

ITEM 2. 2015/16 QUARTER 1 REVIEW - DELIVERY PROGRAM 2014-2017

FILE NO: S096187

SUMMARY

This report reviews the operating and capital results against budget for the 2015/16 financial year and progress against the performance measures identified within the Operational Plan 2015/16, being the third year of the Delivery Program 2014-2017.

Council's financial performance at Q1 2015/16 reflected an Operating Surplus of \$38.2M, which is \$5.6M favourable to the YTD budget of \$32.6M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs and a loss on investments, the Council has achieved a Net Surplus of \$29.9M against a full year budget of \$19.5M. This favourable variance of \$10.4M predominantly reflects lower operating expenditure and higher capital grants and contributions.

An annual operating surplus of \$108.5M is forecast, a favourable variance to budget of \$3.5M, with a Net Surplus of \$33.6M forecast for the full year. The major variances are discussed within the body of this report, and full details provided in Attachment A.

The Capital Works program expenditure of \$40.3M compares to a YTD budget of \$51.5M, with the annual forecast for the program revised to \$267.2M. A summary of the 2015/16 capital project expenditure is outlined within the body of this report, and detailed within Attachment B.

The Information Services capital works expenditure, for projects developed internally, was \$1.1M against a YTD budget of \$1.7M, with a full year forecast of \$10.6M.

The Plant and Asset expenditure at Q1, net of disposals, was \$2.3M against a YTD budget of \$4.1M, with a full year forecast of \$22.5M.

No property acquisitions or divestments were made during the first quarter

This quarterly report focuses on the Council's financial performance and updates progress against the capital works program. The detailed review of operational performance against the City's integrated plans are provided bi-annually after the December (Q2) and June (Q4) financial quarters, in line with the integrated planning regulatory requirements

The additional supplementary reports, which include details of contracts over \$50,000, major legal issues and the Quick Response, Banner Pole and Reduced Rate Grant Programs, are provided in Attachment C for information.

RECOMMENDATION

It is resolved that Council:

- (A) note the financial performance of Council for the first quarter, ending 30 September 2015, including the Quarter 1 Net Surplus of \$29.9M as outlined in the subject report and summarised in Attachment A to the subject report;

- (B) note the Quarter 1 Capital Works expenditure of \$40.3M, a revised full year forecast of \$267.2M and approve the proposed adjustments to the adopted budget, including the transfer of \$0.01M from capital works contingency as detailed in Attachment B to the subject report;
- (C) approve the transfer of \$0.75M from CEO Contingency to General Contingency, to reflect council approved recommendations as discussed in paragraph 15 and detailed within the Contingency Report included at Attachment A;
- (D) note the Quarter 1 Plant and Assets expenditure of \$2.3M, net of disposals, and full year forecast of \$22.5M
- (E) note the Information Services Capital Works expenditure of \$1.1M, net of disposals, and a full year forecast of \$10.6M; and
- (F) note the supplementary reports, including contracts issued over \$50,000, major legal issues and the Quick Response, Banner Pole and Reduced Rate Grant Programs in Quarter 1, as detailed in Attachment C to the subject report.

ATTACHMENTS

Attachment A: Financial Results Summary

Attachment B: Capital Expenditure Financial Results

Attachment C: Supplementary Information

BACKGROUND

1. The City's 2014-2017 Delivery Program and 2015/16 Operational Plan, including the 2015/16 budgets, was adopted by Council on 29 June 2015.
2. The Local Government Act 1993 requires quarterly progress reports against the financial objectives and six monthly reports against the Operational Plan.
3. This report provides the first quarter (Q1) and full year results for the 2015/16 financial year.
4. A Q1 Financial Results Summary, together with a detailed breakdown of income and expenditure items, and a separate report showing operating results by the principal activities identified within the Delivery Program, are provided in Attachment A.
5. The Capital Expenditure results to Q1, together with a summary of project expenditure, and proposed budget adjustments for 2015/16 and future years, are outlined within the body of this report and detailed within Attachment B.
6. Additional reports, including expenditure against contingency funds, contracts over \$50,000, major legal issues and the Quick Response, Banner Pole and Reduced Rate Grant Programs, are also provided in Attachment C for information.

2015/16 OPERATING BUDGET

7. The adopted 2015/16 budget projected operating income of \$512.8M and operating expenditure of \$407.8M, for an Operating Surplus of \$105.0M. After allowing for interest income of \$15.2M, capital grants and contributions of \$59.4M, depreciation expense of \$102.8M, capital project related costs \$4.6M and the outgoing contribution for light rail of \$48.6M, Council budgeted for a Net Surplus of \$23.6M.
8. It is worth noting that, post budget adoption, the City completed a program and methodology for addressing the requirements to compile and maintain a Non-Residential Register and Rolls for the first time. While the adopted budget included a provisional sum of \$2M, partially sourced by reducing General Contingency to \$0.5M, the revised program and methodology approved by Council in August 2015 has since been estimated at a total of \$7M for 2015/16.

FIRST QUARTER OPERATING RESULTS

9. The Q1 Operating Surplus was \$38.2M against a budget of \$32.6M, a favourable variance of \$5.6M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, loss on investment and minor gain on sale of assets, the Net Surplus was \$29.9M against a budget of \$19.5M, a favourable variance of \$10.4M.
10. The result includes a favourable variance to budget of \$0.6M for operating income with favourable variances to budget of \$5.0M for operating expenditure, a favourable variance of \$1.4M for interest income, a \$2.6M favourable variance for capital grants and contributions, an unfavourable variance of \$0.3M for depreciation, a favourable variance of \$1.5M for capital project related costs and a loss on Investment funds of \$0.5M.
11. The primary operating income variations to the budget are detailed in the table below:

Income Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Advertising Income	\$0.6M	\$0.4M	Increase in Banner Pole utilisation for George Street, which was not anticipated during the budget process.
Building & Development application Income	\$0.6M	\$0.9M	Three large DA fees were received during Q1 for Alfred Street, Ashmore Street in Erskineville and Bridge Street.
Commercial Properties	\$0.2M	\$0.9M	Lower rental vacancies than anticipated at 343 George Street. Performance at Capital Theatre last year generating a higher turnover levy this year than budgeted.
Rates & Annual Charges	(\$0.3M)	\$0	YTD is down due to a number of large properties moving from business to residential rate categories.

12. The primary operating expenditure variances to the budget are detailed in the table below (variances are in \$M):

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Salary and Wages	\$0.0M	(\$1.4M)	Vacant positions are being backfilled by agency where necessary. The full year forecast includes an additional \$4.0M for unbudgeted agency resources to fulfil Non-Residential Roll requirements.
Consultancies	\$0.2M	(\$0.6M)	Additional unbudgeted consultant resources required for the Non-Residential Roll.
Enforcement & Infringement Costs	\$0.2M	\$0.8M	Lower processing fees and profit share payment in line with lower infringements.
Event Related Expenditure	\$0.2M	(\$1.0M)	Unbudgeted costs associated with delivering the Non-Residential Roll, including advertising, broadcast, print and distribution is creating this unfavourable result.

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Expenditure Recovered	\$0.4M	\$0.5M	Additional advertising costs recovered for Town Hall are offset by an increase in Event Marketing costs. Parking Space Levy recovered from Ian Thorpe Aquatic Centre.
Governance	\$0.6M	\$1.8M	The forecast underspend in this category arises as the Non-Residential Roll provisional allocation of \$2M was originally all budgeted here, but is actually being spent in other line items.
Infrastructure Maintenance	\$0.4M	\$0.3M	A number of parking ticket machines have been upgraded with compliant machines that require a lower servicing cost.
Legal Fees	\$0.2M	\$0.6M	No significant litigation costs are anticipated for the remainder of the year.
Project Management & Other Project Costs	\$0M	(\$0.8M)	The balance Project management costs associated with the Non-Residential Roll are the main cause of this unfavourable variance.
Property Related Expenditure	\$0.7M	\$0.5M	Savings on maintenance contracts that are being delivered at lower than budgeted amounts.

Interest Revenue

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Interest Revenue	\$1.3M	\$4.1M	Council's investments earned interest of \$5.6M for the first quarter, against budgeted earnings of \$4.2M, reflecting higher than anticipated opening cash balances for the year.

Capital Grants and Contributions

Income Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital grants and contributions	\$2.6M	\$2.4M	Significant contributions from City North and Green square in the first quarter.

Capital Project Related Costs

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Project Related Costs	\$1.5M	\$0.0M	Lower than anticipated non-capital costs relating to capital projects, at this stage.

Gain / (Loss) on Investment Funds

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Gain / (Loss) on Investment Funds	(\$0.5M)	\$0M	Decline in the latest indicative market valuations of Floating Rate Notes. Reflecting a volatile market and the rate cut administered by the RBA last May, 2015.

13. The City's financial performance has generally been strong across most areas of Council, although there are units forecasting budget variances such as:
- (a) Council Elections Unit – Additional \$5.0M of operational expenditure is forecast in 2015/16 to deliver the Non-Residential Register and Rolls, as per the methodology and program plan, endorsed by Council in August 2015; and
 - (b) Corporate Costs: Vacancy factor is budgeted in the corporate costs unit, however, the savings are realised in the relevant units.

CONTINGENCIES

14. The Contingency Report within the Financial Summaries at Attachment A highlights that Council has allocated over \$0.9M of general contingency within the first quarter, against a budget of \$0.5M, still within the \$1.75M overall contingency for council operations.
15. The general contingency budget is significantly lower than previous years. It was reduced based on prior years' utilisation, and planned to absorb as much of the \$2M provision for Non-Residential Roll expenditure as possible while still achieving an adequate operating surplus to fund the planned capital works program. It is recommended to transfer \$0.75M of CEO contingency to general contingency to reflect this year's utilisation.

CAPITAL EXPENDITURE

16. The Capital Works program achieved expenditure of \$40.3M against a YTD budget of \$51.5M. The full year forecast has been reduced to \$267.2M, following a review of the capital works program.
17. The review assesses the capital works program in respect of the forecast delivery of the projects and revised cost estimates. Some projects will require additional funding to complete. The market conditions are currently very competitive, and this is being reflected in the increase of tender prices. Further investigation is required to understand the impact on the long term financial plan.
18. Increased funding of \$0.01M is required from the capital works contingency. Details provided in Attachment B:
 - (a) Bank Street Reserve through-site link.
19. Progress on some projects has advanced beyond that included within the delivery program budget projections for 2015/16. Approval is therefore required to bring forward funds of \$1.9M from future years' capital works forward estimates and reallocate funds in order to progress the following projects. Details are provided in Attachment B:
 - (a) Synthetic Sports Field Installations \$0.2M;
 - (b) City Centre Regimental Square \$0.9M;
 - (c) Green Square Hospital Site Rehabilitation \$0.02; and
 - (d) Parks General Capital works and reallocate to John Street Reserve \$0.8M.
20. In addition to the budget adjustments required for the 2015/16 financial year, there are a number of changes within the future years' forward estimates. Details are provided in Attachment B:
 - (a) Hyde Park South – café \$0.1M;
 - (b) Victoria Park Upgrade \$0.3M; Water Master Plan LGA (\$0.3M);

- (c) Green Square Creative Centre, Community Shed and Matron Ruby Park \$1.8M, Green Square Private Wire (\$0.1M), Green Square Green Infrastructure Centre Admin Building (\$1.0M) and South Sydney Hospital Site – Stage 2 (cultural / Community / Health Facilities) (\$0.7M); and
 - (d) 1-5 Flinders Street, Taylor Square \$1.9M, Public Art Restoration (\$0.2M) and Property Related Projects – Future Years (\$1.7M).
21. A number of projects are forecasting variances within the major capital works projects for the 2015/16 financial year, but yet to be finalised:
- (a) Green Infrastructure; Green Square Water Reuse – Non-Potable: Delay in program due to Stage 2 work delayed by the construction of the trunk drainage work by the alliance. The original program had the two project working concurrently;
 - (b) Juanita Nielsen Centre: Forecasting to spend more this year than anticipated in the budget. This will be fully reviewed at Q2;
 - (c) Johnstons Canal Master Plan and Harold Park Works: Change in construction staging. Early works have been consolidated to construct with the main work; and
 - (d) New Childcare Centres: One DA not finalised due to site issues.
22. A number of projects within the Capital Works program require additional funds for completion, while other projects have been finalised with lower than anticipated cost. The permanent savings are utilised to offset the additional expenditure in other projects.
23. Significant variances are also forecast for a number of the 2015/16 capital works program budgets, including:
- (a) Bicycle related works; Park Street Cycleway: Project cancelled by TfNSW.
 - (b) Community, Cultural and Recreation Property Related Projects; New Automated Public Toilets: Feasibility study and implementation strategy plan is taking longer than anticipated. And Customs House – Façade and Amenities upgrade: Delay in defining scope.
 - (c) Corporate and Investment Property Related Projects; Bay Street Depot Improvements: Due to the high risk of approval delays, the substation with pavement reinstatement works as well as the installation of new gates to William Henry Street will not be undertaken in stage 1. The effect of delaying works to stage 3 meant that the \$1.3M associated cost with those works must also be deferred.
 - (d) Open Space and Parks; Sydney Park Cares precinct: Project landscape delayed by toilet block which is currently under design and also signalised crossing which is awaiting RMS approved. Elizabeth McCrea Park and Renwick Park: the current forecast reflects the project programs.
 - (e) Public Domain; City Centre Regimental Square: Funding request to be brought forward as per Resolution of Council October 2015.

24. A financial summary of the Capital Works program, the proposed budget adjustments, and a status report on all capital projects exceeding \$5.0M in value is provided at Attachment B.
25. The Plant and Assets expenditure incurred during the year to date, net of disposals, was \$2.3M against a budget of \$4.1M. Information Services capital works expenditure, for projects being delivered internally, was \$1.1M against a YTD budget of \$1.7M.

OPERATIONAL HIGHLIGHTS

26. There were a number of operational highlights, including:
 - (a) 303 street trees have been planted in Q1 with in-road planting projects continuing;
 - (b) total greenhouse gases emitted by the City's fleet during Q1 were 633 tonnes CO₂. This is 15 tonnes/8,400 litres less than the same period last year;
 - (c) the number of total active library members continues to trend upward to over 42,700, an increase of 4,100 active members in the past three months. This can be attributed to increased digital collections offered by the Library, as well as monthly increases in new members from outside the LGA;
 - (d) 5,972 attendances at sports competitions at Ultimo Community Centre. 6,000 attendances at other fitness and leisure programs at the Centre, including casual basketball, table tennis, tennis coaching, dodgeball, Zumba and Tai Chi;
 - (e) the Smart Green Business program recruited 43 large businesses across the accommodation, entertainment and conference sectors, of which 31 have so far implemented identified water efficiency and/or waste recommendations;
 - (f) support was provided in the delivery of the C40 Private Buildings Efficiency Network events, including the 'Learning from the Leaders' Forum at Customs House where 139 key stakeholders, including many CitySwitch businesses, heard from representatives from six of the global cities attending the C40 network meetings; and
 - (g) a Christmas in July event was held in Pitt Street Mall, with 43 individual business participating with a social media reach of over 4 million. This promotion occurred during the school holidays and attracted a significant new audience to the CBD retail precinct.

FINANCIAL IMPLICATIONS

27. At Quarter 1, the full year Operating Surplus was \$38.2M, with a Net Surplus of \$29.9M, representing a favourable variance of \$10.4M against budget.
28. Financial performance in all principal activities, as defined within the Delivery Program 2014-2017, has generally been satisfactory against budget.
29. The full year forecast reflects an Operating Surplus of \$108.5M which is favourable to budget, despite absorbing additional unbudgeted costs of \$5.0M associated with fulfilling the requirements of delivering the Non-Residential Register and Rolls.

30. The 2015/16 year end cash position is forecast to be \$518.0M, which is favourable to the budget of \$485.7M by \$32.3M. This variance reflects the higher opening cash balances, lower capital and operational expenditure than budgeted.
31. The City remains in a strong financial position, in line with the financial targets published in its long term financial plan, underlining its capacity to deliver its operational and capital expenditure improvement commitments. Surplus funds not yet required for projects are generally being directed towards specific cash reserves (restrictions), in accordance with Council's resolution of August 2011 and the City's long term financial plan, while the majority of the unrestricted cash is required to fund those capital programs without a specific reserve.

RELEVANT LEGISLATION

32. The Local Government Amendment (Planning and Reporting) Act 2009 was assented on 1 October 2009. The aim of the Integrated Planning and Reporting framework is to improve integration of various statutory planning and reporting processes undertaken by councils as required by the Local Government Act 1993, the Division of Local Government's guidelines and the Environmental Planning and Assessment Act 1979.
33. The Local Government Act 1993 and Local Government (General) Regulation 2005 require quarterly progress reports against the financial objectives and regular reports (at least six monthly) against the Operational Plan.
34. Section 406 of the Act requires councils to comply with the Integrated Planning and Reporting Guidelines, issued by the Director General of Local Government.

CRITICAL DATES / TIME FRAMES

35. The quarterly report is due to be submitted to Council within two months of the end of the respective quarter.

PUBLIC CONSULTATION

36. The information contained within this report reflects Council's financial performance in the 2015/16 financial year.

BILL CARTER

Chief Financial Officer