

**ITEM 2. 2016/17 QUARTER 4 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 Q4 2016/17 reflected an Operating Result of \$134.2M, which is \$21.8M favourable to the full year budget of \$112.4M. After allowing for interest income, capital grants and contributions, depreciation and a gain on Investment, the Council has achieved a Net Surplus of \$96.1M against a full year budget of \$30.5M. This favourable variance of \$65.5M 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 \$225.7M compared to a full year budget of \$335.1M. A summary of the 2016/17 capital project expenditure and proposed budget net "revote" of funds to 2017/18 and future year forward estimates are outlined within the body of this report, and detailed within Attachment B.

The Information Services capital expenditure, for projects developed internally, was \$8.8M against a full year budget of \$13.3M.

The Plant and Asset expenditure, net of disposals, was \$11.7M against a full year budget of \$25.6M.

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 final 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 2017.

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.

**RECOMMENDATION**

It is resolved that Council:

- (A) note the financial performance of Council for the year ending 30 June 2017, including the Net Operating Surplus of \$96.1M as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the full year Capital Works expenditure of \$225.7M, and approve the proposed revote of budget and other adjustments, which will decrease the adopted 2017/18 budget of \$305.5M by \$0.5M to \$304.9M and note the forward estimates as detailed in Attachment B to the subject report;
- (C) note the Information Services Capital Works expenditure of \$8.8M, net of disposals, and approve the proposed revote of \$1.5M to increase the adopted 2017/18 budget to \$9.0M;
- (D) note the full year Plant and Assets expenditure of \$11.7M, net of disposals, and approve the proposed net revote of \$2.8M to increase the adopted 2017/18 net budget to \$20.9M;
- (E) note the full year Property Acquisition expenditure of \$43.0M, net of divestments.
- (F) 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
- (G) 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; and
- (H) note the Environmental Sustainability Progress Report, as shown at Attachment E to the subject report

**ATTACHMENTS**

**Attachment A:** Financial Results Summary

**Attachment B:** Capital Expenditure Financial Results

**Attachment C:** Fourth Quarter Operational Plan Report 2016/17

**Attachment D:** Fourth 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 fourth quarter (Q4) and full year results for the 2016/17 financial year, and the achievements to against the Operational Plan objectives.
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 Operational Plan, are provided in Attachment A.
5. The Capital Expenditure results for the 2016/17 year, together with a summary of project expenditure, and proposed budget adjustments for 2017/18 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 C for information.
8. Details on the progress of the City's environmental sustainability programs, and projects for the quarter, are 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 Result 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.

## **FOURTH QUARTER OPERATING RESULTS**

10. The full year Operating Surplus was \$134.2M against a budget of \$112.4M, a favourable variance of \$21.8M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, light rail contribution, a gain on investments and a gain on sale of assets, the Net Operating Surplus was \$96.1M against a budget of \$30.5M, a favourable variance of \$65.5M.
11. The result includes a favourable variance to budget of \$9.9M for operating income with favourable variances to budget of \$11.9M for operating expenditure, a favourable variance of \$2.5M for interest income, a \$42.2M favourable variance for capital grants and contributions, an unfavourable variance of \$2.2M for depreciation, a favourable variance of \$0.5M for capital project related costs, a gain on investment funds of \$0.2M and a gain on sale of asset of \$0.5M.
12. The primary operating income variations to the budget are detailed in the table below:

| Income Type                      | 2016/17 Full Year Budget Variance Favourable / (Unfavourable) | Comment   |
|----------------------------------|---|---|
| Enforcement Income               | (\$1.9M)  | Enforcement PINS were lower than budgeted. 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 | \$2.6M  | Lower income achieved in the area subject to profit share, along with an increase in service costs has reduced the revenue share payments to the NSW State Government.  |
| <b>Net</b>                       | <b>\$0.7M</b>   |   |
| Commercial Properties            | \$1.2M  | Additional rent from this year's property purchase in Pitt Street and better than expected return from QVB.   |
| Grants and Contributions         | \$5.4M  | Early receipt of the first two payments of 2017/18 Financial Assistance Grants of \$2.7M. Re-classifying of roads to recovery grant from capital to operational \$2.0M.   |
| Other Building Fees              | \$1.1M  | Increase in Hoarding Fees which is market driven. Significant sites were 1-73 Broadway Ultimo, 345-255 George Street and Jessie St Gardens.   |
| Parking Meter Income             | (\$1.6M)  | Reflects the impact of light rail, where additional streets were required by the bus network reducing available meters.   |
| Rates and Annual Charges         | \$3.8M  | 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. This is offset with a reduction to income following the Karimbla court case and a provision for other category changes soon to take effect. |
| Work Zone                        | \$1.5M  | These fees are market reactive. Large zones included 304 Kent street, Sydney; 8-10 Mandible Street, Alexandria and 80 Pyrmont Street, Pyrmont.  |

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 Full Year Budget Variance Favourable / (Unfavourable)</b> | <b>Comment</b>   |
|---------------------------|--|--|
| Salary Expense            | (\$3.9M)   | 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 was behind that budgeted with a variance of (\$1.7M) which is in line with the reduced capital works expenditure. The results also include the increase in agency costs for Non-Residential Roll (\$1.1M), which is offset by savings in other expenditure categories as noted below. This variance is offset with a \$1.0M favourable employee leave entitlement adjustment due to an increase in long term bond rates. |
| Event Related Expenditure | \$3.4M   | Variance is largely due to Non – Residential Roll, Venue Management and fewer City Talks   |
| Expenditure Recovered     | \$1.4M   | A payment relating to the early termination of a commercial lease has resulted in a significant compensation payment.  |
| IT Related                | \$1.7M   | 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.   |
| Operational Contingencies | \$1.3M   | Most contingencies were not required   |
| Property Costs Related    | (\$1.7M)   | Additional unbudgeted maintenance costs for façade works, brick kiln, hoarding stabilisation and significant work being undertaken to properly prepare for the future retendering and transition of the property services.   |
| Service Contracts         | \$1.5M   | Underspend predominately relates to waste bin purchases being recognised as Plant and Equipment.   |

**Interest Revenue**

| <b>Income Type</b> | <b>2016/17 Full Year Budget Variance Favourable / (Unfavourable)</b> | <b>Comment</b>   |
|--------------------|--|--|
| Interest Revenue   | \$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 Full Year Budget Variance Favourable / (Unfavourable)</b> | <b>Comment</b>  |
|----------------------------------|--|---|
| Capital grants and contributions | \$42.2M  | 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 Full Year Budget Variance Favourable / (Unfavourable)</b> | <b>Comment</b>  |
|-------------------------|--|---|
| Depreciation            | (\$2.2M)   | Additional charges due to significant increases in the valuation of land improvement assets (e.g. parks). |

**CAPITAL EXPENDITURE**

14. The Capital Works program achieved expenditure of \$225.7M against a full year budget of \$335.1M.
15. A number of projects were completed in 2016/17, including: 277 Bourke Street – Childcare and Community Centre, Juanita Nielson Centre, East Sydney Arts Centre, Crown and Baptist Streets upgrade, Child Care – Huntley Rd and Crescent Lands, Paddington Renny Lane Walkway, Renwick Park, and Activation of Library Technology. Numerous asset renewal programs were also completed during the year.

16. The capital works program adopted as part of the 2017/18 Operational Plan in June, anticipated higher expenditure in 2016/17. It is therefore required to now carry forward or “revote” a further \$54.9M of these unspent funds into the future year’s forward estimates to ensure sufficient funding is approved to undertake these capital works projects during 2017/18 and beyond.
17. Following a final review of the 2016/17 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 \$55.4M is now pushed into the future years forward estimates for a 2017/18 revised budget of \$304.9M
18. A financial summary of the 2016/17 Capital Works program, a schedule showing the funds carried forward and deferred, and the revised 2017/18 budget with future years’ forward estimates by major project and program are provided in Attachment B.
19. Information Services capital works expenditure, for projects being delivered internally, was \$8.8M against a budget of \$13.3M. It will therefore be necessary to carry forward or revote an additional \$1.5M. This will increase the adopted 2017/18 budget for Information Services capital works from \$7.5M to \$9.0M.
20. The Plant and Assets expenditure incurred during the year, net of disposals, was \$11.7M against a budget of \$25.6M, the underspend predominately reflecting plant and assets which were not delivered within the year. It will therefore be necessary to carry forward or “revote” an additional \$2.8M and will increase the adopted 2017/18 budget for Plant and Assets from net \$18.1M to net \$20.9M.
21. A financial summary of the 2016/17 Plant and Assets result against budget, and the revised 2017/18 budget, are included in Attachment B.
22. Property Acquisitions and Divestments which includes the purchase of a property in Pitt Street resulted in net acquisitions of \$43.0M for the 2016/17 year, against a Divestment budget of \$18.5M.

## **OPERATIONAL HIGHLIGHTS**

23. There were a number of operational highlights, including:
  - (a) A briefing by Mirik Milan, Night Mayor of Amsterdam was held in February to bring the industry together to examine models that enable capacity building of the various sectors which contribute to the development of a vibrant, safe and sustainable night time economy for Sydney.
  - (b) Practical completion of City Farm Community Hub landscape works. Interim site suitability letter obtained from City Farm site auditor for the Community Hub. Volunteers assisted with area activation. Formal education programs continued to be held in Sydney Park Pavilion, St Peters. Continued development of farmers' market application documentation, business structures and volunteer frameworks.

- (c) The 12th annual Lord Mayor's Welcome for International Students was held at the Sydney Town Hall. Over 1000 newly-arrived international students were welcomed representing over 21 educational institutions across the local government area. The event was supported by the City's International Student Leadership and Ambassador students who all contributed to making the event a success.
- (d) The 2017 Chinese New Year Festival attracted approximately 1.4 million people to a program of 85 events over a 17 day period of celebrations to mark the Year of the Rooster from 27 January to 12 February.
- (e) To facilitate improved environmental performance the Better Building Partnership program developed a checklist guideline to assist building owners and developers ensure the energy efficiency provisions in the National Construction Code for new build and major refurbishments are adhered to; and launched a new leasing standard which sets a minimum definition of green leasing for tenant and landlords to collaborate for better sustainability and performance outcomes.
- (f) The City re-launched the City Business e-newsletter late 2016. The e-newsletter has been reformatted and redesigned based on feedback from local business about the information and support they are seeking and we continue to work with many government agencies to ensure their resources and support opportunities are promoted locally. The membership to this enewsletter has grown significantly, almost doubling during that time to now just under 4,000 subscribers.
- (g) During the year the Smart Green Business program recruited 82 medium and large sized businesses across the accommodation and entertainment sector, of which 76 have implemented identified water efficiency and/or waste recommendations. 76 businesses will be saving a total of 143 mega litres of potable water; 3,142 tonnes of CO<sub>2</sub>-e; and \$622,883 per year – or an average of \$8,000 per year in cost savings for these businesses.
- (h) The City provided an e-waste recycling drop off event at the Sydney Park Nursery Depot collecting 26 tonnes of electronic waste from 882 participants bringing the total e-waste collected this year to 110 tonnes from 3,260 participants
- (i) The Smart Green Apartments program is working with 20 large apartment buildings housing over 6,000 city residents to reduce energy and water consumption and improve waste management. Audits for all 20 buildings are complete, with average cost savings of \$57,000 per building identified – which would account for a 35% cost reduction and a 28% reduction in carbon emissions should they be implemented. The City is supporting owners in their review and subsequent implementation of the measures they choose to implement.
- (j) Many actions in the City's draft Environmental Sustainability Strategy are already being implemented including installation of renewable energy and storage to Council sites, advocacy for improved energy efficiency and local renewable energy, participation in the C40 City Solutions Platform to identify renewable energy uptake opportunities and other initiatives.

- (k) Vivid Sydney 2017 occurred between 26 May and 17 June. While final attendance numbers are still to be reported, the opening weekend saw record numbers of 326,000 visitors. The City supports the festival through an agreement with DestinationNSW.
- 24. 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.
- 25. 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.

### **FINANCIAL IMPLICATIONS**

- 26. At this stage the Operating Result was \$134.2M, with a Net Operating Surplus of \$96.1M, representing a favourable variance of \$65.5M against budget. These Q4 results are interim, pending final audit clearance, and a separate report will confirm these results in October.
- 27. Financial performance in all principal activities, as defined within the Delivery Program 2014-2017, has generally been satisfactory against budget.
- 28. The 2016/17 year end cash position is was \$515.7M, which is favourable to the budget of \$404.2M by \$111.5M. This variance reflects the higher opening cash balances, with lower capital and operational expenditure than budgeted.
- 29. 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**

- 30. 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.
- 31. 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.
- 32. 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**

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

**PUBLIC CONSULTATION**

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

**BILL CARTER**

Chief Financial Officer