

**Report to the Future Melbourne (Finance and Governance)
Committee**

Agenda item 6.2

2018–19 Second Quarter YTD Financial Performance Report

19 February 2019

Presenter: Michael Tenace, Chief Financial Officer

Purpose and background

1. The purpose of this report is to inform the Future Melbourne Committee of the financial performance of the Council for the first quarter ending 31 December 2018, in accordance with the *Local Government Act 1989* (the Act) and to provide information on supplementary valuations adopted by the Chief Executive Officer under delegation (refer Attachment 3).

Key issues

2. The preliminary result from ordinary activities for the quarter ending 31 December 2018 shows an underlying surplus on the Income Statement of \$19.1 million against the budgeted underlying surplus of \$11.6 million. While the current financial performance is ahead of budget, a portion relates to timing differences. Allowing for timing differences, the full year forecast projects a result in line with the budgeted underlying surplus of \$13.7 million.
3. Total revenue was \$6.6m higher than budget, due to receipt of operational grants, monetary contributions (mainly capital contributions), user and parking fees. Total expenditure was \$2.9 million lower than budget with delay on maintenance projects and consultant spending which is partially offset by higher contract costs and bad and doubtful debts provision costs for parking infringements.
4. A detailed analysis of revenue and expenditure is included in Attachment 2.

Recommendation from management

5. That the Future Melbourne Committee:
 - 5.1. Accepts the quarterly financial performance report as at 31 December 2018.
 - 5.2. Resolves not to refer any matters to the Audit and Risk Committee.

Attachments:

1. Supporting Attachment (Page 2 of 20)
2. Financial Performance Report December 2018 (Page 3 of 20)
3. Supplementary Valuations (Page 19 of 20)
4. Overview of Supplementary Valuations (Page 20 of 20)

Supporting Attachment

Legal

1. Section 138 of the Act provides that at least every three months, the Chief Executive Officer must ensure that a statement comparing the budgeted revenue and expenditure for the financial year with the actual revenue and expenditure to date is presented to the Council.

Finance

2. The financial implications are detailed in the body of the report and attachments.

Conflict of interest

3. 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.

Occupational Health and Safety

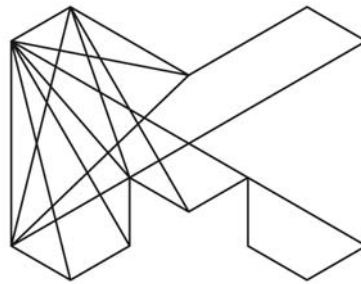
4. In developing this report, no Occupational Health and Safety issues or opportunities have been identified.

Stakeholder consultation

5. Consultation with the various branches of Council has been undertaken in preparation of this report.

Environmental sustainability

6. The financial performance for the quarter ended 31 December reflects many activities impacting on environmental sustainability. There is no direct impact on environmental sustainability from the recommendations in this report.

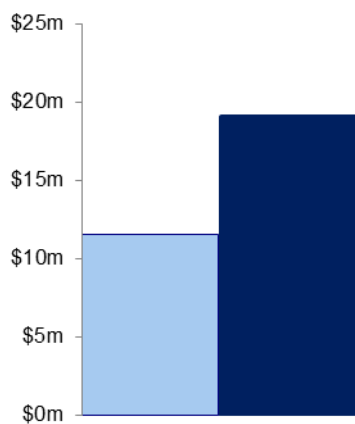


CITY OF MELBOURNE

FINANCIAL PERFORMANCE REPORT

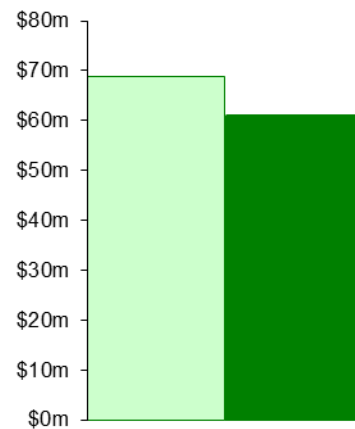
December 2018

Underlying Surplus/(Deficit)



YTD Budget	\$11.6m
YTD Actual	\$19.1m
YTD Variance	\$7.5m

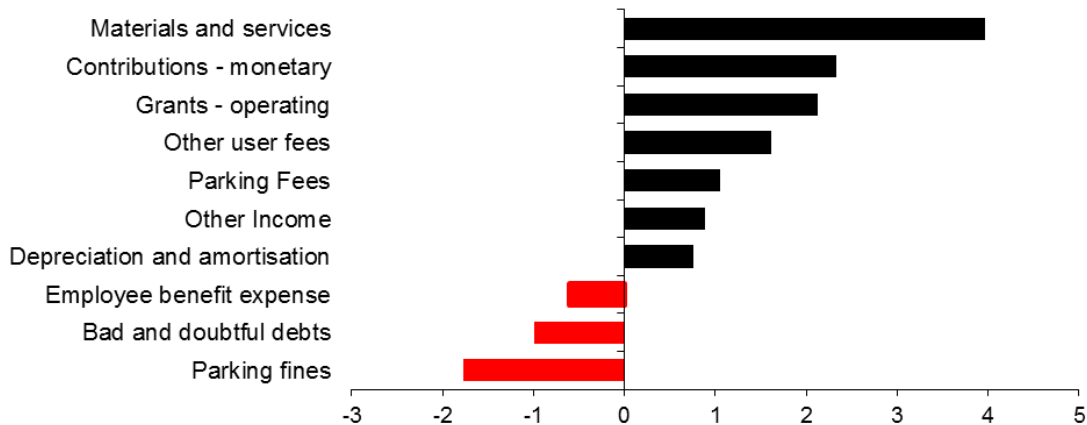
Council Works Program



YTD Budget	\$68.9m
YTD Actual	\$61.0m
YTD Variance	\$7.9m

Executive Summary

Top 10 Variances (\$millions)



Key Financial Implications:

The year to date underlying surplus is \$19.1 million, which is \$7.5 million favourable against budget. The most significant variances are:

- Materials and services (\$4.0 million Fav) due mainly to timing consultancy and general maintenance expenditure.
- Contributions - monetary (\$2.3 million Fav) due to higher external contributions for projects. (Capital contributions and are excluded from underlying surplus).
- Grants – operating (\$2.1 million Fav) due mainly to unexpected arts programs grants income.
- Other user fees (\$1.6 million Fav) due mainly to higher building services revenue.
- Parking Fees (\$1.0 million Fav) due mainly to higher parking meters revenue and reserved parking fees.
- Parking fines (\$1.8 million Unfav) due mainly to less parking infringement notices issued.
- Bad and doubtful debts (\$1.0 million Unfav) due mainly to higher year to date bad debt provision for infringement notices.

Underlying Operating Results

2017-18 Actual	2018-19 Budget	\$ Thousands	YTD 2018-19 (\$'000)		
			Budget	Actual	Variance
451,149	460,184	Revenue	236,771	243,376	6,605
436,418	436,415	Operating Expenditure	216,329	213,415	2,914
14,732	23,769	Results from Ordinary Activities	20,442	29,961	9,519
2,155	964	Net gain/(loss) on disposal of property, infra, plant and equip	0	187	187
1,186	0	Fair value adjustments for investment properties	0	0	0
35	0	Contributions - non monetary	0	0	0
18,108	24,733	Profit/(Loss)	20,442	30,148	9,706
(11,538)	(11,067)	Less External Contributions to Capital	(8,890)	(11,069)	(2,179)
(1,186)	0	Less Gain on Investment Revaluation	0	0	0
(35)	0	Less Contributed Assets	0	0	0
(857)	0	Less Gain on disposal of asset	0	0	0
4,493	13,666	Underlying Surplus/(Deficit)	11,552	19,079	7,527

Council Works Program

The value of works completed is \$61.0 million compared to the planned \$68.9 million work.

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2017-18 Actual (\$'000)	2018-19 Budget (\$'000)	Income Statement	YTD 2018-19 (\$'000)		
			Budget	Actual	Variance
		REVENUE			
271,508	287,013	Rates and charges	145,528	145,200	(328)
		Statutory fees and fines			
44,347	41,923	Parking fines	21,095	19,318	(1,777)
11,467	13,390	Other	7,525	7,888	363
		User fees			
46,621	52,070	Parking	26,620	27,673	1,053
22,683	21,727	Other	11,163	12,780	1,617
15,291	10,812	Grants - operating	5,323	7,448	2,125
9,955	9,867	Grants - capital	7,886	8,228	342
4,647	4,382	Contributions - monetary	3,032	5,360	2,328
		Other income			
3,533	1,075	Interest	473	1,558	1,085
2,595	2,210	Dividends	40	73	33
6,717	6,514	Investment property/market rentals	3,016	3,211	196
3,058	3,285	Intercompany revenue - Citywide	1,642	1,610	(32)
954	25	Intercompany revenue - Queen Vic Market	25	5	(20)
7,591	5,660	Sales & recoveries	3,269	2,873	(394)
183	231	Project income	135	154	18
451,149	460,184	Total Revenue	236,771	243,376	6,605
		EXPENDITURE			
160,927	163,291	Employee benefit expense	76,189	76,795	(606)
185,300	179,515	Materials and services	93,475	89,510	3,965
6,458	6,183	Bad and doubtful debts	3,121	4,107	(986)
63,393	65,464	Depreciation and amortisation	32,730	31,977	753
995	1,400	Borrowing Costs	499	488	11
6,100	6,700	Other expenses	2,292	1,971	321
13,245	13,862	Grants and contributions	8,023	8,567	(544)
436,418	436,415	Total Operating Expenditure	216,329	213,415	2,914
2,155	964	Net gain/(loss) on disposal of property, infra, plant and equip	0	187	187
1,186	0	Fair value adjustments for investment properties	0	0	0
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4,493	13,666	Underlying Surplus/(Deficit)	11,552	19,079	7,527

Prior Year 2017-18 Actual (\$'000)	Balance Sheet	Current Dec-18 Actual (\$'000)	Movement 2017-18 Actual (\$'000)
	Assets		
	Current Assets		
49,982	<i>Ref 1</i> Cash and cash equivalents	111,999	62,017
33,604	<i>Ref 2</i> Trade and other receivables	226,164	192,560
88,000	<i>Ref 3</i> Other financial assets	0	(88,000)
2,677	Other assets	2,335	(342)
174,263	Total Current Assets	340,498	166,235
	Non current assets		
7,500	Non Current Trade and Other Receivables	10,000	2,500
32,175	Other financial assets	32,577	402
31,981	Investment in subsidiaries and trust	31,981	0
4,157,893	Property, infrastructure, plant and equipment	4,173,695	15,802
211,447	Investment property	211,447	0
37,812	Intangible assets	40,964	3,152
4,478,808	Total Non-Current Assets	4,500,664	21,856
4,653,071	TOTAL ASSETS	4,841,162	188,091
	Liabilities		
	Current Liabilities		
(60,853)	<i>Ref 4</i> Trade and other payables	(179,009)	(118,156)
(6,037)	<i>Ref 5</i> Trust funds and deposits	(34,932)	(28,895)
(33,394)	Provisions	(33,689)	(295)
(100,284)	Total Current Liabilities	(247,630)	(147,346)
	Non- current Liabilities		
(3,713)	Provisions	(3,713)	0
(30,000)	Interest-bearing loans and borrowings	(28,482)	1,518
(75)	Trust funds and deposits	(477)	(402)
(33,788)	Total Non-Current Liabilities	(32,672)	1,116
(134,072)	TOTAL LIABILITIES	(280,302)	(146,230)
4,518,999	NET ASSETS	4,560,860	41,861
	Equity		
(2,020,150)	Accumulated Surplus	(2,065,466)	(45,316)
(2,498,849)	Reserves	(2,495,394)	3,455
(4,518,999)	TOTAL EQUITY	(4,560,860)	(41,861)

Balance Sheet

Comparison to June 2018 Actual

1. The cash and cash equivalents increase is mainly due to reclassification of term deposit from other financial assets.
2. Increase in trade and other receivables are due to rates being issued in Aug 2018 for the financial year 2018/19. The increase in receivable is offset by income in advance under Trade and Other Payables. This is the same treatment for Fire Service Levy as well.
3. Other financial assets - see comment above regarding cash and cash equivalents.
4. Trade and other payables are higher mainly due to rates in advance as per trade receivables, offset by decrease in accrued expense.
5. Increase in Trust funds and deposits are mainly due to Fire Services Levy collected for the State Government.

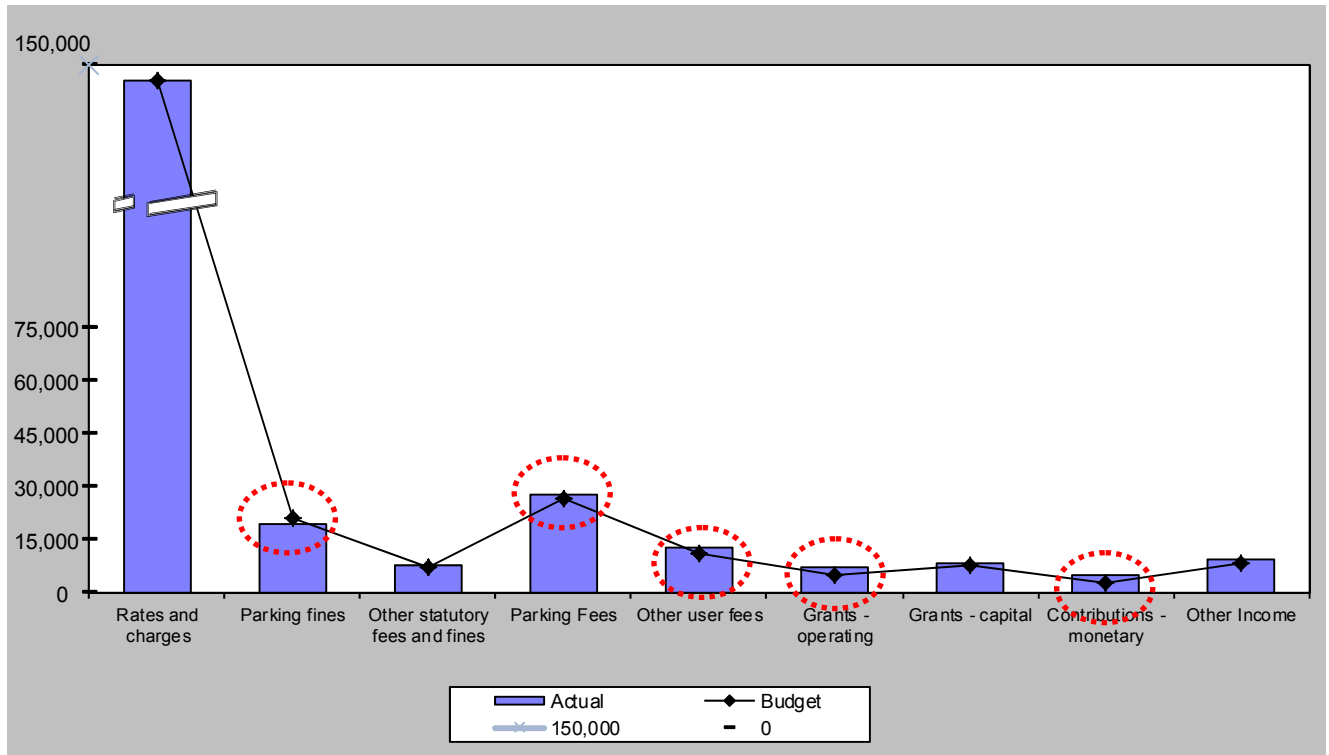
2017-18 Actual (\$'000)	Statement of Cash Flows	Dec-18 Actual (\$'000)
	Cashflows from Operating Activities	
	Receipts	
269,534	Rates and charges	119,738
51,748	Statutory fees and fines	28,141
73,007	User fees	43,037
15,291	Grants - operating	7,448
9,955	Grants - capital	8,228
19,946	Contributions - monetary	5,360
3,533	Interest	1,558
2,595	Dividends	73
3,203	Other receipts	7,853
15,299	Contributions on Public Open Spaces (Reserve)	11,713
464,112		233,148
	Payments	
(160,020)	Employee Costs	(81,609)
(181,440)	Materials & Services	(96,798)
(26,798)	Other Payments	(15,133)
(368,258)		(193,540)
95,853	Net Cash Inflow / (Outflow) from Operating Activities	39,608
	Cashflows from Investing Activities	
(102,243)	Payments for property, infrastructure, plant & equipment	(61,171)
64,963	Proceeds from sale of property, infrastructure, plant & equipment	0
(5,000)	Loan to SMF	(2,500)
(94,175)	TD Deposit Reclassification	87,598
(136,455)	Net Cash Inflow / (Outflow) from Investing Activities	23,927
	Cashflows from Financing Activities	
0	Proceeds from borrowings (Repatriation of CEFC Loan)	(1,518)
0	Net Cash Inflow / (Outflow) from Financing Activities	(1,518)
(40,601)	Net Cash Inflow / (Outflow) from all Activities	62,017
90,583	Cash at beginning of the financial period	49,982
49,982	Cash at the end of Dec-18	111,999
(40,601)	Movement in cash equivalents	62,017

2017-18 Actual (\$'000)	Statement of Cash Flow (reconciliation)	Dec-18 Actual (\$'000)
18,109	Net Surplus/(Deficit) from operations	30,150
	Add Back Non-Cash Items	
63,393	Depreciation/Amortisation	31,977
(1,186)	Fair value adjustments for investment property	0
(2,155)	Profit/(loss) on disposal of property, plant and equipment	(187)
(35)	Contributions - Non-monetary assets	0
78,126	Operating Surplus/(Deficit) before Non cash items	61,940
(91,728)	Net Movement in Working Capital	55,072
(102,262)	Capital Expenditure	(61,170)
(5,000)	Loan to SMF	(2,500)
64,963	Proceeds from sale of assets	0
15,299	Contributions on Public Open Spaces (Reserve)	11,713
0	Repartriation of CEFC Loan	(1,518)
(40,601)	Net Cash inflow/(outflow)	62,017

On a year-to-date basis council has a total cash inflow of \$62.0m. This is comprised of:

- An operating surplus before non-cash items of \$61.9m;
- Movement in working capital of \$55.1m; and
- An outflow associated with capital expenditure of \$61.2m

YTD Revenue Summary



Period: Dec-18

Annual Budget	REVENUE	Year to Date \$'000		
		Budget	Actual	Variance
287,013	Ref 3.0 Rates and charges	145,528	145,200	(328)
41,923	Ref 3.1 Parking fines	21,095	19,318	(1,777)
13,390	Ref 3.2 Other statutory fees and fines	7,525	7,888	363
52,070	Ref 3.3 Parking Fees	26,620	27,673	1,053
21,727	Ref 3.4 Other user fees	11,163	12,780	1,617
10,812	Ref 3.5 Grants - operating	5,323	7,448	2,125
9,867	Ref 3.6 Grants - capital	7,886	8,228	342
4,382	Ref 3.7 Contributions - monetary	3,032	5,360	2,328
19,000	Ref 3.9 Other Income	8,599	9,483	884
460,184	Total Revenue	236,771	243,376	6,605

Analysis of Revenue Variances

Budget \$236.8m	Actual \$143.4m	Variance \$6.6m Favourable
------------------------	------------------------	-----------------------------------

3.0 Rates and charges **-0.2% Variance** **(\$0.3m) Unfav**

This unfavourable variance is due mainly timing of supplementary rates income.

3.1 Parking fines **-8.4% Variance** **(\$1.8m) Unfav**

This unfavourable variance is due mainly to lower number of infringement notices being issued as a result of infringement officers requesting to be paired up over safety concerns.

3.2 Other statutory fees and fines **4.8% Variance** **\$0.4m Fav**

This favourable variance is due mainly to \$0.4 million higher town planning fees as a result of increase of construction activities and building lodgement price.

3.3 Parking fees **4.0% Variance** **\$1.1m Fav**

This favourable variance is largely due to \$0.8 million higher parking meter revenue and \$0.4 million reserved parking fees.

3.4 Other user fees **14.5% Variance** **\$1.6m Fav**

This favourable variance is due mainly to:

- \$2.3 million higher building service revenue as a result of higher construction activities; *and*
- \$0.1 million stronger than expected attendance from 2018 Melbourne Fashion Week event.

The above favourable variances are partially offset by \$0.8 million lower child care fees as a result of lower occupancy levels and a change to the government child care benefits scheme.

3.5 Grants – operating **39.9% Variance** **\$2.1m Fav**

This favourable variance is due mainly to:

- \$1.0 million funding to deliver arts projects and programs;
- \$0.6 million community services grants being received earlier than anticipated;
- \$0.2 million Victoria Grants Commission fund being higher than expected;
- \$0.1 million recycling services temporary relief funding; *and*
- \$0.1 million state library grants in excess of budget.

3.6 Grants – capital **4.3% Variance** **\$0.3m Fav**

This favourable variance is due mainly to \$1.0 million unbudgeted income in relation to Victorian Emergency Service Memorial project which is offset by \$0.5 million of capital grants received in the previous financial year 2017-18 and \$0.2 million funding for redevelopment of Censes of Land Use and Employment system yet to be received.

3.7 Contributions - monetary **76.8% Variance** **\$2.3m Fav**

This favourable variance is due mainly to:

- \$1.5 million South Boulevard Upgrade Project (classified as a capital contribution);
- \$0.1 million developer contribution for future construction development (classified as a capital contribution);
- \$0.2 million urban sustainability programs and projects contributions (classified as a capital contribution); *and*
- \$0.5 million higher child care fees as a result of change of government child care benefits scheme

Analysis of Revenue Variances

Budget \$236.8m	Actual \$143.4m	Variance \$6.6m Favourable
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3.8 Other income

10.3% Variance

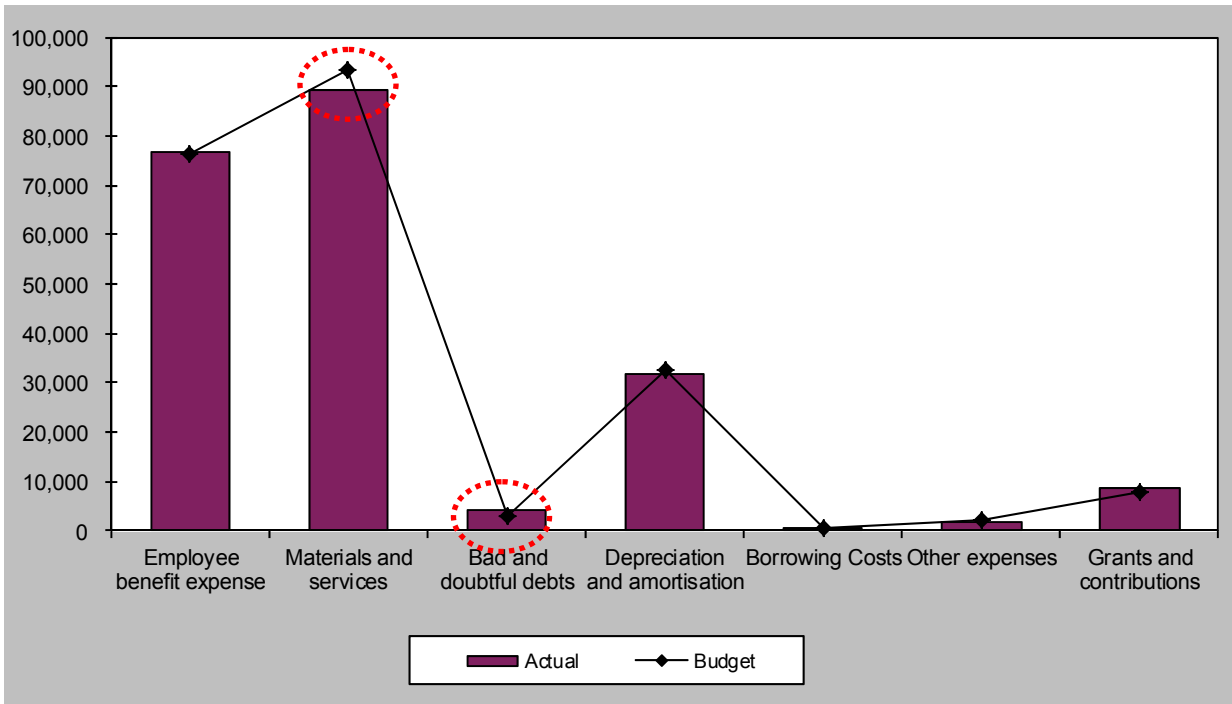
\$0.9m Fav

This favourable variance is due mainly:

- \$1.1 million higher interest revenue as a result of higher cash balances;
- \$0.7 million cost recoveries for external projects and works; *and*
- \$0.3 million in-kind sponsorships for events which is fully offset by in-kind contributions.
- \$0.2 million commercial hiring income.

The above favourable variances are partially offset by \$1.3 million timing of valuation recoveries from State Revenue Office.

YTD Expense Summary



Period: Dec-18

Annual Budget	EXPENDITURE	Year to Date \$'000		
		Budget	Actual	Variance
163,291	Ref 4.1 Employee benefit expense	76,189	76,795	(606)
179,515	Ref 4.2 Materials and services	93,475	89,510	3,965
6,183	Ref 4.3 Bad and doubtful debts	3,121	4,107	(986)
65,464	Ref 4.4 Depreciation and amortisation	32,730	31,977	753
1,400	Ref 4.5 Borrowing Costs	499	488	11
6,700	Ref 4.6 Other expenses	2,292	1,971	321
13,862	Ref 4.7 Grants and contributions	8,023	8,567	(544)
436,415	Total Expenditure	216,329	213,415	2,914

Analysis of Expense Variances

Budget \$216.3m	Actual \$213.4m	Variance \$2.9m favourable
------------------------	------------------------	-----------------------------------

4.1 Employee benefit expense

-0.8% Variance

(\$0.6m) Unfav

This unfavourable variance is due mainly to staff realignment costs.

4.2 Materials & Services

4.2% Variance

\$4.0m Fav

Major variances between actual and budget have occurred in the following categories:

General Maintenance (favourable \$3.3 million)

This favourable variance is due mainly to \$1.9 million Carlton Primary School maintenance works which starts later than anticipated and \$1.4 million timing of other maintenance projects.

Consultants (favourable \$1.8 million)

This favourable variance is due mainly to:

- \$1.0 million urban strategy and sustainability annual plan initiatives (APIs) and projects being delivered later than expected;
- \$0.7 million timing of valuation related expenditure;
- \$0.4 million lower expenditure to deliver Melbourne Fashion Week which is offset by higher contract expenditure;
- \$0.2 million later than expected engagement on QVM related consultants; and
- \$0.2 million timing of delivering smart city projects.

The above favourable variances are partially offset by \$1.0 million higher than expected legal costs as a result of a number of significant ongoing projects/legal issues.

Internal Revenue (favourable \$0.9 million)

This favourable variance is due mainly to internal recoveries from capital works projects.

Contract payments (unfavourable \$2.3 million)

This unfavourable variance is due mainly to \$1.4 million CBD security measures services costs which is fully funded by State Government and \$0.7 million higher waste management and recyclable processing services costs.

4.3 Bad and doubtful debts

-31.6% Variance

(\$1.0m) Unfav

This unfavourable variance is due to higher parking infringement notices issued and an increase in court lodgement and enforcement fees, which has increased provision for bad debts.

4.4 Depreciation and amortisation

2.3% Variance

\$0.8m Fav

This favourable variance is mainly due to timing of capitalization of council capital projects.

4.5 Borrowing costs

2.2% Variance

\$0.01m Fav

Minor favourable variance.

4.6 Other expenses

14.0% Variance

\$0.3m Fav

This favourable variance is mainly due to \$0.2 million refund for Land Tax Objection and \$0.2 million timing of fire levy payments.

Analysis of Expense Variances

Budget \$216.3m	Actual \$213.4m	Variance \$2.9m favourable
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4.7 Grants and contributions

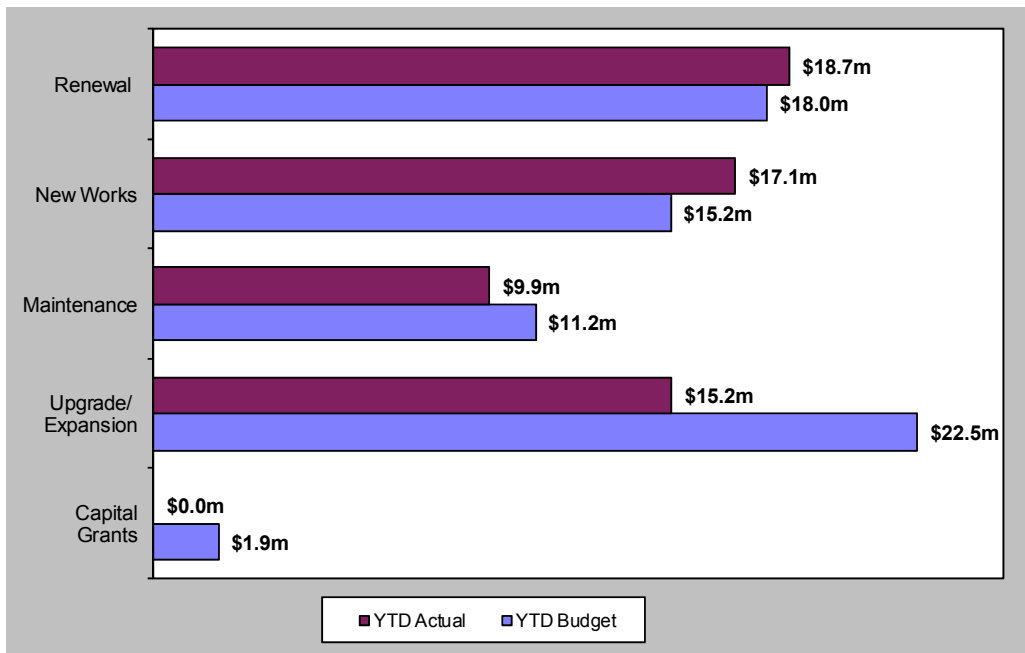
-6.8% Variance

(\$0.5m) Unfav

This unfavourable variance is due mainly to

- \$0.3 million in-kind sponsorships which is fully offset by external in-kind contribution revenue;
- \$0.2 million Melbourne Convention Bureau grants paid earlier than expected; *and*
- \$0.1 million timing of community meals subsidy expense.

Council Works Program Summary

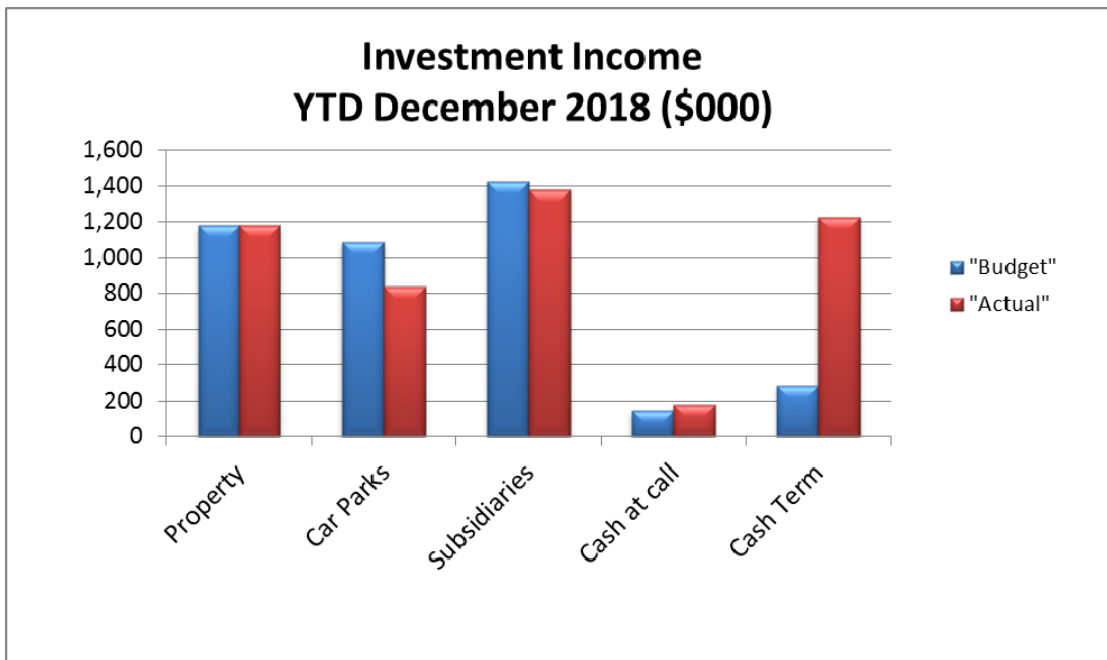
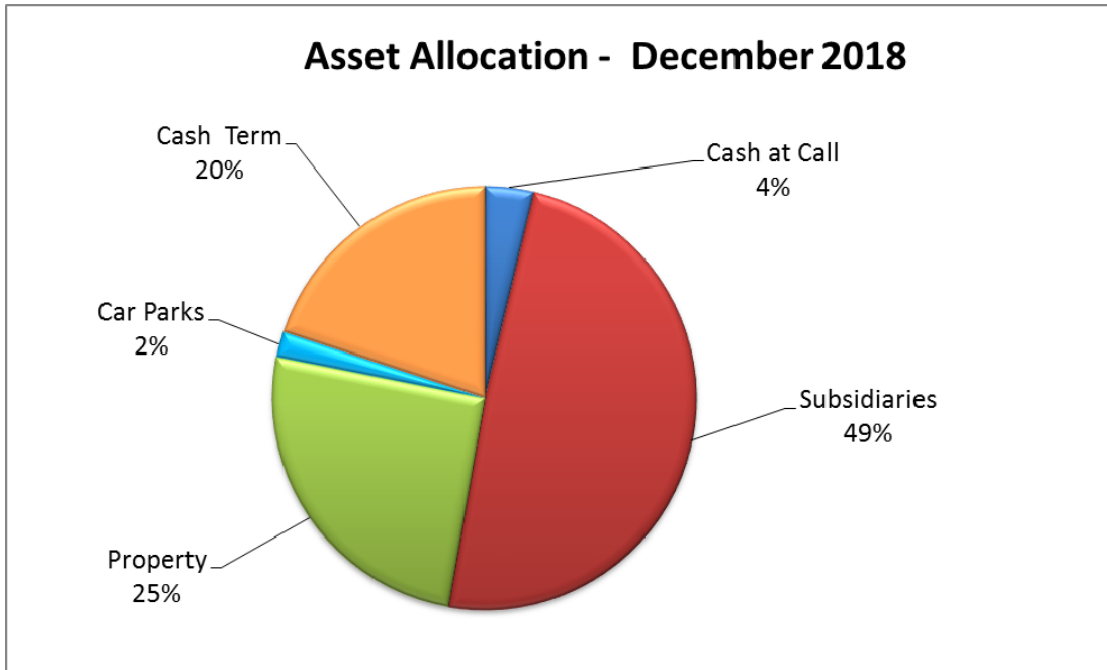


Period: Dec-18

Council Works Area	2017-18 (\$'000)		
	Budget	Actual	Variance
Maintenance			
Capital Grants	1,900	0	1,900
Maintenance	11,227	9,884	1,343
Total Maintenance	13,127	9,884	3,243
Capital Works			
Expansion	13,911	12,603	1,308
Upgrade	8,564	2,645	5,919
New Works	15,212	17,127	(1,915)
Renewal	18,046	18,711	(665)
Total Capital Expenditure	55,733	51,086	4,647
Total Council Works Program	68,860	60,970	7,890

Investment Portfolio Performance 2018-19 (as at 31 December 2018)

The Investment Portfolio returned \$4.8 million for year to date, above the budgeted \$4.1 million.



SUPPLEMENTARY VALUATIONS

Supplementary valuations are undertaken for a variety of reasons and these are prescribed in the *Valuation of Land Act 1960 (VLA)*. Pursuant to the Council resolution of February 2013, supplementary valuations are returned to the Chief Executive Officer and reported quarterly to Council.

In the Oct to Dec 2018 quarter, there was one supplementary valuation return; the total of this return is as follows:

Date	NAV Change	Total Rate Change	New Rates	Exemptions	Objections
18 December 2018	\$92,408,991	\$1,690,206.66	\$2,417,361.31	(\$424,311.83)	(\$302,842.82)
Total	\$92,408,991	\$1,690,206.66	\$2,417,361.31	(\$424,311.83)	(\$302,842.82)

The 2018-19 supplementary new rates budget is \$6.3 million. The year to date actual for new rates is \$4.9 million.

Detailed listings of all supplementary valuation returns are attached to each supplementary return and are available for inspection upon request.

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 Overview of Supplementary Valuation Returns

Ref #	Address	Category	Current NAV	Previous NAV	NAV Change	Rate Change	Comments
18 December 2018							
24	221-245 Salmon Street PORT MELBOURNE VIC 3207	Exempt	\$7,467,000	\$12,099,500	(\$4,632,500)	(\$212,837.33)	Division of assessments
5	Part 207 Collins Street MELBOURNE VIC 3000	Exempt	\$677,300	\$677,350	(\$50)	(\$30,645.00)	Part of Metro Rail project
36	471-485 (except carpark) Collins Street MELBOURNE VIC 3000	Objection	\$1,850,000	\$5,956,550	(\$4,106,550)	(\$185,790.59)	Correction as a result of objection enquiry
60	272-282 Queen Street MELBOURNE VIC 3000	Objection	\$892,500	\$1,465,000	(\$572,500)	(\$25,901.33)	Valuer General acceptance of recommended valuation
107	695-703 Collins Street DOCKLANDS VIC 3008	Supplementary	\$11,484,350	\$940,000	\$10,544,350	\$253,556.81	Multi storey office building with ground floor retail
223	68-82 Southbank Boulevard SOUTHBANK VIC 3006	Supplementary	\$13,704,750	\$1,991,250	\$11,713,500	\$248,790.17	Multi-Unit Development
70	52-56 A'Beckett Street MELBOURNE VIC 3000	Supplementary	\$12,180,200	\$1,762,500	\$10,417,700	\$216,506.34	Multi-Unit Development
187	399-401 Little Lonsdale Street MELBOURNE VIC 3000	Supplementary	\$6,295,600	\$477,850	\$5,817,750	\$139,897.68	Construction of a hotel
173	42-50 La Trobe Street MELBOURNE VIC 3000	Supplementary	\$7,461,550	\$942,500	\$6,519,050	\$135,976.63	Construction of a new student accommodation building
	Balance of 2444 assessments		\$208,316,354	\$151,608,113	\$56,708,241	\$1,150,653.28	
Total First Quarter 2018-19			\$270,329,604	\$177,920,613	\$92,408,991	\$1,690,206.66	