



Management Comment on the Financial Report

Overview

The following management comments are written with a view to explaining Council's financial performance during 2007-2008 and financial position as at 30 June 2008. 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 2007-2008 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 2007-2008. 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 \$3.96M before non-operating income and expenditure, against which Council achieved a surplus of \$2.80M (deficit of \$1.26M in 2007). After considering non-operating income and expenditure, Council achieved a surplus of \$9.20M against a budget of \$ 5.59M.

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

- Non-monetary contributions by way of "gifted" assets from developer activity totalled \$3.21M which were not budgeted for. These gifted assets primarily consists of land, roads and drainage assets.
- Interest received was \$1.56M against a budget of \$0.61M, as a result of higher than expected cash balances, resulting from planned capital expenditure being deferred to 2008-2009.
- Grant income increased from a budget of \$21.85M to an actual of \$24.46M due to better than planned receipt of Financial Assistance grant funding from Victorian Grants Commission (\$0.50M), additional grant funding for Children, Youth and Family Services (\$0.89M), enhanced services in Aged and Disability Care Services (\$0.60M) and a range of unbudgeted grants received across the Council including those associated with the drought response initiative.
- Depreciation charged was \$19.76M compared to \$18.5M in 2006-07. The increase is spread over a number of asset groups with the overall increase in fixed assets.

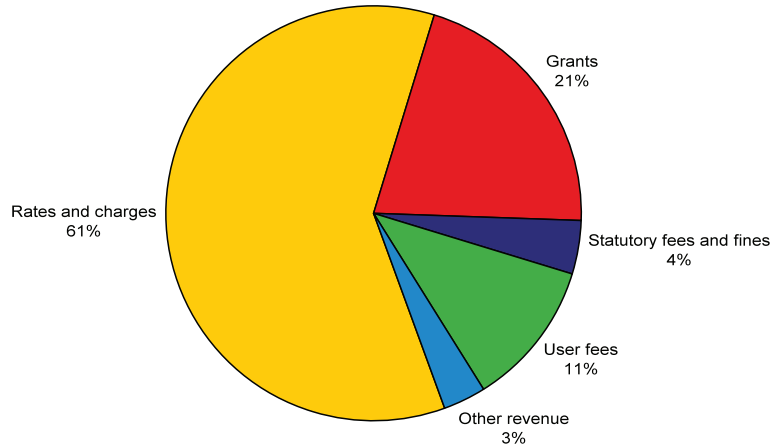
Change in Equity

Council recognised in the accounts a net increase in value of its land and building assets of \$91.0M following a revaluation carried out during the year. This increase, combined with the surplus for the year resulted in Council's Equity (Net Assets) to increase by \$100.2M.

Revenue

Council's operating revenue for 2007-2008 was \$110.66M (\$97.62M in 2006-2007) including rates and charges revenue (\$66.63M), operating grants (\$23.05M), and fees and charges (\$17.24M). The breakdown of operating revenue by major categories is depicted in the graph below.

Revenue Analysis



Council's non-operating revenue for 2007-08 was \$6.82M (\$14.80M in 2006-07) including capital grants (\$1.41M), capital contributions (\$0.75M) profit on sale of assets (\$1.45M) and contributions of non monetary assets from sub division activity (\$3.21M).

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 – Recurrent grant revenue comprises a general purpose grant of \$8.42M (which included a road funding grant of \$1.02M for local roads), and tied grants of \$14.17M which were essentially for community services such as home care, aged care and youth services. Non-recurrent grants received were \$1.87M, including capital grants of \$ 1.41M. 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 \$0.76M received were mainly for open space development. Non-monetary contributions of \$ 3.21M were mainly from "gifted" assets from developer activity.

Fees, Charges and Fines - Revenue from these sources was \$17.24M for the year (\$12.49M in 2006-2007). The major sources of revenue are:

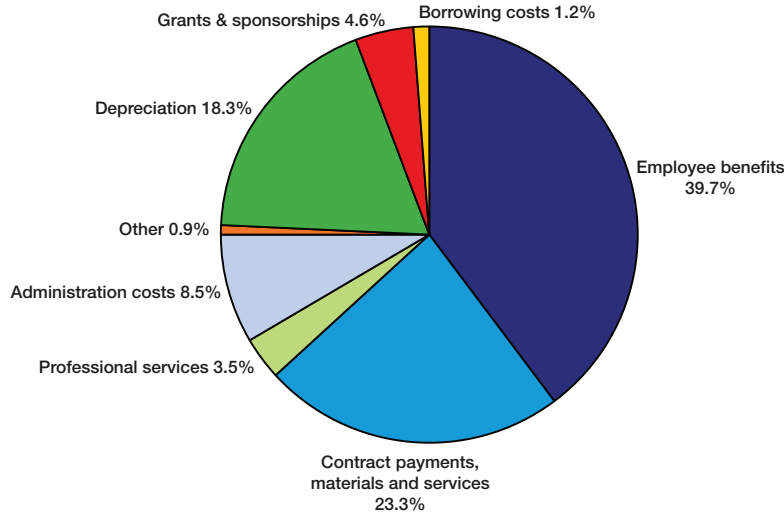
- Dandenong Market stall income \$3.01M
- Hire of council facilities \$1.40M
- Aged care services \$0.93M
- Parking fees and fines \$3.16M
- Statutory and other fees (building permits, Infringements, Perin court recoveries, etc.) \$3.16M

Other Income (\$3.73M) - 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 2007-2008 including depreciation was \$107.86M (\$98.88M in 2006-2007).

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



Employee Costs (\$42.76M) – 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 (\$25.17M) – Included in this category are the following major costs relating to:

- Maintenance & Repairs of roads, drains and buildings \$2.92M
- Waste Collection and Disposal \$6.25M
- Aquatic Centre and Leisure Centre \$4.15M
- Park Services \$3.39M
- Dandenong Market \$1.81M
- Major maintenance under the City improvement program \$1.49M
- Fleet maintenance \$0.79M

Grants and sponsorships – (\$4.93M) – 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 (\$3.83M) – 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.

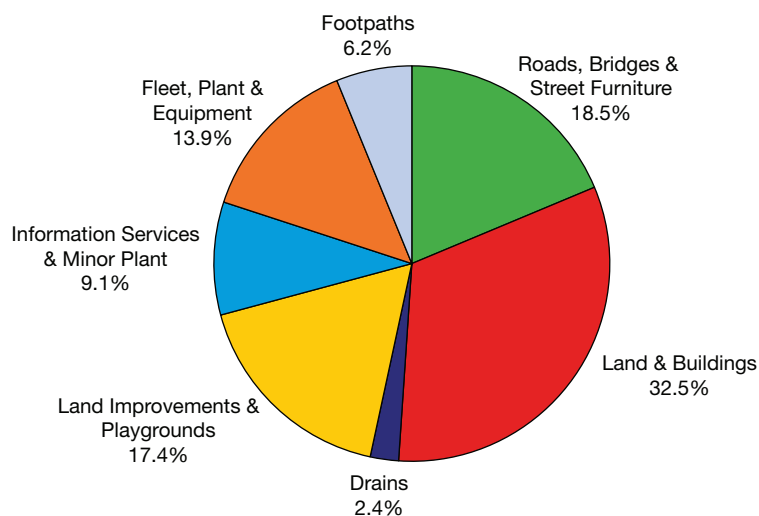
Administration costs (\$9.20M) – Administration costs include information management expenses (\$1.68M), insurance costs (\$1.06M), printing, publications and promotions of \$1.90M and motor vehicle maintenance of \$1.08M. It also includes occupancy costs (\$1.89M), for electricity, gas, telephone and water. Refer to note 4.6 in the Financial Report.

Borrowing Costs (\$1.29M) – represents interest on Councils short term and long term borrowings.

Depreciation (\$19.76M) – 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 \$17.87M on capital expenditure during the year. \$10.54M of this was on renewal and upgrades to Council's existing infrastructure assets. \$7.33M was spent on expansion of assets through major projects which included work on the State Volleyball/Basketball Centre, acquisition of land towards a future child care centre in Springvale and drought related works such as setting up water tanks across the city's ovals and other recreational facilities. It also spent \$2.49M 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 \$26.40M. 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 (\$0.50M), additional grant funding for Children, Youth and Family Services (\$0.89M), enhanced services in Aged and Disability Care Services (\$0.60M) and a range of unbudgeted grants received across the Council including those associated with the drought response initiative.
- lower than expected salary costs, negated by the increase in payments to suppliers, mainly for major maintenance costs and professional fees relating to Council assets. These costs were budgeted as part of council's CIP program, which shows a corresponding reduction.

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 \$9.49M in purchase of assets.

Financing activities – Financing activities refer to Council's borrowings. Council borrowed \$3.0M in short term financing for a period of six months. Council repaid \$4.22M, of its long term debt during the year.

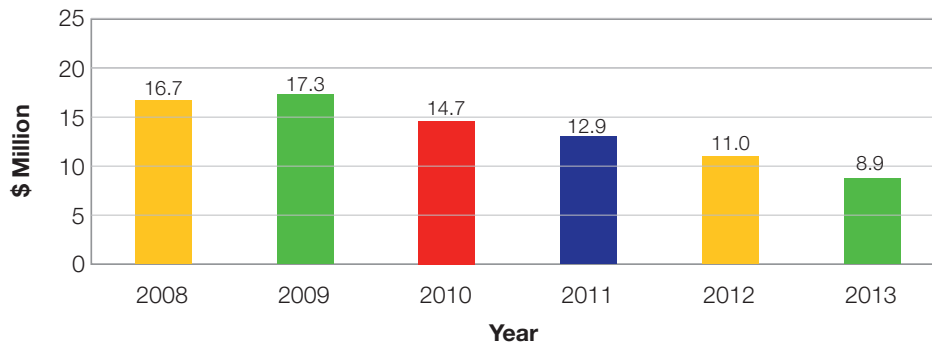
Borrowings

Council's borrowing at 30 June 2008 was \$16.71M, which is 25.07% of rate revenue (Government prudential limit is 60%). Further borrowings of \$5.0M are planned in 2008-2009 towards capital works programs. Loan repayments of \$12.80M are planned over the next five years under Council's borrowing strategy.

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

The loan balances projected in each of the years are depicted in the chart below.

Borrowings



Council's Financial Position

Council's financial position improved by \$100.2M during the year, made up of the operating surplus of \$9.20M and increase in asset valuations of \$91.0M. The net worth of Council at 30 June 2008 was \$1072.17M (\$971.98M in 2007), made up of the following assets and liabilities:

Council's assets (what Council owns) comprise:

	\$M	%
Roads & Bridges	272.22	24.52
Drainage	115.18	10.37
Car Parks	10.47	0.94
Land	469.23	42.26
Buildings	113.69	10.24
Footpaths & Bike Paths	67.24	6.06
Plant/Furniture, Playground Equipment	22.49	2.03
Cash and Other Assets	39.79	3.58
	1,110.31	100.00

Council's Liabilities (what Council owes) comprise:

	\$M	%
Long term borrowing	16.71	42.56
Creditors	9.97	25.39
Trust Monies	3.16	8.06
Employee entitlements	9.42	23.99
	39.26	100.00

The difference between the assets and liabilities of \$1,072.17M 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.