

**SUSTAINABLE MELBOURNE FUND: FULL YEAR PERFORMANCE RESULTS TO
30 JUNE 2012**

4 September 2012

Presenter: Phu Nguyen, Chief Financial Officer

Purpose and background

1. The purpose of this report is to present the financial and operational performance results for the full year ended 30 June 2012 of the Sustainable Melbourne Fund (SMF).
2. Council established SMF on 17 April 2002 to support Council's environmental objectives through strategic investment in external entities. SMF is administered by a board of independent trustees. Council provided \$5 million to establish the SMF, which is expected to be financially self-sustaining. Council is the sole beneficiary and unit holder of SMF. Council also resolved to provide a grant of \$500,000 to SMF in the 2010-11 financial year to develop administrative processes around the use of Environmental Upgrade Agreements (EUAs) which was funded by Sustainability Victoria.
3. SMF operates under governance provisions as defined in a Project Charter (revised January 2011) and a Trust Deed. The charter defines Key Performance Indicators (KPIs) which are listed in Attachment 1. Council has also established an additional KPI for the SMF in relation to services it is providing Council to administer EUAs. This required SMF to deliver at least five projects in the 2011-12 financial year and will be the subject of future performance reports.
4. In May 2011, Council set a triennial hurdle rate for return on funds invested as the rate of inflation (equivalent to CPI for each year) between 1 July 2011 and 30 June 2014. Council did this understanding that the EUA work by SMF would cause it to operate at a loss in FY2011-12 and make that up over the following two years.
5. SMF is required by the Charter to provide an annual report to Council (Attachment 2). The Trustees have resolved to also provide quarterly reporting to Councillors, and have done throughout the year.

Key issues

6. SMF earned gross income of \$0.52 million in the 2011-12 financial year. The net asset value of the SMF as at 30 June 2012 was \$6.42 million, which represents a gross revenue return of 8.0 per cent. After deducting expenses, SMF's net loss was \$0.16 million representing a net return of minus 2.5 per cent. SMF received an unqualified audit report from the Victorian Auditor General's Office.
7. SMF's key operational activities were focused on establishing the Environmental Upgrade Finance. Its activities included:
 - 7.1. establishment of Environmental Upgrade Finance processes;
 - 7.2. engaging with potential projects;
 - 7.3. commencing to educate the market about the benefit of EUAs;
 - 7.4. the delivery of three signed EUAs and a fourth project approved;
 - 7.5. making two investments to building owners that used an EUA; and
 - 7.6. the development and project management of a tenant engagement tool.
8. Since its inception, SMF has invested in 24 projects realising CO2 reductions of 42,614 tonnes and water savings of 106,065 kilolitres.

Recommendation from management

9. That the Future Melbourne Committee accepts the performance report for 2011-12 of the Sustainable Melbourne Fund.

Attachments:

1. Supporting Attachment
2. Sustainable Melbourne Fund – Yearly Operational Report 30 June 2012

SUPPORTING ATTACHMENT

Legal

1. No direct legal issues arise from the recommendation in the report.

Finance

2. The financial implications are discussed throughout the report.
3. SMF Key Performance Indicators are as follows:
 - 3.1 A triennial rate of financial return of no less than the rate of inflation.
 - 3.2 Delivery of environmental benefits in at least one of the following categories: water conservation and quality, renewable energy and energy efficiency, sustainable transport or waste minimisation.
 - 3.3 Delivery of social benefits in at least one of the following categories: businesses in the municipality; residents in the municipality and the wider community of Melbourne, or visitors to the municipality.
 - 3.4 Provision of alternate alliance and development opportunities in line with above KPIs.
 - 3.5 Commercial success of services provided to sustainable initiatives (eg EUAs).

Conflict of interest

4. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a direct or indirect interest in relation to the matter of the report.

Stakeholder consultation

5. Consultation with the SMF management was undertaken in preparation of this report.

Relation to Council Policy

6. The SMF is an initiative of the Council.

Environmental sustainability

7. The Charter of the SMF requires it to consider the social benefits and allow it to invest in projects that will deliver environmental benefits in water consumption and quality, renewable energy and energy efficiency, clean and efficient transport and waste minimisation.

Sustainable Melbourne Fund – Yearly Operational Report

Period covered by this report:	From: 1 July, 2011	To: 30 June, 2012
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Reporting Organisation: <i>Sustainable Melbourne Fund</i>		Reporting To: <i>City of Melbourne</i>			
Report Prepared By: <i>Scott Bocskay</i>		Position: <i>Chief Executive</i>			
Telephone:	<i>9658 8666</i>	Mobile:	<i>0439 550 513</i>	Fax:	<i>9371 4172</i>
Email:	<i>scott.bocskay@sustainablemelbournefund.com.au</i>				

General**Establishment of environmental upgrade finance mechanism**

The main focus for the year for Sustainable Melbourne Fund (SMF) has been on establishing the environmental upgrade finance mechanism. As a continuation of the development of the finance mechanism from the previous year, the Environmental Upgrade Agreement (EUA) application process was piloted and amended based on the feedback from the industry which has resulted in a robust back end process to support the EUA application.

A cooperative approach to raising awareness of EUF via industry, media and events channels has resulted in positive trade media coverage and speaking opportunities at industry events to generate visibility for the finance mechanism available through the 1200 Buildings Program. A series of co-hosted events with City of Melbourne and other industry associations to raise awareness in the market of the availability of the financial mechanism has also resulted in an increased level of interest and understanding of EUF.

A long project lead up time and the downturn in property related activity being undertaken by the commercial property sector in Australia due to concerns over the European recession and possible global financial crisis has impacted on the pipeline of EUAs. This has required a greater effort to highlight the economic and productivity gains of energy efficiency and the particular power and unique value proposition of EUAs relative to other forms of finance. To that end, SMF has developed a comprehensive and targeted communications, sales and marketing strategy within the current service level agreement with City of Melbourne.

The Amendment to the City of Melbourne Act came into force post the reporting period (1st July 2012) however SMF revised and updated all processes and documentation to comply with the new legislation during the period.

SMF is considering other investments to enhance the uptake of EUAs and develop retrofit projects, including providing a service that facilitates better connections between building owners and consultants and contractors; assisting building owners with business case development; and developing detailed case studies with clients. To gauge the need for this type of service, SMF is conducting a survey with building owners, consultants and contractors.

Internal audit of SMF operations

In June 2011 Council's internal auditors (Deloitte Touche Tohmatsu) commenced the first audit upon SMF operations. As auditors of Council, recommendations were made to both organisations (Council as well as SMF). Conducted over a 2 month period the recommendations were made to City of Melbourne and SMF. The recommendations made to SMF were fully implemented by June 2012. As a result comprehensive documentation, policies and procedures have been developed during the year establishing strong internal control. Governance of the fund has been documented and two permanent standing subcommittees have been formed Governance and Audit and Investment subcommittees. Each of these committees oversaw the development of the following:

- SMF Investment Policy
- SMF Treasury Policy
- Risk Management Framework (for the SMF Corporate Governance Charter)
- SMF Risk Register

- Finance Application pack
- SMF Operations and Procedures Manual

All the policies will be subject to yearly review by the SMF Board and committees.

SMF Investments

SMF executed agreements for two project loans in the financial year. Both projects are delivered under an EUA. While traditionally SMF has only provided project finance to businesses and private property owners, the Board resolved to lend to owners corporations. An application was received and approved for a chiller upgrade project during the financial year.

Key events during the period include:

- 3 EUA contracts signed and a fourth project approved to enter into an EUA
- passage of amendments to part 4B of the City of Melbourne Act – Environmental Upgrade agreements the City of Melbourne Act in September 2010
- Corporate Contract Management Services (CCMS) strategic service review of SMF administrative and development services environmental upgrade finance mechanism
- Future Melbourne Committee recommendation that SMF contract be extended by 12 months with new KPI's
- Development and project management of tenant engagement tool
- SMF operations audited by Deloitte

Environmental Upgrade Finance (EUF)

<p>EUA Development</p>	<ul style="list-style-type: none"> • Established EUA application process • Received 23 expressions of interests for EUA projects • Processed four (4) application for EUA • Facilitated the signing of three (3) EUA's, the fourth application has been approved and awaiting signing of the EUA subject to the applicant meeting conditions precedent (due August 2012). • Media & Publication Activity <ul style="list-style-type: none"> ○ 7 Media release issued ○ 1 e-newsletter issued and mentioned in 8 external newsletter issued by industry associations ○ 3 magazine articles authored for industry publications ○ Mentioned in 7 external e-news letters and magazine articles • Developed marketing and communication collateral to promote EUF; <ul style="list-style-type: none"> ○ EUF brochures ○ EUF application guide ○ EUF animated video ○ Investment program animated video ○ Investment program case study video ○ EUA project fact sheets
<p>Tenant Engagement Tool</p>	<p>Project managed the development of phase 2 delivery of the tenant engagement tool</p> <ul style="list-style-type: none"> • Engaged with a number of building owners and tenants to seek their input in the tool. • Issued Request for tender for Phase 2 (web development) • Facilitated Tender Evaluation for Phase 2 (web development) • Created contractual documents for Phase 2 (web development) • Participated in workshops • Manage delivery of excel and the web based tool
<p>Stakeholder Engagement and Promotion of EUF</p>	<p>This involved engaging extensively with property owners, property managers, consultants and contractors, peak industry bodies, professional services sector (Finance, Accounting and Legal), These included presenting and/or attending;</p> <ul style="list-style-type: none"> ○ 9 conferences

	<ul style="list-style-type: none"> ○ 7 hosted and co-hosted Information sessions ○ 5 Boardroom luncheons/Breakfasts ○ Conducted activities to build strategic alliance with 8 counterparts <ul style="list-style-type: none"> ● Completed the development of a stakeholder management system for both organisations to streamline and track industry engagement and business leads.
<p>SMF Investments</p>	
<p>SMF Investments</p>	<p>In the second quarter of the period the Board of Trustees resolved to focus the Trust's resources to the development of the EUF business unit. This was the major focus of management for the period. The investment business was operated on a "business as usual" basis during this period.</p> <p>In May 2011, Management commenced a comprehensive review and development process of SMF Investment policies. This work includes a draft Investment Strategy which outlines the loan assessment process and cover following key areas:</p> <ul style="list-style-type: none"> ● project types ● performance indicators that applicants need to deliver on ● categories of investments risk ● application process and process flowcharts ● risk assessment criteria
<p>SMF Investment loans</p>	<p>Loans made during FY 2011/12</p> <ul style="list-style-type: none"> ● 460 Collins Street <ul style="list-style-type: none"> ○ First project signed under an EUA ○ \$383,000 ○ replacement of old chiller with highly efficient powerpax chiller and new controls system ○ \$11,000 annual asavings in energy bills ○ reduction of 170 tonnes of CO_{2-e/} annum ● Kings Business Park <ul style="list-style-type: none"> ○ 2nd EUA project ○ \$500,000 ○ replacement of old chillers with new energy efficient chillers, including new cooling towers. The old analogue control system was replaced with a new direct digital control system. ○ \$250,000 annual asavings in energy bills ○ reduction of 2680 tonnes of CO_{2-e/} annum ● 55 Swanston Street <ul style="list-style-type: none"> ○ 1st project loan to an owners corporation ○ Replacement of old chillers with a single energy efficient chiller, with multiple compressors for redundancy and low load requirements. ○ \$440,000 ○ 211,473 kWh annual energy savings ○ reduction of 285 tonnes of CO_{2-e/} annum <p>Since it was established in 2002, SMF has invested in 24 separate projects generating total savings of :</p> <ul style="list-style-type: none"> ● 42,614 tonnes of CO₂ ● 106, 065 kilolitres of H₂O

Loans Repaid in 2010-2011		
• Nil		
Current Investment Loan portfolio		
Applicant name	Total Loan Amount	Outstanding balance
DRAPAC Management Ltd #1	\$147,000	\$17,099
DRAPAC Management Ltd #2	\$500,000	\$201,516
Acupuncture Distributors #1	\$320,000	\$209,658
Acupuncture Distributors #2	\$180,000	\$126,093
Sothertons Services	\$32,980	\$9,670
Joseph Varga Family Holdings	\$383,130	\$334,743
Kings Technology Park	\$500,000	\$483,200

Summary of Financial Performance

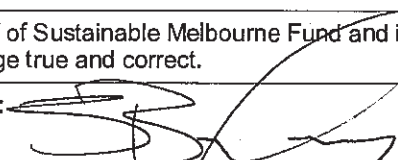
- 2012 maintained focus on developing the EUF business and content and achieved a net deficit of \$0.16 million, with revenue of \$0.52 million against expenditure of \$0.68 million. This was slightly unfavourable against budget by less than \$0.01 million.
- \$0.10 million in funding under agreement with the City of Melbourne (provided by Department of Planning and Community Development (DPCD)) was received 2011-12 as agreed,
- An average return was achieved of 5.33 per cent on cash investments versus a budgeted return of 5 per cent on higher cash balances during the year.

Income Statement for year ended 30 June 2012

2011		2012	2012	2012
Actuals		Budget	Actual	Variance
\$		\$	\$	\$
	Revenue			
275,238	Interest received - cash and cash equivalents	290,804	308,540	17,736
199,449	Interest received - sustainable project loans receivable	151,530	111,507	(40,023)
400,000	Grants	100,000	100,000	-
874,687	Total revenue	542,334	520,047	(22,287)
	Expenses			
435,603	Employee benefits	551,911	564,503	(12,592)
4,300	Audit fees	8,000	5,235	2,765
20,805	Accounting fees	21,180	20,520	660
12,790	Legal costs	20,000	27,893	(7,893)
44	Bank charges	100	63	37
9,802	Administrative costs	42,618	20,042	22,576
93,541	Consultants fees	6,000	13,050	(7,050)
33,415	Advertising & marketing	35,000	16,877	18,123
2,306	Conference fees	382	382	-
8,523	Recruitment costs	-	-	-
6,971	Travel	4,800	7,635	(2,835)
628,100	Total expenses	689,991	676,200	13,791
246,587	Surplus / (Deficit)	(147,657)	(156,153)	(8,496)
246,587	Total comprehensive income for the year	(147,657)	(156,153)	(8,496)

Balance Sheet as at 30 June 2012

	2012	2011
ASSETS	\$	\$
Current Assets		
Cash and cash Equivalents	5,054,805	5,767,330
Trade and other receivables	413,344	336,058
Total Current Assets	5,468,149	6,103,388
Non-Current Assets		
Trade and other receivables	1,013,237	537,645
Total Non-Current Assets	1,013,237	537,645
TOTAL ASSETS	6,481,386	6,641,033
LIABILITIES		
Current Liabilities		
Trade and other payables	38,114	48,759
Provisions	22,676	15,093
Total Current Liabilities	60,790	63,852
Non-Current Liabilities		
Provisions	1,275	1,707
Total Non-Current Liabilities	1,275	1,707
TOTAL LIABILITIES	62,065	65,559
NET ASSETS	6,419,321	6,575,474
EQUITY		
Accumulated surplus / (Deficit)	(156,153)	-
Contributed equity	6,575,474	6,328,887
Other contributed equity		246,587
TOTAL EQUITY	6,419,321	6,575,474

Declaration		
I am authorised to provide this report on behalf of Sustainable Melbourne Fund and in doing so state the information in this activity report is to the best of my knowledge true and correct.		
Name: Scott Bocskay Position: Chief Executive Officer	Signature: 	Date: 16 / 08 / 2012