

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

Agenda item 6.4

2018-19 Financial Performance Report

20 August 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 financial year ended 30 June 2019, in accordance with the *Local Government Act 1989* (the Act).

Key issues

2. The preliminary result from ordinary activities for the 12 month period ending 30 June 2019 shows a strong underlying surplus on the Income Statement of \$17.8 million. This is a favourable variance of \$4.1 million against the budgeted underlying surplus of \$13.7 million.
3. A detailed analysis of revenue and expenditure is included in Attachment 2.
4. In addition to the underlying surplus, in accordance with accounting standards, the Council is also required to reflect a comprehensive result in the Annual Report. The comprehensive result includes additional non-cash items including revaluation of Council assets. The Council has a net asset base in excess of \$4.3 billion with land, parkland, roads, footpaths, buildings, kerbs and channels and infrastructure assets being the most significant items.
5. Given the asset base size, revaluations often generate significant non cash gains or (losses) that are unlikely to be realised but do need to be reflected to comply with accounting standards.
6. The comprehensive result for Council in 2018–19 is a deficit of \$183.3 million (\$265.9 million surplus 2017–18) with a significant revaluation of assets decrement of \$233.5 million being the major driving reason for 2018-19.
7. The reported result is subject to audit by the Victorian Auditor General's Office.

Recommendation from management

8. That the Future Melbourne Committee:
 - 8.1. Accepts the preliminary underlying surplus of \$17.8 million for Council in the 2018–19 financial year.
 - 8.2. Accepts the preliminary comprehensive result of a deficit of \$183.3 million deficit for Council in the 2018–19 financial year.
 - 8.3. Approves the submission of the Consolidated Financial Statements and Performance Statements to the Audit and Risk Committee on 29 August 2019 and then to Council.
 - 8.4. Requests the Lord Mayor call a Special Council meeting on 10 September 2019 at 5.45pm to consider and approve in principle the Consolidated Financial Statements and Performance Statements.

Attachments:

1. Supporting Attachment (Page 2 of 17)
2. Finance Performance Report June 2019 (Page 3 of 17)

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.
2. Section 131 (7) of the Act provides the Council must not submit the financial statements to its auditor or the Minister unless it has first passed a resolution giving its approval in principle to the same.

Finance

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

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.

Health and Safety

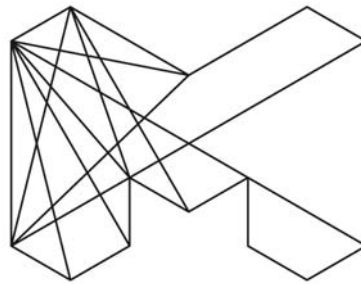
5. In developing this report, no Occupational Health and Safety issues or opportunities have been identified.

Stakeholder consultation

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

Environmental sustainability

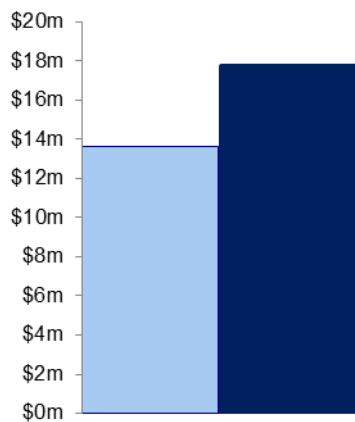
7. The financial performance for the quarter ended 30 June 2019 reflects many activities impacting on environmental sustainability. There is no direct impact on environmental sustainability from the recommendations in this report.



CITY OF MELBOURNE

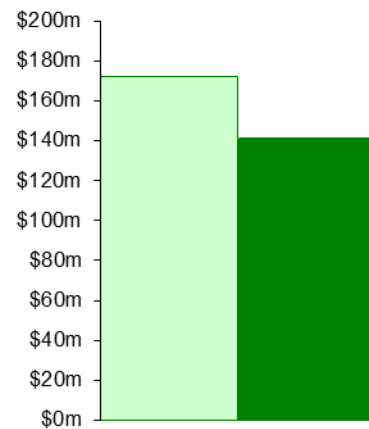
FINANCIAL PERFORMANCE REPORT 2018-19

Underlying Surplus/(Deficit)



YTD Budget	\$13.7m
YTD Actual	\$17.8m
YTD Variance	\$4.1m

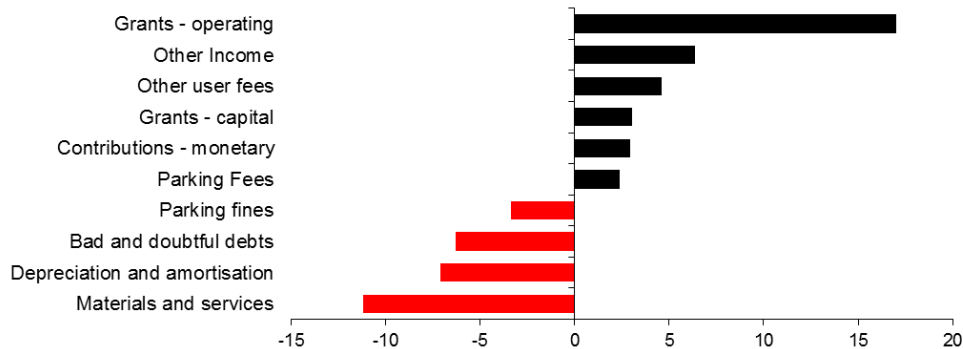
Council Works Program



YTD Budget	\$172.2m
YTD Actual	\$140.7m
YTD Variance	\$31.5m

Executive Summary

Top 10 Variances (\$millions)



Key Financial Implications:

The 18-19 annual interim underlying surplus is \$17.8 million, which is \$4.1 million favourable against budget. The most significant variances are:

- Grants – operating (\$17.0 million Fav) primarily due to material compensation funding received in relation to the Metro Tunnel Project.
- Other income (\$6.6 million Fav) largely as a result of higher interest revenue and recoveries.
- Other user fees (\$4.6 million Fav) significantly due to higher building services revenue.
- Grants – capital (\$3.0 million Fav) due mainly to project fund in relation to protective security enhancement project. (Capital contributions are excluded from the underlying surplus)
- Contributions - monetary (\$2.9 million Fav) due to higher external contributions for projects. (Capital contributions and are excluded from underlying surplus).
- Materials and Services (\$11.2 million Unfav) as a result of growth in key contract costs as well as utilities.
- Depreciation and amortisation (\$7.1million Unfav) due to a policy change which materially shortened the useful life on intangible assets.
- Bad and doubtful debts (\$6.3 million Unfav) due to an update required to the infringement notices provision methodology that now complies with the accounting standard change.

Underlying Operating Results

2017-18 Actual	2018-19 Budget	\$ Thousands	2018-19 (\$'000)		
			Budget	Actual	Variance
451,149	460,184	Revenue	460,184	493,899	33,715
436,418	436,415	Operating Expenditure	436,415	459,834	(23,419)
14,732	23,769	Results from Ordinary Activities	23,769	34,065	10,295
2,155	964	Net gain/(loss) on disposal of property, infra, plant and equip	964	(177)	(1,141)
1,186	0	Fair value adjustments for investment properties	0	(5,971)	(5,971)
35	0	Contributions - non monetary	0	3,297	3,297
0	0	Writedown on Investment	0	24	(24)
18,108	24,733	Profit/(Loss)	24,733	31,238	6,505
(11,538)	(11,067)	Less External Contributions to Capital	(11,067)	(16,126)	(5,059)
(1,186)	0	Less Gain on Investment Revaluation	0	5,971	5,971
(35)	0	Less Contributed Assets	0	(3,297)	(3,297)
(857)	0	Less Gain on disposal of asset	0	0	0
4,493	13,666	Underlying Surplus/(Deficit)	13,666	17,787	4,121

Council Works Program

The value of works completed is \$140.7 million compared to the planned \$172.2 million work.

Table of Contents

	Page
Income Statement	4
Balance Sheet	5
Cash Flow Statement	7
Revenue Details	9
Expense Details	12
Council Works – Expenditure	14
Investment Portfolio Performance	15

2017-18 Actual (\$'000)	2018-19 Budget (\$'000)	Income Statement	2018-19 (\$'000)		
			Budget	Actual	Variance
		REVENUE			
271,508	287,013	Rates and charges	287,013	286,834	(179)
		Statutory fees and fines			
44,347	41,923	Parking fines	41,923	38,531	(3,392)
11,467	13,390	Other	13,390	14,131	741
		User fees			
46,621	52,070	Parking	52,070	54,475	2,405
22,683	21,727	Other	21,727	26,327	4,600
15,291	10,812	Grants - operating	10,812	27,827	17,015
9,955	9,867	Grants - capital	9,867	12,881	3,014
4,647	4,382	Contributions - monetary	4,382	7,296	2,914
		Other income			
3,533	1,075	Interest	1,075	4,155	3,080
2,595	2,210	Dividends	2,210	3,273	1,063
6,717	6,514	Investment property/market rentals	6,514	6,403	(110)
3,058	3,285	Intercompany revenue - Citywide	3,285	3,056	(228)
954	25	Intercompany revenue - Queen Vic Market	25	(23)	(48)
7,591	5,660	Sales & recoveries	5,660	8,437	2,778
183	231	Project income	231	296	64
451,149	460,184	Total Revenue	460,184	493,899	33,715
		EXPENDITURE			
160,927	164,006	Employee benefit expense	164,006	164,352	(346)
185,300	178,800	Materials and services	178,799	190,003	(11,204)
6,458	6,183	Bad and doubtful debts	6,183	12,485	(6,302)
63,393	65,464	Depreciation and amortisation	65,464	72,556	(7,092)
995	1,400	Borrowing Costs	1,400	962	438
6,100	6,700	Other expenses	6,700	5,099	1,601
13,245	13,862	Grants and contributions	13,862	14,377	(515)
436,418	436,415	Total Operating Expenditure	436,415	459,834	(23,419)
2,155	964	Net gain/(loss) on disposal of property, infra, plant and equip	964	(177)	(1,141)
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(35)	0	Less Contributed Assets	0	(3,297)	(3,297)
4,493	13,666	Underlying Surplus/(Deficit)	13,666	17,787	4,121

Prior Year 2017-18 Actual (\$'000)	Balance Sheet	Current Jun-19 Actual (\$'000)	Movement 2017-18 Actual (\$'000)
	Assets		
	Current Assets		
49,982	<i>Ref 1</i> Cash and cash equivalents	119,529	69,547
33,604	<i>Ref 2</i> Trade and other receivables	51,899	18,295
88,000	<i>Ref 3</i> Other financial assets	21,000	(67,000)
2,677	Other assets	3,256	579
174,263	Total Current Assets	195,684	21,421
	Non current assets		
7,500	Non Current Trade and Other Receivables	0	(7,500)
32,175	Other financial assets	32,965	790
31,981	Investment in subsidiaries and trust	26,356	(5,625)
4,157,893	Property, infrastructure, plant and equipment	3,968,507	(189,386)
211,447	Investment property	205,476	(5,971)
37,812	Intangible assets	36,885	(927)
4,478,808	Total Non-Current Assets	4,270,189	(208,619)
4,653,071	TOTAL ASSETS	4,465,873	(187,198)
	Liabilities		
	Current Liabilities		
(60,853)	<i>Ref 4</i> Trade and other payables	(63,782)	(2,929)
(6,037)	<i>Ref 5</i> Trust funds and deposits	(7,996)	(1,959)
(33,394)	Provisions	(34,991)	(1,597)
(100,284)	Total Current Liabilities	(106,769)	(6,485)
	Non- current Liabilities		
(3,713)	Provisions	(3,807)	(94)
(30,000)	Interest-bearing loans and borrowings	(28,482)	1,518
(75)	Trust funds and deposits	(865)	(790)
(33,788)	Total Non-Current Liabilities	(33,154)	634
(134,072)	TOTAL LIABILITIES	(139,923)	(5,851)
4,518,999	NET ASSETS	4,325,950	(193,049)
	Equity		
(2,020,150)	Accumulated Surplus	(2,089,521)	(69,371)
(2,498,849)	Reserves	(2,236,429)	262,420
(4,518,999)	TOTAL EQUITY	(4,325,950)	193,049

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. Term Deposits (TD) greater than 90 days as at June 2019 were lower than June 2018 purely due to timing of TDs.
2. Increase in trade and other receivables is mainly due to timing of invoice to Major Transport Infrastructure Authority related to contribution to loss of car park revenue related to City Square.
3. Other financial assets - see comment above regarding cash and cash equivalents.
4. Decrease in Non-Current Trade Receivables and Investment in Subsidiaries reflects the divestment of SMF Investment Management PL.
5. Decrease in Property, Infrastructure, Plant & Equipment is due to devaluation of City of Melbourne assets from June 2018. Major variances are due to land values decreasing YOY.
6. Trade and other payables are higher mainly due to timing of increase in accrued expenses related to operating and capital expenditure.

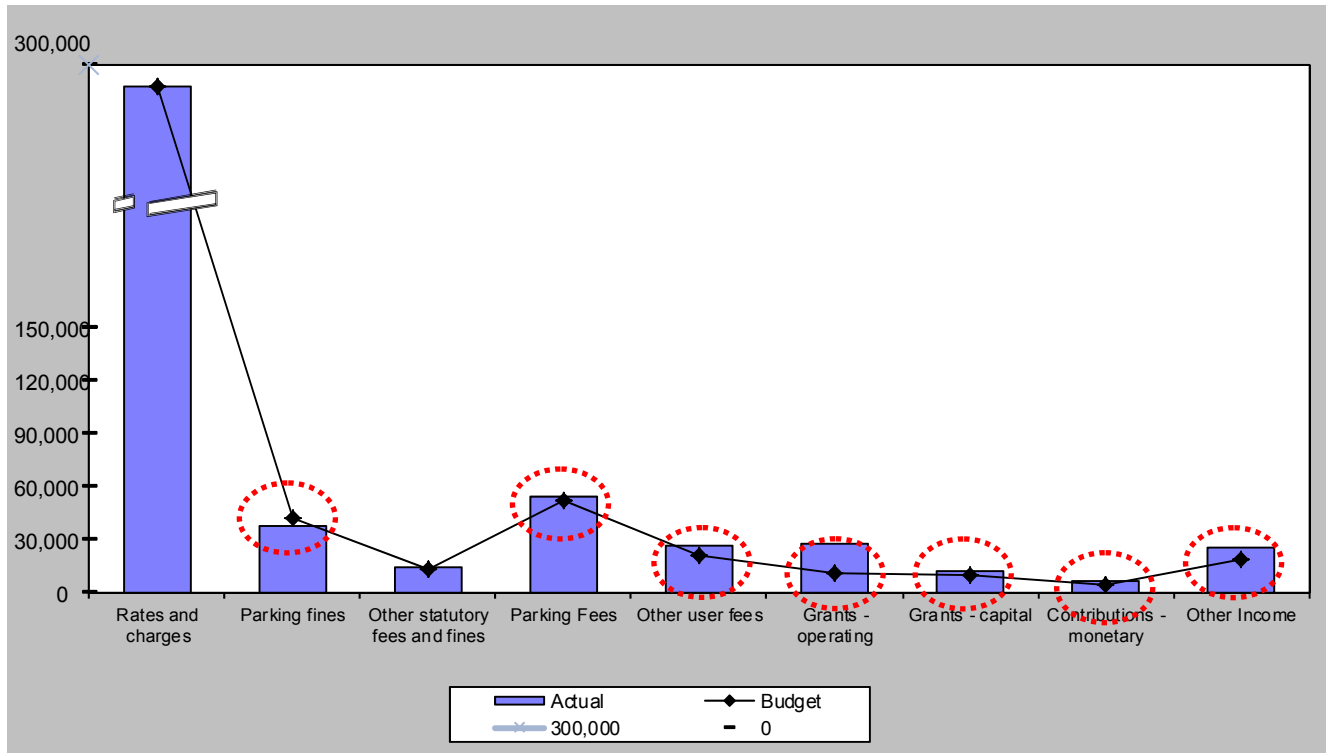
2017-18 Actual (\$'000)	Statement of Cash Flows	2018-19 Actual (\$'000)
	Cashflows from Operating Activities	
	Receipts	
269,534	Rates and charges	283,567
51,748	Statutory fees and fines	46,665
73,007	User fees	72,242
15,291	Grants - operating	27,827
9,955	Grants - capital	12,881
19,946	Contributions - monetary	7,296
3,533	Interest	4,155
2,595	Dividends	3,273
(1,401)	Trust funds and deposits taken	1,728
3,203	Other receipts	18,170
16,700	Contributions on Public Open Spaces (Reserve)	19,012
464,112		496,814
	Payments	
(160,020)	Employee Costs	(163,350)
(180,445)	Materials & Services	(201,092)
(26,798)	Other Payments	(19,476)
(367,263)		(383,918)
95,853	Net Cash Inflow / (Outflow) from Operating Activities	112,896
	Cashflows from Investing Activities	
(102,243)	Payments for property, infrastructure, plant & equipment	(121,461)
64,963	Proceeds from sale of property, infrastructure, plant & equipment	467
0	Proceeds from sale of investments (SMF)	5,625
(5,000)	Loan to SMF	(2,500)
0	Repayment of Loan from SMF	10,000
(94,175)	TD Deposit Reclassification	67,000
(136,455)	Net Cash Inflow / (Outflow) from Investing Activities	(40,869)
	Cashflows from Financing Activities	
0	Proceeds from borrowings (Repatriation of CEFC Loan)	(1,518)
(995)	Finance Costs	(962)
(995)	Net Cash Inflow / (Outflow) from Financing Activities	(2,480)
(40,601)	Net Cash Inflow / (Outflow) from all Activities	69,547
90,583	Cash at beginning of the financial period	49,982
49,982	Cash at the end of Jun-19	119,529
(40,601)	Movement in cash equivalents	69,547

2017-18 Actual (\$'000)	Statement of Cash Flow (reconciliation)	2018-19 Actual (\$'000)
18,109	Net Surplus/(Deficit) from operations	31,214
	Add Back Non-Cash Items	
63,393	Depreciation/Amortisation	72,556
(1,186)	Fair value adjustments for investment property	5,971
(2,155)	Profit/(loss) on disposal of property, plant and equipment	177
(35)	Contributions - Non-monetary assets	(3,297)
0	Transfer Assets to External Parties	0
0	Writedown on Investment	24
78,126	Operating Surplus/(Deficit) before Non cash items	106,645
(91,728)	Net Movement in Working Capital	53,124
(102,262)	Capital Expenditure	(121,306)
(5,000)	Loan to SMF	(2,500)
0	Repayment of SMF Loan	10,000
64,963	Proceeds from sale of assets	467
0	Proceeds from sale of Investment (SMF)	5,625
15,299	Contributions on Public Open Spaces (Reserve)	19,012
0	Repartriation of CEFC Loan	(1,518)
(40,601)	Net Cash inflow/(outflow)	69,547

On a year-to-date basis council has a total cash inflow of \$69.5m. This is comprised of:

- An operating surplus before non-cash items of \$106.4m;
- Movement in working capital of \$53.4m; and
- An outflow associated with capital expenditure of \$121.3m

YTD Revenue Summary



Period: Jun-19

Annual Budget	REVENUE	Year to Date \$'000		
		Budget	Actual	Variance
287,013	Ref 3.0 Rates and charges	287,013	286,834	(179)
41,923	Ref 3.1 Parking fines	41,923	38,531	(3,392)
13,390	Ref 3.2 Other statutory fees and fines	13,390	14,131	741
52,070	Ref 3.3 Parking Fees	52,070	54,475	2,405
21,727	Ref 3.4 Other user fees	21,727	26,327	4,600
10,812	Ref 3.5 Grants - operating	10,812	27,827	17,015
9,867	Ref 3.6 Grants - capital	9,867	12,881	3,014
4,382	Ref 3.7 Contributions - monetary	4,382	7,296	2,914
19,000	Ref 3.9 Other Income	19,000	25,597	6,597
460,184	Total Revenue	460,184	493,899	33,715

Analysis of Revenue Variances

Budget \$460.2m

Actual \$493.9m

Variance \$33.7m Favourable

3.0 Rates and charges**-0.1% Variance****(\$0.2m) Unfav**

This unfavourable variance is due to general rates income being slightly lower than budget.

3.1 Parking fines**-8.1% Variance****(\$3.4m) Unfav**

The unfavourable variance is due to a combination of significantly reduced infringement notices being issued as a result of availability of infringement officers and extreme weather impact.

3.2 Other statutory fees and fines**5.5% Variance****\$0.7m Fav**

This favourable variance is due to \$1.0 million in higher town planning fees as a result of the increase of construction activities and building lodgement prices which is partially offset by \$0.3 million less temporary food premises revenue in relation to Fine Food Event.

3.3 Parking fees**4.6% Variance****\$2.4m Fav**

This favourable variance is significantly due to \$1.7 million higher parking meter revenue and \$0.9 million reserved parking fees.

3.4 Other user fees**21.2% Variance****\$4.6m Fav**

This favourable variance is due mainly to:

- \$5.6 million higher building service revenue as a result of higher construction activities; *and*
- \$0.4 million stronger than expected revenue from 2018 Moomba and Melbourne Fashion Week event.

The above favourable variances are partially offset by \$1.4 million lower child care fees as a result of the closure of the Melbourne City Children Centre and change of government subsidy scheme.

3.5 Grants – operating**157.4% Variance****\$17.0m Fav**

This favourable variance is due mainly to:

- \$13.7 million direct compensation fund received in relation to Metro Tunnel Project;
- \$1.7 million funding to deliver the arts projects and programs;
- \$1.0 million Victoria Grants Commission fund being higher than expected;
- \$0.2 million funding for other state infrastructure projects; *and*
- \$0.1 million Recycling Services Temporary Relief Fund.

3.6 Grants – capital**30.5% Variance****\$3.0m Fav**

This favourable variance is largely as a result of:

- \$2.7 million Protective Security Enhancement Project funding; *and*
- \$1.8 million unbudgeted income in relation to the Emergency Services Memorial project

The above favourable variance is partially offset by \$1.5 million Lady Huntingfield funding to be received in 2019-20

3.7 Contributions – monetary**66.5% Variance****\$2.9m Fav**

This favourable variance is due mainly to:

- \$2.8 million South Boulevard Upgrade Project (capital contribution); *and*
- \$0.9 million higher child care fees as a result of change of government child care benefits scheme.

Analysis of Revenue Variances

Budget \$460.2m	Actual \$493.9m	Variance \$33.7m Favourable
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The above favourable variances are partially offset by \$1.0 million contributions for Living Victoria Fund project that will now be paid in year 2019-20

3.8 Other income

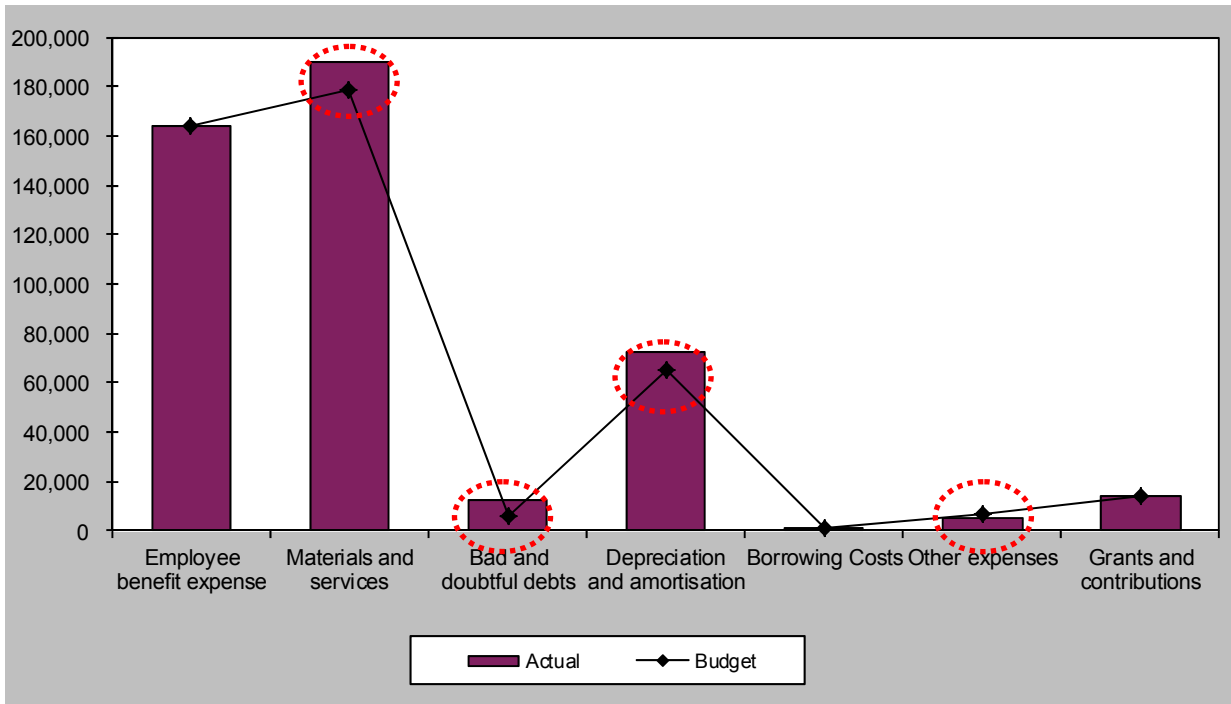
34.7% Variance

\$6.6m Fav

This favourable variance comprises:

- \$2.4 million higher interest revenue as a result of higher cash balances;
- \$1.4 million cost recoveries for external projects and works;
- \$1.1 million higher dividend income from Citywide;
- \$0.7 million recovery of interest income in relation to City Square asset.

YTD Expense Summary



Period: Jun-19

Annual Budget	EXPENDITURE	Year to Date \$'000		
		Budget	Actual	Variance
164,006	<i>Ref 4.1</i> Employee benefit expense	164,006	164,352	(346)
178,800	<i>Ref 4.2</i> Materials and services	178,799	190,003	(11,204)
6,183	<i>Ref 4.3</i> Bad and doubtful debts	6,183	12,485	(6,302)
65,464	<i>Ref 4.4</i> Depreciation and amortisation	65,464	72,556	(7,092)
1,400	<i>Ref 4.5</i> Borrowing Costs	1,400	962	438
6,700	<i>Ref 4.6</i> Other expenses	6,700	5,099	1,601
13,862	<i>Ref 4.7</i> Grants and contributions	13,862	14,377	(515)
436,415	Total Expenditure	436,415	459,834	(23,418)

Analysis of Expense Variances

Budget \$436.4m	Actual \$459.8m	Variance \$23.4m Unfavourable
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4.1 Employee benefit expense

-0.2% Variance

\$0.3m Unfav

This unfavourable variance is due mainly to staff realignment costs which are offset by leave loading adjustments.

4.2 Materials & Services

-6.3% Variance

\$11.2m Unfav

Significant variances have occurred in the following categories:

- Contract payments \$9.0 million unfavourable; and
- Utilities \$2.2 million unfavourable;

Contract payments (unfavourable \$9.0 million)

This unfavourable variance is largely due to:

- \$2.0 million higher waste management and recyclable processing services costs;
- \$1.8 million contract expenditure in relation to arts activities (which was largely offset by additional associated revenue);
- \$1.6 million higher property and parks maintenance expenditure;
- \$1.4 million CBD security measures services costs (which is fully funded by the State Government);
- \$0.9 million higher contract costs for Events;
- \$0.6 million higher integrated security service expenditure; and
- \$0.4 million higher parking meters service costs.

Utilities (unfavourable \$2.2 million)

This unfavourable variance is due to higher electricity including public lighting electricity and water usage costs.

4.3 Bad and doubtful debts

-101.9% Variance

(\$6.3m) Unfav

This unfavourable variance is due to higher parking infringement provisions costs as a result of the change of methodology to comply the associated accounting standard in conjunction with an external review.

4.4 Depreciation and amortisation

-10.8% Variance

(7.1m) Unfav

This unfavourable variance is due to policy change to shorten the useful life in relation to intangible assets.

4.5 Borrowing costs

31.3% Variance

\$0.4m Fav

This favourable variance is due mainly to the repayments of CEFC loan being earlier than anticipated.

4.6 Other expenses

28.5% Variance

\$1.6m Fav

This favourable variance is largely a result of the QVM land tax exemption accepted by state government.

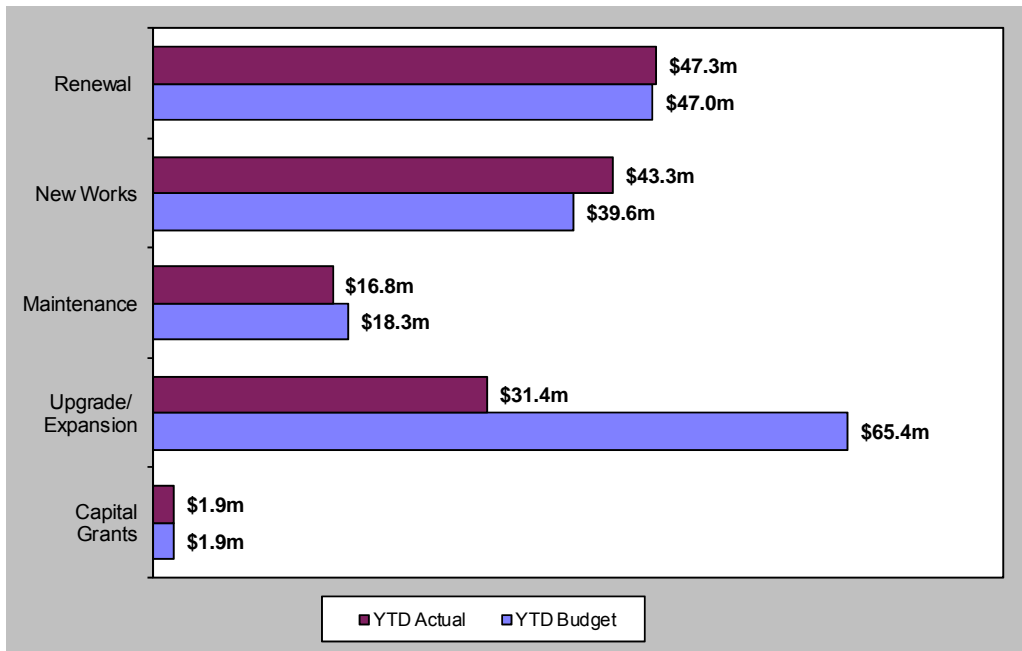
4.7 Grants and contributions

-3.7% Variance

(\$0.5m) Unfav

This unfavourable variance comprises a \$0.4 million special Grant for Future Makers of Change initiative.

Council Works Program Summary



Period: Jun-19

Council Works Area	2018-19 (\$'000)		
	Budget	Actual	Variance
Maintenance			
Capital Grants	1,900	1,907	(7)
Maintenance	18,333	16,820	1,512
Total Maintenance	20,233	18,727	1,505
Capital Works			
Expansion	38,153	23,077	15,076
Upgrade	27,230	8,304	18,926
New Works	39,554	43,253	(3,698)
Renewal	47,015	47,317	(301)
Total Capital Expenditure	151,952	121,951	30,002
Total Council Works Program	172,185	140,678	31,507

Investment Portfolio Performance 2018-19

The Investment Portfolio returned \$12.5 million for year to date, above the budgeted \$10.2 million.

