

Management report to Council

Agenda item 6.5

2018-19 Third Quarter YTD Financial Performance Report

Council

Presenter: Michael Tenace, Chief Financial Officer

28 May 2019

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 third quarter ending 31 March 2019, in accordance with the *Local Government Act 1989* and to provide information on supplementary valuations adopted by the Chief Executive Officer under delegation (refer Attachment 3).
2. The preliminary result from ordinary activities for the quarter ending 31 March 2019 shows an underlying surplus on the Income Statement of \$20.9 million against the budgeted underlying surplus of \$9.2 million. While the current financial performance is ahead of budget, a significant portion relates to timing differences. Allowing for timing differences, the full year forecast projects a result in line with the budgeted underlying surplus of \$13.6 million.

Key issues

3. The most significant revenue variances have occurred in other user fees (\$3.5 million favourable) and other income (\$3.6 million favourable). The most significant expenditure variances arose in general maintenance (\$3.8 million favourable), depreciation costs (\$1.2 million favourable) and legal costs (\$1.7 million unfavourable).
4. A detailed analysis of revenue and expenditure is included in Attachment 2.

Recommendation from management

5. That Council:
 - 5.1. Accepts the quarterly financial performance report as at 31 March 2019.
 - 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 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 *Local Government Act 1989* 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.

Health and Safety

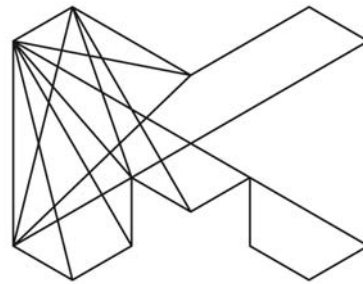
4. In developing this proposal, no Occupational Health and Safety issues or opportunities have been identified.

Stakeholder consultation

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

Environmental sustainability

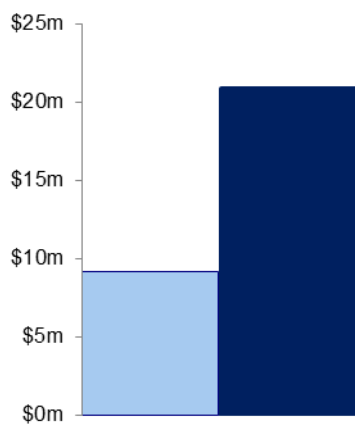
6. The financial performance of the quarter ended 31 March reflects many activities impacting on environmental sustainability. There is no direct impact on environmental sustainability from the recommendations in this report.



CITY OF MELBOURNE

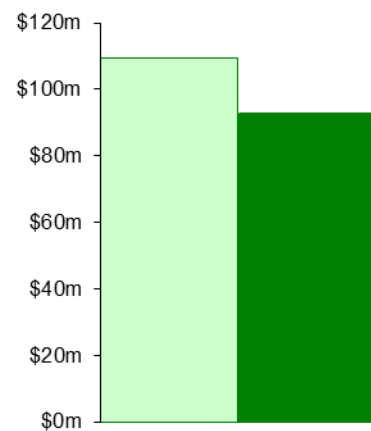
FINANCIAL PERFORMANCE REPORT March 2019

Underlying Surplus/(Deficit)



YTD Budget	\$9.2m
YTD Actual	\$20.9m
YTD Variance	\$11.7m

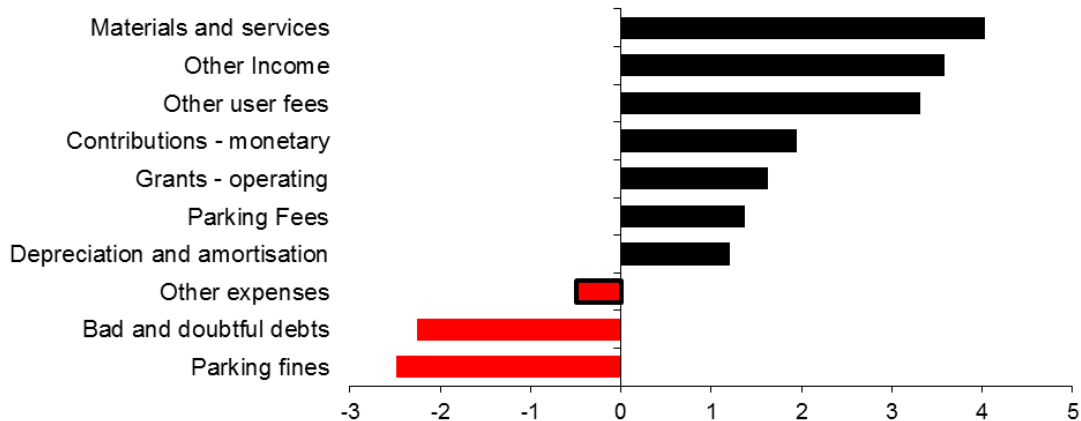
Council Works Program



YTD Budget	\$109.4m
YTD Actual	\$92.7m
YTD Variance	\$16.7m

Executive Summary

Top 10 Variances (\$millions)



Key Financial Implications:

The year to date underlying surplus is \$20.9 million, which is \$11.7 million favourable against budget. The most significant variances are:

- Materials and services (\$1.0 million Fav) due mainly to timing consultancy and general maintenance expenditure.
- Other income (\$3.6 million Fav) due mainly to higher interest revenue and recoveries.
- Other user fees (\$3.3 million Fav) due mainly to higher building services revenue.
- Contributions - monetary (\$1.9 million Fav) due to higher external contributions for projects. (Capital contributions and are excluded from underlying surplus).
- Grants – operating (\$1.6 million Fav) due mainly to unexpected arts programs grants income.
- Parking Fees (\$1.4 million Fav) due mainly to higher parking metre revenue.
- Parking fines (\$2.5 million Unfav) due mainly to less parking infringement notices issued.
- Bad and doubtful debts (\$2.3 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	345,898	355,820	9,922
436,418	436,415	Operating Expenditure	327,553	324,184	3,369
14,732	23,769	Results from Ordinary Activities	18,345	31,636	13,290
2,155	964	Net gain/(loss) on disposal of property, infra, plant and equip	0	192	192
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)	18,345	31,828	13,483
(11,538)	(11,067)	Less External Contributions to Capital	(9,136)	(10,961)	(1,825)
(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)	9,209	20,867	11,658

Council Works Program

The value of works completed is \$92.7 million compared to the planned \$109.4 million work.

Table of Contents

	Page
Income Statement	4
Balance Sheet	5
Cash Flow Statement	7
Revenue Details	9
Expense Details	11
Council Works – Expenditure	14
Investment Portfolio Performance	15
Cash Development Contributions	16

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	216,559	216,539	(20)
		Statutory fees and fines			
44,347	41,923	Parking fines	31,102	28,609	(2,493)
11,467	13,390	Other	10,825	11,214	389
		User fees			
46,621	52,070	Parking	39,308	40,675	1,367
22,683	21,727	Other	16,769	20,088	3,319
15,291	10,812	Grants - operating	7,305	8,931	1,626
9,955	9,867	Grants - capital	8,126	8,338	212
4,647	4,382	Contributions - monetary	3,714	5,658	1,944
		Other income			
3,533	1,075	Interest	761	2,522	1,761
2,595	2,210	Dividends	40	73	33
6,717	6,514	Investment property/market rentals	4,746	4,934	189
3,058	3,285	Intercompany revenue - Citywide	2,463	2,086	(378)
954	25	Intercompany revenue - Queen Vic Market	25	3	(22)
7,591	5,660	Sales & recoveries	3,991	5,904	1,913
183	231	Project income	163	248	84
451,149	460,184	Total Revenue	345,898	355,820	9,922
		EXPENDITURE			
160,927	164,006	Employee benefit expense	120,252	119,807	445
185,300	178,800	Materials and services	137,686	133,658	4,028
6,458	6,183	Bad and doubtful debts	4,582	6,844	(2,262)
63,393	65,464	Depreciation and amortisation	49,071	47,870	1,201
995	1,400	Borrowing Costs	846	721	125
6,100	6,700	Other expenses	3,310	3,802	(492)
13,245	13,862	Grants and contributions	11,806	11,482	324
436,418	436,415	Total Operating Expenditure	327,553	324,184	3,369
2,155	964	Net gain/(loss) on disposal of property, infra, plant and equip	0	192	192
1,186	0	Fair value adjustments for investment properties	0	0	0
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4,493	13,666	Underlying Surplus/(Deficit)	9,209	20,867	11,658

Prior Year 2017-18 Actual (\$'000)	Balance Sheet	Current Mar-19 Actual (\$'000)	Movement 2017-18 Actual (\$'000)
	Assets		
	Current Assets		
49,982	<i>Ref 1</i> Cash and cash equivalents	160,845	110,863
33,604	<i>Ref 2</i> Trade and other receivables	85,294	51,690
88,000	<i>Ref 3</i> Other financial assets	0	(88,000)
2,677	Other assets	1,332	(1,345)
174,263	Total Current Assets	247,471	73,208
	Non current assets		
7,500	Non Current Trade and Other Receivables	10,000	2,500
32,175	Other financial assets	32,770	595
31,981	Investment in subsidiaries and trust	31,981	0
4,157,893	Property, infrastructure, plant and equipment	4,185,555	27,662
211,447	Investment property	211,447	0
37,812	Intangible assets	41,776	3,964
4,478,808	Total Non-Current Assets	4,513,529	34,721
4,653,071	TOTAL ASSETS	4,761,000	107,929
	Liabilities		
	Current Liabilities		
(60,853)	<i>Ref 4</i> Trade and other payables	(113,625)	(52,772)
(6,037)	<i>Ref 5</i> Trust funds and deposits	(16,536)	(10,499)
(33,394)	Provisions	(33,573)	(179)
(100,284)	Total Current Liabilities	(163,734)	(63,450)
	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	(670)	(595)
(33,788)	Total Non-Current Liabilities	(32,865)	923
(134,072)	TOTAL LIABILITIES	(196,599)	(62,527)
4,518,999	NET ASSETS	4,564,401	45,402
	Equity		
(2,020,150)	Accumulated Surplus	(2,090,172)	(70,022)
(2,498,849)	Reserves	(2,474,229)	24,621
(4,518,999)	TOTAL EQUITY	(4,564,401)	(45,402)

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.

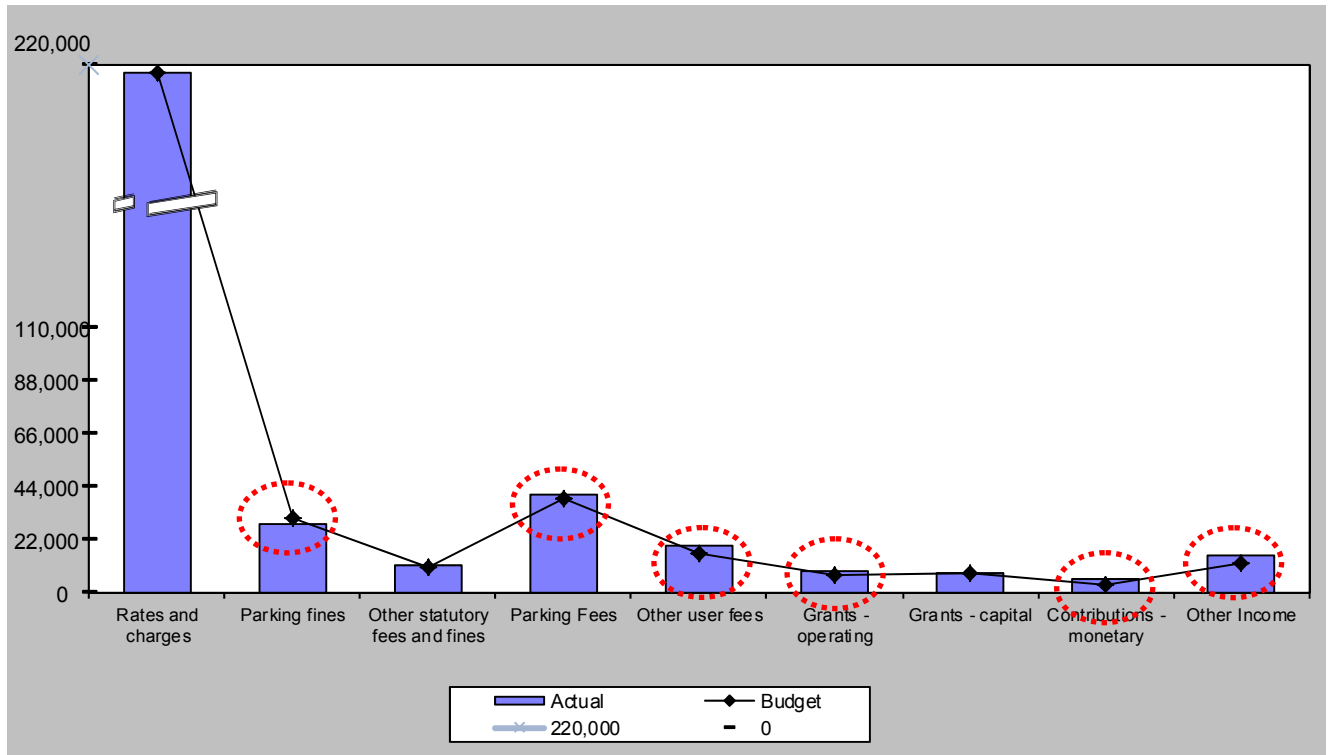
2017-18 Actual (\$'000)	Statement of Cash Flows	Mar-19 Actual (\$'000)
	Cashflows from Operating Activities	
	Receipts	
269,534	Rates and charges	239,880
51,748	Statutory fees and fines	41,590
73,007	User fees	64,498
15,291	Grants - operating	8,931
9,955	Grants - capital	8,338
19,946	Contributions - monetary	5,658
3,533	Interest	2,522
2,595	Dividends	73
(1,401)	Trust funds and deposits taken	3,384
3,203	Other receipts	13,174
16,700	Contributions on Public Open Spaces (Reserve)	13,576
464,112		401,624
	Payments	
(160,020)	Employee Costs	(120,373)
(180,445)	Materials & Services	(149,341)
(26,798)	Other Payments	(15,284)
(367,263)		(284,998)
95,853	Net Cash Inflow / (Outflow) from Operating Activities	116,626
	Cashflows from Investing Activities	
(102,243)	Payments for property, infrastructure, plant & equipment	(89,488)
64,963	Proceeds from sale of property, infrastructure, plant & equipment	464
(5,000)	Loan to SMF	(2,500)
(94,175)	TD Deposit Reclassification	88,000
(136,455)	Net Cash Inflow / (Outflow) from Investing Activities	(3,524)
	Cashflows from Financing Activities	
0	Proceeds from borrowings (Repatriation of CEFC Loan)	(1,518)
(995)	Finance Costs	(721)
(995)	Net Cash Inflow / (Outflow) from Financing Activities	(2,239)
(40,601)	Net Cash Inflow / (Outflow) from all Activities	110,863
90,583	Cash at beginning of the financial period	49,982
49,982	Cash at the end of Mar-19	160,845
(40,601)	Movement in cash equivalents	110,863

2017-18 Actual (\$'000)	Statement of Cash Flow (reconciliation)	Mar-19 Actual (\$'000)
18,109	Net Surplus/(Deficit) from operations	31,827
	Add Back Non-Cash Items	
63,393	Depreciation/Amortisation	47,870
(1,186)	Fair value adjustments for investment property	0
(2,155)	Profit/(loss) on disposal of property, plant and equipment	(192)
(35)	Contributions - Non-monetary assets	0
78,126	Operating Surplus/(Deficit) before Non cash items	79,505
(91,728)	Net Movement in Working Capital	112,322
(102,262)	Capital Expenditure	(89,466)
(5,000)	Loan to SMF	(2,500)
64,963	Proceeds from sale of assets	464
15,299	Contributions on Public Open Spaces (Reserve)	13,576
0	Repartriation of CEFC Loan	(1,518)
(40,601)	Net Cash inflow/(outflow)	110,863

On a year-to-date basis council has a total cash inflow of \$110.9m. This is comprised of:

- An operating surplus before non-cash items of \$79.5m;
- Movement in working capital of \$112.3m; and
- An outflow associated with capital expenditure of \$89.5m

YTD Revenue Summary



Period: Mar-19

Annual Budget	REVENUE	Year to Date \$'000		
		Budget	Actual	Variance
287,013	Ref 3.0 Rates and charges	216,559	216,539	(20)
41,923	Ref 3.1 Parking fines	31,102	28,609	(2,493)
13,390	Ref 3.2 Other statutory fees and fines	10,825	11,214	389
52,070	Ref 3.3 Parking Fees	39,308	40,675	1,367
21,727	Ref 3.4 Other user fees	16,769	20,088	3,319
10,812	Ref 3.5 Grants - operating	7,305	8,931	1,626
9,867	Ref 3.6 Grants - capital	8,126	8,338	212
4,382	Ref 3.7 Contributions - monetary	3,714	5,658	1,944
19,000	Ref 3.9 Other Income	12,190	15,769	3,579
460,184	Total Revenue	345,898	355,820	9,921

Analysis of Revenue Variances

Budget \$345.9m

Actual \$355.8m

Variance \$9.9m Favourable

3.0 Rates and charges**-0.0% Variance****(\$0.0m) Unfav**

Minor unfavourable variance.

3.1 Parking fines**-8.0% Variance****(\$2.5m) Unfav**

The unfavourable variance is due to a number of factors. This includes significantly reduced infringement notices being issued as a result of infringement officers requesting to be paired up over safety concerns, availability of officers and extreme weather impact.

3.2 Other statutory fees and fines**3.6% Variance****\$0.4m Fav**

This favourable variance is largely due to \$0.8 million higher town planning fees as a result of the increase of construction activities and building lodgement price. This is offset by \$0.2 million delayed timing of election fines revenue, and \$0.2 million less temporary food premises revenue in relation to Fine Food Event.

3.3 Parking fees**3.5% Variance****\$1.4m Fav**

This favourable variance is significantly due to \$0.9 million higher parking meter revenue and \$0.6 million reserved parking fees.

3.4 Other user fees**19.8% Variance****\$3.3m Fav**

This favourable variance is due mainly to:

- \$4.0 million higher building service revenue as a result of higher construction activities;
- \$0.3 million stronger than expected revenue from 2018 Moomba and Melbourne Fashion Week event; *and*
- \$0.1 million garbage compactor fees being higher than anticipated.

The above favourable variances are partially offset by \$1.0 million lower child care fees as a result of lower occupancy levels, close of Melbourne City Children Centre and change of government subsidy scheme.

3.5 Grants – operating**22.3% Variance****\$1.6m Fav**

This favourable variance is due mainly to:

- \$1.0 million funding to deliver arts projects and programs;
- \$0.3 million Victoria Grants Commission fund being higher than expected;
- \$0.1 million fund for state infrastructure projects; *and*
- \$0.1 million Recycling Services Temporary Relief Fund.

3.6 Grants – capital**2.6% Variance****\$0.2m 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 roads to recovery grants yet to be received.

3.7 Contributions – monetary**52.3% Variance****\$1.9m Fav**

This favourable variance is due mainly to:

- \$1.2 million South Boulevard Upgrade Project (capital contribution);
- \$0.3 million developer contribution for future construction development (capital contribution);
- \$0.6 million higher child care fees as a result of change of government child care benefits scheme; *and*

Analysis of Revenue Variances

Budget \$345.9m	Actual \$355.8m	Variance \$9.9m Favourable
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The above favourable variances are partially offset by \$0.3 million lower commercial sponsorship income from various events.

3.8 Other income

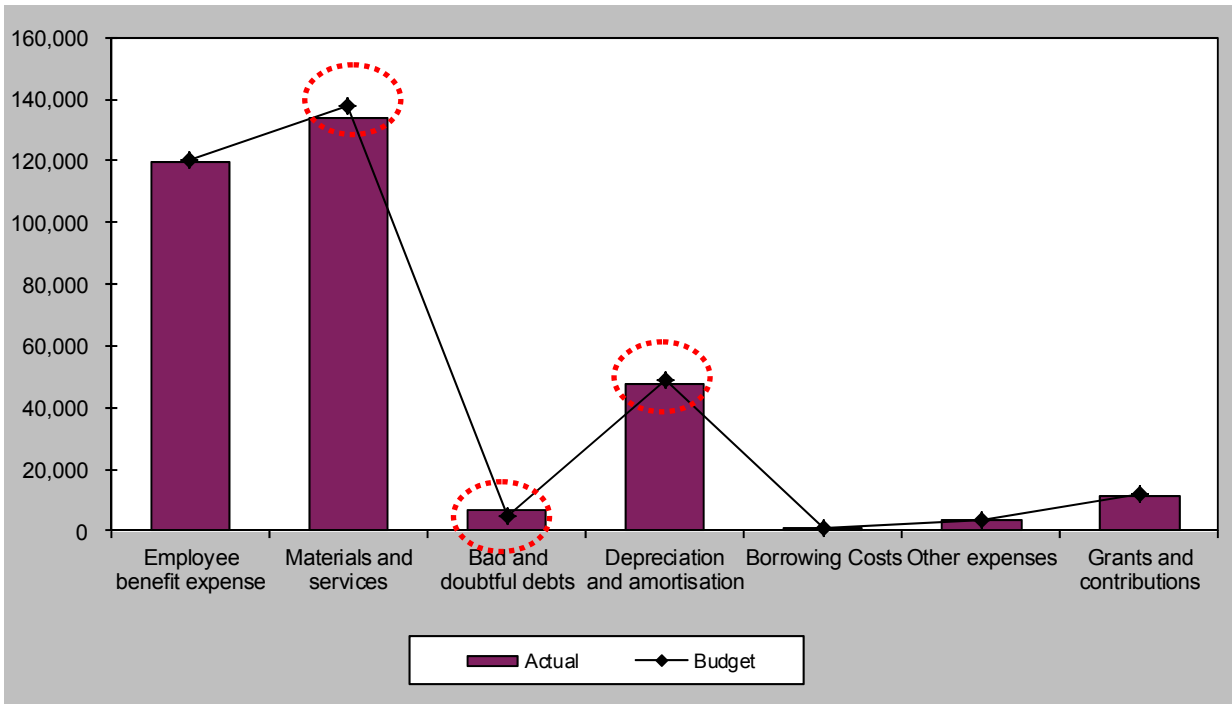
29.4% Variance

\$3.6m Fav

This favourable variance is due mainly:

- \$1.7 million higher interest revenue as a result of higher cash balances;
- \$0.8 million cost recoveries for external projects and works;
- \$0.7 million commercial sale and hiring income; *and*
- \$0.4 million in-kind sponsorships for events which is fully offset by in-kind contributions.

YTD Expense Summary



Period: Mar-19

Annual Budget	EXPENDITURE	Year to Date \$'000		
		Budget	Actual	Variance
164,006	Ref 4.1 Employee benefit expense	120,252	119,807	445
178,800	Ref 4.2 Materials and services	137,686	133,658	4,028
6,183	Ref 4.3 Bad and doubtful debts	4,582	6,844	(2,262)
65,464	Ref 4.4 Depreciation and amortisation	49,071	47,870	1,201
1,400	Ref 4.5 Borrowing Costs	846	721	125
6,700	Ref 4.6 Other expenses	3,310	3,802	(492)
13,862	Ref 4.7 Grants and contributions	11,806	11,482	324
436,415	Total Expenditure	327,553	324,184	3,369

Analysis of Expense Variances

Budget \$327.6m	Actual \$324.2m	Variance \$3.4m favourable
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4.1 Employee benefit expense

0.4% Variance

\$0.4m Fav

This favourable variance is due mainly to large amounts of annual leaves taken during Christmas period (considered to be timing difference) and leave loading adjustments which is partially offset by staff realignment costs.

4.2 Materials & Services

2.9% Variance

\$4.0m Fav

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

General Maintenance (favourable \$3.8 million)

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

Consultants (favourable \$2.5 million)

This favourable variance is due mainly to:

- \$1.7 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;
- \$0.4 million timing of delivering smart city projects.
- \$0.4 million communities' consultancy expenditure yet to be spent;
- \$0.3 million marketing costs in relation to arts programs; *and*
- \$0.2 million later than expected engagement on QVM related consultants.

The above favourable variances are partially offset by \$1.7 million higher than expected legal costs as a result of a number of significant ongoing projects/legal issues.

Internal Revenue (favourable \$1.4 million)

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

Contract payments (unfavourable \$3.3 million)

This unfavourable variance is due mainly to:

- \$1.5 million CBD security measures services costs which is fully funded by State Government;
- \$1.1 million higher waste management and recyclable processing services costs;
- \$0.7 million Security Services Contract and Maintenance of Electronic Security Equipment and parking control devices; *and*
- \$0.5 million higher property and parks maintenance expenditure.

The above favourable variance is partially offset by \$0.4 million aging and inclusion related expenditure being less than expected.

4.3 Bad and doubtful debts

-49.4% Variance

(\$2.3m) 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.

Analysis of Expense Variances

Budget \$327.6m	Actual \$324.2m	Variance \$3.4m favourable
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4.4 Depreciation and amortisation **2.4% Variance** **\$1.2m Fav**

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

4.5 Borrowing costs **14.8% Variance** **\$0.1m Fav**

Minor favourable variance.

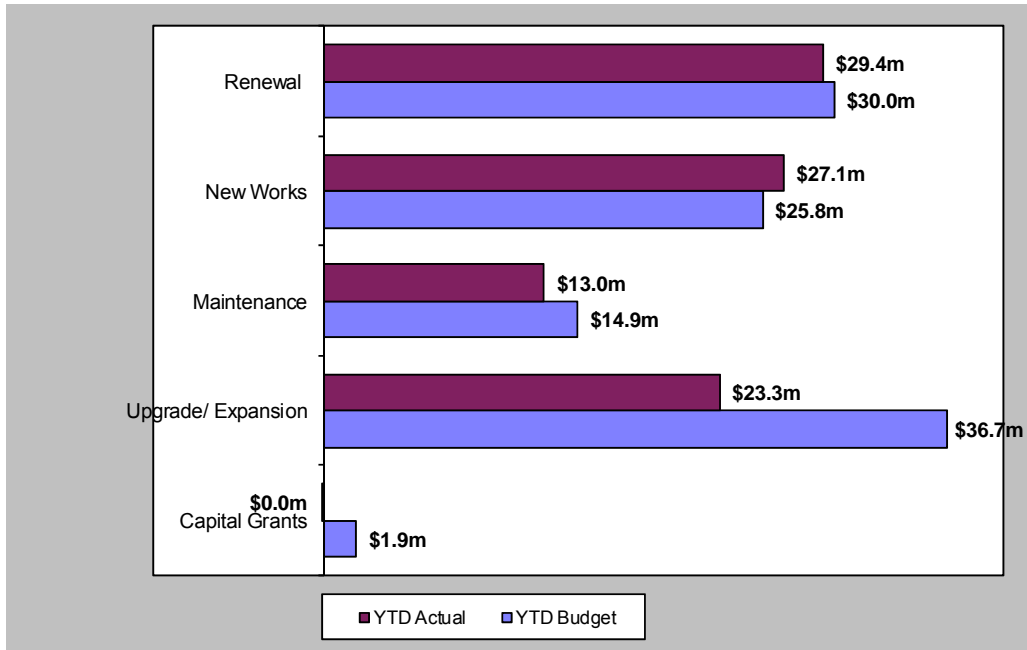
4.6 Other expenses **-14.9% Variance** **(\$0.5m) Unfav**

The above unfavourable variance is mainly due to \$0.4 million of 2019 Car Park Congestion Levy being paid earlier than anticipated.

4.7 Grants and contributions **2.7% Variance** **\$0.3m Fav**

This favourable variance is due mainly to \$0.5 million arts investment grants being paid later than expected and \$0.2 million lower Events Partnership funding awarded being less than the budget which is offset by \$0.4 million in-kind sponsorships.

Council Works Program Summary

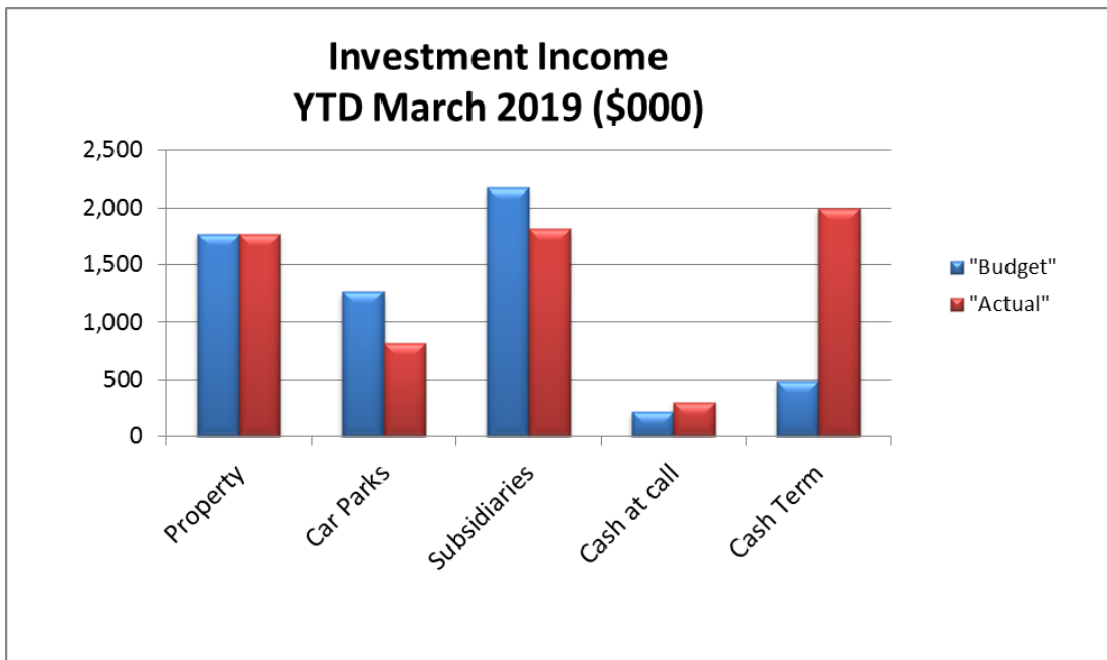
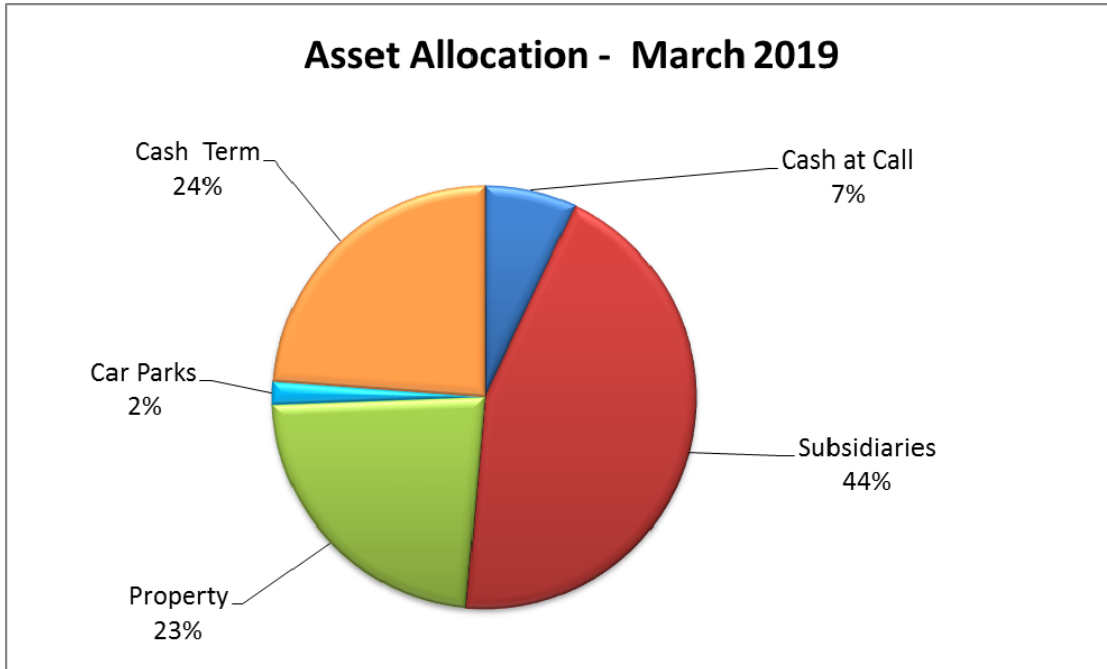


Period: Mar-19

Council Works Area	2017-18 (\$'000)		
	Budget	Actual	Variance
Maintenance			
Capital Grants	1,900	(2)	1,902
Maintenance	14,936	12,979	1,956
Total Maintenance	16,836	12,977	3,858
Capital Works			
Expansion	21,714	18,102	3,611
Upgrade	15,021	5,185	9,837
New Works	25,821	27,074	(1,253)
Renewal	30,022	29,388	633
Total Capital Expenditure	92,578	79,749	12,829
Total Council Works Program	109,414	92,726	16,688

Investment Portfolio Performance 2018-19 (as at 31 March 2019)

The Investment Portfolio returned \$6.7 million for year to date, above the budgeted \$5.9 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 Jan to Mar 2019 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
12 March 2019	\$60,886,100	\$266,347.91	\$716,569.53	(\$356,938.09)	(\$93,283.53)
Total	\$60,886,100	\$266,347.91	\$716,569.53	(\$356,938.09)	(\$93,283.53)

The 2018-19 supplementary new rates budget is \$6.3 million. The year to date actual for new rates is \$5.7 million.

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

Page 20 of 20
 Overview of Supplementary Valuation Returns

Ref #	Address	Category	Current NAV	Previous NAV	NAV Change	Rate Change	Comments
12 March 2019							
4	143-151 Therry Street MELBOURNE VIC 3000	Exempt	\$4,852,500	\$4,852,500	-	(\$219,539.23)	Exempt Munro site.
98	Bmt - Part Ground & Mezzanine 538-544 Collins Street MELBOURNE VIC 3000	Exempt	\$643,950	\$643,950	-	(\$111,744.58)	Exempt charitable use
36	17-23 Queens Bridge Street SOUTHBANK VIC 3006	Objection	\$1,048,800	\$1,048,800	-	(\$43,312.17)	VCAT Order to adjust the valuation.
39	87-89 Queens Bridge Street SOUTHBANK VIC 3006	Objection	\$577,550	\$577,550	-	(\$9,059.70)	VCAT Order to adjust the valuation.
83	Office 16-32 Leicester Street CARLTON VIC 3053	Supplementary	\$7,998,650	\$1,050,500	\$6,948,150	\$82,074.43	Construction of building(s) or other improvements - 16 levels of student accommodation.
117	599-605 Swanston Street CARLTON VIC 3053	Supplementary	\$7,897,100	\$685,000	\$7,212,100	\$86,002.71	Construction of student accommodation building + 4 retail lots.
64	915-941 Collins Street DOCKLANDS VIC 3008	Supplementary	\$11,613,050	\$1,142,500	\$10,470,550	\$139,903.51	Construction of building(s) or other improvements - 322 lots
90	9-23 MacKenzie Street MELBOURNE VIC 3000	Supplementary	\$14,245,500	\$1,107,500	\$13,138,000	\$156,637.91	Construction of residential building.
56	2-12 Batmans Hill Drive DOCKLANDS VIC 3008	Supplementary	\$13,522,550	\$710,000	\$12,812,550	\$174,695.60	Commercial office development.
	Balance of 780 assessments		\$104,053,175	\$93,748,425	\$10,304,750	\$10,689.43	
Total Third Quarter 2018-19			\$166,452,825	\$105,566,725	\$60,886,100	\$266,347.91	