

3.5 2008/09 MANAGEMENT ACCOUNTS REPORT – SECOND QUARTER

(FIN1: MK: DM)

Responsible Director: Marilyn Kearney

RECOMMENDATION*That Council notes the Financial Reports for the period ending 31 December 2008.****BACKGROUND***

Council adopted its budget for the financial year 1 July 2008 to 30 June 2009 on 24 June 2008. 'Management Accounts' reports are prepared monthly and distributed to Councillors for information, with quarterly reports prepared at the end of each quarter for formal presentation to the Council. This report contains information regarding actual performance against budget for the operating, cash flow and capital budgets, as well as Council's Statement of Financial Position.

Council's 2008/09 Budget included four financial documents entitled "Standard Statements". These statements were:

- Standard Statement of Income (Attachment A);
- Standard Statement of Cash Flows (Attachment B);
- Standard Balance Sheet (Attachment C); and
- Standard Statement of Capital Projects (Attachment D).

This report compares the actual financial performance against the second quarter of the budget.

ANALYSIS**STANDARD STATEMENT OF INCOME**

The operating result for year-to-date 31 December 2008 is a favourable variance of \$1.8m (5.4%), before transfers to reserves to which operating revenue contributes a favourable \$1.8m (1.9% higher than budget) and expenditure contributes an unfavourable \$0.4m (0.6% higher than budget). In addition there is a favourable variance on capital grants & contributions of \$0.3m (primarily representing unbudgeted amounts received following the adoption of the budget). Details of the significant variances are below.

INCOME**Operating Grants & Contributions**

Better than budgeted income of \$0.9m is predominantly due to higher than budgeted developer car parking contributions of \$332k and developer public open space contributions of \$545k (timing only).

Interest Income

Interest income is currently \$189k higher than forecast due to the continued close monitoring of investments and transfers to term deposits. Recent developments in the economic climate have impacted negatively on rates of return, with interest rates on investment products falling. It is estimated that any favourable variances in interest income in the first half of the financial year will be offset by lower than budgeted returns in the second half.

Capital Grants & Contributions

A number of unbudgeted year-to-date capital grants totalling \$0.4m have been received. This is predominantly represented by:

- Bus Stop Upgrades (budgeted for in 2007/08) of \$71k;
- Melbourne Water contribution to Oakleigh Shopping Centre Refurbishment of \$56k; and
- Kingsway Hub Realignment Grant \$224k.

These funds will be expended on these capital works.

Charges, Fees & Fines

This income line item is currently above forecasts (\$265k / 2.45% above budget). This is predominantly represented by higher than forecast:

- Learn to Swim (\$76k) across all facilities;
- Commercial tenant big bin charges (\$68k – timing only);
- Fees at Brine Street Child Care Centre (\$86k – timing only) offset by lower than budgeted year-to-date Child Care Benefit (timing only);
- Membership fees at Clayton Aquatics and Health Centre (CCC) (\$93k);
- Entrance fees at Clayton Aquatics and Health Centre (CCC) (\$37k);
- Recreation Centre Facility Room Hire (\$56k) - Clayton Aquatics and Health Centre (\$17k) and MARC (\$39k);
- Planning & Building Permits (\$31k);
- Lease income (\$26k); and
- Hire Charges income at Active Reserves (\$16k).

This is partially offset by lower than forecast:

- Car parking fines (\$56k);
- Animal registration fees (\$32k);
- Gym membership fees at MARC (\$35k); and
- Entrance Fees at MARC (\$50k).

Other Revenue

Higher than budgeted income of \$424k / 22.6% predominantly represents:

- Resident Ingoing Entitlements (\$86k) reflecting revaluation of ILUs in September 2008;
- Internal Depot income (\$40k);
- Recouped refurbishment costs (\$31k) of an independent living unit at Monash Gardens;
- External income from the Waste Transfer Station (\$91k); and
- Receipt of Child Care Inclusion and Professional Support Program Funding (\$80k - timing only).

EXPENDITURE

Employee Costs

A favourable year to date variance of \$49k largely due to lower than budgeted salaries and wages for vacancies across the Council. The quarterly adjustment to employee entitlements for annual leave and long service leave was undertaken in the period.

Materials Services & Contracts

A favourable year to date variance of \$338k. The variance position comprises the following:

Higher than budgeted:

- Contract garbage collection (\$61k);
- Other waste disposal (\$49k);
- Garbage disposal – construction materials (\$129k);
- Recruitment costs (\$90k);
- Materials (\$127k);
- Utilities (\$58k);
- Staff training, conferences and seminars (\$66k); and
- Legal Fees (\$17k).

The above unfavourable variances are offset by positive variances in:

- Lower than budgeted contract garbage disposal (\$64k);
- Insurance Premiums and related expenses (\$55k);
- Food purchases (\$61k);
- Bank fees and charges (\$80k);
- Contract cleaning (\$83k);
- Contract security (\$52k); and
- Perin Court Costs (\$54k).

In addition, the following favourable variances are of a timing nature only:

- Consultants (\$124k);
- Contractors (Infrastructure) (\$52k);
- External printing (\$100k);
- Advertising, promotions and marketing (\$71k);
- Payments to RSPCA for animal control services (\$15k);
- Computer software, software support and maintenance (\$30k);
- Equipment purchases, replacement and repairs (\$123k); and
- Apprentice Wages (\$75k).

Depreciation

An unfavourable year to date variance of \$760k is reflective of the revaluation to building infrastructure assets at 30 June 2008 following the adoption of the budget.

STANDARD STATEMENT OF CASH FLOWS

The Cash Flow Statement shows Council's cash position at the end of December 2008 to be \$2.5m favourable when compared with the phased cash flow budget. The reasons for this result are outlined below.

Operating Activities

A favourable cash position on operating activities of \$1.1m primarily reflects the following:

- Payment in advance of a number of grants and the receipt of higher than budgeted year-to-date POS and Car Parking Contributions (\$1.0m) and operating grants (\$1.2m). This is partially offset by timing variances for;
- Net GST payments generating an unfavourable \$0.8m variance, representing reimbursement for November 2008 anticipated to be received in December. This is timing only.

Investing Activities

A favourable variance on payments for capital related works of \$1.3m reflects the current progress of the capital program.

Financing Activities

The favourable YTD variance of \$0.6m is reflective of residential care refundable deposits and contract deposits that cannot be forecast reliably for cash flow.

STANDARD BALANCE SHEET

The Balance Sheet shows Council's Financial Position as at 31 December 2008.

STANDARD STATEMENT OF CAPITAL WORKS

The purpose of this Statement is to show progress against the adopted 2008/09 Capital Budget. As at 31 December 2008, Council had expended 44% of the Base & New Capital Works budget, and 36% of its total capital works budget. It is expected that the Business Plan target of 85% will be achieved with close monitoring of the capital works program and completion of a number of projects by 30 June 2009.

CONCLUSION

Council's financial position reflects an overall positive performance against budget made up of a number of variances, both favourable and unfavourable across the breadth of Council services. These variances will continue to be monitored for the remainder of the financial year.

Standard Statement of Income for the period ending 31 December 2008



| | YTD Actual \$'000 | YTD Budget \$'000 | YTD Variance \$'000 | 2008/09 Budget \$'000 |
|--|----------------------|----------------------|------------------------|-----------------------------|
| Income | | | | |
| Rates | 67,403 | 67,355 | 48 | 67,355 |
| Operating Grants & Contributions | 13,185 | 12,288 | 896 | 23,189 |
| Interest Revenue | 1,479 | 1,289 | 189 | 2,831 |
| Charges, Fees & Fines | 11,059 | 10,794 | 265 | 23,474 |
| Other Revenue | 2,305 | 1,880 | 424 | 1,947 |
| Operating Income | 95,431 | 93,607 | 1,824 | 118,796 |
| Profit from Sale of Assets | - | - | - | 1,379 |
| Capital Grants & Contributions | 2,813 | 2,480 | 334 | 6,612 |
| Total Income | 98,244 | 96,086 | 2,157 | 126,787 |
| Expenditure | | | | |
| Employee Costs | 27,208 | 27,257 | 49 | 52,732 |
| Materials, Services & Contracts | 24,969 | 25,307 | 338 | 51,401 |
| Borrowing costs | 400 | 385 | (16) | 736 |
| Depreciation | 10,910 | 10,150 | (760) | 20,300 |
| Operating Expenditure | 63,487 | 63,098 | (389) | 125,169 |
| Loss on Sale of Assets | 1 | - | (1) | - |
| Total Expenditure | 63,488 | 63,098 | (390) | 125,169 |
| Net Surplus/(Deficit) from Operations: | 34,756 | 32,989 | 1,767 | 1,618 |
| Transfer to Reserves | (2,723) | (1,850) | (873) | - |
| Net Surplus/(Deficit) after Transfers to Reserves | 32,033 | 31,138 | 895 | 1,618 |
| | YTD Actual \$'000 | YTD Budget \$'000 | YTD Variance \$'000 | 2008/09 Budget \$'000 |
| Operating Capital Expenditure | 1,206 | 982 | (224) | 1,735 |

Standard Cash Flow Statement for the period ending 31 December 2008



| | YTD Actual \$'000 Inflows (Outflows) | YTD Budget \$'000 Inflows (Outflows) | YTD Variance \$'000 Favourable / (Unfavourable) |
|--|---|---|--|
| Cash Flows from Operating Activities | | | |
| Receipts | | | |
| Rates | 23,107 | 22,493 | 614 |
| Operating Grants & Contributions | 13,192 | 12,192 | 1,000 |
| Capital Grants & Contributions | 1,705 | 466 | 1,239 |
| Interest Revenue | 1,381 | 1,221 | 160 |
| Charges, Fees & Fines | 12,281 | 12,878 | (597) |
| Other Revenue | 2,019 | 1,443 | 576 |
| GST reimbursed by Australian Tax Office | 2,334 | 3,917 | (1,583) |
| Total Cash Inflows from Operating Activities | 56,019 | 54,609 | 1,410 |
| Payments | | | |
| Employee Costs | (26,874) | (25,490) | (1,384) |
| Materials, Services and Contracts | (28,586) | (28,907) | 321 |
| Borrowing Costs | (400) | (367) | (33) |
| GST paid to Australian Tax Office | (432) | (1,171) | 739 |
| Total Cash Outflows from Operating Activities | (56,292) | (55,935) | (357) |
| Net Cash provided by Operating Activities | (274) | (1,326) | 1,053 |
| Cash from Investing Activities | | | |
| Payments for Property, Plant and Equipment | (11,380) | (12,679) | 1,299 |
| Proceeds from Sale of Property, Plant and Equipment | (11) | - | (11) |
| Net Cash used in Investing Activities | (11,391) | (12,679) | 1,288 |
| Cash Flows from Financing Activities | | | |
| Trusts and Refundable Deposits | 578 | - | 578 |
| Net Cash used in Financing Activities | 578 | 0 | 578 |
| Net increase (decrease) in cash and cash equivalents | (11,087) | (14,005) | 2,918 |
| Cash and cash equivalents at the beginning of the financial year | 43,394 | 43,834 | (440) |
| Cash and cash equivalents at the end of the period | 32,307 | 29,829 | 2,478 |

Standard Balance Sheet as at 31 December 2008



| | 31 Dec 2008 Actual \$'000 | 30 June 2009 Budget \$'000 |
|--------------------------------------|---------------------------------|----------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash & Cash Equivalents | 32,307 | 42,659 |
| Rates Receivables | 46,192 | 1,542 |
| Other | 10,933 | 6,662 |
| Total Current Assets | 89,432 | 50,863 |
| Non-Current Assets | | |
| Property, Plant & Equipment | 1,826,449 | 1,833,240 |
| Intangible Assets | 11,220 | 11,220 |
| Other | 3,635 | 3,635 |
| Total Non-Current Assets | 1,841,304 | 1,848,095 |
| Total Assets | 1,930,736 | 1,898,958 |
| LIABILITIES | | |
| Current Liabilities | | |
| Creditors & Provisions | 23,757 | 28,482 |
| Interest-Bearing Loans & Borrowings | 3,200 | 3,200 |
| Total Current Liabilities | 26,957 | 31,682 |
| Non-Current Liabilities | | |
| Refundable Deposits & Provisions | 23,047 | 19,056 |
| Interest-Bearing Loans & Borrowings | 6,800 | 6,800 |
| Total Non-Current Liabilities | 29,847 | 25,856 |
| Total Liabilities | 56,804 | 57,538 |
| Net Assets | 1,873,932 | 1,841,420 |
| EQUITY | | |
| Accumulated Surplus | 908,865 | 910,127 |
| Year-to-Date Surplus (Deficit) | 32,033 | 1,618 |
| Reserves | 933,033 | 929,675 |
| Total Equity | 1,873,931 | 1,841,420 |

Standard Statement of Capital Works for the period ending 31 December 2008



| | YTD Actual \$'000 | 2008/09 Budget \$'000 | % complete |
|---|----------------------|-----------------------------|------------|
| Buildings | 1,764 | 4,666 | 38% |
| Drainage | 1,531 | 2,347 | 65% |
| Reserves | 795 | 1,932 | 41% |
| Roads/footpaths/kerb and channel | 2,904 | 6,252 | 46% |
| Retail strips/district centres | 166 | 745 | 22% |
| Other works | 478 | 682 | 70% |
| Asset Rationalisation | 148 | 455 | 33% |
| Plant and Equipment | 2,158 | 5,495 | 39% |
| Sub-total | 9,944 | 22,574 | 44% |
| Major Projects * | 1,249 | 8,147 | 15% |
| Total | 11,193 | 30,721 | 36% |
| Less projects accounted for as Operating but managed as part of the Capital Program ** | (1,206) | (1,735) | 70% |
| Total Capital Works | 9,987 | 28,986 | 34% |

* Major Projects have been excluded from the % calculation as the 85% target relates to the New and Base Capital Works Programs.

** These projects include items such as Footpath and Tree maintenance/replacement programs that are managed as part of the Capital Works Program. However as they do not meet the strict Accounting definition they have been included in Materials, Services and