

ITEM 2. 2015/16 QUARTER 2 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 Q2 2015/16 reflected an Operating Surplus of \$67.2M, which is \$12.7M favourable to the YTD budget of \$54.4M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs a loss on investments and a gain on sale of assets, the Council has achieved a Net Surplus of \$18.6M against a YTD budget deficit of \$18.4M. This favourable variance of \$36.9M predominantly reflects lower operating expenditure and higher capital grants and contributions.

An annual operating surplus of \$113.7M is forecast, a favourable variance to budget of \$8.7M, with a Net Surplus of \$73.1M 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 \$125.4M compares to a YTD budget of \$157.2M, with the annual forecast for the program revised down to \$245.2M. 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 \$2.3M against a YTD budget of \$3.4M, with a full year forecast of \$8.0M

The Plant and Asset expenditure at Q2, net of disposals, was \$9.2M against a YTD budget of \$10.9M, with a full year forecast of \$22.8M.

There was one property acquisition of 44-54 Bourke Road, Alexandria to enable the east-west relief route and the divestment of Gordon Ibbet Activity Centre during the second quarter.

This quarterly report focuses on the Council's financial performance and updates progress against the capital works program. The detailed reviews 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 second quarter, ending 31 December 2015, including the Quarter 2 Net Surplus of \$18.6M as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the Quarter 2 Capital Works expenditure of \$125.4M, a revised full year forecast of \$245.2M and approve the proposed adjustments to the adopted budget, as detailed in Attachment B to the subject report;
- (C) note the Quarter 2 Plant and Assets expenditure of \$9.2M, net of disposals, and full year forecast of \$22.8M;
- (D) note the Information Services Capital Works expenditure of \$2.3M, net of disposals, and a full year forecast of \$8.0M;
- (E) note the operational performance indicators and Quarter 2 achievements against the Operational Plan 2015/16 objectives, as detailed in Attachment C to the subject report;
- (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 2, as detailed in Attachment C to the subject report; and
- (G) note the Environmental Sustainability Progress Report at Attachment E to the subject report.

ATTACHMENTS

Attachment A: Financial Results Summary

Attachment B: Capital Expenditure Financial Results

Attachment C: Second Quarter Operational Plan Report 2015/16

Attachment D: Second Quarter Supplementary Report 2015/16

Attachment E: Environmental Sustainability Progress Report

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 second quarter (Q2) and full year results for the 2015/16 financial year.
4. A Q2 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 Q2, 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.

SECOND QUARTER OPERATING RESULTS

9. The Q2 Operating Surplus was \$67.2M against a budget of \$54.4M, a favourable variance of \$12.7M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, loss on investment and gain on sale of assets, the Net Surplus was \$18.6M against a budget deficit of \$18.4M, a favourable variance of \$36.9M.
10. The result includes a favourable variance to budget of \$3.6M for operating income, with favourable variances to budget of \$9.1M for operating expenditure, a favourable variance of \$3.0M for interest income, a \$17.9M favourable variance for capital grants and contributions, an unfavourable variance of \$0.7M for depreciation, a favourable variance of \$3.1M for capital project related costs, a loss on Investment funds of \$1.7M and a gain on sale of assets of \$2.5M.
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	\$0.7M	\$0.8M	Increase in Banner Pole utilisation for George Street, above the anticipated budget.
Building & Development application Income	\$0.5M	\$0.8M	Three large DA fees for Alfred Street, Ashmore Street in Erskineville and Bridge Street, in excess of budget expectations.
Other Income	\$1.6M	\$1.7M	Settlement of Prince Alfred Park liquidated damages.
Rates & Annual Charges	\$1.2M	\$1.2M	An increase in subdivisions has increased residential rate revenue.
Sponsorship Income	\$0.7M	\$0.5M	New sponsorship contribution to Chinese New Year. (\$1.5M over two years)

Enforcement Income	(\$1.7M)	(\$3.2M)	Enforcement fines have reduced as compliance has improved, with an increased number of resident and mobility parking permits also impacting activity. Note the loss of income is offset in part by reduced processing costs, revenue share payments to NSW State Government and increased parking meter income.
Expenditure Type			
Enforcement & Infringement Costs	\$0.8M	\$1.5M	Lower processing fees and profit share payment in line with lower infringements.
Net Reduction	(\$0.9M)	(\$1.7M)	

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	(\$1.9M)	\$2.3M <u>(\$4.0M)</u> <u>(\$1.7M)</u>	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.
Event Related Expenditure	\$0.2M	(\$1.3M)	Unbudgeted costs associated with delivering the Non-Residential Roll, including advertising, broadcast, print and distribution. Increase in the Chinese New Year which is offset with additional sponsorship income.
Expenditure Recovered	\$1.3M	\$1.2M	Settlement of a claim re CDO investments which were previously written off.
Governance	\$1.2M	\$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	\$1.0M	\$3.1M	Footway maintenance costs lower than anticipated. The forecast relates to CCTV & Pipe inspections where the contracted work will commence later than anticipated.
Property Related Expenditure	\$1.1M	\$1.8M	Savings on cleaning maintenance contracts due to a change of provider.

Interest Revenue

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Interest Revenue	\$3.0M	\$4.1M	Council's investments earned interest of \$10.8M for the second quarter, against budgeted earnings of \$7.8M, 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	\$17.9M	\$35.7M	Significant contributions from the City South and Green Square areas.

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	\$3.1M	\$0.2M	Timing difference; relating to lower than anticipated non-capital project costs incurred 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
Loss on Investment Funds	(\$1.7M)	(\$1.7M)	Decline in the latest indicative market valuations of Floating Rate Notes, reflecting a volatile market and the rate cut administered by the RBA in May 2015.

Gain / (Loss) on Sale of Assets

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Gain on Sale of Assets	\$2.5M	\$2.5M	Gain on Sale of Gordon Ibbet Activity Centre.

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 \$5.1M 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;
 - (b) Communications - unbudgeted costs associated with Non-Residential Roll;
 - (c) City Rangers - lower enforcement income offset in part by reduced expenditure costs and savings in salary and wages; and
 - (d) Corporate Costs – the vacancy factor is budgeted in the corporate costs unit while the actual savings are realised in the relevant units.

CAPITAL EXPENDITURE

14. The Capital Works program incurred expenditure of \$125.4M against the YTD budget of \$157.2M. The full year forecast has been reduced to \$245.2M, following a review of the capital works program.
15. 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.
16. 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 \$4.0M from future years' capital works forward estimates and to reallocate funds in order to progress the following projects. Details are provided in Attachment B:
- (a) Temporary reallocation of funds from Bay Street Depot (\$2.1M) to Oxford Street Properties Activation \$2.1M;
 - (b) 277 Bourke Street proposed Community Centre \$1.0M;
 - (c) Library and Plaza remediation and associated works \$1.3M;
 - (d) Cycling safety works and bike parking \$0.4M; and
 - (e) Liverpool and Castlereagh Cycleway \$1.4M.

17. 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) from Cycleways Network Improvements (\$0.3M), to Lawson Street / Lawson Square \$0.3M;
 - (b) from Property related projects – Future Years (\$0.5M), to Alexandra Canal Depot \$0.5M; and
 - (c) from Drainage improvement program (\$3.1M) and Cycleways Network Improvement (\$1.7M), to Green square Trunk Drain link road to Alexandra Canal \$4.8M.
18. 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) 1-5 Flinders Street, Taylor Square: reduction in forecast due to construction tender being subject to a reject and negotiation process;
 - (b) East Sydney Community and Art Centre: delays to construction, and wet weather has also impacted the progress on site;
 - (c) Green Square Community Facilities and Open Space; Green Square Creative Centre, Community Shed and Matron Ruby Grant Park: delayed commencement on site due to scheduled contract execution causing revision to program;
 - (d) Green Square Streets and Drainage: construction work is currently ahead of contract completion dates;
 - (e) Juanita Nielsen Centre: latent condition has been realised and monitored; forecasting to spend more than budget in the current year;
 - (f) Oxford Street Properties Activation: Program proceeding faster than anticipated. Contractors engaged for two sites on Oxford Street. Negotiations proceeding on Foley Street. All are expected to commence in February 2016, with completion in June 2016; and
 - (g) Perry Park – Recreational Facilities: reduction in forecast; tender documentation now being finalised for March.
19. 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.
20. Significant variances are also forecast for a number of the 2015/16 capital works program budgets, including:
- (a) Bicycle related works - Castlereagh and Liverpool Street cycleways: project completed;
 - (b) Community, Cultural and Recreation Property Related projects – Reduction in forecast for; Paddington Reservoir Eastern Chamber, as its now in operation,

- with no construction works required. Leachate plant upgrades, where ongoing water quality monitoring indicates low hazard, however, final determination of scope subject to reporting and consultation with the Environment Protection Authority;
- (c) Corporate and Investment Property Related Projects - Alexandra Canal Depot: possible delay due to receipt of recent advice that Planning will appoint an external planner for assessment of the Development Application;
 - (d) PCTC's - Foveaux Street Pedestrian Improvements: delay in approval with work to now commence in February;
 - (e) Pools - Prince Alfred Park: City of Sydney finalised all obligations between the City and Contractor. The settlement incorporated payment for works completed, agreed contract variations in favour of the City and compensation for defective works;
 - (f) Public Art LGA - City Centre Permanent Public Art Implementation: Forecast reduction, but the projects are progressing and timing is being co-ordinated with Sydney Light Rail project;
 - (g) Public Domain - Footway Renewal: significant savings found through quotation process; and
 - (h) Stormwater Drainage - Joynton Avenue Stormwater Drainage Upgrade: forecast reduction in the current year with the project now being tendered in March. Drainage Renewal – minor; uncertainty with scope and program for drainage work ahead of the light rail project;
21. 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 are provided at Attachment B.
22. The Plant and Assets expenditure incurred during the year to date, net of disposals, was \$9.2M against a budget of \$10.9M. Information Services capital works expenditure, for projects being delivered internally, was \$2.3M against a YTD budget of \$3.4M.

OPERATIONAL HIGHLIGHTS

23. There were a number of operational highlights, including:
- (a) Sydney Christmas 2015 was launched on 23 November. The Christmas Concert on 26 November at Martin Place and lighting of the Christmas tree along with the Hyde Park Concert were well attended. Christmas Light Projections were concentrated in Martin Place on the GPO and the Burberry building at 343 George Street, with Town Hall having Christmas light illuminations programmed nightly.
 - (b) 2015 Sydney New Year's Eve was a safe and exciting event with well more than a million people gathering around the harbour. Feedback and media coverage to date has been positive by a vast majority, with some referring to it as the "best ever".

- (c) Surry Hills Library installed its 3D printer which will allow for introductory programs for children and adults, as well as to allow experienced users the ability to print their 3D creations in line with the Library's 3D printing procedures.
- (d) NAIDOC Week ran from 5 to 12 July with the National NAIDOC theme - We All Stand on Sacred Ground – Learn, Respect and Celebrate, which highlights Aboriginal and Torres Strait Islander peoples' strong spiritual and cultural connection to land and sea. NAIDOC Week celebrations were launched on Monday 6 July 2015 in Hyde Park North with an estimated audience of 7,500 people. The event featured live performances, workshops, Indigenous-themed food stalls, an earth oven that offered samples of Indigenous delicacies, a Native plant nursery, storytelling by Elders, sports activities by NRL One Community Team and the Sydney Kings, and a marketplace promoting Aboriginal and Torres Strait Islander small businesses.
- (e) The Sydney Culture Walks app won an award in the 2015 Sydney Design Awards and continues to attract positive reviews in blog posts and social media. There are over 4,000 active users each quarter. The app now has the ability to present a "feature walk" to highlight a new walk or a walk that is topical.
- (f) The City's leadership and innovation in waste and recycling was recognised by winning two industry awards this year for the City's reverse vending machine trial, delivering Sydney's first underground bin system, and trialling e-waste collection from apartment buildings. In October 2015, the City's Resource Recovery team won the waste and recycling category at this year's NSW Government's Green Globes. In December 2015, the City also won the resource recovery category at the NSW Local Government Environment Awards.

FINANCIAL IMPLICATIONS

- 24. At Quarter 2, the YTD year Operating Surplus was \$67.2M, with a Net Surplus of \$18.6M, representing a favourable variance of \$36.9M against budget.
- 25. Financial performance in all principal activities, as defined within the Delivery Program 2014-2017, has generally been satisfactory against budget.
- 26. The full year forecast reflects an Operating Surplus of \$113.7M and a Net Surplus of \$73.1M which are favourable to budget, despite absorbing additional unbudgeted costs of \$5.0M associated with fulfilling the requirements of delivering the Non-Residential Register and Rolls.
- 27. The 2015/16 year end cash position is forecast to be \$574.7M, which is favourable to the budget of \$483.3M by \$91.5M. This variance reflects the higher opening cash balances, higher developer contributions, lower capital and operational expenditure than budgeted.

28. 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

29. 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.
30. 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.
31. 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

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

PUBLIC CONSULTATION

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

BILL CARTER

Chief Financial Officer