

Management Comment on the Financial Report

OVERVIEW

The City of Greater Dandenong achieved an operating surplus before depreciation of \$10.8M compared to \$9.8M in 1999-2000. Depreciation for 2000-2001 was \$14.2M (\$12.6M in 1999-2000), giving a deficit after depreciation of \$3.4M (deficit of \$2.8M in 1999-2000 before abnormal items).

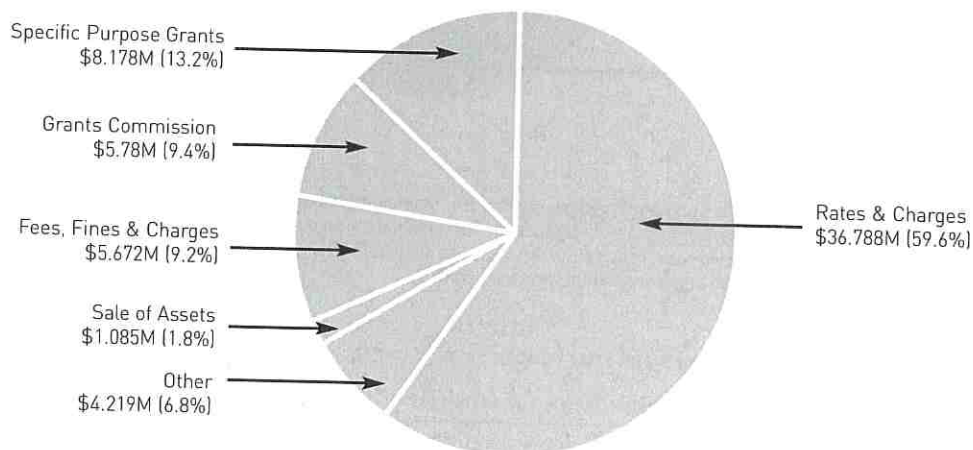
Depreciation (which recognises the decrease in value of assets due to wear and tear) is based on asset values and their useful lives. The increased depreciation resulted from the increase in asset values of \$207M from the revaluation of assets carried out as at 1 January 2000. The main increases were in roads (\$114.7M), buildings (\$24.4M), drainage (\$38.9M) and footpaths (\$18.3M).

The operating deficit of \$3.4M compares against a budgeted surplus of \$10.1M. The difference between the budgeted operating surplus and the actual result was caused mainly by:

- Increased depreciation (\$5.3M) resulting from the revaluation of assets
- Non receipt of government grant (\$5.0M) towards the refurbishment of the Dandenong Performing Arts Centre (deferred to 2001-2002), and
- Deferment of the sale of Dandenong stockyards which was budgeted to realise a profit of \$5.0M.

REVENUE

The council's revenue for 2000-2001 was \$61.7M (\$56.7M excluding abnormal revenue in 1999-2000) including rate and charges revenue (\$36.8M), government grants (\$14.0M) and fees and charges (\$5.7M).



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. The council's rate revenue for the year was in line with budget expectations.

Grants

Grants revenue comprises a General Purpose Grant of \$5.8M, which included an untied Road Funding Grant of \$0.9M. The balance of Grants revenue of \$8.2M was essentially for community services such as home care, aged care and youth services. These grants are fully expended on these services in addition to the funds allocated by council from other sources of revenue.

Fees charges and Fines

Revenue from these sources was \$5.7M for the year (\$4.5M in 1999-2000). The major sources of revenue are:

Hire of council facilities	\$0.8M
Local law and other enforcement	\$1.5M
Statutory and other fees (Community services, building permits, animal registrations etc.)	\$3.4 M

Other Income

The major item of income included in this category is the revenue from the Dandenong Produce Market (\$1.9M).

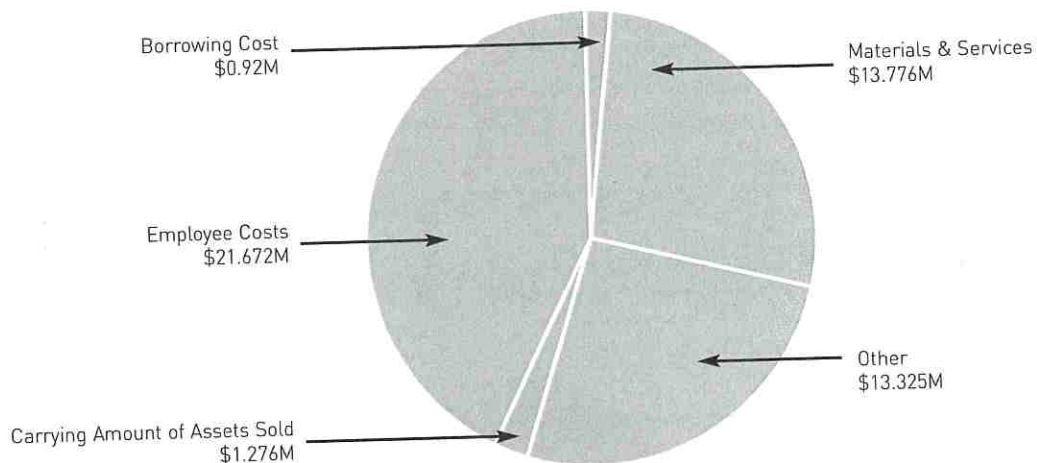
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RECURRENT EXPENDITURE

Total recurrent expenditure for 2000-2001 excluding depreciation was \$51.0M (47.0M in 1999-2000). This includes \$1.5M of increased community service initiatives that were funded through government grants.

The major items of expenditure are depicted in the graph:



Employee Costs (\$21.7M)

Salaries costs include salary on-costs such as WorkCover premium, provision for Long Service Leave entitlements and the council's superannuation contributions on behalf of employees. The first salary increase from the Enterprise Bargain Agreement (EBA) of 5% came into effect on 1 November, resulting in an increase of \$0.6M. The council also absorbed the increase in Workcover premiums of around \$0.5M compared to the previous year.

Materials & Services (\$13.8M)

Included in this category are the following major external costs relating to:

Waste collection and disposal	\$4.0M
Home and Community Care	\$2.3M
Street lighting	\$1.1M
Building and fleet maintenance	\$1.6M

Other Expenses (\$13.3M)

Other expenses comprise a large spread of expenditure including contractors/consultants (\$3.5M), grants to various community bodies (\$1.6M), utilities such as telephone, electricity and gas (\$1.5M), Information Management (\$0.5M), and Risk Management (\$0.7M).

Depreciation (\$14.2M)

The depreciation expense increased from 1 January 2000 following the revaluation of the council's assets. The full year effect of the revaluation increase in assets and new investments made during the year resulted in depreciation increasing by \$1.6M compared to 1999-2000. (1999-2000 figures for comparison purposes excludes depreciation adjustments made to prior years of \$15.2M).

CASH FLOW

The council's prudent cash flow management strategies have enabled it to meet its loan repayment obligations and make substantial investments in infrastructure assets. Council's operations generated a cash surplus of \$11.7M, with a further \$1.0M being realised from sale of assets. The council repaid \$2.8M of its loans and invested \$9.2M in infrastructure assets.

COUNCIL'S FINANCIAL POSITION

The council's financial position has remained stable compared to last year. The net worth of council at 30 June 2001 was \$594.7M, made up of the following assets and liabilities:

Council's assets (what council owns) comprise:

	\$M	%
Roads	185	29.9
Drainage	84	13.6
Bridges	8	1.3
Land	183	29.6
Buildings	102	16.5
Footpaths & Bike Paths	28	4.5
Plant, Furniture, Playground Equipment	14	2.3
Capital Works in Progress	2	0.4
Cash and Investments	5	0.8
Receivables & Other	7	1.1
	618	100.0

Council's Liabilities (what council owes) comprise:

Borrowing	11	47.8
Creditors	6	26.1
Employee Entitlements	6	26.1
	23	100.0

The difference between the assets and liabilities of \$595M 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.