

**ITEM 2. 2016/17 QUARTER 3 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 Q3 2016/17 reflected an Operating Result of \$104.0M, against a YTD budget of \$84.2M. After allowing for interest income, capital grants and contributions, depreciation and a gain on Investment, the Council has achieved a Net Surplus of \$113.2M against a budget of \$11.6M. The favourable YTD variance of \$101.6M 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 \$89.2M which is favourable to budget by \$58.6M. 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 \$129.1M compares to a YTD budget of \$243.6M, with the annual forecast for the program revised to \$244.2M assumes payment of the light rail contribution. 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 \$6.8M against an YTD budget of \$9.5M, with a full year forecast of \$10.8M.

The Plant and Asset expenditure at Q3, net of disposals, was \$7.9M against a YTD budget of \$12.9M, with a full year forecast of \$15.5M.

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 2017, including the Quarter 3 Net Surplus of \$113.2M and the full year Net Surplus forecast of \$89.2M, as outlined in the subject report and summarised in Attachment A to the subject report;

- (B) note the Quarter 3 Capital Works expenditure of \$129.1M, a revised full year forecast of \$244.2M and approve the proposed adjustments to the adopted budget, including the transfer of \$0.5M from capital works contingency, as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$6.8M, net of disposals, and a full year forecast of \$10.8M;
- (D) note the Quarter 3 Plant and Assets expenditure of \$7.9M, net of disposals, and full year forecast of \$15.5M; and
- (E) 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 2016/17

**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 third quarter (Q3) and full year forecast financial results for the 2016/17 financial year, and the achievements to date against the Operational Plan objectives.
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 Operational Plan, are provided in Attachment A.
5. The Capital Expenditure results to Q3, 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.

**THIRD QUARTER OPERATING RESULTS**

8. The Q3 Operating Surplus was \$104.0M against a budget of \$84.2M, a favourable variance of \$19.8M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, and gain on investment, the Net Surplus was \$113.2M against a budget of \$11.6M, a favourable variance of \$101.6M.
9. The result includes a favourable variance to budget of \$6.8M for operating income with favourable variances to budget of \$13.0M for operating expenditure, a favourable variance of \$2.2M for interest income, a \$30.9M favourable variance for capital grants and contributions, an unfavourable variance of \$1.9M for depreciation, a favourable variance of \$1.5M for capital project related costs, a favourable variance of \$47.1M for the deferred Light Rail Contribution to the NSW Government a gain on investment funds of \$1.4M and a gain on sale of asset of \$0.6M.
10. The full year forecast Operating Surplus is \$126.3M against a budget of \$112.4M, a favourable variance of \$13.9M. After allowing for interest income, capital grants and contributions, depreciation, a gain on investment and a gain on the sale of assets, the Net Surplus is forecast to be \$89.2M against a budget of \$30.5M, a favourable variance of \$58.6M.

11. The forecast results include a favourable variance to budget of \$8.8M for operating income, with favourable variances to budget of \$5.1M 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, a gain on investment funds of \$1.4M and a gain on sale of assets of \$0.6M.
12. 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	(\$2.3M)	(\$2.6M)	Enforcement PINS are tracking lower than budgeted at this stage. 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	\$1.7M	\$1.9M	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>(\$0.6M)</b>	<b>(\$0.7M)</b>	
Advertising Income	\$0.5M	\$0.9M	Street furniture income increased due to an increase in utilisation and therefore a higher revenue share. Increased income from banner campaigns including a second campaign for rugby from destination NSW
Commercial Properties	\$1.0M	\$1.9M	Accommodation Grant Program; increase in income, but offset with the subsidy increase under expenditure grants. Additional rent from this year's property purchase in Pitt Street and better than expected increase return from QVB.

<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>
Parking Meter Income	(\$1.3M)	(\$1.3M)	Reflects the impact of light rail, where additional streets were required by the bus network reducing available meters.
Rates and Annual Charges	\$8.6M	\$9.0M	Rating for the increased value at 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.
Venue/Facility Income	(\$0.3M)	(\$0.8M)	Venue Hire at Town Hall, including additional services, are impacted by the closure and refurbishment of the kitchen on level 4.
Work Zone	\$0.8M	\$1.1M	Market reactive, With two large zones for 84-92 Epsom Rd, Zetland and Darling Square North Plot (Harbour St Haymarket)

13. 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	(\$3.6M)	(\$4.8M)	Reflects that savings from salaries, wages and related employee on costs, 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 with a forecast variance of (\$1.5M) which is in line with the reduced YTD and forecast capital works expenditure. The forecast also includes the increase in agency costs for Non-Residential Roll (\$1.1M), which is offset by savings in other expenditure categories as noted below.
Event Related Expenditure	\$2.4M	\$2.1M	Forecast is largely due to Non – Residential Roll, Venue Management and fewer City Talks
Governance	\$1.0M	\$0.6M	Electoral expenses have been finalised and were lower than anticipated. The savings are offset with some increased expenses such as external solicitors fees
Grants and Sponsorships and donations	\$2.3M	(\$0.4M)	Timing of affordable housing grant to Hammond Care which is anticipated to be paid in Q4. Accounting for the forecast increase in Accommodation Grants Program and cultural tenants rent subsidy.

<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>
Infrastructure Maintenance	\$1.7M	\$1.6M	YTD underspend mostly relates to CCTV pipe inspections, which was re-rendered. The forecast in part relates to Non Residential Roll (other project costs); which is being offset with additional agency costs.
IT Related	\$1.8M	\$1.1M	Hardware maintenance relates to the timing of the public access IT implementation project and underspend in IT ongoing services where external expertise was not required
Property Costs Related	(\$0.5M)	(\$1.6M)	Additional unbudgeted maintenance costs for façade works, brick kiln and hoarding stabilisation.
Service Contracts	\$1.3M	\$0.9M	Underspend and forecast predominately relates to re categorisation of waste bin purchase to Plant and Equipment.

**Interest Revenue**

<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>
Interest Revenue	\$2.2M	\$2.5M	Council's investments earned additional interest, reflecting higher than anticipated opening cash balances for the year.

**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	\$30.9M	\$43.8M	Favourable variance due to large contributions in the Green Square urban renewal, Rosebery, South Sydney and CBD areas.

**Depreciation**

<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>
Depreciation	(\$1.9M)	(\$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>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>
Light Rail Contribution	(\$47.1M)	\$0.0M	Withheld payment to NSW Government pending certification in line with deed.



**Gain on Investment Funds**

<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>
Gain on Investment Funds	\$1.4M	\$1.4M	Gain on investment is the result of the latest indicative market valuations of all direct securities, being Floating Rate Notes. This is attributed to a positive economic outlook to the Australian market.

14. The City's financial performance has generally been strong across Council. City Projects and Properties Division was previously forecasting a slight unfavourable variance, which was 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. Over the last quarter, a full review of the property activity occurred and they are forecasting to control the previously reported overruns.

**CAPITAL EXPENDITURE**

15. The Capital Works program achieved expenditure of \$129.1M against the YTD budget of \$243.6M. 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.
16. The full year forecast of the capital works program has now been reduced from \$331.4M to \$244.2M, following the latest review which has assessed the forecast delivery of the projects, and the individual revised cost estimates for each project.
17. Capital Works projects that have been finalised with savings are utilised to offset the additional expenditure in programs that require additional funds for project completion.
18. A transfer of \$0.6M from the capital works contingency is required to complete the projects as set out in Attachment B.
19. 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 \$3.6M from future years' capital works forward estimates, and to reallocate funds from within relevant programs, to continue these projects.
20. In addition, there are a number of changes proposed within the future years' forward estimates. Full details are provided in Attachment B.

21. A number of other projects are currently forecasting variances within the major capital works projects for the 2016/17 financial year:
- (a) Kent Street Underpass Upgrade; Construction is complete within budget and program. Savings have arisen from the deletion of a Shared Zone area that cannot be completed until RMS works on the Harbour Bridge are complete. If undertaken, these works will be a separate new project.
  - (b) Chinatown Public Domain Improvement – Thomas & Hay street; this year's underspend was due to delays in achieving the required quality in the artwork prototypes. These issues are now resolved and fabrication of the discs is underway with installation programmed for June 2017. Potential savings will be confirmed at project completion.
  - (c) Green Square Creative Centre, Community Shed and Matron Ruby Grant Park; Additional works due to latent conditions including contamination and lead dust removal has increased the current year expenditure. A Council report providing details to these issues has been submitted and approved.
  - (d) Green Square to Ashmore Connection; Traffic and noise studies are being updated for this project, to enable the release of the REF for public consultation. Liaison with affected landowners is continuing. RMS is providing comments with regard to traffic matters. The traffic assessment is paying particular attention to minimising any regional traffic flows, resulting from the WestConnex project.
  - (e) Harold Park – New Park Construction; Additional funds will be required to deliver additional drainage works to resolve ground water issue and address the escalation cost due to the delayed delivery of the precinct five embellishment works.
  - (f) Joseph Sergeant Centre: Expenditure forecasted for the Joseph Sergeant Centre has been amended while the final scope of the project is being determined in consideration of other nearby capital works projects.
22. Significant variances are also forecast for a number of the 2016/17 program budgets and future years' forward estimates, including:
- (a) Bicycle Related Works: Lawson Street/Lawson Square; Approval from Sydney Trains for works over their bridge has been a complex and time consuming process. An option to proceed with a tender with staged portions is in place. Current forecast is showing a small project shortfall: However, pricing will be confirmed at tender with options for scope reduction to be considered. Bourke Street – Shared Path; Program delays due to the insolvency of the main contractor and the appointment of new contractors to complete the work at an additional cost. CBD Cycleway projects are on hold as construction cannot occur until after the completion of the George Street Light Rail and Sydney Metro projects.

- (b) Community, Cultural and Recreation Property Related Projects: East Sydney Community and Arts Centre; Finalising construction with defect rectification in progress. Anticipated completion end April 2017 with further works required for OOSH service relocation after completion. Project savings will be forecast at Q4 on completion of the works. Customs House – Façade and Amenities Upgrade; Project spend delay due to the need to review scope and construction methodology. Cook and Phillip Aquatic and Fitness Centre – Works Package; delay in finalising the works package.
  - (c) Corporate and Investment Property Related Projects: Hyde Park South – Café; Delay in program due to change in Tender procurement approach. Project progressed to Open Tender to test the market and demonstrate best value.
  - (d) Open Space and Park: Synthetic Sports Field Installations; The forecast underspend is due to feasibility testing of alternative candidate sites to confirm preferred location, scope and costs. More detailed assessment has been undertaken of Perry Park. Hyde Park Tree Replacement & Other Works; Delay in program due to extended tender process and site access around Hyde Park events. TfNSW financial contribution (deed agreement) will balance variance.
  - (e) Public Art LGA: Public Art: Green Square Public Art; extended procurement of the artist post council endorsement to reject and negotiate with artists due to project complexity. City Centre permanent Public Art Implementation; 'The Distance of your Heart' - implementation is underway and completion due in 2018. 'Cloud Arch' - detailed design of footing being completed and a development application for the arch being prepared, timing subject to light rail. 'Pavilion' - timing subject to light rail.
  - (f) Public Domain: Newcombe Street Paddington – Partial road opening & closure; Adjacent private developers have impacted on the ability to complete the project therefore delaying program and reducing expenditure. Missenden Road Traffic Calming; Late RMS approvals delayed of construction. Sydney Park Cares Precinct; Issue of tender to market delayed to accommodate design changes needed for old landfill tip on site. Program adjustment has pushed expenditure out to next financial year.
  - (g) Stormwater Drainage: O’Dea Avenue Stormwater; Tender negotiation process to be finalised in Q4.
23. A financial summary of the Capital Works program, the proposed budget adjustments, and a status report on all active 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 \$7.9M against a budget of \$12.9M. Information Services capital works expenditure, for projects being delivered internally, was \$6.8M against the YTD budget of \$9.5M.
25. Property Acquisitions and Divestments forecast net acquisitions of \$41.0M for the 2016/17 year, against a divestment budget of \$18.5M.

**OPERATIONAL HIGHLIGHTS**

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

- (a) An e-waste recycling drop off event was provided at the Sydney Park Nursery Depot, collecting over 23 tonnes of electronic waste from 822 participants. It was also during this quarter the City commenced the pilot phase of a new waste education program called Recycle Right to promote good recycling behaviours with residents, building managers and cleaners in 30 large apartment buildings. This engagement program will improve the City's recycling and resource recovery rates by reducing contamination in recycling bins and diverting more recyclables out of general waste bins.
- (b) Library branches across the City saw the completion of new self-service equipment, with Kings Cross, Ultimo and Newtown soon to go live. The new equipment transformed the customer service experience. With the removal of service desks, Library staff are taking a new approach to customer service. The upgrades to the library spaces provide opportunities to the branch teams to improve the layout of the spaces within the libraries. Overall, customers experience better access to collections and new spaces to browse, improving the quality of time spent in City libraries.
- (c) Art & About Sydney delivered Highly Sprung a performance by Legs on the Wall, which played over eight performances at Martin Place (Stage 2) to an audience of 5,000 people. Highly Sprung explored the connections between sports gymnastic athleticism and physicality, dance and the storytelling possibilities of physical theatre.
- (d) The City of Sydney's Homelessness Unit and NSW Family and Community Services coordinated two severe weather responses due to extreme heat. People were supported with access to medical assistance, sunscreen, water, offers of temporary accommodation and information about access to the City's libraries and community centres. The City also conducted its eighteenth bi-annual Homelessness Street Count on 21 February 2017 – which counted 394 people sleeping rough across the local government area and 417 people occupying hostel beds. Although the number of people sleeping rough was less than the number counted in summer (February 2016), the overall trend is upwards.
- (e) The City has prepared draft planning controls to facilitate affordable housing in the council area and which were approved for exhibition by Council and the Central Sydney Planning Committee (CSPC) in March 2017. The proposal is for a levy (to be phased in) for the areas not covered by current or proposed schemes and a separate contribution from sites that benefit from a change to planning controls that increases land value. The proposed controls, along with existing schemes in Green Square, Ultimo, Pyrmont and the Employment Lands, and the proposed scheme for Central Sydney, will ensure affordable housing schemes operate across all areas under the Council's planning control.

- (f) The Destination Ambassador program includes 80 accredited volunteers. For the peak cruise season, the City's Destination Ambassadors greeted a total of 52 cruise ships and 14,377 passengers were welcomed and served by the Ambassadors. This is considered a very positive step forward in provision of services to welcome visitors to Sydney, and a highly successful collaboration between government agencies in the tourism space.
- (g) The City launched a 'How to Guide' for local businesses to leverage events. The guide includes a 2017 events calendar, practical advice and tips for how to program and promote associated activities and case studies for existing events. The suite of tools and resources the City provides to support small business are being expanded, including the development of infographic fact sheets for each village that include demographic, customer and sector trends in the area. The City also provides support directly to small business and entrepreneurs to activate village main streets at affordable rates, for example the City's Oxford Street Creative Spaces and the William Street Creative Hub.

### **FINANCIAL IMPLICATIONS**

- 27. At Quarter 3, the Operating Surplus was \$104.0M, with a Net Surplus of \$113.2M, representing a favourable variance of \$101.6M against budget.
- 28. Financial performance in all principal activities, as defined within the Delivery Program 2014-2017, has generally been satisfactory against budget.
- 29. The full year forecast reflects a Net Surplus of \$89.2M, which is favourable to budget by \$58.6M.
- 30. The 2016/17 year end cash position is forecast to be \$488.7M, which is favourable to the budget of \$406.4M by \$82.3M. This variance reflects the higher opening cash balances, with lower capital and operational expenditure than budgeted.
- 31. 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**

- 32. 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.
- 33. 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.

34. 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**

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

**PUBLIC CONSULTATION**

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

**BILL CARTER**  
Chief Financial Officer