

Management Comment on the Financial Report

OVERVIEW

The City of Greater Dandenong Council achieved an operating surplus before depreciation and asset write-offs of \$9.3M (\$12.9M in 2001-2002). The council budgeted for a surplus (excluding depreciation) of \$15.9M. The following major factors impacted on the result for the year:

- Non receipt of the government grant of \$3.0M towards the upgrade of the Dandenong Town Hall.
- A provision of \$3.14M for unfunded superannuation of the LASB defined benefits scheme following advice from the trustee of the scheme. This provision added to the deficit.

The council provided \$15.8M in depreciation of its assets. This amount was \$0.8M more than budget which had underestimated the impact of revaluations of assets carried out in 2002.

The increased depreciation and other factors highlighted above resulted in the council recording an operating deficit of \$6.541M for the year against a planned surplus of \$0.922M.

The council recognised in the accounts the increase in value of its land and buildings over the previous twelve months, based on advice received from the council's external valuers. The revaluation of properties increased the value of the council's assets by \$40.9M.

REVENUE

The Council's revenue for 2002-2003 was \$72.5M (\$66.6M in 2001-2002) including rate and charges revenue (\$42.3M), government grants (\$15.7M) and fees and charges (\$8.8M). The breakdown of revenue by major categories is depicted in the graph to the right.

Rate revenue (including waste collection charges)

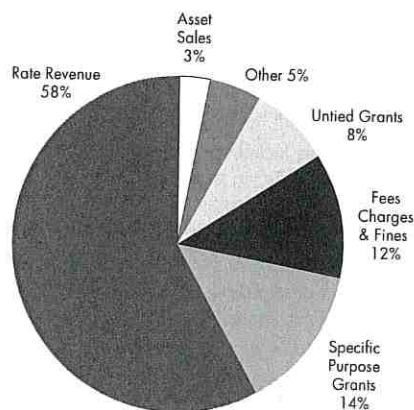
– general rate revenue is based on the Capital Improved Value of properties and a "rate in the dollar" applied against each category of property. Waste collection charges are based on the number of bins and frequency of collections. The council's rate revenue for the year was in line with budget expectations.

Grants and contributions – Grants revenue comprises a general purpose grant of \$5.8M (which included a road funding grant of \$0.77M for local roads), and tied grants of \$9.9M which were 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. Contributions received of \$1.4M were for various capital and maintenance works in the city including open space.

Fees, charges and fines - Revenue from these sources was \$8.8 M for the year (\$8.2M in 2001-2002). The major sources of revenue are:

- Hire of council facilities \$2.8M
- Parking fees and fines \$2.2M
- Statutory and other fees (community services, building permits, animal registrations etc.) \$3.8 M

Other income (\$1.6M) - This item of income is related to recovery of parking fines, National Competition Policy and other sundry income.



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RECURRENT EXPENDITURE

Total recurrent expenditure for 2002-2003 including depreciation and cost of assets sold was \$79.0M (\$70.6M in 2001-2002 excluding asset write-offs).

The major items of expenditure are depicted in the graph to the right.

Employee costs (\$30.9M) – 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 expense for the year includes a provision of \$3.14M for unfunded superannuation commitments of the LASB defined benefits scheme in respect of the council's present and past employees.

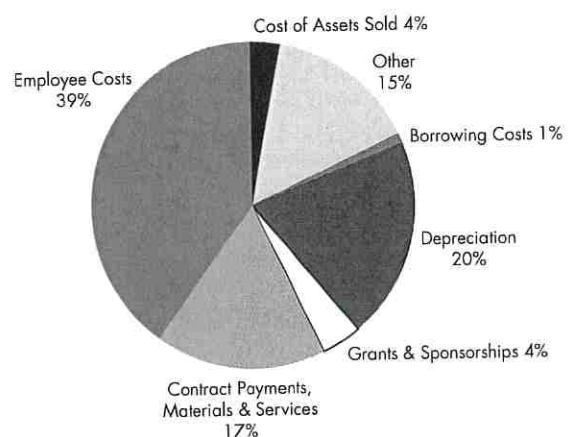
Contract payments, materials & services (\$13.8M)

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

• Waste collection and disposal	\$4.1M
• Parks services	\$2.0M
• Home and community care	\$2.3M
• Street lighting	\$0.9M
• Building and fleet maintenance	\$1.7M

Other expenses including grants and sponsorship (\$15.4M) – Other expenses comprise a large spread of expenditure including professional fees (\$3.1M), grants and sponsorships to various community bodies (\$3.2M), utilities such as telephone, electricity and gas (\$0.9M), information management (\$0.9M), administration costs (\$2.6M) and insurance costs (\$1.4M).

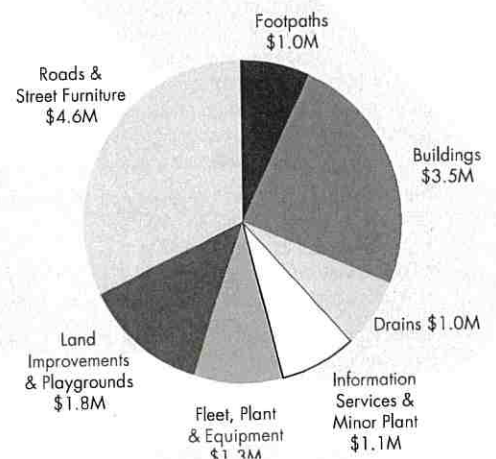
Depreciation (\$15.8M) – The depreciation expense reflects the diminution in the value of assets due to wear and tear and obsolescence. It has no impact on the cash position of the council. Cash flow is impacted only at the time of purchase of assets.



CAPITAL EXPENDITURE

The Council spent \$14.4M on capital expenditure during the year. \$11.9M of this was spent on renewing and upgrading its infrastructure assets and city improvement including streetscapes and open space. It also spent \$1.8M in replacing its fleet and other plant utilised in keeping the city clean and \$0.6M in upgrading council's information services.

The major items of expenditure are depicted in the graph to the right.



CASH FLOW

The council met its loan repayment obligations (\$1.8M) and made substantial investments in infrastructure assets (\$14.6M) during the year. The council's operations generated a cash surplus of \$16.2M, with a further \$1.5M being realised from sale of surplus assets.

The protracted superannuation dispute with Kingston City Council was resolved successfully during the year with the council receiving \$2.0M in settlement. The council utilised these funds to pay old superannuation debts of \$0.4M to LASB.

COUNCIL'S FINANCIAL POSITION

The council's financial position improved by \$34M during the year, brought about by the revaluation of land and buildings. The net worth of the council at 30 June 2003 was \$717M (\$683M in 2001-2002), made up of the following assets and liabilities:

COUNCIL'S ASSETS (WHAT COUNCIL OWNS) COMPRISE:	\$M	%	COUNCIL'S LIABILITIES (WHAT COUNCIL OWES) COMPRISE:	\$M	%
Roads & Bridges	218	29.3	Long Term Borrowing	7	25.0
Drainage	84	11.3	Bank Overdraft	2	7.1
Land	265	35.6	Creditors	9	32.1
Buildings	101	13.5	Employee Benefits	10	35.8
Footpaths & Bike Paths	53	7.1		28	100.0
Plant/Furniture, Playground Equipment	16	2.1			
Cash and Other Assets	8	1.1			
	745	100.0			

The difference between the assets and liabilities of \$717M 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.