

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

Agenda item 6.5

2018–19 First Quarter YTD Financial Performance Report

13 November 2018

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 30 September 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 September 2018 shows an underlying surplus on the Income Statement of \$12.3 million against the budgeted underlying surplus of \$11.1 million. While the current financial performance is ahead of budget, this is due to timing of income received earlier than expected. Allowing for timing differences, the full year forecast projects a result in line with the budgeted underlying surplus of \$13.7 million.
3. The most significant revenue variances have occurred in user fees (\$1.1 million favourable), and operating grants (\$1.1 million favourable). The most significant expenditure variances arose in materials and services (\$1.0 million unfavourable).
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 30 September 2018.
 - 5.2. Resolves not to refer any matters to the Audit and Risk Committee.

Attachments:

1. Supporting Attachment (Page 2 of 18)
2. Financial Performance Report September 2018 (Page 3 of 18)
3. Supplementary Valuations (Page 17 of 18)
4. Overview of Supplementary Returns (Page 18 of 18)

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

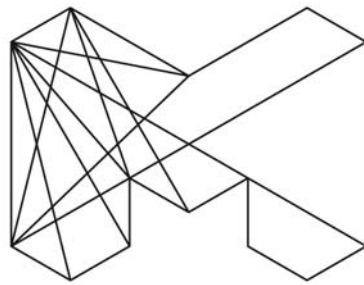
4. In developing this report, no Occupational Health and Safety issues or opportunities have been identified.

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 30 September 2018 reflects many activities impacting on environmental sustainability. There is no direct impact on environmental sustainability from the recommendations in this report.

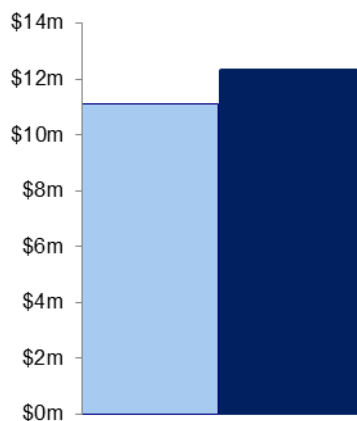


CITY OF MELBOURNE

FINANCIAL PERFORMANCE REPORT

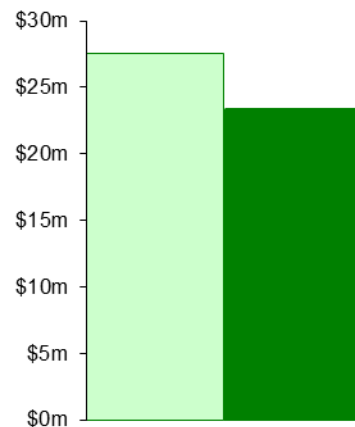
September 2018

Underlying Surplus/(Deficit)



YTD Budget	\$11.1m
YTD Actual	\$12.3m
YTD Variance	\$1.2m

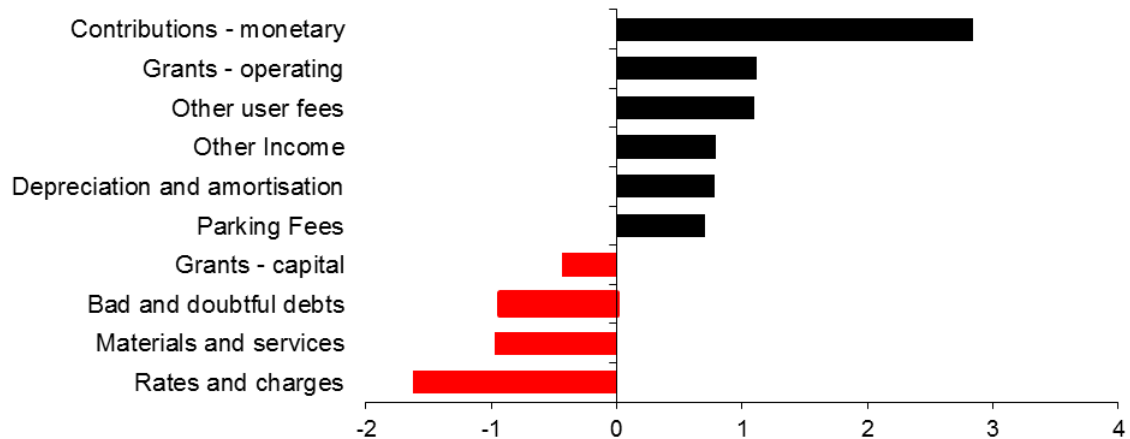
Council Works Program



YTD Budget	\$27.5m
YTD Actual	\$23.3m
YTD Variance	\$4.2m

Executive Summary

Top 10 Variances (\$millions)



Key Financial Implications:

Major variances related to year to date underlying surplus against budget are:

- Contributions - monetary (\$2.8 million Fav) due to higher external contributions for projects, such as South Boulevard Project and Living Victoria Fund. (Capital contributions and are excluded from underlying surplus)
- Other user fees (\$1.1 million Fav) mainly due to higher building services revenue
- Grants – operating (\$1.1 million Fav) mainly due to higher than expected arts program grant income.
- Other Income (\$0.8 million Fav) mainly due to higher interest revenue as a result of higher cash balance.
- Depreciation and amortisation (\$0.8 million Fav) mainly due to timing of projects capitalization.
- Rates and charges (\$1.6 million Unfav) mainly due to timing of supplementary rates against budget. This report excludes the impact of the general valuation changes.
- Materials & Services (\$1.0 million Unfav) mainly due to higher contract and maintenance service costs related to delivery of service.
- Bad and doubtful debts (\$0.9 million Unfav) mainly due to higher parking infringement notices issued and increase in court lodgement and enforcement fees.

Underlying Operating Results

2017-18 Actual	2018-19 Budget	\$ Thousands	YTD 2018-19 (\$'000)		
			Budget	Actual	Variance
451,149	460,184	Revenue	116,278	121,154	4,876
436,418	436,415	Operating Expenditure	104,632	106,321	(1,689)
14,732	23,769	Results from Ordinary Activities	11,646	14,833	3,186
2,155	964	Net gain/(loss) on disposal of property, infra, plant and equip	0	125	125
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)	11,646	14,958	3,312
(11,538)	(11,067)	Less External Contributions to Capital	(539)	(2,658)	(2,119)
(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)	11,107	12,300	1,193

Council Works Program

The value of works completed is \$23.3 million compared to the planned \$27.5 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	74,300	72,677	(1,623)
		Statutory fees and fines			
44,347	41,923	Parking fines	10,788	11,020	232
11,467	13,390	Other	3,510	3,670	160
		User fees			
46,621	52,070	Parking	13,494	14,198	704
22,683	21,727	Other	5,736	6,833	1,097
15,291	10,812	Grants - operating	3,091	4,208	1,117
9,955	9,867	Grants - capital	538	98	(440)
4,647	4,382	Contributions - monetary	1,373	4,211	2,838
		Other income			
3,533	1,075	Interest	214	726	511
2,595	2,210	Dividends	0	0	(1)
6,717	6,514	Investment property/market rentals	1,483	1,496	13
3,058	3,285	Intercompany revenue - Citywide	821	659	(162)
954	25	Intercompany revenue - Queen Vic Market	25	0	(25)
7,591	5,660	Sales & recoveries	857	1,299	442
183	231	Project income	48	59	11
451,149	460,184	Total Revenue	116,278	121,154	4,876
		EXPENDITURE			
160,927	163,291	Employee benefit expense	38,190	38,436	(246)
185,300	179,515	Materials and services	42,522	43,494	(972)
6,458	6,183	Bad and doubtful debts	1,598	2,537	(939)
63,393	65,464	Depreciation and amortisation	16,369	15,591	778
995	1,400	Borrowing Costs	249	249	0
6,100	6,700	Other expenses	1,050	1,077	(27)
13,245	13,862	Grants and contributions	4,654	4,937	(283)
436,418	436,415	Total Operating Expenditure	104,632	106,321	(1,689)
2,155	964	Net gain/(loss) on disposal of property, infra, plant and equip	0	125	125
1,186	0	Fair value adjustments for investment properties	0	0	0
35	0	Contributions - non monetary	0	0	0
18,107	24,733	Profit/(Loss)	11,646	14,958	3,312
(11,538)	(11,067)	Less External Contributions to Capital	(539)	(2,658)	(2,119)
(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)	11,107	12,300	1,193

Prior Year 2017-18 Actual (\$'000)	Balance Sheet	Current Sep-18 Actual (\$'000)	Movement 2017-18 Actual (\$'000)
	Assets		
	Current Assets		
49,982	<i>Ref 1</i> Cash and cash equivalents	143,746	93,764
33,604	<i>Ref 2</i> Trade and other receivables	310,274	276,670
88,000	<i>Ref 3</i> Other financial assets	0	(88,000)
2,677	Other assets	1,010	(1,667)
174,263	Total Current Assets	455,030	280,767
	Non current assets		
7,500	Non Current Trade and Other Receivables	10,000	2,500
32,175	<i>Ref 1</i> Other financial assets	32,372	197
31,981	Investment in subsidiaries and trust	31,981	0
4,157,893	Property, infrastructure, plant and equipment	4,159,027	1,134
211,447	Investment property	211,447	0
37,812	Intangible assets	39,769	1,957
4,478,808	Total Non-Current Assets	4,484,596	5,788
4,653,071	TOTAL ASSETS	4,939,626	286,555
	Liabilities		
	Current Liabilities		
(60,853)	<i>Ref 4</i> Trade and other payables	(278,601)	(217,748)
(6,037)	<i>Ref 5</i> Trust funds and deposits	(52,869)	(46,832)
(33,394)	Provisions	(33,466)	(72)
(100,284)	Total Current Liabilities	(364,936)	(264,652)
	Non- current Liabilities		
(3,713)	Provisions	(3,713)	0
(30,000)	Interest-bearing loans and borrowings	(30,000)	0
(75)	Trust funds and deposits	(272)	(197)
(33,788)	Total Non-Current Liabilities	(33,985)	(197)
(134,072)	TOTAL LIABILITIES	(398,921)	(264,849)
4,518,999	NET ASSETS	4,540,705	21,706
	Equity		
(2,020,150)	Accumulated Surplus	(2,040,148)	(19,998)
(2,498,849)	Reserves	(2,500,557)	(1,708)
(4,518,999)	TOTAL EQUITY	(4,540,705)	(21,706)

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 is 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.

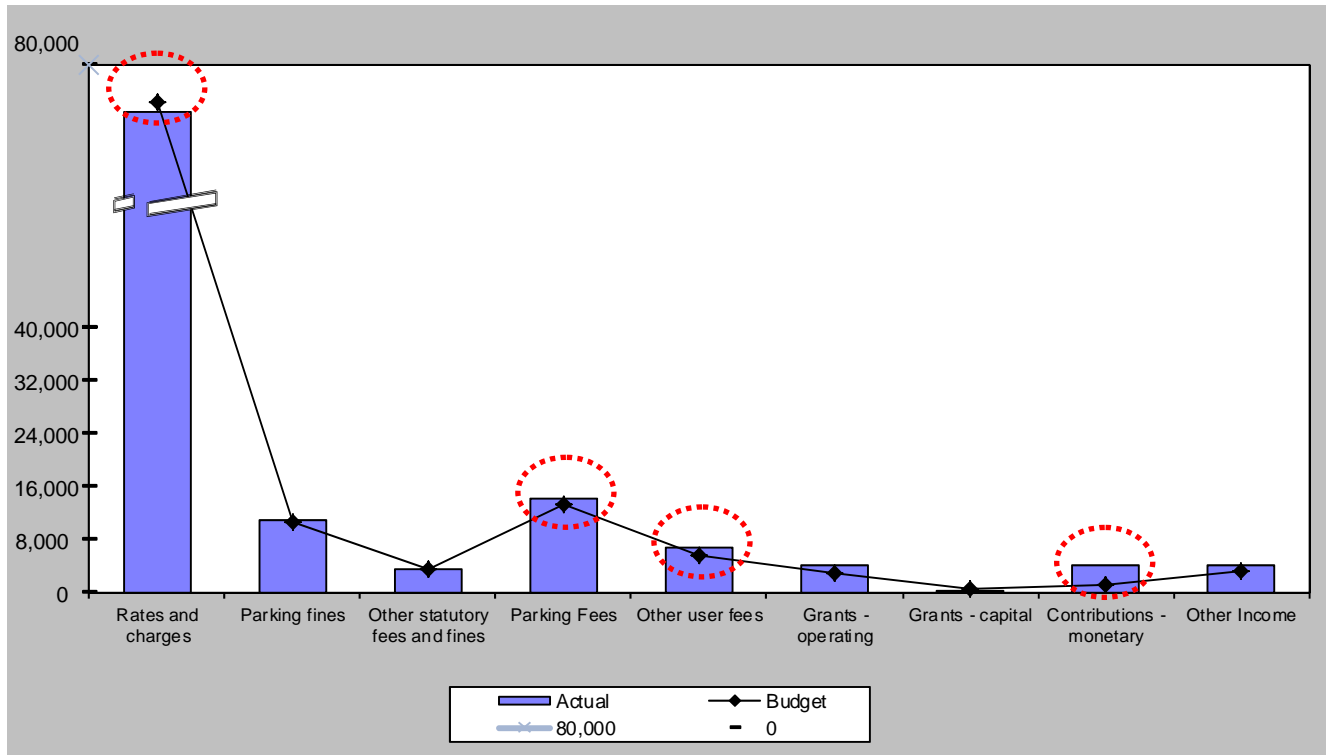
2017-18 Actual (\$'000)	Statement of Cash Flows	Sep-18 Actual (\$'000)
	Cashflows from Operating Activities	
	Receipts	
269,534	Rates and charges	44,360
51,748	Statutory fees and fines	21,484
73,007	User fees	30,366
15,291	Grants - operating	4,208
9,955	Grants - capital	98
19,946	Contributions - monetary	4,211
3,533	Interest	726
2,595	Dividends	0
3,203	Other receipts	3,513
15,299	Contributions on Public Open Spaces (Reserve)	6,747
464,112		115,713
	Payments	
(160,020)	Employee Costs	(43,473)
(181,440)	Materials & Services	(23,594)
(26,798)	Other Payments	(8,800)
(368,258)		(75,867)
95,853	Net Cash Inflow / (Outflow) from Operating Activities	39,846
	Cashflows from Investing Activities	
(102,243)	Payments for property, infrastructure, plant & equipment	(31,385)
64,963	Proceeds from sale of property, infrastructure, plant & equipment	0
(5,000)	Loan to SMF	(2,500)
(94,175)	TD Deposit Reclassification	87,803
(136,455)	Net Cash Inflow / (Outflow) from Investing Activities	53,918
	Cashflows from Financing Activities	
0	Proceeds from borrowings	0
0	Net Cash Inflow / (Outflow) from Financing Activities	0
(40,601)	Net Cash Inflow / (Outflow) from all Activities	93,764
90,583	Cash at beginning of the financial period	49,982
49,982	Cash at the end of Sep-18	143,746
(40,601)	Movement in cash equivalents	93,764

2017-18 Actual (\$'000)	Statement of Cash Flow (reconciliation)	Sep-18 Actual (\$'000)
18,109	Net Surplus/(Deficit) from operations	18,659
	Add Back Non-Cash Items	
63,393	Depreciation/Amortisation	15,591
(1,186)	Fair value adjustments for investment property	0
(2,155)	Profit/(loss) on disposal of property, plant and equipment	(125)
(35)	Contributions - Non-monetary assets	0
78,126	Operating Surplus/(Deficit) before Non cash items	34,125
(91,728)	Net Movement in Working Capital	86,959
(102,262)	Capital Expenditure	(31,565)
(5,000)	Loan to SMF	(2,500)
64,963	Proceeds from sale of assets	0
15,299	Contributions on Public Open Spaces (Reserve)	6,747
(40,601)	Net Cash inflow/(outflow)	93,764

On a year-to-date basis council had a total cash inflow of \$93.8m. This is comprised of:

- An operating surplus before non-cash items of \$34.1m;
- Movement in working capital of \$87.0m; and
- An outflow associated with capital expenditure of \$31.6m

YTD Revenue Summary



Period: Sep-18

Annual Budget	REVENUE	Year to Date \$'000		
		Budget	Actual	Variance
287,013	Ref 3.0 Rates and charges	74,300	72,677	(1,623)
41,923	Ref 3.1 Parking fines	10,788	11,020	232
13,390	Ref 3.2 Other statutory fees and fines	3,510	3,670	160
52,070	Ref 3.3 Parking Fees	13,494	14,198	704
21,727	Ref 3.4 Other user fees	5,736	6,833	1,097
10,812	Ref 3.5 Grants - operating	3,091	4,208	1,117
9,867	Ref 3.6 Grants - capital	538	98	(440)
4,382	Ref 3.7 Contributions - monetary	1,373	4,211	2,838
19,000	Ref 3.9 Other Income	3,448	4,239	791
460,184	Total Revenue	116,278	121,154	4,876

Analysis of Revenue Variances

Budget \$116.3m

Actual \$121.2m

Variance \$4.9m Favourable

3.0 Rates and charges**-2.2% Variance (\$1.6m) Unfav**

This unfavourable variance is due mainly timing of supplementary rates income. This report excludes the impact of the general valuation changes

3.1 Parking fines**2.2% Variance \$0.2m Fav**

Minor favourable variance.

3.2 Other statutory fees and fines**5.2% Variance \$0.1m Fav**

Minor favourable variance.

3.3 Parking fees**7.5% Variance \$0.7m Fav**

This favourable variance is largely due to higher parking meters revenue and reserved parking fees.

3.4 Other user fees**19.0% Variance \$1.1m Fav**

This favourable variance is mainly due to building service revenue as a result of higher construction activities. This is partially offset by lower child care fees as a result of a lower occupancy levels and change of government child care benefits scheme.

3.5 Grants – operating**36.1% Variance \$1.1m Fav**

This favourable variance is related to funds received for:

- deliver arts projects and programs;
- population growth; *and*
- Victoria Grants Commission

3.6 Grants – capital**-81.8% Variance (\$0.4m) Unfav**

This unfavourable variance is mainly due to grants received in the previous financial 2017-18.

3.7 Contributions - monetary**206.7% Variance \$2.8m Fav**

This favourable variance is related to funds received for:

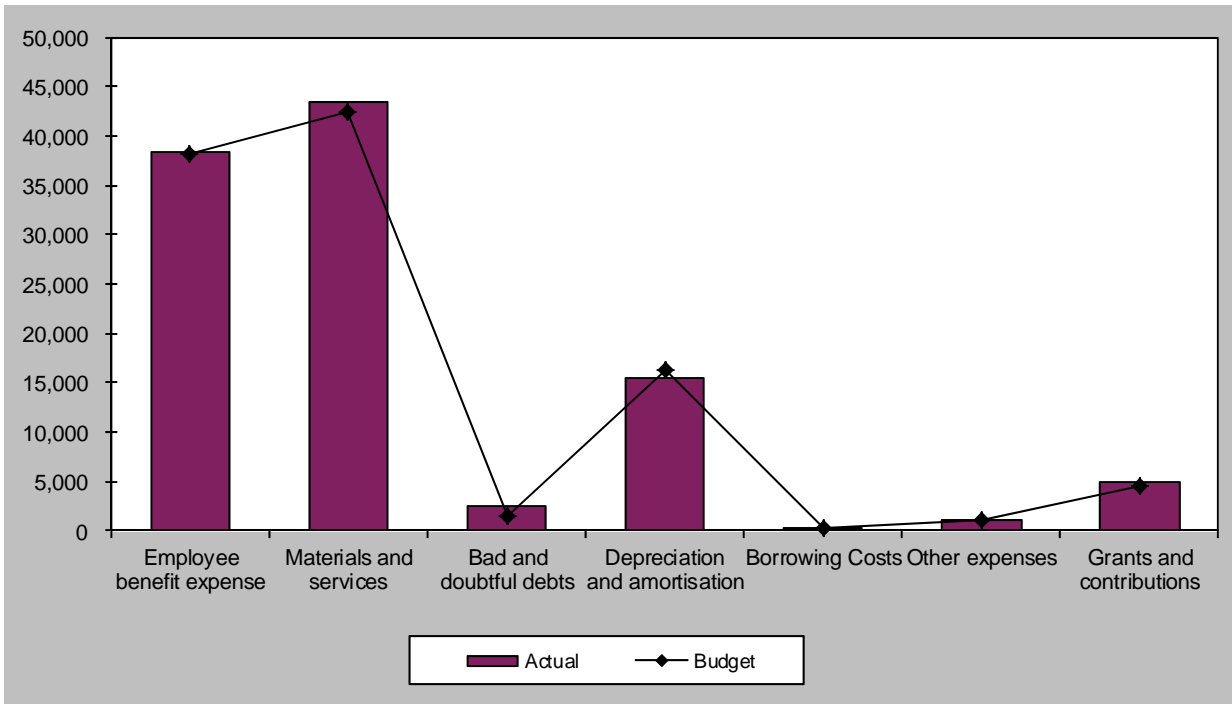
- South Boulevard Upgrade Project (classified as a capital contribution);
- Living Victoria Fund project (classified as a capital contribution);

3.8 Other income**22.9% Variance \$0.8m Fav**

This favourable variance is due mainly to:

- higher interest revenue as a result of higher cash balances;
- cost recoveries for external projects and works;

YTD Expense Summary



Period: Sep-18

Annual Budget	EXPENDITURE	Year to Date \$'000		
		Budget	Actual	Variance
163,291	<i>Ref 4.1</i> Employee benefit expense	38,190	38,436	(246)
179,515	<i>Ref 4.2</i> Materials and services	42,522	43,494	(972)
6,183	<i>Ref 4.3</i> Bad and doubtful debts	1,598	2,537	(939)
65,464	<i>Ref 4.4</i> Depreciation and amortisation	16,369	15,591	778
1,400	<i>Ref 4.5</i> Borrowing Costs	249	249	0
6,700	<i>Ref 4.6</i> Other expenses	1,050	1,077	(27)
13,862	<i>Ref 4.7</i> Grants and contributions	4,654	4,937	(283)
436,415	Total Expenditure	104,632	106,321	(1,689)

Analysis of Expense Variances

Budget \$104.6m	Actual \$106.3m	Variance \$1.7m unfavourable
------------------------	------------------------	-------------------------------------

4.1 Employee benefit expense **-0.6% Variance** **(\$0.3m) Unfav**

The unfavourable variance is due mainly to timing of staff costs.

4.2 Materials & Services **-2.3% Variance** **(\$1.0m) Unfav**

This unfavourable variance is mainly due to higher contract and maintenance service costs related to delivery of service for growing population.

4.3 Bad and doubtful debts **-58.8% Variance** **(\$0.9m) Unfav**

This unfavourable variance is due to higher parking infringement notices issued and increase in court lodgement and enforcement fees.

4.4 Depreciation and amortisation **4.8% Variance** **\$0.8m Fav**

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

4.5 Borrowing costs **0.0% Variance** **Nil Fav**

Nil variance.

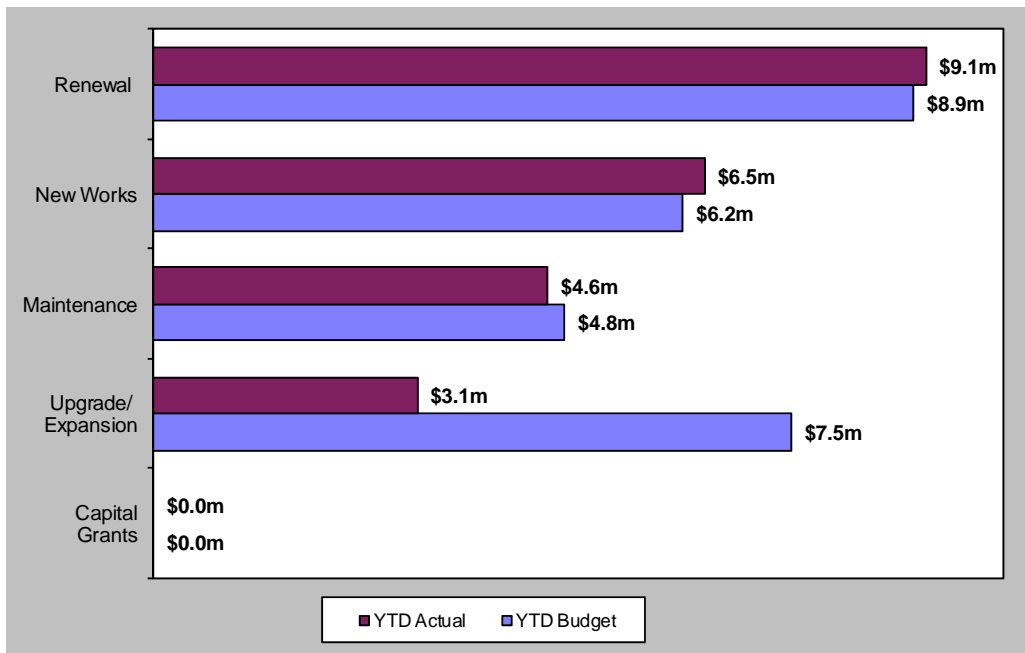
4.6 Other expenses **-2.6% Variance** **(\$0.02m) Unfav**

Minor unfavourable variance.

4.7 Grants and contributions **-6.1% Variance** **(\$0.3m) Unfav**

Minor unfavourable variance.

Council Works Program Summary

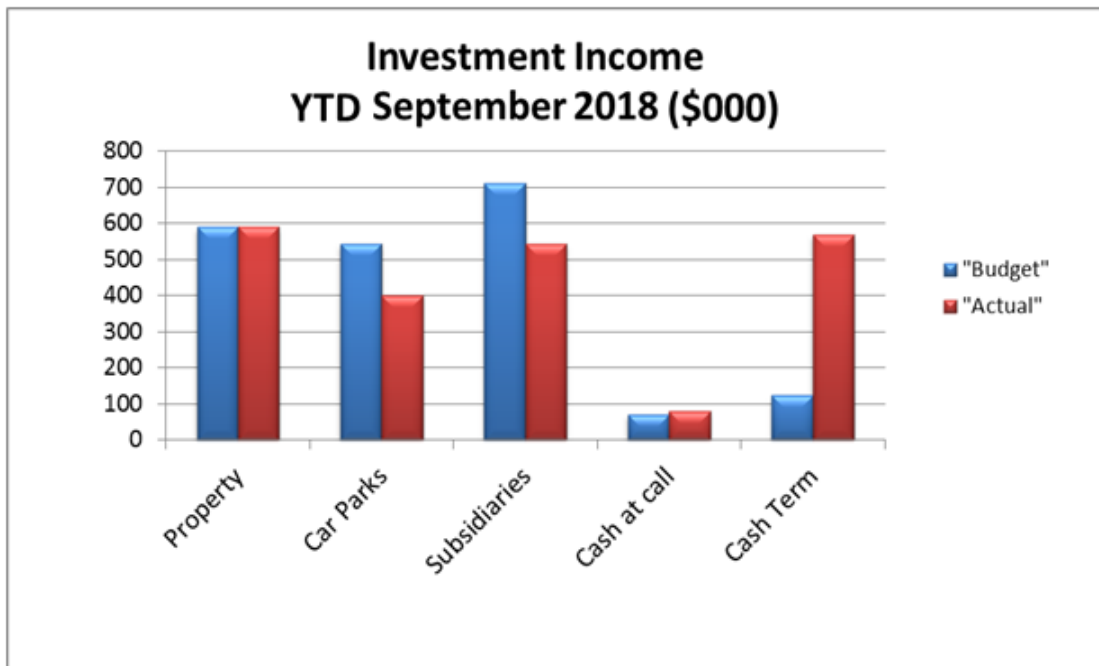
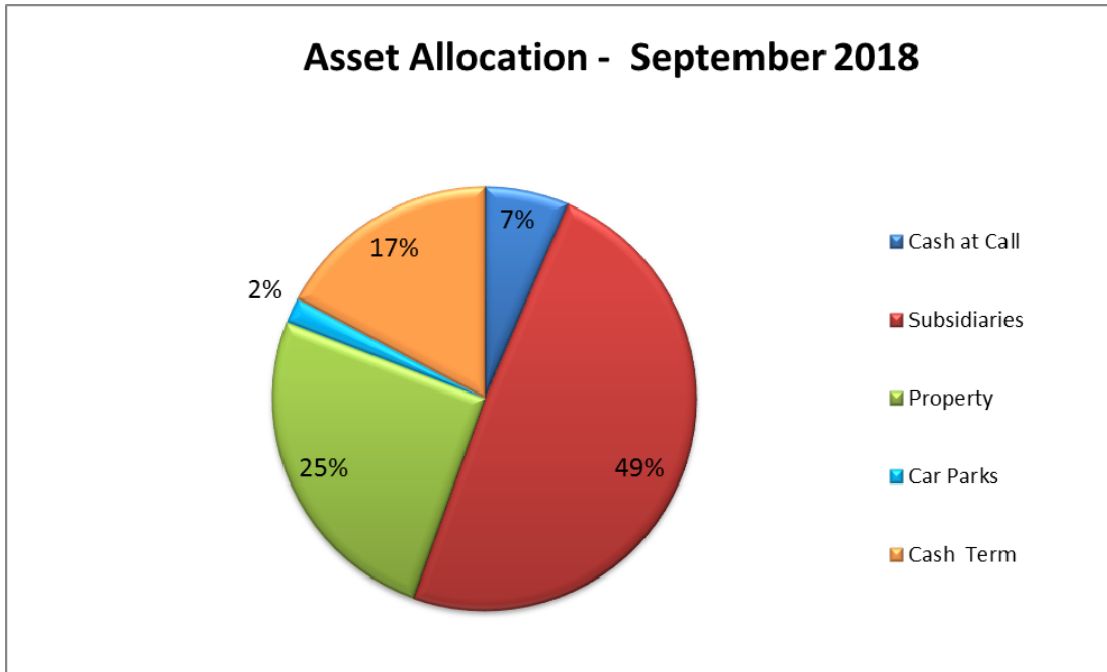


Period: Sep-18

Council Works Area	2017-18 (\$'000)		
	Budget	Actual	Variance
Maintenance			
Capital Grants	0	0	(0)
Maintenance	4,839	4,638	201
Total Maintenance	4,839	4,638	201
Capital Works			
Expansion	4,177	1,827	2,350
Upgrade	3,332	1,275	2,057
New Works	6,232	6,485	(253)
Renewal	8,949	9,093	(144)
Total Capital Expenditure	22,690	18,680	4,010
Total Council Works Program	27,529	23,318	4,211

Investment Portfolio Performance 2018-19 (as at 30 September 2018)

The Investment Portfolio returned \$2.2 million for year to date, above the budgeted \$2.0 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 July to Sep 2018 quarter, there was one supplementary valuation return; the total of this return is as follows:

Date- 2018	NAV Change	Total Rate Change	New Rates	Exemptions	Objections
1 July 2018	\$59,508,900	\$2,520,456.05	\$2,520,456.05	0	0
Total	\$59,508,900	\$2,520,456.05	\$2,520,456.05	0	0

The 2018-19 supplementary new rates budget is \$6.32 million. The year to date actual for new rates is \$2.52 million.

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

Overview of Supplementary Valuation Returns

Ref #	Address	Category	Current NAV	Previous NAV	NAV Change	Rate Change	Comments
July 2018							
4	452-472 Elizabeth Street MELBOURNE VIC 3000	Supplementary	\$15,455,900	\$570,000	\$14,885,900	\$592,549.13	Construction of multi-unit development; 643 residential and 4 commercial lots
1	308-310 City Road SOUTHBANK VIC 3006	Supplementary	\$11,208,900	\$742,500	\$10,466,400	\$414,326.37	Construction of multi-unit development; 470 residential lots
2	Train Terminal Southern Cross Station 93-161 Spencer Street DOCKLANDS VIC 3008	Supplementary	\$19,086,100	\$10,507,250	\$8,578,850	\$396,481.27	Construction of building(s) or other improvements
13	Deakin House 393-397 Swanston Street MELBOURNE VIC 3000	Supplementary	\$7,156,800	\$640,000	\$6,516,800	\$301,137.41	Construction of student housing building
3	68-70 Dorcas Street SOUTHBANK VIC 3006	Supplementary	\$6,069,100	\$907,500	\$5,161,600	\$207,383.52	Construction of multi-unit development; 238 residential units
7	Telstra Exhibition Exchange 288-308 Exhibition Street MELBOURNE VIC 3000	Supplementary	\$8,739,000	\$4,735,000	\$4,004,000	\$185,022.44	Subdivision of land into 2 titles
9	112 Haines Street NORTH MELBOURNE VIC 3051	Supplementary	\$3,543,500	\$644,000	\$2,899,500	\$111,842.95	Construction of multi-unit development; 140 residential units
	Balance of 186 assessments		\$9,947,500	\$2,951,650	\$6,995,850	\$311,712.96	
	Total		\$81,206,800	\$21,697,900	\$59,508,900	\$2,520,456.05	
Total First Quarter 2018-19			\$81,206,800	\$21,697,900	\$59,508,900	\$2,520,456.05	