

ITEM 2. 2015/16 QUARTER 3 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 Q3 2015/16 reflected an Operating Surplus of \$95.3M, which is \$15.0M favourable to the YTD budget of \$80.4M. After allowing for interest income, capital grants and contributions and capital project related costs, the Council has achieved a Net Surplus of \$56.9M against a YTD budget of \$1.9M. This favourable variance of \$55.0M predominantly reflects lower operating expenditure and higher capital grants and contributions than budgeted.

An annual operating surplus of \$116.0M is forecast, a favourable variance to budget of \$11.0M, with a Net Surplus of \$79.4M 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 \$171.2M compares to a YTD budget of \$210.8M, with the annual forecast for the program revised down to \$235.7M. 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 \$4.5M against a YTD budget of \$4.8M, with a full year forecast of \$8.0M

The Plant and Asset expenditure at Q3, net of disposals, was \$10.7M against a YTD budget of \$12.5M, with a full year forecast of \$20.9M.

There were two property divestments in quarter three, being vacant land at 17-19 Albert Street, St Peters and an easement at 3 Joynton Avenue in favour of City West to allow an increased quantity of affordable housing units to be constructed.

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 third quarter, ending 31 March 2016, including the Quarter 3 Net Surplus of \$56.9M and a full year forecast of \$79.4M as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) approve the write-off of a debt for \$112,597 for the lease and licence of a City-owned property at Oxford Street, Darlinghurst as outlined in paragraphs 14 and 15 of the subject report;
- (C) note the Quarter 3 Capital Works expenditure of \$171.2M, a revised full year forecast of \$235.7M and approve the proposed adjustments to the adopted budget, as detailed in Attachment B to the subject report;
- (D) note the Quarter 3 Plant and Assets expenditure of \$10.7M, net of disposals, and full year forecast of \$20.9M;
- (E) note the Information Services Capital Works expenditure of \$4.5M, net of disposals, and a full year forecast of \$8.0M; 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 3, as detailed in Attachment C to the subject report.

ATTACHMENTS

Attachment A: Financial Results Summary

Attachment B: Capital Expenditure Financial Results

Attachment C: Third Quarter Supplementary Report 2015/16

BACKGROUND

1. The City's 2014-2017 Delivery Program and 2015/16 Operational Plan, including the 2015/16 budgets, were 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 third quarter (Q3) and full year results for the 2015/16 financial year.
4. A Q3 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 Q3, 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 on 10 August 2015 and estimated at a total of \$7.0M, has since forecast down to operating expenditure total of \$3.9M for 2015/16. The Non-Residential Register IT System does however require additional funding of \$0.4M which is being drawn from the capital works contingency.

THIRD QUARTER OPERATING RESULTS

9. The Q3 Operating Surplus was \$95.3M against a budget of \$80.4M, a favourable variance of \$15.0M. 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 \$56.9M against a budget surplus of \$1.9M, a favourable variance of \$55.0M.
10. The result includes a unfavourable variance to budget of \$1.3M for operating income with favourable variances to budget of \$16.2M for operating expenditure, a favourable variance of \$4.4M for interest income, a \$30.2M favourable variance for capital grants and contributions, an unfavourable variance of \$0.7M for depreciation, a favourable variance of \$4.6M for capital project related costs, a loss on investment funds of \$2.0M and a gain on sale of assets of \$3.5M.

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	\$0.9M	Increase in Banner Pole utilisation for George Street, above the anticipated budget.
Other Income	\$1.5M	\$1.8M	Settlement of Prince Alfred Park liquidated damages.
Rates & Annual Charges	\$0.7M	\$1.0M	There have been changes in category from business to residential use, including increased subdivisions which also increases domestic waste income.

Enforcement Income	(\$3.1M)	(\$4.7M)	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	\$1.4M	\$2.1M	Lower processing fees and profit share payment in line with lower infringements.
Net Reduction	(\$1.7M)	(\$2.6M)	

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	(\$3.6M)	(\$3.3M) <u>(\$1.7M)</u> <u>(\$1.6M)</u>	Vacant positions are being backfilled by agency where necessary, and the full year forecast includes an additional \$1.7M for unbudgeted agency resources to fulfil Non-Residential Roll requirements. The variance also reflects lower capitalisation costs on capital projects than anticipated, and lower annual leave taken than budgeted.
Consultancies	\$1.0M	\$0.1M	The forecast includes \$0.3M for the use of a legal firm while vacant positions are recruited, and \$0.3M for Non-Residential Roll, offset by budgeting for two major audits of key buildings which will roll into next financial year and savings in procurement of flood modelling and Basement Vulnerability Assessment.
Event Related Expenditure	\$1.3M	\$0.3M	Increase in the Chinese New Year which is offset with additional sponsorship income. Timing on projects such as Social sustainability strategy and Sydney Open for business, where a tender was awarded at council last month for George Street Activations.
Expenditure Recovered	\$1.4M	\$1.6M	Settlement of a claim for CDO investments which had previously been written off in accordance with accounting standards.
Governance	\$1.7M	\$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 against other line items.
Grants, Sponsorships and Donations	\$1.3M	\$0.2M	Timing variance due to the instalment nature of payments for each of the grants which have already been approved.

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Infrastructure Maintenance	\$2.2M	\$3.4M	Footway maintenance costs lower than anticipated. The forecast relates to CCTV and pipe inspections where the contracted work will commence later than anticipated.
IT Related	\$1.3M	\$1.3M	Timing of implementation of Public Access Computers in Libraries, Community Centres and Childcare Centres, currently in negotiation.
Other Operating Expenditure	\$1.1M	\$0.7M	Variances for community education including cycling courses, and curatorial services for the public art strategy which required less resource than budgeted.
Property Related Expenditure	\$2.1M	\$2.4M	The variance predominantly reflects savings on the cleaning maintenance contracts due to a change of provider.
Utilities	\$1.2M	\$1.1M	Reduction in network prices from the start of the financial year and lower tariffs under the revised contract. Street Lighting is also favourable due to delays by RMS with the Pedestrian Light Program (should have commenced in July 2015) and additional roll out of LED lighting is leading to further savings.

Interest Revenue

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Interest Revenue	\$4.4M	\$5.2M	Council's investments earned interest of \$15.9M to date, against budgeted earnings of \$11.5M, reflecting higher than anticipated opening cash balances for the year and lower capital and operating expenditure.

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	\$30.2M	\$42.9M	Significant contributions from City North, South and Green Square.

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	\$4.6M	\$0.2M	Timing difference; relating to lower than anticipated non-capital project costs incurred at this stage.

Depreciation

Expenditure Type	2015/16 YTD Year Budget Variance Favourable / (Unfavourable)	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Depreciation	(\$0.7M)	(\$5.0M)	The budget made an allowance for a change in depreciation methodology for road base. Subsequent detailed calculations have resulted a lower than anticipated reduction in depreciation expense

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	(\$2.0M)	(\$2.0M)	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 \$1.9M 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) Business Planning and Performance; small unfavourable variance, absorbed within the CFO division;
 - (c) Green Infrastructure: employee time working on capital projects has been less than anticipated in the budget;
 - (d) City Greening and Leisure; Revenue forecast is unfavourable due to the change in provider for the Aquatics centre and unbudgeted urgent maintenance for the aquatic centres. The variance is being absorbed by the division;
 - (e) City Rangers: lower enforcement income offset in part by reduced expenditure costs and savings in salary and wages;
 - (f) Construction & Building Certification Services: lower hoarding fees due to lower activity;

- (g) Strategic Planning and Urban Design; LEP Amendments income is forecast to be less than budget reflecting fewer large scale Development Applications; and
 - (h) Corporate Costs: as the full organisational vacancy factor is budgeted in the corporate costs unit while the actual savings are realised in the relevant units.
14. The City needs to formally write-off a debt of \$112,597 for unpaid rental for the occupation of one of its properties in Oxford Street, Darlinghurst. The unpaid rental debt represents a longstanding dispute, predominantly for the period 2008-2011, and largely relating to the street upgrade works undertaken during this period. For a number of years, the City has attempted to recover this debt through its normal debt recovery processes, direct negotiation, rental abatement agreement, retail mediation, external debt recovery agents and through the access of personal guarantees. Ultimately, the external recovery and internal legal advice concur that the debt cannot be recovered, and further action would most likely prove unsuccessful and therefore uneconomical.
15. Accounting policy and standards dictate that the debt must now be formally removed from our records, along with the full provision for doubtful debts that has been accumulated and set aside each accounting year. As such, there will be no net impact on the City's operating result for this financial year.

CAPITAL EXPENDITURE

16. The Capital Works program achieved expenditure of \$171.2M against a YTD budget of \$210.8M. The full year forecast has been reduced to \$235.7M, 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. 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 \$10.5M 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) Green Square Trunk drain-Link road to Alexandra Canal (\$6.6M);
 - (b) Chinatown Public domain improvement – Thomas and Hay streets (\$0.3M);
 - (c) Juanita Nielson Centre (\$1.6M);
 - (d) Child Care – Hospital site Green Square (\$0.7M);
 - (e) Library / Plaza remediation & associated works (\$0.1M);
 - (f) Ebsworth Street, Tweed Place, Fellmonger Place, Barker Street (North) (\$0.1M);
 - (g) Town Centre Interface works (\$0.2M); and

- (h) Traffic Committee – New signs and Lines (\$0.6M).
19. 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 Property related projects – Future years (\$1.0M), to Alexandra Canal Depot \$1.0M;
 - (b) Renewable Energy Fund project – Solar Panel (\$0.4M), to Green Square Aquatic Centre and Gunyama Park \$0.4M;
 - (c) Future Community and Recreational Facilities (\$3.0M), to Green Square Community Library and Plaza; and
 - (d) East Sydney Community and Arts Centre (\$0.3M), to Burton and Palmer Street intersection \$0.3M.
20. 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 Square Community Facilities and Open Space; Green Square Community Library and Plaza: Tenders received and evaluation progressing. Project forecasting has been amended to reflect the potential project cost and Drying Green Park; resolution of design details has deferred some project expenditure in the current year; and
 - (b) Green Square Streets and Drainage: Gadigal Avenue – South (Mirvac): The public benefit offer has been accepted, but final VPA documentation, exhibition and execution is not likely to be completed until early July
21. 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.
22. Significant variances are also forecast for a number of the 2015/16 capital works program budgets, including:
- (a) Public Domain: City Centre Regimental Square: Construction works were late in starting, with an end date of August 2016; and
 - (b) Stormwater Drainage: O'Dea Avenue: a different technique is being used which will result in savings from the budget.
23. 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.
24. The Plant and Assets expenditure incurred during the year to date, net of disposals, was \$10.7M against a budget of \$12.5M. Information Services capital works expenditure, for projects being delivered internally, was \$4.5M against a YTD budget of \$4.8M.

OPERATIONAL HIGHLIGHTS

25. There were a number of operational highlights, including:

- (a) The 2016 Chinese New Year Festival was successfully delivered from 6 to 21 February 2016. The Festival was the most successful to date, with more than 1.3 million attendees in 2016, compared to 713,000 in 2015. The majority of this increase is attributed to the new Lunar Lanterns event, which replaced the Twilight Parade in 2016. This event attracted 753,000 people, compared to an estimated crowd of 130,000 people at the Twilight Parade in 2015. The 2016 festival attracted the City's largest event sponsorship in more than 10 years with the Principal Partnership with Westpac, which allowed the lighting of the Sydney Opera House, Sydney Harbour Bridge and Circular Quay Station in red light for the first three days of the festival, and the creation of the Westpac Lunar Lantern Hub in Martin Place.
- (b) In February 2016, the City hosted the yearly Future Asia Business Summit during Sydney's Chinese New Year Festival. This event brought together more than 300 representatives of industry and government leaders to share insights on economic opportunities in China and across Asia. The Chief Executive of Commercial and Business Banking at Westpac was the keynote speaker.
- (c) A successful year for the Living Colour Program, with 2 x 8 week floral displays. Each display, made up 800 1 x1 metre planter boxes, had up to 20,000 pots. Incorporated in the displays were also 23 floral towers. These displays were in key locations across the LGA. Additionally, 450 hanging baskets were displayed on smart poles across the City, as well as the green wall at Kings Cross, for a continuous display of 36 weeks. At the end of each display, plants were given away at large public give-aways at St Mary's Cathedral. As well, a number of plants were given to schools and community groups across the LGA.
- (d) The historical walking tour brochures and culture walks app are popular forms of public engagement with the City's history. There are currently 6,000 active users of the app each quarter. The Walk on Water tour was added to the app to coincide with the Water Bar Art & About installation at Paddington Reservoir Gardens.
- (e) On 9 March, the first of the 2016 Business 101 series was held. "So you think you want to start, grow or rebrand your business" attracted 144 people, with 56% of the audience attending the series for the first time and nearly 100% reporting that the seminar was valuable.
- (f) The City has entered into a collaborative agreement with the Office of Environment and Heritage to pilot a technology training and implementation support program for strata building managers on energy management, lighting and heating, ventilation and air-conditioning. The training program is being developed and the pilot program will commence in May.
- (g) 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.

- (h) 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

- 26. At Quarter 3, the YTD year Operating Surplus was \$95.3M, with a Net Surplus of \$56.9M, representing a favourable variance of \$55.0M against budget.
- 27. Financial performance in all principal activities, as defined within the Delivery Program 2014-2017, has generally been satisfactory against budget.
- 28. The full year forecast reflects an Operating Surplus of \$116.0M which is favourable to budget by \$11.0M, despite absorbing additional unbudgeted costs of \$1.9M associated with fulfilling the requirements of delivering the Non-Residential Register and Rolls.
- 29. The 2015/16 year end cash position is forecast to be \$559.9M, which is favourable to the budget of \$479.6M by \$80.3M, reflecting higher opening cash balances, higher cash contributions, lower capital and operational expenditure than budgeted.
- 30. 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

- 31. 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.
- 32. 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.
- 33. 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

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

PUBLIC CONSULTATION

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

BILL CARTER

Chief Financial Officer