

ITEM 2. 2017/18 QUARTER 2 REVIEW - DELIVERY PROGRAM 2017-2021

FILE NO: S096187

SUMMARY

This report reviews the operating and capital results against budget for the 2017/18 financial year and progress against the performance measures identified within the Operational Plan 2017/18, being the first year of the Delivery Program 2017-2021.

Council's financial performance at Q2 2017/18 reflected an Operating Result of \$67.5M, against a YTD budget of \$57.9M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Council has achieved a Net Surplus of \$86.4M against a deficit budget of \$16.3M. The favourable YTD variance of \$102.7M predominately reflects the deferred payment of \$63.6M for the contribution to the light rail to NSW Government and higher developer contributions. The full year Net Surplus at this stage is forecast to be \$50.4M which is favourable to budget by \$22.5M. 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 \$83.2M compares to a YTD budget of \$165.8M, again reflecting the deferred light rail payment. If the light rail payment was excluded the variance would be \$19.0M. The annual forecast for the program has been revised to \$276.4M. A summary of the 2017/18 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 \$2.6M in line with the budget, with a full year forecast of \$7.6M.

The Plant and Equipment expenditure at Q2, net of disposals, was \$4.2M against a YTD budget of \$9.1M, with a full year forecast of \$16.8M.

Property Divestment proceeds at Q2 are the final payment for 115–151 Dunning Avenue, Rosebery, and the compulsory acquisition for Sydney Metro project. YTD divestments were \$28.0M.

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 first quarter, ending 31 December 2017, including the Quarter 2 Net Surplus of \$86.4M and the full year Net Surplus forecast of \$50.4M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the Quarter 2 Capital Works expenditure of \$83.2M and a revised full year forecast of \$276.4M, and approve the proposed adjustments to the adopted budget, including bringing forward of \$12.7M in funds into 2017/18 capital budget, as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$2.6M, net of disposals, and a full year forecast of \$7.6M;
- (D) note the Quarter 2 Plant and Assets expenditure of \$4.2M, net of disposals, and the full year forecast of \$16.8M;
- (E) note the Quarter 2 Property Divestment proceeds of \$28.0M, and the full year forecast net divestment of \$31.2M;
- (F) note the operational performance indicators and Quarter 2 achievements against the Operational Plan 2017/18 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 2, 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: Second Quarter Operational Plan Report 2017/18

Attachment D: Second Quarter Supplementary Report 2017/18

Attachment E: Environmental Sustainability Progress Report

BACKGROUND

1. The City's 2017-2021 Delivery Program and 2017/18 Operational Plan, including the 2017/18 budgets, were adopted by Council on 26 June 2017.
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 2017/18 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 2017/18 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.

2017/18 OPERATING BUDGET

9. The adopted 2017/18 budget projected operating income of \$553.0M and operating expenditure of \$438.2M, for an Operating Surplus of \$114.8M. After allowing for interest income of \$13.4M, capital grants and contributions of \$83.3M, depreciation expenses of \$112.8M, capital project related costs of \$7.2M and the outgoing contribution for light rail of \$63.6M, Council budgeted for a Net Surplus of \$27.9M.

SECOND QUARTER OPERATING RESULTS

10. The Q2 Operating Surplus was \$67.5M against a budget of \$57.9M, a favourable variance of \$9.6M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Net Surplus was \$86.4M against a deficit budget of \$16.3M, a favourable variance of \$102.7M.
11. The result includes an unfavourable variance to budget of \$2.9M for operating income with favourable variances to budget of \$12.5M for operating expenditure, a favourable variance of \$0.9M for interest income, a \$20.3M favourable variance for capital grants and contributions and a favourable variance of \$7.1M for depreciation and the deferred \$63.6M contribution to light rail.

12. The full year forecast Operating Surplus is \$119.1M against a budget of \$114.8M, a favourable variance of \$4.3M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs and light rail contribution, the Net Surplus is forecast to be \$50.4M against a budget of \$27.9M, a favourable variance of \$22.5M.
13. The forecast results include an unfavourable variance to budget of \$7.7M for operating income, with favourable variances to budget of \$12.0M for operating expenditure, an \$8.0M favourable variance for capital grants and contributions, \$7.8M favourable variance for depreciation and a \$1.2M favourable variance for capital project related costs.
14. The primary operating income variations to the budget are detailed in the table below:

Income Type	2017/18 YTD Year Budget Variance Favourable / (Unfavourable)	2017/18 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Commercial Properties	(\$0.2M)	(\$0.5M)	Customs House income has been impacted due to the difficulty in finding tenants because of the significant construction in the area.
Enforcement Income	\$2.9M	\$3.3M	Penalty infringement notices are higher than budget, reflecting a full complement of staff and favourable weather. The variance is expected to slow down in the second half of the year due to an increase in targeted patrols where presence creates a change in behaviour, such as school drop off points.
Grants and Contributions	(\$0.8M)	(\$2.3M)	The variance relates to Financial Assistance Grants, as post budget adoption, the City received its first two quarterly payments for 2017/18 early in 2016/17 and will therefore receive 50% less than budgeted in 2017/18.
Rates and Annual Charges	(\$6.8M)	(\$9.6M)	Loss of Income due to re-categorisation of lands from business to residential post budget, following the Karimbla (Meriton) court decision.

Income Type	2017/18 YTD Year Budget Variance Favourable / (Unfavourable)	2017/18 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Work Zone	\$1.2M	\$1.9M	Market reactive, reflecting greater activity than budgeted for this year.

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

Expenditure Type	2017/18 YTD Year Budget Variance Favourable / (Unfavourable)	2017/18 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Employee Related	\$5.9M	\$6.8M	YTD variance predominately relates to permanent vacancies and is partially offset by an increase in agency used to backfill.
Consultancies	\$0.7M	(\$1.1M)	The increase is due to the need to support the transition of the new property provider.
Enforcement and Infringement Costs	(\$0.4M)	(\$0.8M)	The additional costs relate to the higher than budgeted infringement notices.
Event Related Expenditure	\$1.7M	\$0.7M	Timing differences on budgeted events and savings expected from the new contract for banner installation and cleaning.
Expenditure Recovered	\$1.0M	\$0.9M	Recovery of legal costs for Surry Hills library and recovery for the urgent works on Clarence Street bus lane.
Grants and Sponsorships and donations	\$0.7M	\$0.4M	Timing of payments for Knowledge Exchange Grants, Festival & Events, Environmental and Matching Grants compared to phasing of the budget. The forecast relates to Inner City Specialist Homelessness Funding, partially offsetting unbudgeted security costs for Belmore and Wentworth Parks as part of the City's commitment of \$2.2m towards homelessness.

Expenditure Type	2017/18 YTD Year Budget Variance Favourable / (Unfavourable)	2017/18 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Infrastructure Maintenance	(\$0.8M)	(\$1.3M)	Infrastructure maintenance is currently unfavourable, due to increased footway reinstatement works, and urgent works were required on Clarence street bus lane works, which are fully recoverable.
Other Operating Expenditure	\$0.8M	\$0.3M	Managed access in Woolloomooloo and Potts Point on Friday and Saturday nights permanently ended May 2017.
Utilities	\$0.8M	\$1.3M	Predominately relates to the temporary removal of street lights on George Street during the light rail construction.

Income Type	2017/18 YTD Year Budget Variance Favourable / (Unfavourable)	2017/18 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Interest Revenue	\$0.9M	\$0.9M	Council's investments earned additional interest, reflecting higher than anticipated opening cash balances for the year.

Income Type	2017/18 YTD Year Budget Variance Favourable / (Unfavourable)	2017/18 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Grants and Contributions	\$20.3M	\$8.0M	Contributions in the Green Square urban renewal, South Sydney and CBD areas which were received prior to what had been budgeted.

Expenditure Type	2017/18 YTD Year Budget Variance Favourable / (Unfavourable)	2017/18 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Depreciation	\$7.1M	\$7.8M	Changes to the componentisation of buildings to better reflect the life of the assets has reduced the monthly depreciation expense, but additional assets will come on during the year leading to higher depreciation by the year end.

16. The City's financial performance has generally been strong across Council. Corporate Costs unit is forecasting an unfavourable variance which relates to the decrease in rates income.

CAPITAL EXPENDITURE

17. The Capital Works program achieved expenditure of \$83.2M against the YTD budget of \$165.8M.
18. The full year forecast of the capital works program has now been reduced from \$321.0M to \$276.4M, 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 that have been finalised with savings are utilised to offset the additional expenditure in programs that require additional funds for project completion.
20. Progress on a number of other projects has also advanced beyond that included within the program budget projections for 2017/18. Approval is therefore sought to bring forward funds of \$12.7M from future years' capital works forward estimates, and to reallocate funds from within relevant programs, to continue these projects.
21. In addition, there are a number of changes proposed within the future years' forward estimates. Full details are provided in Attachment B.
22. A number of other projects are currently forecasting variances within the major capital works projects for the 2017/18 financial year:
- (a) Renewable Energy Fund Projects – Solar Panel; Budget is required to be bought forward to current year to implement new roll-out program. There will be no change in the overall budget or the contract sum under the current contract.
 - (b) Dyuralya Park; reduction in current year forecast due to additional time required to negotiate with adjacent developers and their construction works to gain access to the site.

- (c) Geddes Avenue & Paul Street (North); Potential savings forecasted for this stage of the program, to be confirm upon project completion.
 - (d) Joynton Avenue upgrade (Hansard St to Elizabeth St) and Zetland Avenue – East (Joynton Av to Victoria Park Pde); Delayed start of Joynton Ave and Zetland Ave road construction works. The work packages are to be delivered by the same contractors as Geddes Ave and Paul Street road construction and sufficient progress was necessary before the next major project was to be started.
23. Significant variances are also forecast for a number of the 2017/18 program budgets and future years' forward estimates, including:
- (a) Bicycle Related Works: Wilson West Cycleway – Erskineville Rd to King St; Cost plan prepared for initial concept has indicated additional funds required. Bondi Junction to City Centre Cycleway; Cost planning forecasts that construction and total project costs will exceed the approved budget by approximately \$5M. RMS have undertaken to fully fund the Council-approved budget of \$11.7M on an annual basis, and they will consider the additional forecast costs as part of the annual approval process.
 - (b) Public Domain – reduction in current year forecast for City South Urban Renewal Public Domain Integration Works; Project feasibility investigations to commence in February 2108.
 - (c) Corporate and Investment Property Related – Renewal – reduction in the current year forecast for 343 George Street – Façade & Windows; Preparation of a consultant brief is in progress. This will encompass work on the facade, windows and facade lighting.
 - (d) Public Domain - Renewal: reduction of the forecast for City Centre Transformation – Associated works; Decorative lighting - beacon prototype approved to proceed to on-site night testing. Work to relocate the substation to improve public domain in Devonshire Street is yet to commence. Reduction in the current year forecast for the Creative Lighting Masterplan Implementation; Implementation of 343 George St lighting scheme will form part of the scope for overall facade upgrade works and has been impacted by slower progress of light rail construction in that block. New Traffic Lights and Pedestrian Improvements; the program is currently ahead of budget.
24. 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.
25. The Plant and Equipment expenditure incurred during the year to date, net of disposals, was \$4.2M against a budget of \$9.1M. The forecast reduction reflects the anticipated delivery of vehicles. Information Services capital expenditure, for projects being delivered internally, was \$2.6M in line with budget.
26. There were Property Divestments of \$28.0M for the final payment for 115–151 Dunning Avenue, Rosebery and the compulsory purchase for Sydney Metro project in Q1, compared to a YTD budget divestment of \$5.5M.

OPERATIONAL HIGHLIGHTS

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

- (a) The celebration of Christmas in the City kicked off with the Martin Place Concert and Tree Lighting on Saturday 25 November, attracting an audience of over 12,650; and Hyde Park Christmas on the Green concert, which attracted an audience of almost 3,500. Sydney Christmas programming continued until 21 December with choirs in Martin Place and Pitt Street Mall as well as decorations across the city. The Village Christmas Concerts attracted record numbers - Surry Hills had 3,123 attendees, Rushcutters Bay had 2,842 attendees and Rosebery had approximately 3,000 attendees – though the Alexandria Village Concert was affected by rain drawing a crowd of approximately 300. Media coverage from the 2017 campaign reached an audience of approximately 7.4 million people (up from 7.2 million) and resulted in coverage worth \$1.4m, up 75 per cent from 2016.
- (b) Sydney strengthened its position as the New Year's Eve Capital of the World with the delivery of 2017 Sydney New Year's Eve. Over one million people gathered around Sydney Harbour, with all primary vantage points reaching capacity. The event featured eight tonnes of fireworks and over 100,000 individual lighting effects on the Sydney Harbour Bridge, a five minute Welcome to Country ceremony, and the largest Harbour of Light Parade. The City welcomed Hugh Jackman as a creative collaborator to design a firework for 20 seconds in the midnight show. The midnight fireworks were live-streamed on Facebook, YouTube, ABC iView and the official event website. The live television broadcast of the midnight fireworks had a peak audience of more than two million. National coverage reached a cumulative audience of 102.3 million and resulted in coverage worth \$21.6m internationally. Assistant Commissioner Mark Walton said there had been a cultural shift with event goers that has in turn created a safe and inclusive event for the public.
- (c) CitySwitch signatories across Australia evidenced a combined saving of 667,446 tonnes of emissions savings from energy efficiency, renewable energy and carbon offsets during the 2017 calendar year - more than double the number from 2016. During the first half of the year the CitySwitch behaviour change campaign toolkit - reducing coffee cup waste, was made publicly available through the CitySwitch website. The 'Choose. Reuse' toolkit has been used by over 80 organisations across Australia to date.
- (d) The Better Buildings Partnership announced that its members had collectively reduced their carbon emissions by 52 per cent in the year ending 30 June 2017, from their financial year 2006 baseline. As a result, the members enjoyed a \$33 million saving from avoided electricity costs in financial year 2016/17. In the last six months, the Partnership continued to work with the Office of Environment and Heritage on the development of a new National Australian Built Environment Ratings Systems (NABERS) tool for waste. It also worked with Good Environmental Choice Australia to establish a draft accreditation standard for commercial waste service providers. The development of this standard has been part-funded by a City of Sydney grant. Both are complete and will be launched in March 2018.

- (e) George Street 2020 activation strategy was adopted. Public domain outcomes for George Street as part of light rail project to provide space and amenity for activation. Two George Street pedestrian zones are now available for use. Monitoring will reveal pedestrian flow patterns and stationary activities that will inform activation opportunities once light rail is in operation.
- (f) The City recorded 401,322 attendances at its 13 staffed or partially staffed community facilities, programs and events. A total of 451 programs to promote and support inclusion and diversity were offered by the City this period. Five hundred and forty-nine programs of a total of 633 were accessible to people with a disability. Six thousand, seven hundred and fifty-eight bookings were made by groups for community venues with a total of 9,471 bookings taken across the City's 13 staffed and 25 unstaffed City Spaces.
- (g) The City delivered the inaugural Visiting Entrepreneur Program from 20 to 30 November 2017, working in collaboration with key members of the local startup ecosystem and with the support of the NSW Government. The program aims to attract international technology entrepreneurs to Sydney to share their expertise with Sydney's tech startup community and in doing so, help to foster a culture of entrepreneurship and innovation and raise awareness of Sydney's tech startup ecosystem globally.
- (h) The City delivered the 175th anniversary exhibition "Our City: 175 years in 175 objects", held in Lower Town Hall between 27 October and 12 November 2017. Over 7,000 people attended the exhibition and public programs, and nearly 400 catalogues were sold. Video and photos shared on social media attracted 450,000 video views, 12,850 social likes and 2,800 organic shares on Facebook. The value of coverage through print, TV and radio (excluding online content) was \$750,000 and the cumulative audience reached was almost 4.5 million.
- (i) As part of the City's program to promote the benefits and reduce barriers of walking and cycling, 12 led rides were delivered, with most fully booked, including foodie rides, rides at night and to events including the Sydney Rides Festival. For Walk-to-Work Day, the City ran an activation on Glebe Foreshore with coffee, health checks with Diabetes Australia and information on walking and riding to work. A messenger chatbot was launched to allow people to tap into previously mapped route advice, leveraging the 2,200 personalised routes created and giving people the opportunity for instant route recommendations.

FINANCIAL IMPLICATIONS

- 28. At Quarter 2, the Operating Surplus was \$67.5M, with a Net Surplus of \$86.4M, representing a favourable variance of \$102.7M against budget.
- 29. Financial performance in all principal activities, as defined within the Delivery Program 2017-2021, has generally been satisfactory against budget.
- 30. The full year forecast reflects a Net Surplus of \$50.4M, which is favourable to budget by \$22.5M.
- 31. The 2017/18 year end cash position is forecast to be \$461.0M, which is unfavourable to the budget of \$479.7M by \$18.8M.

32. 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

33. 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*.
34. 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.
35. 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

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

PUBLIC CONSULTATION

37. The information contained within this report reflects Council's financial performance in the 2017/18 financial year.

BILL CARTER

Chief Financial Officer