

**ITEM 2. 2015/16 QUARTER 4 REVIEW - DELIVERY PROGRAM 2014-2017
AND 2016 END OF TERM REPORT**

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 for the 2015/16 year reflected an Operating Surplus of \$112.4M, which is \$7.4M favourable to the full year budget of \$105.0M. After allowing for interest income, capital grants and contributions and capital project related costs, the Council has achieved a Net Surplus of \$63.0M against a full year budget of \$23.6M. This favourable variance of \$39.5M predominantly reflects lower operating expenditure and higher capital grants and contributions than budgeted. The major variances are discussed within the body of this report, and full details are provided in Attachment A.

The Capital Works program achieved expenditure of \$225.0M compared to a full year budget of \$305.3M. A summary of the 2015/16 capital project expenditure and proposed budget net "revote" of funds to 2016/17 and future year forward estimates are outlined within the body of this report, and detailed within Attachment B.

The Information Services capital works expenditure, for projects developed internally, was \$6.9M against a full year budget of \$11.8M.

The Plant and Asset expenditure, net of disposals, was \$16.1M against a full year budget of \$24.4M.

The net property acquisitions were \$3.2M against a full year budget of \$6.8M.

The interim financial results are still being finalised as part of the preparation of the annual financial statements, which are subject to external audit in August. It is anticipated that there may therefore be some minor adjustments to the results presented in this report. Any significant changes will be highlighted in the report covering the annual financial statements, to be presented to Council in October 2016.

Progress against the Delivery Program performance measures is generally satisfactory, with full details provided in Attachment C, and a number of operational achievements are highlighted within the body of this report.

The Quarterly Environmental Sustainability progress report provides further details on the achievements against the targets in the Environmental Plan for both the local government area (LGA) and the City's own operations. This is provided at Attachment E.

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 D for information.

This quarterly review also includes the outgoing Council's 2016 End of Term report to its community, on its progress towards implementing the objectives of the Sustainable Sydney 2030 Community Strategic Plan (2014). This report informs the incoming Council's review of the Community Strategic Plan, which must be completed after the September election and before 30 June 2017, and is provided in Attachment F.

RECOMMENDATION

It is resolved that Council:

- (A) note the financial performance of Council for the year ending 30 June 2016, including the Net Surplus of \$63.0M as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the full year Capital Works expenditure of \$225.0M, and approve the proposed revote of budget and other adjustments, which will increase the adopted 2016/17 budget of \$298.4M by \$18.4M to \$316.9M and note the forward estimates as detailed in Attachment B to the subject report;
- (C) note the full year Plant and Assets expenditure of \$16.1M, net of disposals, and approve the proposed net revote of \$4.9M to increase the adopted 2016/17 net budget to \$25.6M;
- (D) note the Information Services Capital Works expenditure of \$6.9M, net of disposals, and approve the proposed revote of \$4.8M to increase the adopted 2016/17 budget to \$13.3M;
- (E) note the operational performance indicators and quarter and full year achievements against the Delivery Program 2014-2017 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 4, as detailed in Attachment D to the subject report;
- (G) note the Environmental Sustainability Progress Report, as shown at Attachment E to the subject report; and
- (H) receive the 2016 End of Term Report as provided in Attachment F to the subject report.

ATTACHMENTS

Attachment A: Financial Results Summary

Attachment B: Capital Expenditure Financial Results

Attachment C: Fourth Quarter Operational Plan Report 2015/16

Attachment D: Fourth Quarter Supplementary Report 2015/16

Attachment E: Environmental Sustainability Progress Report

Attachment F: 2016 End of Term 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 fourth quarter (Q4) and full year results for the 2015/16 financial year.
4. A Q4 and full year 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 for the 2015/16 year and a summary of project expenditure to date, and proposed budget adjustments for 2015/16 and future years, are outlined within the body of this report and detailed within Attachment B.
6. A Quarter 4 progress report against the operational performance measures identified within the 2014-2017 Delivery Program Plan is provided within Attachment C.
7. 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 D for information.
8. Details on the progress of the City's environmental sustainability programs, and projects for the quarter, are provided at Attachment E.
9. This quarterly review also includes the outgoing Council's 2016 End of Term report to its community, on its progress towards implementing the objectives of the Sustainable Sydney 2030 Community Strategic Plan (2014). This report informs the incoming Council's review of the Community Strategic Plan, which must be completed after the September election, but prior to 30 June 2017, and is provided at Attachment F.

2015/16 OPERATING BUDGET

10. 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 expenses of \$102.8M, capital project related costs of \$4.6M and the outgoing contribution for light rail of \$48.6M, Council budgeted for a Net Surplus of \$23.6M.
11. Post budget adoption, the City completed a program and methodology for addressing the requirements to compile and maintain a Non-Residential Register and Roll for the first time. While the adopted budget included a provisional sum of \$2.0M, partially sourced by reducing General Contingency to \$0.5M, the revised program and methodology approved by Council on 10 August 2015 estimated a total of \$7.0M.

FOURTH QUARTER OPERATING RESULTS

12. The full year Operating Surplus was \$112.4M against a budget of \$105.0M, a favourable variance of \$7.4M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, light rail contribution, loss on investment and gain on sale of assets, the Net Surplus was \$63.0M against a budget of \$23.6M, a favourable variance of \$39.5M.
13. The result includes an unfavourable variance to budget of \$1.6M for operating income, with favourable variances to budget of \$9.0M for operating expenditure, a favourable variance of \$4.8M for interest income, a \$35.0M favourable variance for capital grants and contributions, an unfavourable variance of \$7.3M for depreciation, an unfavourable variance of \$2.2M for capital project related costs, a loss on investment funds of \$1.7M and a gain on sale of assets of \$3.4M.
14. The primary operating income variations to the budget are detailed in the table below:

Income Type	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Enforcement Income	(\$4.0)	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	\$2.3M	Lower processing fees and profit share payment in line with lower infringements.
Net reduction	(\$1.7M)	

Other Income	\$1.9M	Settlement of Prince Alfred Park Pool liquidated damages.
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15. The primary operating expenditure variances to the budget are detailed in the table below (variances are in \$M):

Expenditure Type	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Salary Expense	(\$8.2M)	Vacant positions were backfilled by agency where necessary, and the full year costs include an additional \$1.3M 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. A 'top up' was required for employee provisions and superannuation, as long term interest rates have continued to decline, impacting present value of future liabilities.
Event Related Expenditure	\$1.6M	A change in the delivery of the NYE bridge effect resulted in savings. Fewer city talks and city conversations were delivered than anticipated.
Expenditure Recovered	\$3.3M	Settlement of a claim for CDO investments which had previously been written off in accordance with accounting standards and carbon price mechanism refund for waste processing costs.
Governance	\$2.0M	The underspend in this category arises as the Non-Residential Roll provisional allocation of \$2M was originally all budgeted here, but was expended against other line items.
IT Related	\$1.4M	Timing of implementation of a number of IT projects including public access computers in libraries, community centres and childcare centres. There is also an underspend in ongoing IT services.
Operational Contingencies	\$1.1M	Unspent contingencies of funds not required
Other Operating Expenditure	\$1.2M	Variances for community education including cycling courses, and curatorial services for the public art strategy which required less resource than budgeted.
Property Related Expenditure	\$1.6M	The variance predominantly reflects savings on the cleaning maintenance contracts due to a change of provider.

Expenditure Type	2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Utilities	\$1.2M	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

2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
\$4.8M	Council's interest and investment earnings were \$20.0M against a budget of \$15.2M, reflecting higher than anticipated opening cash balances for the year, lower capital and operating expenditure and higher than anticipated returns on investments.

Capital Grants and Contributions

2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
\$35.0M	\$30.7M Works in Kind and \$4.3M cash contributions.

Depreciation

2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
(\$7.3M)	The budget made an allowance for a change in depreciation methodology for road base. Subsequent detailed calculations have resulted in a lower than anticipated reduction in depreciation expense.

Gain / (Loss) on Investment Funds

2015/16 Full Year Budget Variance Favourable / (Unfavourable)	Comment
(\$1.7M)	Decline in the latest indicative market valuations of Floating Rate Notes. Reflects June volatility in global financial markets in response to the unanticipated Brexit outcome.

16. The City's financial performance has generally been strong across most areas of Council, although there are units with unfavourable variances greater than \$0.5M or 10%, such as:
- (a) Council Elections Unit (\$1.2M) – there was an additional operational expenditure 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) Green Infrastructure (\$0.08M) – employee time working on capital projects has been less than anticipated in the budget;
 - (c) Green Square (\$0.3M) – employee time working on capital projects has been less than anticipated in the budget;
 - (d) City Greening and Leisure (\$1.2M) – revenue 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 (\$0.7M) – lower enforcement income offset in part by reduced expenditure costs and savings in salary and wages; and
 - (f) Corporate Costs (\$6.3M) – vacancy factor is budgeted in the corporate costs unit, however, the savings are realised in the relevant units.

CAPITAL EXPENDITURE

17. The Capital Works program achieved expenditure of \$225.0M against a full year budget of \$305.3M. This is the highest level of annual capital expenditure achieved.
18. A number of projects were completed in 2015/16, including: Green Square Green Infrastructure Centre Administration Building; Sydney Town Hall External Works Stage 2; Quarry Green Park; O'Connell Street Park; Library and Plaza Remediation and associated works; and John Street Reserve. Numerous asset renewal programs were also completed during the year.
19. The capital works program adopted as part of the 2016/17 Operational Plan in June, forecast higher expenditure in 2015/16. It is therefore proposed to now carry forward or "revote" a further \$16.6M of these unspent funds to ensure sufficient funding is approved to undertake the major capital works projects during 2016/17.

20. Following a final review of the 2015/16 program, taking into account the revised revotes, the project timelines, the time required for community engagement and the capacity to deliver the program, it is recommended that an additional net \$1.8M also be brought forward from future years forward estimates. A net \$18.4M will need to be carried forward into 2016/17 on top of the \$298.4M adopted in the budget, for a revised total capital works program of \$316.9M.
21. A financial summary of the 2015/16 Capital Works program, a schedule showing the funds carried forward and deferred, and the revised 2016/17 budget and future years' forward estimates by major project and program are provided in Attachment B.
22. The Plant and Assets expenditure incurred during the year, net of disposals, was \$16.1M against a budget of \$24.4M, the underspend predominately reflecting plant and assets which could not be delivered within the year. It will therefore be necessary to carry forward or "revote" an additional \$4.9M. The revote will increase the adopted 2016/17 budget for Plant and Assets from net \$20.7M to net \$25.6M.
23. Information Services capital works expenditure, for projects being delivered internally, was \$6.9M against a budget of \$11.8M. It will therefore be necessary to carry forward or revote an additional \$4.8M. The revote will increase the adopted 2016/17 budget for Information Services capital works from \$8.5M to \$13.3M.
24. A financial summary of the 2015/16 Plant and Assets result against budget, and the revised 2016/17 budget, are included in Attachment B.
25. Property Acquisitions and Divestments resulted in net acquisitions of \$3.2M for the 2015/16 year, against a budget of \$6.8M.

OPERATIONAL HIGHLIGHTS

26. There were a number of operational highlights, including:
 - (a) The City celebrated its 30th anniversary with sister-city Guangzhou in 2016. To leverage from our international partnership with the City of Guangzhou, the City of Sydney led a 100-person delegation to deliver in-market events to showcase Sydney's business, education and cultural sectors.
 - (b) Following an extensive public exhibition period and consultation with the ecosystem, Council adopted the Tech Start-ups Action Plan in June 2016. The Plan includes actions where implementation has already commenced, with planning underway for future implementation.
 - (c) Vivid Sydney 2016 was the most successful festival to date, with a reported 2.31 million visitors over the 23 nights. The City supports the festival through an agreement with Destination NSW.
 - (d) Ausgrid has commenced a trial of light-emitting diode (LED) main road luminaires within the city. It is expected that the trial will run for six months to evaluate both the lighting levels and physical performance of the luminaires prior to any further decision on main road LED roll out.

- (e) A new community garden group started the Jubilee Kitchen Garden, which consists of the proposal of five planter boxes on existing garden beds at the Jubilee Oval viaducts, Glebe. Their Management Plan and garden design has been approved under the Community Garden Policy and Footpath Gardening Policy. The group is working with Pymont Ultimo Men's shed and Big Fag press.
 - (f) This year's Sydney Rides Business Challenge was the largest of its kind in the world, with 359 businesses taking part and 4,400 individuals.
 - (g) The Reconciliation Action Plan (RAP) working group hosted the official RAP launch in Redfern Park (300 staff and community leaders attended); support for Reconciliation Week included banners, Sorry Day at Redfern Community Centre and the Aboriginal and Torres Strait Islanders Veterans Commemoration Service at Yininmadyemi, collaborating with neighbouring councils, MediaRING and corporates to promote reconciliation. New park signs acknowledging country launched in collaboration with local schools; strategy to embed cultural protocols commenced; Welcome to Country at significant City events; Gadigal names adopted for Green Square community facilities and Sydney Park wetlands.
27. In addition to the achievements highlighted above, progress against the City's other priority projects has generally been satisfactory. Full commentary in respect of the achievements against the planned objectives is provided in Attachment C.
28. The Quarterly Environmental Sustainability progress report is included as a separate Attachment E to provide further details on the achievements against the targets in the Environmental Management Plan, Sustainable Sydney 2030 and our Delivery Program for both the LGA and the City's own operations.

2016 END OF TERM REPORT

29. The Integrated Planning and Reporting (IP&R) framework was adopted by Council on 27 June 2011, as part of the Group Two round of councils across the State. The framework incorporates the Sustainable Sydney 2030 Community Strategic Plan (2014), the four year Delivery Program and one year Operational Plans, as well as the supporting Resourcing Strategy and ongoing reporting requirements.
30. The 2016 End of Term Report is a legislative requirement for all NSW councils. It is a report from the outgoing council on the implementation and effectiveness of the Community Strategic Plan in achieving its objectives during its term, and informs the incoming council's review of the Community Strategic Plan which must be completed after the September election and before 30 June 2017.
31. The End of Term Report must be presented at the final meeting of an outgoing council.
32. The Office of Local Government has not prescribed a format for End of Term reports. The report should outline how the Council is progressing towards achieving the social, environmental, economic and civic leadership objectives of the Community Strategic Plan and should focus on initiatives Council has direct influence over.

33. Councils may also choose to liaise with external organisations to obtain available information to support the End of Term report. Where the objectives are not being met, the report should address the impediments and how these might be overcome in the future.
34. The attached End of Term report is aligned with the 10 directions of the Sustainable Sydney 2030 Community Strategic Plan (2014), and outlines the achievements against the objectives identified in each strategic direction. A set of Key Performance Indicators provides trend analysis for key information over the past four years where applicable, reflecting the period in which the City's Corporate Plan has been structured on the Sustainable Sydney 2030 framework.
35. Future end of term reports will include the full four year council terms, and it is envisaged that they may also incorporate data from the Community Wellbeing Indicator project to provide a more holistic view on the progress of key community outcomes.
36. The End of Term report is also to be included as an attachment to the 2015/16 Annual Report.

FINANCIAL IMPLICATIONS

37. At Quarter 4, the full year Operating Surplus was \$112.4M, with a Net Surplus of \$63.0M, representing a favourable variance of \$39.5M against budget. It should be noted that these are interim results, pending final audit clearance, and a separate report will confirm these results in October.
38. Financial performance in all principal activities, as defined within the Delivery Program 2014-2017, has generally been satisfactory against budget.
39. The 2015/16 year end cash position was \$569.9M, which is favourable to the budget of \$455.7M by \$114.2M. This variance reflects the higher opening cash balances, lower capital and operational expenditure and higher capital contributions than budgeted.
40. 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

41. 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 Office of Local Government's guidelines and the Environmental Planning and Assessment Act 1979.
42. 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.

43. Section 406 of the Act requires councils to comply with the Integrated Planning and Reporting Guidelines, issued by the Chief Executive of the Office of Local Government,

CRITICAL DATES / TIME FRAMES

44. The quarterly report is due to be submitted to Council within two months of the end of the respective quarter.
45. The End of Term report is required to be received by Council at the last Council meeting of the current term.

PUBLIC CONSULTATION

46. The information contained within this report reflects Council's financial performance in the 2015/16 financial year.
47. There is no requirement for consultation in the development of the end of term report; however, as for the quarterly report, the end of term report will be placed on the City's website and also incorporated into the 2015/16 Annual Report.

BILL CARTER

Chief Financial Officer