

# Management Comment on the Financial Report 2010-2011



Financial matters

# 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 2010-2011 financial year.

Council's 2010-2011 Income Statement highlights that Council achieved an overall surplus for the financial year of \$11.661M. 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 income 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 surplus in 2010-2011 of \$3.157M (\$2.577M 2009-10). The major components contributing to the improved outcome was an increase in investment income performance of \$1.3M. Offsetting this, Council was required to expend \$2.1M in 2010-2011 to fund Council's share of the unfunded superannuation liability.

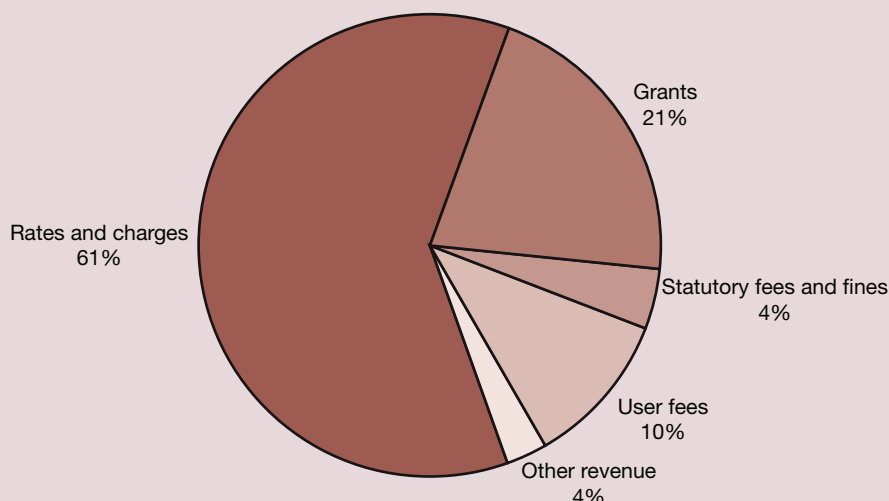
Beyond the underlying net result for the year, Council received \$3.3M in capital grant funding and \$8.1M in capital contributions from developers. A further \$16.9M was received in the contribution of non-monetary assets from developers leading to a net surplus accounting result for the year of \$31.446M.

Finally a review of Council's asset valuations led to a revaluation decrement of \$19.7M in the value of Council's assets leading to a comprehensive income statement outcome of a surplus of \$11.661M.

## Revenue

Council’s operating revenue for 2010-2011 was \$135.56M (\$124.48M in 2009-2010) including rates and charges revenue (\$82.22M), operating grants (\$28.70M), and fees and charges (\$19.42M). The breakdown of operating revenue by major categories is depicted in the graph below:

### Revenue Analysis



Council’s non-operating revenue for 2010-2011 was \$30.45M (\$47.49M in 2009-2010) including capital grants (\$3.31M), capital contributions (\$8.20M) profit on sale of assets (\$1.98M) and contributions of non monetary assets, mainly from sub division activity (\$16.96M).

**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 \$10.51M (which included a road funding grant of \$1.20M for local roads), and tied grants of \$18.18M which were essentially for community services such as home care, aged care and youth services. Capital grants received were \$3.31M. 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 \$8.20M received were mainly for open space development. Non-monetary contributions of \$16.96M were mainly from “gifted” assets from developer activity.

**Fees, Charges and Fines** - Revenue from these sources was \$19.42M for the year (\$18.68M in 2009-2010). The major sources of revenue are:

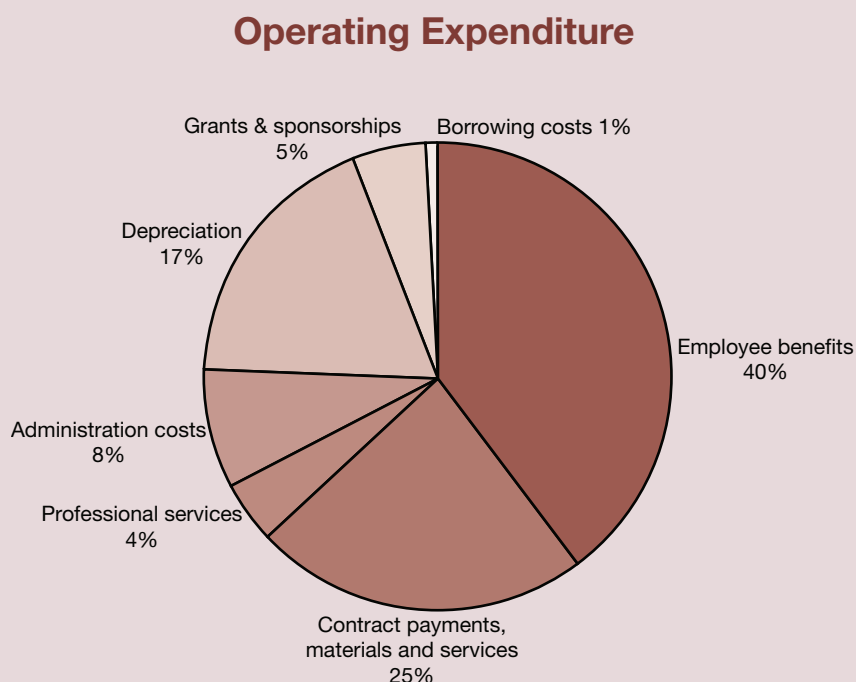
- Dandenong Market stall income \$3.05M
- Hire of council facilities \$1.13M
- Aged care services \$0.97M
- Parking fees and fines \$3.26M
- Statutory and other fees (building permits, Infringements, Infringement court recoveries, etc.) \$3.65M

**Other Income** (\$5.22M) - 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 2010-2011 including depreciation was \$130.22M (\$121.91M in 2009-2010).

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



**Employee Costs (\$52.66M)** – 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 (excluding contribution towards unfunded superannuation).

**Contract payments, materials & services (\$31.92M)** – Included in this category are the following major costs relating to:

- Maintenance & Repairs of roads, drains and buildings \$4.66M
- Waste Collection and Disposal \$8.75M
- Aquatic Centre and Leisure Centre \$4.68M
- Park Services \$3.90M
- Dandenong Market \$2.49M
- Fleet maintenance \$0.80M

**Grants, Sponsorships and Contributions (\$5.85M)** – 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 (\$5.11M)** – Mainly includes consultancy costs, and legal costs for various services (\$4.25M). Other costs include statutory fees and audit costs. Refer note 14 of the Financial Report.

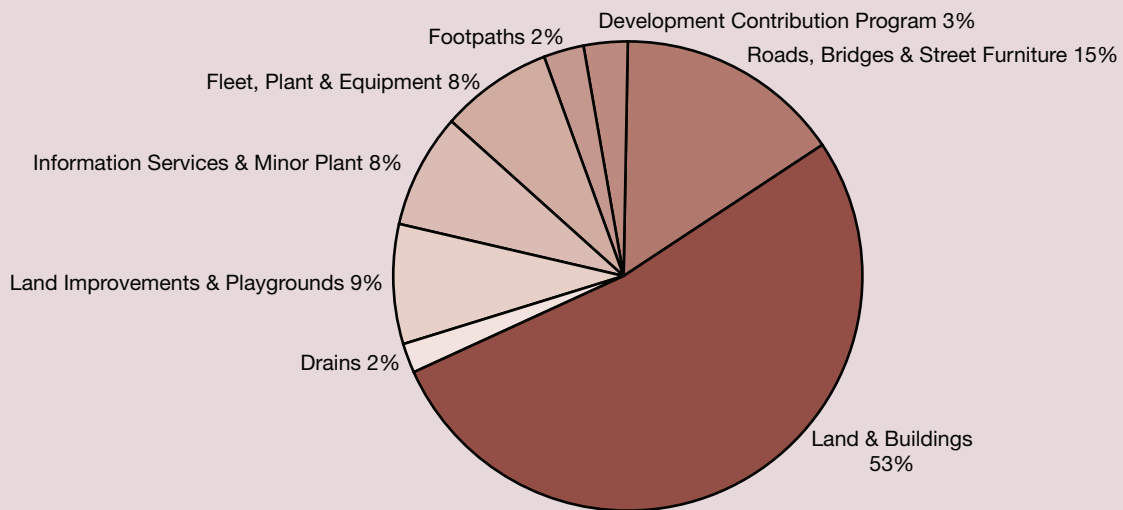
**Administration costs (\$10.01M)** – Administration costs include information management expenses (\$1.60M), insurance costs (\$1.08M), printing, publications and promotions of \$2.34M and motor vehicle maintenance of \$1.05M. It also includes occupancy costs (\$2.13M) for rent, electricity, gas, telephone and water. Refer to note 15 in the Financial Report.

**Borrowing Costs (\$1.75M)** – represents interest on Council's long term borrowings.

**Depreciation (\$22.31M)** – 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 \$33.88M on capital expenditure during the year. This comprises expansion (\$14.40M), renewal (\$4.80M), upgrade (\$2.98M) and new assets (\$11.70M). The major infrastructure projects include Dandenong Produce Market (\$1.40M), Springvale Children Services Centre (\$1.49M), Tree planting (\$0.50M), Langers multi level car park project (\$0.97M), Roads renewal (\$4.67M), Noble Park Swimming Pool (\$6.71M), Fleet (\$2.69M), Meals on Wheels kitchen fit-out (\$0.84M), Library services (\$0.91M), Tattersons Park (\$0.65M), Warner Reserve pavilion (\$2.41M) and acquisition of land (\$1.30M).

## Cash Flows (Refer Standard Cash Flow Statement)

*Net inflows from operating activities* – Council generated a net cash inflow from operating activities of \$40.58M. Included in this result are:

- higher interest received \$3.18M against a budget of \$1.00M, as a result of greater than expected cash balances carried during the year and earning better interest rates and government grants received \$29.31M (against a budget of \$27.54M) which included unbudgeted grants mainly for Community services resulting in government grants exceeding the budget by \$1.78M.
- higher than expected 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 \$34.73M in purchase of assets.

*Financing activities* – Financing activities refer to Council's borrowings. Council repaid \$2.63M of its long term debt during the year.

## Borrowings

Council's borrowing at 30 June 2011 was \$23.65M, which is 28.76% of rate revenue (Government prudential limit is 60%). \$15.2M of further borrowings are planned in 2011-2012 for capital works programs. Loan repayments of \$18.17M 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 \$11.66M during the year, made up of a surplus of \$31.45M offset by asset revaluation decrement of \$19.79M. The net worth of Council at 30 June 2011 was \$1,278.01M (\$1,266.35M in 2010), made up of the following assets and liabilities:

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

	\$M	%
Roads & Bridges	264.18	19.84
Drainage	124.63	9.36
Car Parks	10.20	0.77
Land and land improvements	587.63	44.14
Land under Roads	11.28	0.85
Buildings	150.07	11.27
Footpaths & Bike Paths	71.19	5.35
Plant/Furniture, Playground Equipment	25.79	1.94
Trees	0.81	0.06
Work in Progress	13.56	1.02
Cash and Other Assets	71.94	5.40
	<b>1,331.27</b>	<b>100.00</b>

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

	\$M	%
Long term borrowing	23.65	44.40
Creditors	11.54	21.67
Trust Monies	5.97	11.22
Employee entitlements	12.10	22.71
	<b>53.26</b>	<b>100.00</b>

The difference between the assets and liabilities amounting to \$1,278.01M 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.