

ITEM 2. 2016/17 QUARTER 1 REVIEW - DELIVERY PROGRAM 2014-2017

FILE NO: S096187

SUMMARY

This report reviews the operating and capital results against budget for the 2016/17 financial year identified within the Operational Plan 2016/17, being the final year of the Delivery Program 2014-2017.

Council's financial performance at Q1 2016/17 reflected an Operating Result of \$33.0M, against a YTD budget of \$32.2M. After allowing for interest income, capital grants and contributions and capital project related costs, the Council has achieved a Net Surplus of \$44.9M against a budget of \$24.4M. This favourable YTD variance of \$20.5M predominantly reflects lower operating expenditure and higher capital grants and contributions than budgeted. The full year Net Surplus at this stage is forecast to be \$60.9M, favourable to budget by \$30.4M. The major variances are discussed within the body of this report, and full details are provided in Attachment A.

The Capital Works program expenditure of \$44.1M compares to a YTD budget of \$49.9M, with the annual forecast for the program revised to \$286.7M. A summary of the 2016/17 capital project expenditure is outlined within the body of this report, and detailed within Attachment B.

The Information Services capital expenditure, for projects developed internally, was \$2.4M against an YTD budget of \$2.8M, with a full year forecast of \$11.8M.

The Plant and Asset expenditure at Q1, net of disposals, was \$1.2M against an YTD budget of \$2.5M, with a full year forecast of \$25.3M.

There was one property acquisition of 303-305 Pitt Street during Q1, the subject of a separate report to Council, with final settlement to occur in November 2016.

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 is provided bi-annually after the December (Q2) and June (Q1) 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 2016, including the Quarter 1 Net Surplus of \$44.9M and the full year Net Surplus forecast of \$60.9M, as outlined in the subject report and summarised in Attachment A to the subject report;

- (B) approve the formal write-off of a commercial rent-related debt for \$172,834 inclusive of GST, as outlined in paragraphs 15 and 16 of the subject report;
- (C) note the Quarter 1 Capital Works expenditure of \$44.1M, a revised full year forecast of \$286.7M and approve the proposed adjustments to the adopted budget, including the transfer of \$0.2M from capital works contingency as detailed in Attachment B to the subject report;
- (D) note the Information Services capital expenditure of \$2.4M, net of disposals, and a full year forecast of \$11.8M;
- (E) note the Quarter 1 Plant and Assets expenditure of \$1.2M, net of disposals, and full year forecast of \$25.3M; 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 2016/17 Operational Plan, including the 2016/17 budgets, were adopted by Council on 27 June 2016.
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 forecast financial results for the 2016/17 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 2016/17 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.

2016/17 OPERATING BUDGET

7. The adopted 2016/17 budget projected operating income of \$530.8M and operating expenditure of \$418.4M, for an Operating Surplus of \$112.4M. After allowing for interest income of \$14.5M, capital grants and contributions of \$64.7M, depreciation expenses of \$109.5M, capital project related costs of \$4.6M and the outgoing contribution for light rail of \$47.1M, Council budgeted for a Net Surplus of \$30.5M.

FIRST QUARTER OPERATING RESULTS

8. The Q1 Operating Surplus was \$33.0M against a budget of \$32.2M, a favourable variance of \$0.8M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, minor gain on investment, the Net Surplus was \$44.9M against a budget of \$24.4M, a favourable variance of \$20.5M.
9. The result includes an unfavourable variance to budget of \$2.3M for operating income with favourable variances to budget of \$3.1M for operating expenditure, a favourable variance of \$1.0M for interest income, a \$18.9M favourable variance for capital grants and contributions, an unfavourable variance of \$0.8M for depreciation, a favourable variance of \$0.2M for capital project related costs and a gain on investment funds of \$0.4M.
10. The full year forecast Operating Surplus is \$108.0M against a budget of \$112.5M, an unfavourable variance of \$4.4M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, gain on investment, the Net Surplus is forecast to be \$60.9M against a budget of \$30.5M, a favourable variance of \$30.4M.

11. The forecast results includes a favourable variance to budget of \$0.8M for operating income with unfavourable variances to budget of \$5.2M for operating expenditure, a favourable variance of \$1.1M for interest income, a \$35.4M favourable variance for capital grants and contributions, an unfavourable variance of \$3.5M for depreciation, a favourable variance of \$1.4M for capital project related costs and a gain on investment funds of \$0.4M.
12. The primary operating income variations to the budget are detailed in the table below:

Income Type	2016/17 YTD Year Budget Variance Favourable / (Unfavourable)	2016/17 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Enforcement Income	(\$0.8M)	(\$1.5M)	Enforcement fines are tracking slightly lower than budgeted at this stage, with the variance forecast to slow over the remainder of the year. The team continue to develop, and analyse the City's changed traffic patterns and parking permit issues, to ensure resources are deployed to the areas of greatest need. Noting that the reduced income is offset in part by reduced processing costs, and revenue share payments to NSW State Government.
Expenditure Type			
Enforcement & Infringement Costs	\$0.9M	\$1.3M	Lower processing fees and net revenue payment share to the State in line with lower infringements, and an adjustment to last year's accrual.
Net reduction	\$0.1M	(\$0.2M)	

Commercial Properties	(\$0.6M)	\$0.7M	Reduced YTD income from the Capitol Theatre, reflecting a lower turnover share than budgeted, and kiosk income impacted by relocations for the light rail project. The full year forecast reflects new rent
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Income Type	2016/17 YTD Year Budget Variance Favourable / (Unfavourable)	2016/17 Full Year Budget Variance Favourable / (Unfavourable)	Comment
			following the property purchase in Pitt Street.
Parking Meter Income	(\$0.2)	(\$1.0M)	Impacts of light rail, where additional streets were required by the bus network.
Rates and Annual Charges	\$0.0M	\$2.9M	Increased rates resulting from the development and resultant valuation amendments to land at Barangaroo and Darling Live.

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

Expenditure Type	2016/17 YTD Year Budget Variance Favourable / (Unfavourable)	2016/17 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Salary Expense	(\$0.4M)	(\$5.1M)	The variance reflects that savings from salaries, wages and related employee oncosts, as vacancies are being recruited, are insufficient to offset the full cost of agency resources being used to backfill and undertake the City's approved projects. The capitalisation of salaries is also behind that budgeted in line with the reduced YTD and forecast capital works expenditure.

Expenditure Type	2016/17 YTD Year Budget Variance Favourable / (Unfavourable)	2016/17 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Event Related Expenditure	\$0.4M	\$0.3M	The budget is impacted by the timing of event related expenditure, including changes to the timing of the Town Hall House Level 4 commercial kitchen and meeting room refurbishments which will limit availability of these facilities in the second half of the financial year. The forecast event costs have been reduced accordingly.
Expenditure Recovered	\$0.9M	\$0.5M	A payment relating to the early termination of a commercial lease has resulted in a significant compensation payment.
Infrastructure Maintenance	\$0.2M	\$0.6M	Lower roads and footway maintenance costs. Parks maintenance expenditure has been later than anticipated, but will increase in the warmer months.
IT Related Expenditure	\$0.5M	\$0.5M	Lower than anticipated maintenance costs and software as service payments relating to new projects are yet to be commissioned.
Property Related Expenditure	(\$0.7M)	(\$2.8M)	Additional unbudgeted maintenance costs for façade works, brick kiln and hoarding stabilisation. The termination of the primary cleaning contract will also increase expenditure.

Interest Revenue

Expenditure Type	2016/17 YTD Year Budget Variance Favourable / (Unfavourable)	2016/17 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Interest Revenue	\$1.0M	\$1.1M	Council's investments earned additional interest, reflecting higher than anticipated opening cash balances for the year. As investments placed a number of years ago mature, when higher rates of return were available, interest earning are forecast to reduce.

Capital Grants and Contributions

Income Type	2016/17 YTD Year Budget Variance Favourable / (Unfavourable)	2016/17 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital grants and contributions	\$18.9M	\$35.4M	Favourable variance due to large contributions in the Green Square urban renewal area, including the former South Sydney Council depot site and works associated with new infrastructure in the Lachlan precinct.

Depreciation

Income Type	2016/17 YTD Year Budget Variance Favourable / (Unfavourable)	2016/17 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Depreciation	(\$0.8M)	(\$3.5M)	Additional charges due to significant increases in the valuation of land improvement assets (e.g. parks).

14. The City's financial performance has generally been strong across Council, however, the City Projects and Properties Division is currently forecasting an unfavourable variance reflecting the significant work currently being undertaken to properly prepare for the future retendering of the property services tender, and a number of significant unbudgeted maintenance costs. These works include additional façade works, brick kiln and hoarding stabilisation which will be required in coming months, and the change to the primary cleaning contract will also increase expenditure. These additional costs are offset, in part, by a cost recovery relating to the early termination by the lessee of a commercial lease, and additional rental income resulting from the recently purchased property in Pitt Street. Extensive efforts are underway to review and prioritise property activity over the remainder of the financial year in order to control these overruns, and Council will receive a further update as part of the Q2 review.
15. The City also needs to write-off a debt of \$172,834, inclusive of GST, in relation to a rental agreement with THINK Education for Ground Floor, Levels 1 and 2 at the Wilcox Mofflin Building in Mountain Street, Ultimo. As part of the agreement, the City was required to undertake specific lessor's works, including the installation of carpet in the premises consistent with the lessee's requirements, however, this did not occur following a design review. Legal advice has been received that THINK is entitled to the rebate for these works that did not proceed.
16. 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

17. The Capital Works program achieved expenditure of \$44.1M against a YTD budget of \$49.9M. The full year forecast has now been reduced to \$286.7M, following a review of the capital works program which assessed the program in respect of the forecast delivery of the projects, and the individual revised cost estimates.
18. The Harold Park – New Park construction project requires additional funding of \$0.2M from the capital works contingency to complete. In addition, progress on a number of other projects has advanced beyond that included within the delivery program budget projections for 2016/17. Approval is therefore sought to bring forward funds of \$3.0M from future years' capital works forward estimates and to reallocate funds from within relevant programs to progress these projects. There are also a number of budget changes proposed for the future years' forward estimates. Full details are provided in Attachment B.
19. A number of other projects are currently forecasting variances within the major capital works projects for the 2016/17 financial year, but no budget adjustment is proposed at this stage:
 - (a) Bay Street Depot: The process to reject and negotiate a major tender has impacted this program, resulting in a forecast underspend this financial year.
 - (b) Alexandra Depot: Contractor performance is favourable to program at this time and may lead to increased expenditure this financial year, noting no change to total project budget.

- (c) Gunyama Park Aquatic and Recreation Centre: Project currently forecasting over budget. It is anticipated that this will be managed through the Early Contractor Involvement (ECI) process with no additional funds sought. A future update will advise on the outcome.
 - (d) Green Square Library Plaza: Contractor performance is favourable to program at this time and may lead to increased expenditure this financial year, noting no change to total project budget.
 - (e) Child Care – Hospital Site at Green Square: The works have incurred additional scope relating to contamination remediation which may lead to increased expenditure this financial year, but this is still being determined.
 - (f) Drying Green: Detailed design is now complete with tenders for construction expected to be called in November 2016.
 - (g) Crescent Lands at Johnston’s Creek: Delay in obtaining development consent due to a heritage review has delayed the program by a number of months. This has resulted in a forecast underspend this financial year.
 - (h) Green Square Trunk Drain: Significant additional works required to enhance drainage performance and cycleway works.
 - (i) Library/Plaza remediation and associated works: Forecasting a total project saving at this time.
20. A number of projects within the Capital Works programs 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.
21. Significant variances are also forecast for a number of the 2016/17 program budgets and future years’ forward estimates, including:
- (a) Bicycle related Works: Harbour Village North - Design development and construction of the project from the Kent Street underpass to the Sydney Harbour Bridge was originally planned to be completed by the City with funding from Transport NSW. The project is now being delivered by RMS. The project has been divided into phases, with the City providing design services and project management support to RMS; funding for design services for the first project phase was provided and budgeted for 2016/17.
 - (b) Community, Cultural and Recreation Property Related Projects Enhancements - Darling Exchange Library fit-out works.
 - (c) Open Space: Perry Park recreational facilities and Hyde Park tree replacement and associated works.
 - (d) Infrastructure - Roads Bridges Footways: Bridges Major Works program - the reduction relates to finalising the procurement process, and works may not be delivered as early as planned.
 - (e) Open Space and Parks: Victoria Park upgrade – additional funding required following the completion of the tender process and offset in part by a contribution of \$0.6M from University of Sydney for its portion of the works. The tender is the subject of a report to Council in the current cycle.

- (f) Public Domain: Sea Wall Program, Steps and Ramps Renewal, Fences Renewal Comprehensive tender for minor repairs to bridges, sea walls, retaining walls, cliffs, fences and stairs repair is in development that will be used to deliver five years of work. Tender is scheduled to be advertised in January 2017. The work required for these assets is proactive asset renewal and there are no critical timeframes for repair.
- 22. A financial summary of the Capital Works program, the proposed budget adjustments, and a status report on all capital projects exceeding \$5M in value is provided at Attachment B.
- 23. The Plant and Assets expenditure incurred during the year to date, net of disposals, was \$1.2M against a budget of \$2.5M. Information Services capital works expenditure, for projects being delivered internally, was \$2.4M against a YTD budget of \$2.8M.
- 24. Property Acquisitions and Divestments are forecast net acquisitions of \$15.5M for the 2016/17 year, against a budget of \$18.5M. There has been one property acquisition of 303-305 Pitt Street during Q1, the subject of a separate report to Council, with final settlement to occur in November 2016 and funded from existing provisions.

OPERATIONAL HIGHLIGHTS

- 25. There were a number of operational highlights, including:
 - (a) The City supported the International Student Employability Forum on 21 September to showcase employability opportunities to over 1,000 newly graduating international students. The forum was led by StudyNSW and the National Association of Graduate Careers Advisory Services, with presentations by employers and recruitment experts.
 - (b) Resilient Sydney has had great success engaging local government via establishment of the Steering Committee (including General Managers of the six Districts of Metropolitan Sydney) and Resilience Ambassadors (including a representative of each council within metropolitan Sydney). The composition of the Steering Committee includes Rod Simpson (Environment Commissioner for the Greater Sydney Commission), Alan Stoneham (General Manager of Penrith City Council), Lindy Dietz (General Manager of Campbelltown City Council), Mark Ferguson (General Manager of the Northern Beaches Council), Meredith Wallace (General Manager of Bayside Council), Danny Resek (Managing Partner, Deloitte Western Sydney), Jacki Johnson (Group Executive, IAG), Greg Dyer (CEO of City of Parramatta Council), Monica Barone (CEO of the City of Sydney), Feargus O'Connor (Executive Director, Office of Emergency Management, NSW Department of Justice). Both initiatives ensure representation and collaboration across the entire metropolitan Sydney area. This work will be continued during events for the upcoming visit from One Hundred Resilient Cities President, Michael Berkowitz.

- (c) A new phase of the Waste and Recycling Improvement Program commenced with a focus on social housing apartment buildings owned by the NSW Land and Housing Corporation and City West Housing. Works will include bin upgrades, new waste education signage, adjustments to recycling services, deep cleaning of waste rooms, graffiti removal, repairs to locks, gates and lighting. The project is endorsed by NSW Family and Community Services senior management and by the NSW Environment Protection Authority through the Better Waste and Recycling Fund.
- (d) Pitt Street Mall, from Market to King Streets, has become permanently smoke-free. The decision follows the City's successful year-long smoke-free trial in Martin Place, which received strong support from businesses and people using the area and was made smoke-free permanently in June 2016.
- (e) Construction of three child care centres is now complete and service approvals have been received from the Department of Education. Huntley Street Early Learning Centre, an 80 place centre located on Huntley Street Alexandria, commenced operations in mid- September 2016. East Sydney Early Learning Centre, a 60 place centre located at 277 Bourke Street Darlinghurst, and The Crescent Early Learning Centre, an 80 place centre located on The Crescent in Annandale, commenced operations on 17 October 2016. Waranara Early Education Centre, a 74 place centre located on Joynton Avenue, Zetland, is anticipated to be completed in the first half of 2017 and operational by mid-2017.
- (f) Working with businesses to reduce their carbon emissions and energy bills, the CitySwitch Green Office program is a finalist in the Building Energy Efficiency category at the international C40 Cities Awards. The awards recognise the role cities play in climate change action and showcase successful programs other cities can replicate.
- (g) Support through the City's Commercial Creative Events Sponsorship program ensured Vogue Fashion's Night Out was held 1 September 2016, with an estimated 180,000 participants shopping across the CBD over one night. The events supported through this program deliver significant benefits to city businesses, particularly those in the tourism, hospitality and retail sectors.
- (h) The Better Buildings Partnership released to industry its new best practice standard for stripout waste management and reporting. The Partnership also formally released its green leasing standard. This standard sets out a best practice benchmark for office commercial green leases. The standard is supported by an online tool for rating a current lease and identifying improvements; a suite of downloadable template clauses; and a template Memorandum of Understanding for use in the middle of a lease term. This work has strong support from industry and received media coverage in the Australian Financial Review and The Fifth Estate. The Partnership released a cooling tower management analysis to members. This analysis aims to assist in the reduction of water consumption by improving accountability, management and reporting.

- (i) The Hi-Rise Retrofit Program is promoted under the brand "Smart Green Apartments" and is a key action under Activate Upgrades in the Residential Apartment Sustainability Plan. Recruitment for the 20 places in the Smart Green Apartments program commenced in August. The program landing page www.smartgreenapartments.com.au was promoted widely through City channels such as the Smart Green Apartments and Green Villages databases, Green Villages website, City website and Strata 101 workshops.

FINANCIAL IMPLICATIONS

26. At Quarter 1, the Operating Surplus was \$33.0M, with a Net Surplus of \$44.9M, representing a favourable variance of \$20.5M 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 a Net Surplus of \$60.9M which is favourable to budget by \$30.4M.
29. The 2016/17 year end cash position is forecast to be \$465.3M, which is favourable to the budget of \$420.9M by \$44.4M. This variance reflects the higher opening cash balances, 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 Office 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 Chief Executive of the Office 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 2016/17 financial year.

BILL CARTER

Chief Financial Officer