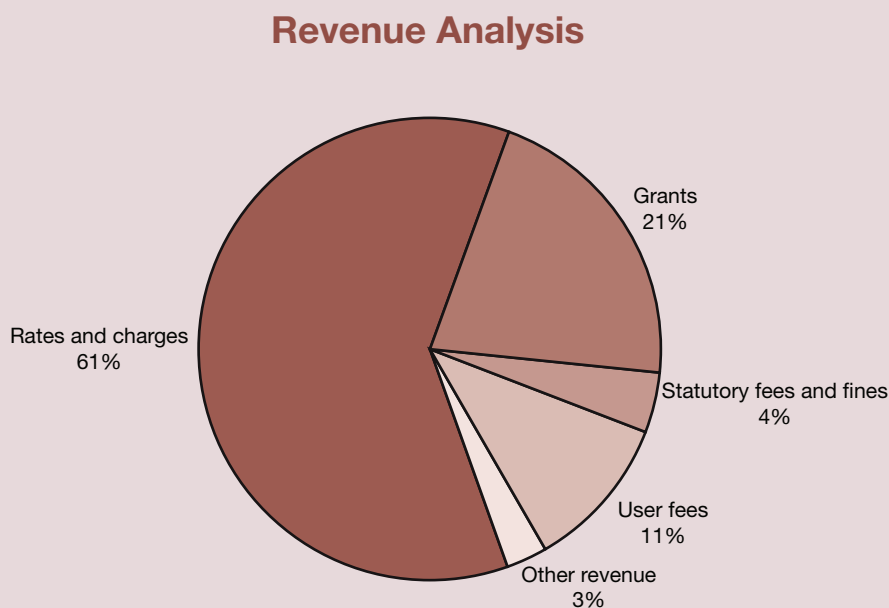
Despite the fact that Council has in fact provided greater detail and clarity in its Comprehensive Income Statement than what is required in Australian Accounting Standards, the Victorian Auditor General's Office has elected to provide a qualified Audit opinion in respect of the format of Council's 2009-2010 Comprehensive Income Statement. It is important to note that the qualification relates only to the presentation of the Income Statement and has no bearing on the remainder of the financial statements which have been audited as presenting fairly in all material respects, including the financial position of City of Greater Dandenong.

Council strongly rejects the validity of the basis on which the Auditor General has determined the qualification and in the interests of providing better quality of information to readers of the accounts has elected to retain its desired format for the Comprehensive Income Statement.

The following information provides further detail in regard to the components in Council’s 2009-2010 Comprehensive Income Statement.

Revenue

Council’s operating revenue for 2009-2010 was \$124.48M (\$119.22M in 2008-2009) including rates and charges revenue (\$76.01M), operating grants (\$26.19M), and fees and charges (\$18.68M). The breakdown of operating revenue by major categories is depicted in the graph below.



Council’s non-operating revenue for 2009-2010 was \$47.49M (\$16.82M in 2008-2009) including capital grants (\$4.86M), capital contributions (\$5.18M) profit on sale of assets (\$7.52M) and contributions of non monetary assets, mainly from sub division activity (\$29.93M).

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 \$9.98M (which included a road funding grant of \$1.12M for local roads), and tied grants of \$16.21M which were essentially for community services such as home care, aged care and youth services. Capital grants received were \$4.86M. 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 \$5.18M received were mainly for open space development. Non-monetary contributions of \$29.93M were mainly from “gifted” assets from developer activity.

Fees, Charges and Fines - Revenue from these sources was \$18.68M for the year (\$17.55M in 2008-2009). The major sources of revenue are:

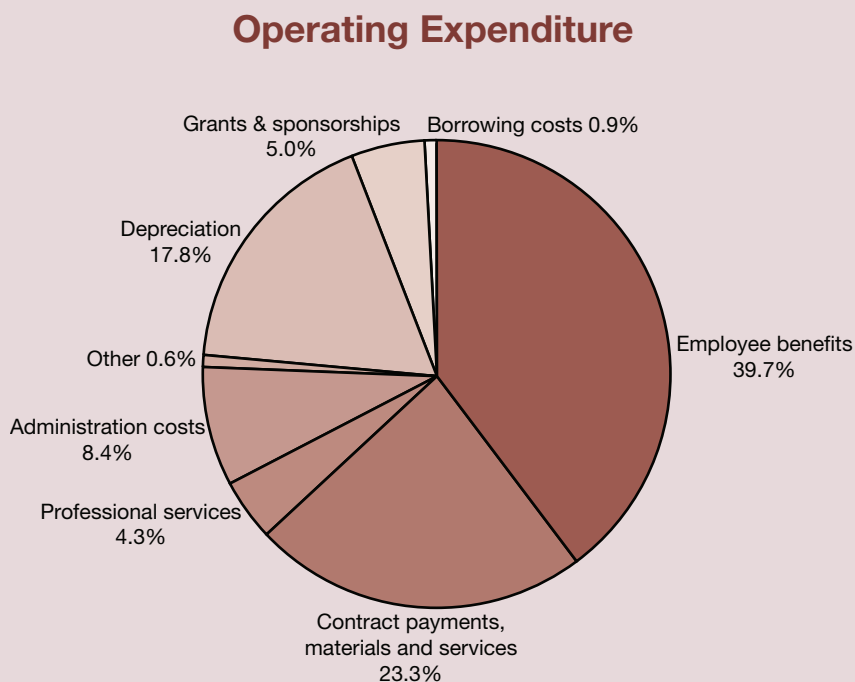
- Dandenong Market stall income \$2.92M
- Hire of council facilities \$1.13M
- Aged care services \$0.94M
- Parking fees and fines \$3.81M
- Statutory and other fees (building permits, Infringements, Infringement court recoveries, etc.) \$3.40M

Other Income (\$3.61M) - 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 2009-2010 including depreciation was \$121.91M (\$114.32M in 2008-2009).

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



Employee Costs (\$48.38M) – Salaries costs include salary on-costs such as WorkCover premium, provision for Long Service Leave entitlements and council's superannuation contributions on behalf of employees.

Contract payments, materials & services (\$28.44M) – Included in this category are the following major costs relating to:

- Maintenance & repairs of roads, drains and buildings \$4.04M
- Waste collection and disposal \$7.02M
- Aquatic Centre and Leisure Centre \$4.20M
- Park services \$4.12M
- Dandenong Market \$1.95M
- Major maintenance under the City improvement program \$1.17M
- Fleet maintenance \$0.72M

Grants, Sponsorships and Contributions (\$7.77M) – 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. The amount includes assets contributed to Vic Roads (\$1.61M) (refer Note 13 of Financial Report).

Professional fees and other expenses (\$5.24M) – Mainly includes consultancy costs, and legal costs for various services (\$4.61M). Other costs include statutory fees and audit costs. Refer note 14 of the Financial Report.

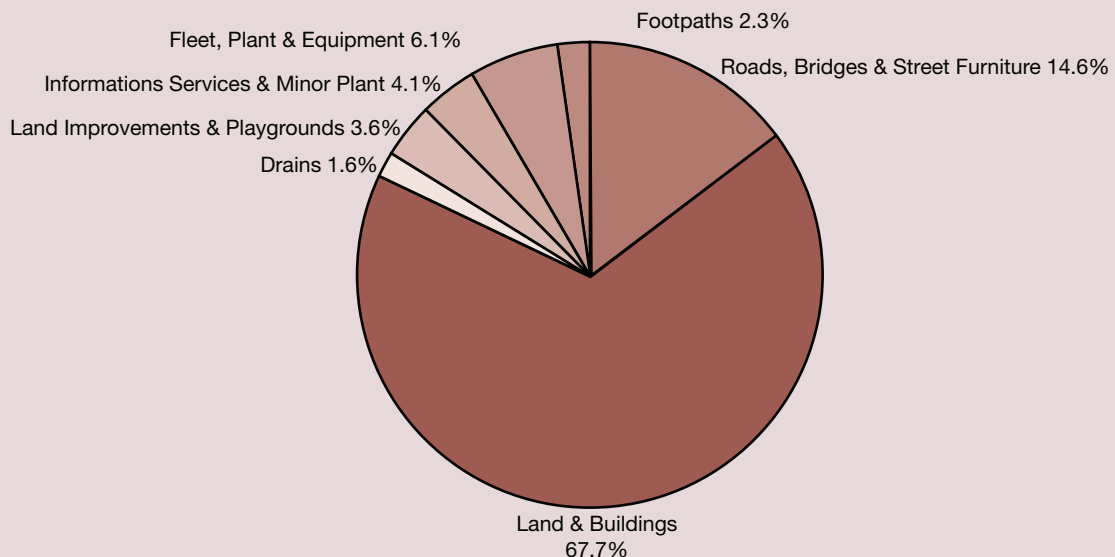
Administration costs (\$10.22M) – Administration costs include information management expenses (\$1.77M), insurance costs (\$1.00M), printing, publications and promotions of \$2.09M and motor vehicle maintenance of \$1.14M. It also includes occupancy costs (\$2.08M) for rent, electricity, gas, telephone and water. Refer to note 15 in the Financial Report.

Borrowing Costs (\$1.07M) – represents interest on Council’s long term borrowings.

Depreciation (\$21.68M) – 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

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



Council spent \$35.29M on capital expenditure during the year. \$30.80M of this was on renewal and upgrade to Council’s existing infrastructure assets. Major upgrades were made to Dandenong Produce Market (\$12.8M), Springvale Children Services Centre (\$3.09M) and Langers multi level car park project (\$2.37M). Major renewals relate to Roads (\$3.23M), Noble Park Swimming Pool building (\$0.95M) and Mills Reserve Synthetic surface (\$0.58M), Fleet (\$1.48M) and footpath renewal programs (\$0.56M). Expansion of assets accounted for \$4.40M which included building works at Springvale Sports Club (\$0.99M), Shepley Pavillion (\$0.56M) and Objective implementation (\$0.34M).

Cash Flows (Refer Standard Cash Flow Statement)

Net inflows from operating activities – Council generated a net cash inflow from operating activities of \$32.78M. Included in this result are:

- ▶ lower than budgeted receipt of capital grants and contributions (\$3.51M), mainly due to developer contributions being less than budgeted, and fees, charges and fines (\$2.96M), partly offset by higher than expected interest income
- ▶ higher than expected payments to suppliers, and grants and sponsorships.

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 \$31.77M in purchase of assets.

Financing activities – Financing activities refer to Council's borrowings. Council borrowed \$11.5M by way of a long term loan. Council repaid \$2.56M of its long term debt during the year.

Borrowings

Council's borrowing at 30 June 2010 was \$26.28M, which is 34.57% of rate revenue (Government prudential limit is 60%). Council plans to borrow \$7.0M in 2010-2011 of which \$5.0M is towards upgrading the Noble Park Pool facility and \$2.0M for initial works on a possible new municipal building in the future. Loan repayments of \$15.61M 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 \$176.53M during the year, made up of a surplus of \$47.92M and asset revaluations of \$128.61M. The net worth of Council at 30 June 2010 was \$1,270.25M (\$1,093.72M in 2009), made up of the following assets and liabilities:

Council's assets (what Council owns) comprise:

	\$M	%
Roads & Bridges	278.84	21.05
Drainage	134.26	10.14
Car Parks	9.94	0.75
Land and land improvements	581.01	43.86
Land under Roads	6.23	0.47
Buildings	140.96	10.64
Footpaths & Bike Paths	69.81	5.27
Plant/Furniture, Playground Equipment	23.88	1.80
Trees	0.37	0.03
Work in Progress	6.28	0.47
Cash and Other Assets	73.11	5.52
	1,324.69	100.00

Council's Liabilities (what Council owes) comprise:

	\$M	%
Long term borrowing	26.28	48.27
Creditors	10.75	19.75
Trust Monies	5.98	10.99
Employee entitlements	11.43	20.99
	54.44	100.00

The difference between the assets and liabilities of \$1,270.25M 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.