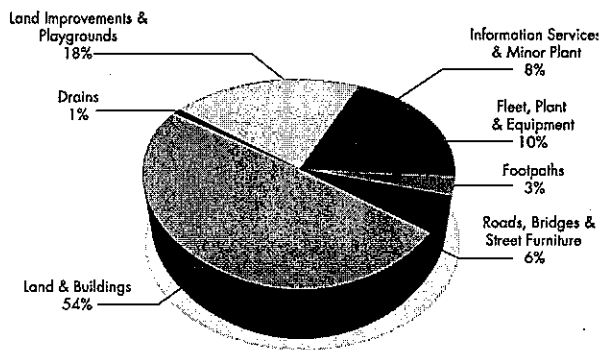




MANAGEMENT COMMENT ON THE FINANCIAL REPORT

>CAPITAL EXPENDITURE

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



Council spent \$25.1M on capital expenditure during the year. \$20.4M of this was spent on new assets through major projects which included the construction of a new council operations centre, work on the Drum Theatre (which is still in progress), and open space works in the Keysborough Tatterson Park. It also spent \$2.5M 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 Statement of Cash Flows)

Net inflows from operating activities – Council generated a net cash inflow from operating activities of \$11.3M. This was less than the budgeted surplus due to:

- supplementary rates being lower than anticipated
- the non receipt of grants for major capital projects
- a shortfall in income from the hire of facilities
- a shortfall in asset sales of \$1.9M for the saleyards development being delayed and fleet sales being less than budget
- Employee costs being higher than expected resulting from the payment of \$3.3M of the unfunded superannuation liability and payment of redundancies.
- Payments to suppliers includes a refund of prior year's developer contributions of \$2.3M which was not budgeted

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 \$22.4M in purchase of assets.

Financing activities – Financing activities refer to council's borrowings. Council borrowed the planned amount of \$5.0M for the Dandenong Town hall and \$3.0M towards repayment of the unfunded superannuation liability. Council met its loan repayment obligations of \$1.5M on existing loans.

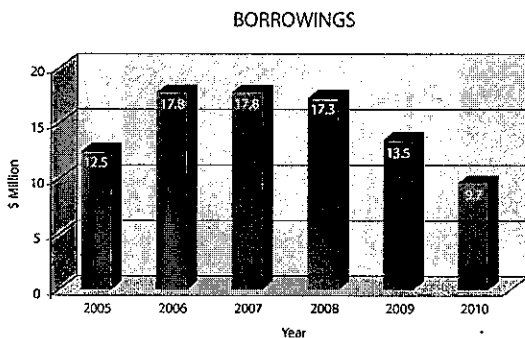


>BORROWINGS

Council's borrowings at 30 June 2005 was \$12.5M. Further borrowings of \$15.0M are planned over the next three years towards funding the Dandenong market redevelopment. Loan repayments of \$17.8M are planned over the next five years under council's borrowing strategy. At its peak, council's borrowings will be \$17.8M in 2007, which is 31.9% 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 \$11.5M during the year, made up of the operating surplus and movement in valuation of footpaths and bridges. The net worth of council at 30 June 2005 was \$787.6M (\$776M in 2004), made up of the following assets and liabilities:

Council's assets (what council owns) comprise:

	\$M	%
Roads & Bridges	220	26.7
Drainage	103	12.5
Land	319	38.7
Buildings	89	10.8
Footpaths & Bike Paths	61	7.4
Plant/Furniture, Playground Equipment	20	2.4
Cash and Other Assets	13	1.5
	825	100.0

Council's liabilities (what council owes) comprise:

	\$M	%
Long term borrowing	13	35.1
Creditors	9	24.3
Trust Monies	7	19.0
Employee entitlements	8	21.6
	37	100.0

The difference between the assets and liabilities of \$787.6M 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.