

MANAGEMENT COMMENT ON THE FINANCIAL REPORT

> OVERVIEW

The following management comments are written with a view to explaining council’s financial performance during 2005-06 and financial position as at 30 June 2006. 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 2005-2006 Financial Plan 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 Financial Plan (budget) for 2005-06. 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 a surplus from operations of \$5.39M, against which council achieved a surplus of \$16.73M (surplus of \$5.2M in 2005). The following major factors impacted on the result for the year:

- Receipt of additional grant income from the Grants Commission of \$0.9M and additional unbudgeted grant funding of \$600K for the provision of Children, Youth and Aged Care Services. (Note 2 of Standard Statements).
- An early payment of \$3M of grant funding relating to the Dandenong Basketball/Volleyball Stadium. This was budgeted to be received in 2006-07.
- Recognition as revenue of \$8M in ‘gifted’ assets of roads,

drains and footpaths from sub division activity in the Keysborough development and Metro 3175. (Note 5 of Standard Statements).

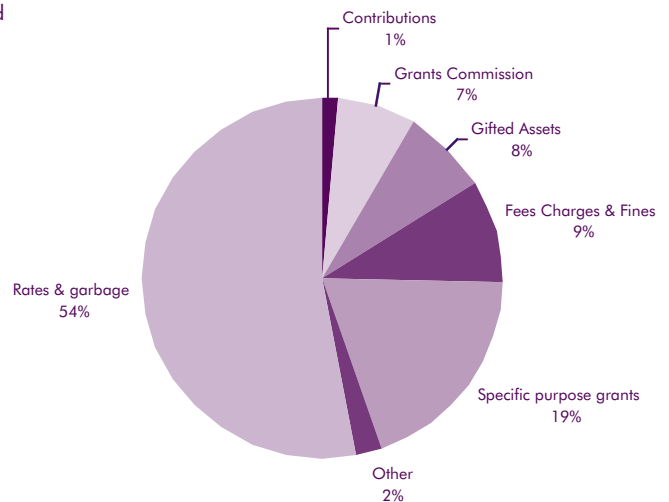
- Employee costs of \$38.2M which includes an additional \$1M of agency costs to provide the additional Aged Care Services funded through additional grant income and fees and charges.
- Depreciation expense of \$15.2M on council’s fixed assets.

Change in Equity

Council recognised in the accounts a net increase in value of its infrastructure assets based on the Rawlinsons price index and advice received from council’s engineers. This movement resulted in an increase in the value of council’s infrastructure assets by \$122.3M. This increase, combined with the operating surplus resulted in council’s Equity (Net Assets) to increase by \$139M.

Revenue

Council’s revenue for 2005-06 was \$104.9M (\$100.8M in 2004-05) including rates and charges revenue (\$55.6M), government grants (\$27.6M), fees and charges (\$9.8M) and ‘gifted’ assets (\$8M). The breakdown of revenue by major categories is depicted in the graph below.



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 4.1 of Financial Report for further details on rate revenue.

Grants and Contributions – Grants revenue comprises a general purpose grant of \$7.3M (which included a road funding grant of \$0.9M for local roads), and tied grants of \$20.3M which were essentially for community services such as home care, aged care and youth services. Also included was \$3.0M received in advance for the Dandenong Basketball/Volleyball Stadium which was budgeted to be received in 2006-07. These grants are fully expended on these services in addition to the funds allocated by council from other sources of revenue (Refer Note 4.2 of Financial Report). Contributions received of \$1.4M were mainly for open space development at Keysborough and other capital works.

Fees, charges and fines - Revenue from these sources was \$9.7M for the year (\$10.2M in 2004-05). The major sources of revenue are:

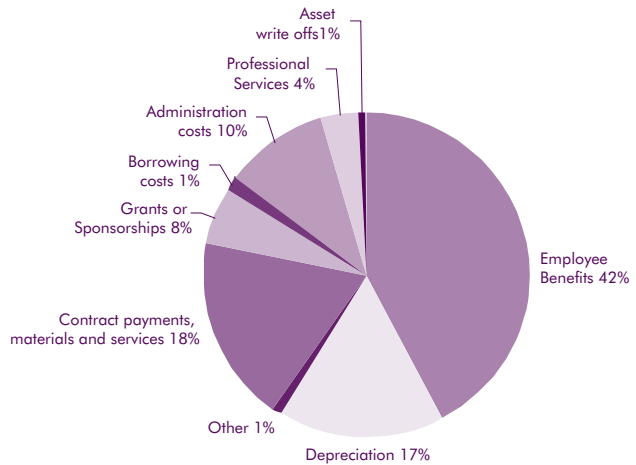
- Hire of council facilities \$2.6M
- Aged care services \$1.3M
- Civil transport planning and other \$1.0M
- Parking fees and fines \$2.2M
- Statutory and other fees (building permits, Infringements, Perin court recoveries etc.) \$2.6M

Other Income (\$2.4M) - This item of income essentially relates to fees for provision of valuation data to State Revenue Office, National Competition Policy payment and Interest received on rates and investments and other recoveries.

Recurrent Expenditure

Total recurrent expenditure for 2005-06 including depreciation and assets written off was \$90.8M (\$90.0M in 2004-05).

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



Employee Costs (\$38.2M) – 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 (\$16.6M) – Included in this category are the following major costs relating to:

- Maintenance & Repairs \$2.6M
- Waste Collection and Disposal \$5.9M
- Park Services \$1.8M
- Contract Payments \$2.8M
- Materials & Services \$3.5M

Grants and sponsorships (\$5.2M) – 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.

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Professional fees and other expenses (\$4M) – Mainly includes consultancy costs and legal costs for various services (\$2.7M). Other costs include statutory fees and audit costs. Refer to note 5.5 in the Financial Report.

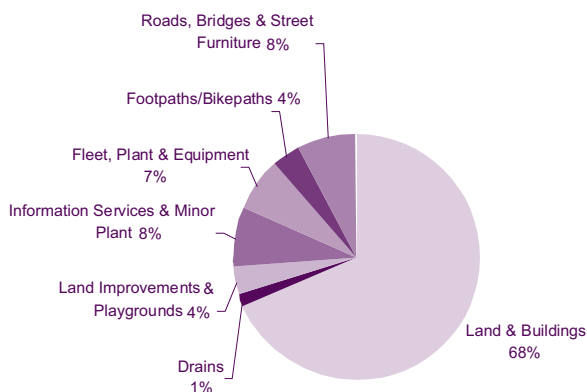
Administration costs (\$9.4M) – Administration costs include information management expenses (\$2M), and insurance costs (\$1M), printing, publications and promotions of \$1.6M and motor vehicle maintenance of \$1M. Refer to note 5.6 in the Financial Report.

Borrowing costs (\$1.2M) – represents interest on councils short-term and long-term borrowings. Council borrowed \$8M of long-term borrowing for major capital works.

Depreciation (\$15.2M) – 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 of assets.

Capital Expenditure

The major items of expenditure are depicted in the chart below.



Council spent \$32.1M on capital expenditure during the year. \$12.7M of this was on renewal and upgrades to council's

existing infrastructure assets. \$15.4M was spent on new assets through major projects which included the completion of the Drum Theatre, work on the Market re-development currently in progress, initial works on the Dandenong Basketball/Volleyball Stadium and open space works in the Keysborough Tattersson Park. It also spent \$3.9M 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 \$22.5M. Included in this result are:

- Better than expected receipt of grants from the grants commission, and other operating grants
- Grant payment of \$3M for the Dandenong Basketball/Volleyball Stadium received in June that was budgeted to be received in 2006-07

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 fixed assets. Council spent a net amount of \$30.4M in purchase of assets.

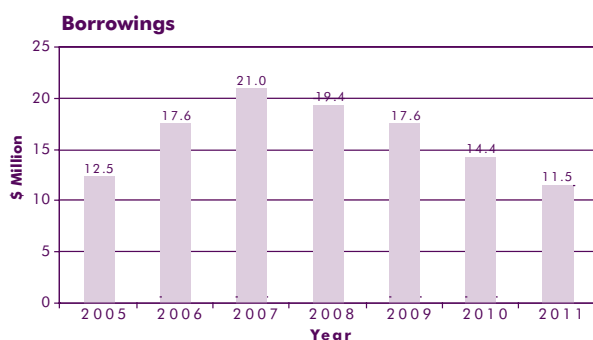
Financing activities – Financing activities refer to council's borrowings. Council borrowed the planned amount of \$8M for major capital works. Council met its loan repayment obligations of \$1.3M on existing loans.

Borrowings

Council's borrowings at 30 June 2006 was \$17.6M. Further borrowings of \$12.0M are planned over the next three years towards funding the Dandenong Market redevelopment and major capital works. Loan repayments of \$18.2M are planned over the next five years under council's borrowing strategy. At its peak, council's borrowings will be \$21.0M in 2007, which is 34.5% of rate revenue (Government prudential limit is 60%).

Council intends to retire these debts through the sale of redundant assets and improved cash flows.

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



Council's Financial Position

Council's financial position improved by \$138.9M during the year, made up of the operating surplus of \$16.7M and movement in valuation of land, buildings, footpaths and roads. The net worth of Council at 30 June 2006 was \$939.0M (\$800.0M in 2005 restated following changes due to IFRS), made up of the following assets and liabilities:

Council's assets

What Council owns comprises	\$M	%
Roads & Bridges	276	28.1
Drainage	105	10.7
Land	392	40.0
Buildings	104	10.6
Footpaths & Bike Paths	67	6.8
Plant/Furniture, Playground Equipment	20	2.0
Cash and Other Assets	17	1.7
Total	981	100.0

What Council owes comprises	\$M	%
Long term borrowing	18	42.9
Creditors	10	23.8
Trust Monies	6	14.3
Employee entitlements	8	19
Total	42	100.0

The difference between the assets and liabilities of \$939.0M 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.