



# Management Comment on the Financial Report

## Overview

The following management comments are written with a view to explaining Council's financial performance during 2008-2009 and financial position as at 30 June 2009. These comments must be read with reference to the Financial Report and the Standard Statements that follow these comments. The budget information contained in the standard statements has been extracted from Council's 2008-2009 budget which is available to the public through council's website.

The Financial Report has been prepared in accordance with Australian Accounting Standards and other regulatory requirements. The Standard Statements compare Council's operating, capital expenditure and cash flow performance, as well as its financial position against Council's budget for 2008-2009. Major variances between the budgeted results and actual outcomes are explained in the notes to the standard statements.

The City of Greater Dandenong Council (Council) budgeted to achieve an operating surplus of \$5.77M before non-operating income and expenditure, against which Council achieved a surplus of \$6.56M (surplus of \$2.80M in 2008). This result included a grant of \$2.5M, paid in advance by the Victorian Grants Commission from the 2009-2010 grants allocation. After considering non-operating income and expenditure, Council achieved a surplus of \$19.36M against a budget of \$17.80M.

The following major factors impacted on the result for the year:

- Interest received was \$1.59M against a budget of \$0.68M, as a result of higher than expected cash balances carried during the year. Council also received penalty interest from late payment of rates of \$0.7M.
- Grant income of \$33.30M against budget of \$22.55M. Included in this amount are:
  - Over budget financial assistance grant funding from Victorian Grants Commission of \$3.82M (including \$2.5M received in advance that relate to 2009-10 financial year)
  - additional grant funding over budget for Children, Youth and Family Services (\$0.54M), enhanced services in Aged and Disability Care Services (\$0.68M) and a range of unbudgeted grants received across the Council (\$0.15M) for various services
  - Grant of \$2.5M for the upgrade of the Noble Park aquatic facilities
  - \$1.4M in Commonwealth stimulus funding towards upgrading community facilities
- Depreciation charged was \$20.54M compared to \$19.76M in 2007-08.
- Non-monetary contributions by way of "gifted" assets from developer activity totalled \$8.08M which were not budgeted for. These gifted assets primarily consist of land, land under roads, roads and drainage assets.

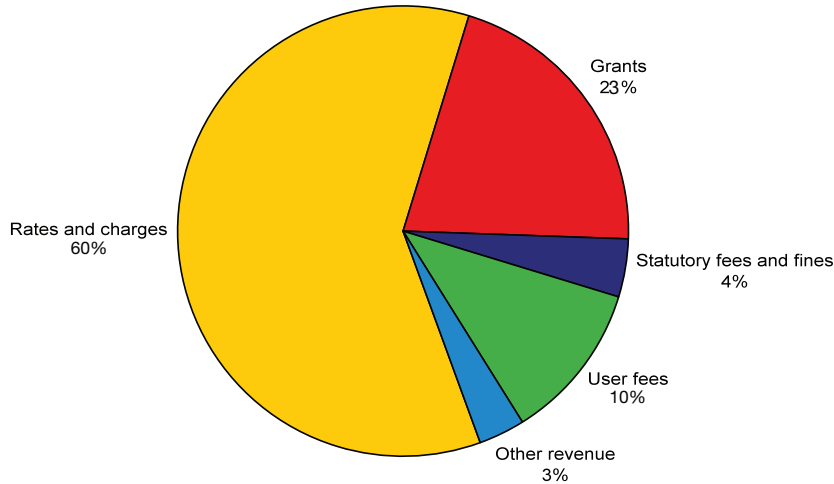
## Change in Equity

Council recognised in the accounts a net decrease in value of its land and building assets of \$0.74M following a revaluation carried out during the year. This decrease, combined with the surplus for the year resulted in Council's Equity (Net Assets) to increase by \$18.61M.

# Revenue

Council's operating revenue for 2008-2009 was \$119.22M (\$110.66M in 2007-2008) including rates and charges revenue (\$71.04M), operating grants (\$26.99M), and fees and charges (\$17.55M). The breakdown of operating revenue by major categories is depicted in the graph below.

## Revenue Analysis



Council's non-operating revenue for 2008-09 was \$16.82M (\$6.82M in 2007-08) including capital grants (\$6.32M), capital contributions (\$0.76M) profit on sale of assets (\$1.66M) and contributions of non monetary assets, mainly from sub division activity (\$8.09M).

**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 3.1 of Financial Report for further details on rate revenue.

**Grants and Contributions** – Operational grant revenue comprises a general purpose grant of \$12.47M (which included a road funding grant of \$1.38M for local roads), and tied grants of \$14.52M which were essentially for community services such as home care, aged care and youth services. Capital grants received were \$6.32M. These grants are expended on these services in addition to the funds allocated by Council from other sources of revenue. (Refer Note 3.2 of Financial Report). Cash Contributions of \$0.78M received were mainly for open space development. Non-monetary contributions of \$8.09M were mainly from "gifted" assets from developer activity.

**Fees, Charges and Fines** - Revenue from these sources was \$17.55M for the year (\$17.24M in 2007-2008). The major sources of revenue are:

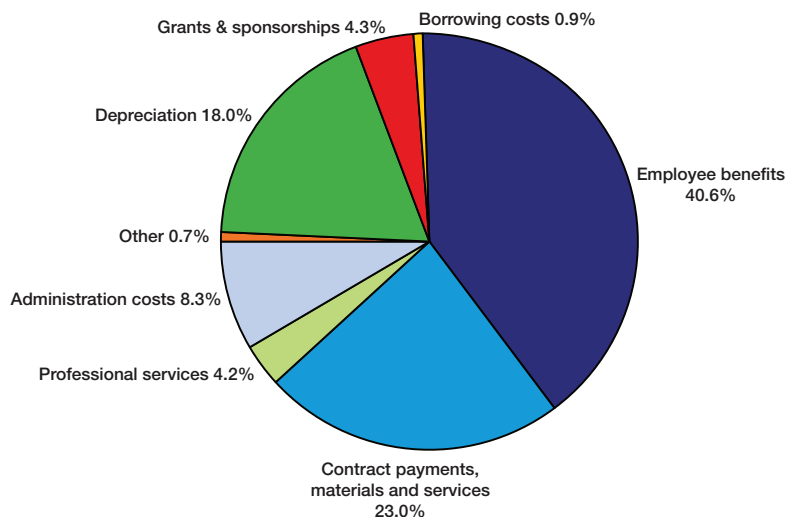
- Dandenong Market stall income \$2.99M
- Hire of council facilities \$1.38M
- Aged care services \$0.88M
- Parking fees and fines \$3.72M
- Statutory and other fees (building permits, Infringements, Infringement court recoveries, etc.) \$3.19M

**Other Income** (\$3.63M) - 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 2008-2009 including depreciation was \$114.32M (\$107.86M in 2007-2008).

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



**Employee Costs (\$46.24M)** – 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 (\$26.33M)** – Included in this category are the following major costs relating to:

• Maintenance & Repairs of roads, drains and buildings	\$2.97M
• Waste Collection and Disposal	\$6.82M
• Aquatic Centre and Leisure Centre	\$4.01M
• Park Services	\$3.64M
• Dandenong Market	\$1.77M
• Major maintenance under the City improvement program	\$1.65M
• Fleet maintenance	\$0.94M

**Grants and sponsorships – (\$4.96M)** – 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 (\$4.83M)** – Mainly includes consultancy costs, and legal costs for various services (\$3.26M). Other costs include statutory fees and audit costs. Refer to note 4.5 in the Financial Report.

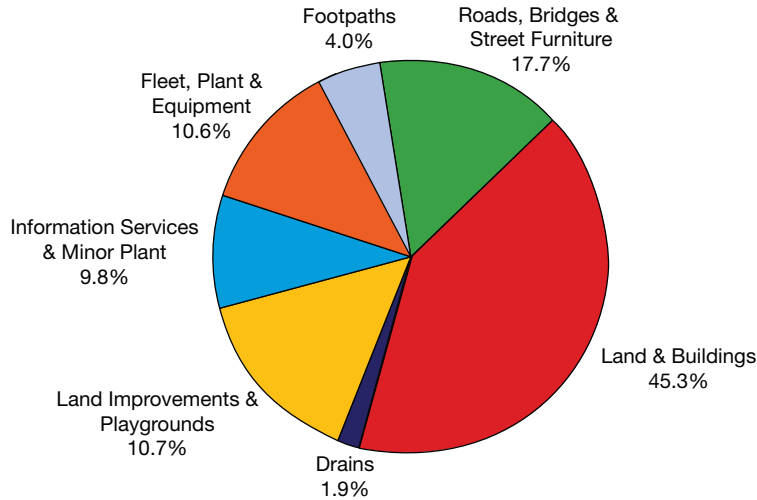
**Administration costs (\$9.54M)** – Administration costs include information management expenses (\$1.69M), insurance costs (\$2.00M), printing, publications and promotions of \$1.88M and motor vehicle maintenance of \$1.06M. It also includes occupancy costs (\$1.89M), for electricity, gas, telephone and water. Refer to note 4.6 in the Financial Report.

**Borrowing Costs (\$1.05M)** – Represents interest on Council's long term borrowings.

**Depreciation (\$20.54M)** – 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 \$23.04M on capital expenditure during the year. \$14.11M of this was on renewal and upgrades to Council's existing infrastructure assets. \$8.94M was spent on expansion of assets through major projects which included building works on the Dandenong Produce Market (\$4.42M), Springvale Community Services Centre (\$0.87M), building modifications at George Andrews Reserve (\$0.32M), carpark surface expansion at Tatterson Park (\$0.12M) and drainage pipe expansion at Tatterson Park (\$0.11M). It also spent \$2.45M in replacing its fleet and other plant utilised in maintenance and cleaning of the city's roads, drains and other infrastructure assets.

## Cash Flows

(Refer Standard Cash Flow Statement)

**Net inflows from operating activities** – Council generated a net cash inflow from operating activities of \$34.90M. Included in this result are:

- higher than budgeted receipt of grants due to better than planned receipt of Financial Assistance grant funding from Victorian Grants Commission (\$3.82M), additional grant funding for Children, Youth and Family Services (\$0.54M), enhanced services in Aged and Disability Care Services (\$0.68M) and a range of unbudgeted grants received across the Council including those for Immunisation services.
- lower than expected salary costs, negated by a marginal increase in payments to 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 \$20.77M in purchase of assets.

**Financing activities** – Financing activities refer to Council's borrowings. Council borrowed \$5.0M by way of a long term loan. Council repaid \$4.37M of its long term debt during the year.

## Borrowings

Council's borrowing at 30 June 2009 was \$17.33M, which is 24.40% of rate revenue (Government prudential limit is 60%). Further borrowings of \$11.5M are planned in 2009-2010 towards capital works programs. Loan repayments of \$18.0M 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 \$18.61M during the year, made up of the operating surplus of \$19.36M offset by a decrease in asset valuations of \$0.75M. The net worth of Council at 30 June 2009 was \$1091.91M (\$1073.30M in 2008), made up of the following assets and liabilities:

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

	\$M	%
Roads & Bridges	270.55	23.83
Drainage	114.99	10.13
Car Parks	9.93	0.87
Land and land improvements	470.64	41.46
Land under Roads	1.67	0.15
Buildings	112.68	9.93
Footpaths & Bike Paths	66.96	5.90
Plant/Furniture, Playground Equipment	22.94	2.02
Work in Progress	9.97	0.88
Cash and Other Assets	54.95	4.83
	<b>1,135.28</b>	<b>100.00</b>

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

	\$M	%
Long term borrowing	17.33	39.96
Creditors	11.51	26.54
Trust Monies	3.68	8.49
Employee entitlements	10.85	25.01
	<b>43.37</b>	<b>100.00</b>

The difference between the assets and liabilities of \$1,091.91M 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.