

**ITEM 2. 2016/17 QUARTER 2 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 and progress against the performance measures identified within the Operational Plan 2016/17, being the fourth and final year of the Delivery Program 2014-2017.

Council's financial performance at Q2 2016/17 reflected an Operating Result of \$64.8M, against a YTD budget of \$53.6M. After allowing for interest income, capital grants and contributions and depreciation, the Council has achieved a Net Surplus of \$73.4M against a budget deficit of (\$11.1M). The favourable YTD variance of \$84.5M includes the City's deferred payment of \$47.1M for the light rail contribution to NSW Government, pending independent certification, and higher than budgeted capital grants and contributions. The full year Net Surplus is forecast to be \$82.9M at this stage, favourable to budget by \$52.3M. 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 \$91.2M compares to a YTD budget of \$171.2M, with the annual forecast for the program revised to \$259.9M. 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 \$4.3M against an YTD budget of \$6.2M, with a full year forecast of \$11.1M.

The Plant and Asset expenditure at Q2, net of disposals, was \$4.8M against an YTD budget of \$8.7M, with a full year forecast of \$17.7M.

Progress against the Operational Plan 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 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.

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 and the City's own operations. This is provided at Attachment E.

**RECOMMENDATION**

It is resolved that Council:

- (A) note the financial performance of Council for the second quarter, ending 31 December 2016, including the Quarter 2 Net Surplus of \$73.4M and the full year Net Surplus forecast of \$82.9M, as outlined in the subject report and summarised in Attachment A to the subject report;

- (B) note the Quarter 2 Capital Works expenditure of \$91.2M, a revised full year forecast of \$259.9M and approve the proposed adjustments to the adopted budget, including the transfer of \$0.4M from capital works contingency as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$4.3M, net of disposals, and a full year forecast of \$11.1M;
- (D) note the Quarter 2 Plant and Assets expenditure of \$4.8M, net of disposals, and full year forecast of \$17.7M;
- (E) note the operational performance indicators and Quarter 2 achievements against the Operational Plan 2016/17 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 D 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 2016/17

**Attachment D:** Second Quarter Supplementary Report 2016/17

**Attachment E:** Environmental Sustainability Progress Report

**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 second quarter (Q2) and full year forecast financial results for the 2016/17 financial year, and the achievements to date against the Operational Plan objectives.
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 Operational Plan, are provided in Attachment A.
5. The Capital Expenditure results to Q2, 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. Progress against the Operational Plan 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
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. 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 and the City's own operations. This is provided at Attachment E

**2016/17 OPERATING BUDGET**

9. 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.

**SECOND QUARTER OPERATING RESULTS**

10. The Q2 Operating Surplus was \$64.8M against a budget of \$53.6M, a favourable variance of \$11.3M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, minor loss on investment, the Net Surplus was \$73.4M against a budget deficit of (\$11.1M), a favourable variance of \$84.5M.
11. The result includes a favourable variance to budget of \$5.3M for operating income with favourable variances to budget of \$6.0M for operating expenditure, a favourable variance of \$1.7M for interest income, a \$25.0M favourable variance for capital grants and contributions, an unfavourable variance of \$1.7M for depreciation, a favourable variance of \$1.4M for capital project related costs, a favourable variance of \$47.1M for the deferred Light Rail Contribution to NSW government and a loss on investment funds of (\$0.5M).

12. The full year forecast Operating Surplus is \$122.3M against a budget of \$112.5M, a favourable variance of \$9.8M. After allowing for interest income, capital grants and contributions, depreciation and a loss on investment, the Net Surplus is forecast to be \$82.9 M against a budget of \$30.5M, a favourable variance of \$52.3M.
13. The forecast results include a favourable variance to budget of \$6.7M for operating income, with favourable variances to budget of \$3.2M for operating expenditure, a favourable variance of \$2.5M for interest income, a \$43.8M favourable variance for capital grants and contributions, an unfavourable variance of \$3.5M for depreciation, and a loss on investment funds of (\$0.5M).
14. The primary operating income variations to the budget are detailed in the table below:

<b>Income Type</b>	<b>2016/17 YTD Year Budget Variance Favourable / (Unfavourable)</b>	<b>2016/17 Full Year Budget Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Enforcement Income	(\$2.1M)	(\$3.1M)	Enforcement PINS are tracking lower than budgeted at this stage, due in part to staff vacancies, with the forecast to slow over the remainder of the year as the positions are filled. The team continues 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.
<b>Expenditure Type</b>			
Enforcement & Infringement Costs	\$0.9M	\$1.2M	The lower income is offset in part by reduced processing costs and revenue share payments to the NSW State Government.
<b>Net reduction</b>	<b>(\$1.2M)</b>	<b>(\$1.9M)</b>	Net variance
Commercial Properties	(\$0.7M)	\$1.2M	YTD income from the Capitol Theatre is behind budget, with kiosk income impacted by relocations for the light rail project. The full year forecast reflects additional rent arising from this year's property purchase in Pitt Street and

Income Type	2016/17 YTD Year Budget Variance Favourable / (Unfavourable)	2016/17 Full Year Budget Variance Favourable / (Unfavourable)	Comment
			better than expected increase return from QVB.
Parking Meter Income	(\$0.7M)	(\$1.2M)	Reflects the impact of light rail, where additional streets were required by the bus network reducing available meters.
Rates and Annual Charges	\$8.1M	\$9.0M	Upgraded rating for the casino site in Barangaroo (\$1.5M), and the new rating of development areas including the International Convention Centre Hotel and Darling Square in Darling Harbour (\$5.7M including prior years), as we have now confirmed the relevant land valuation and lease commencement dates for the construction licences.

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

<b>Expenditure Type</b>	<b>2016/17 YTD Year Budget Variance Favourable / (Unfavourable)</b>	<b>2016/17 Full Year Budget Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Salary Expense	(\$2.4M)	(\$3.6M)	Reflects that savings from salaries, wages and related employee oncosts, as vacancies are being recruited, do not fully 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. The forecast also includes the increase in agency costs for Non-Residential Roll, which is offset by savings in other expenditure categories as noted below.
Event Related Expenditure	\$1.0M	\$1.2M	Venue Management are forecasting a reduction due to the refurbishment of Town Hall kitchen.
Grants and Sponsorships and donations	\$1.6M	(\$0.4M)	Timing of affordable housing grant to Hammond Care which is yet to be paid. Accounting for the forecast increase in Accommodation Grants Program and cultural tenants rent subsidy.
Infrastructure Maintenance	(\$0.4M)	\$1.1M	The YTD result reflects earlier than expected delivery of roadway maintenance.

**Interest Revenue**

<b>Expenditure Type</b>	<b>2016/17 YTD Year Budget Variance Favourable / (Unfavourable)</b>	<b>2016/17 Full Year Budget Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Interest Revenue	\$1.7M	\$2.5M	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**

<b>Income Type</b>	<b>2016/17 YTD Year Budget Variance Favourable / (Unfavourable)</b>	<b>2016/17 Full Year Budget Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Capital grants and contributions	\$25.0M	\$43.8M	Favourable variance due to large contributions in the Green Square urban renewal, Rosebery, South Sydney and CBD areas.

**Depreciation**

<b>Income Type</b>	<b>2016/17 YTD Year Budget Variance Favourable / (Unfavourable)</b>	<b>2016/17 Full Year Budget Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Depreciation	(\$1.7M)	(\$3.5M)	Additional charges due to significant increases in the valuation of land improvement assets (e.g. parks).

**Light Rail Contribution to NSW Government**

<b>Income Type</b>	<b>2016/17 YTD Year Budget Variance Favourable / (Unfavourable)</b>	<b>2016/17 Full Year Budget Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Light Rail Contribution	\$47.1M	\$0.M	Withheld payment to NSW Government pending certification in line with deed.

16. The City's financial performance has generally been strong across Council, however, the City Projects and Properties Division is currently forecasting a slight 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. The 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, additional rental income resulting from the recently purchased property in Pitt Street, and higher than budgeted rental share from the QVB. Extensive efforts are underway to review and prioritise property activity over the remainder of the financial year to control these overruns, and Council will receive a further update as part of the Q3 review.

**CAPITAL EXPENDITURE**

17. The Capital Works program achieved expenditure of \$91.2M against the YTD budget of \$171.2M. It is worth noting that this variance includes the \$47.1M withheld payment to New South Wales Government for the City's contribution to light rail, pending independent certification that the project is proceeding in accordance with the deed.
18. The full year forecast of the capital works program has now been reduced from \$326.5M to \$259.9M, following the latest review which has assessed the forecast delivery of the projects, and the individual revised cost estimates for each project.
19. Capital Works projects which have been finalised with savings, are utilised to offset the additional expenditure in programs, which require additional funds for project completion.
20. Sydney Brick Kilns Restoration and 56-78 Oxford Street Façade, both required prompt attention, resulting in a transfer \$0.4M from the capital works contingency to complete the projects as set out in attachment B.
21. Progress on a number of other projects has also advanced beyond that included within the program budget projections for 2016/17. Approval is therefore sought to bring forward funds of \$4.9M from future years' capital works forward estimates, and to reallocate funds from within relevant programs, to continue these projects.
22. In addition, there are a number of changes proposed within the future years' forward estimates. Full details are provided in Attachment B.

23. A number of other projects are currently forecasting variances within the major capital works projects for the 2016/17 financial year, however at this stage, no budget adjustment is being proposed:
- (a) Geddes Avenue and Paul Street (North) - project spend progressing faster than anticipated in the budget.
  - (b) Green Square Trunk Drain - project completion date delayed due to service relocation delays. Statutory approvals, traffic management challenges and the need for one service relocation at a time associated with Huntley Street Bridge widening.
  - (c) Gunyama Park Aquatic and Recreation Centre - delay in development approvals and the issue of an early contractor involvement (ECI) tender to market has reduced the current year forecast expenditure. As previously advised, the total project forecast at \$2.8M above approved budget will be managed in the ECI tender phase on completion of workshop.
  - (d) Drying Green – increased forecast cost reflects the additional complexity and bespoke nature of the final park design. These include geotechnical conditions and the resulting additional structural footings required, the revised design of the amenities block to include substation and the building to be executed as a planted berm, and the increase of the landscape consultant fees to include Intellectual property for the design and variation fees.
  - (e) Wimbo Park - additional budget is required due to the City now having greater clarity surrounding Transport for NSW's scope of work as the CBD and South East Light Rail project has progressed.
  - (f) Green Square Water Reuse - Non Potable - additional variation works including latent conditions have increased the expenditure.
24. Significant variances are also forecast for a number of the 2016/17 program budgets and future years' forward estimates, including:
- (a) Community, Cultural and Recreation: Darling Exchange Library Fit-out Works - Lend Lease has advised that the development application for the building in which the library will be located is delay by over 6 months.
  - (b) Open Space and Parks: Victoria Park Upgrade - construction commencement delayed to accommodate the additional scope of the new entry into Sydney University. The adjusted program defers expenditure into next financial year.
  - (c) Stormwater Drainage: Joynton Avenue Upgrade - project delayed due to a decision to reject and negotiation with tenderers.
  - (d) Public Domain: Burton & Palmer St Intersection - project proposal delayed for redesign to comply with RMS requirements. Missenden Road, Traffic Calming - delays with obtaining RMS approvals.
25. A financial summary of the Capital Works program, the proposed budget adjustments, and a status report on all active capital projects exceeding \$5M in value, is provided at Attachment B.

26. The Plant and Assets expenditure incurred during the year to date, net of disposals, was \$4.8M against a budget of \$8.7M. Information Services capital works expenditure, for projects being delivered internally, was \$4.3M against the YTD budget of \$6.2M.
27. Property Acquisitions and Divestments forecast net acquisitions of \$41.0M for the 2016/17 year, against a divestment budget of \$18.5M.

**OPERATIONAL HIGHLIGHTS**

28. There were a number of operational highlights, including:
  - (a) The City won the prestigious C40 International Award for Building Energy Efficiency in recognition of the CitySwitch national program's contribution to improving performance within the commercial office sector. Waste resources, including a waste audit assessment and report, tenancy waste guide and signage were released and rolled out nationwide. In addition, new resources, including the factsheets and an ebook, were released for renewable energy. These resources are helping a growing number of existing and new signatories to make commitments in waste and renewable energy.
  - (b) Crowd increases across the Series of Village Christmas Concerts which were at record numbers, including at Martin Place. According to market research, 54% of visitors to the city concerts were new attendees and 89% of visitors came specifically for the concert.
  - (c) The Christmas Charity Partner, Guide Dogs NSW/ACT, were able to raise more than \$40,000 from their partnership with Sydney Christmas, and increase of \$22,000 in 2015. This allows the organisation to cover the training fees for a new Guide Dog, which costs approximately \$35,000.
  - (d) Sydney maintained its status as New Year's Eve Capital of the World with the delivery of 2016 Sydney New Year's Eve. Well over one million people gathered around Sydney Harbour, with all primary vantage points reaching capacity before midnight. The event featured the biggest ever Sydney New Year's Eve fireworks display and lighting on Sydney Harbour.
  - (e) The sponsorship report of Vogue's Fashion Night Out saw over 600 retailers activated on the night across the CBD. The event was attended by 190,000 consumers and 74% made a purchase. The average spend was \$223 (up from \$199 in 2015) with economic impact estimated at over \$31M.
  - (f) The City has worked to develop a suite of tools and resources that enable local businesses to better understand their local community. The What's On website was expanded to include local businesses with the capability of promoting their events for free. E-newsletter memberships have grown following the City's redesign and re-launch and, with the set-up of the Oxford Street Creative Space and William Street Creative Hub, small businesses and entrepreneurs can access affordable rates to enable activation.
  - (g) The City promoted and held two e-waste drop off events and one Chemical CleanOut event recycling over 44 tonnes of electronic waste and 22 tonnes of hazardous household waste, including paints, solvents, pesticides and gas bottles from a total of 2,136 drop-offs. Half of all participants reported that it was their first time attending a problem waste drop-off event.

- (h) The City also prepared and implemented customised waste management plans at 94 social housing apartment buildings owned by NSW Land and Housing Corporation and City West Housing as part of the City's Waste and Recycling Improvement Program. Works included bin upgrades, new waste education signage, adjustments to recycling services, deep cleaning of waste rooms, bin maintenance, graffiti removal and repairs to locks, gates and lighting. The project is endorsed by NSW Family and Community Services and by the NSW EPA through the Better Waste and Recycling Fund.

### **FINANCIAL IMPLICATIONS**

29. At Quarter 2, the Operating Surplus was \$64.8M, with a Net Surplus of \$73.4M, representing a favourable variance of \$84.5M against budget.
30. Financial performance in all principal activities, as defined within the Delivery Program 2014-2017, has generally been satisfactory against budget.
31. The full year forecast reflects a Net Surplus of \$82.9M, which is favourable to budget by \$52.3M.
32. The 2016/17 year end cash position is forecast to be \$466.5M, which is favourable to the budget of \$411.3M by \$55.2M. This variance reflects the higher opening cash balances, with lower capital and operational expenditure than budgeted.
33. 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**

34. 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.
35. 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.
36. 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**

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

**PUBLIC CONSULTATION**

38. The information contained within this report reflects Council's financial performance in the 2016/17 financial year.

**BILL CARTER**

Chief Financial Officer