

## Item 2.

### 2017/18 Quarter 3 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 Q3 2017/18 reflected an Operating Result of \$104.8M, against a YTD budget of \$89.6M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Council has achieved a Net Surplus of \$143.8M against a budget of \$9.3M. The favourable YTD variance of \$134.5M 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 \$94.3M which is favourable to budget by \$66.4M. The major variances are discussed within the body of this report, and full details are provided in Attachment A.

The Capital Works program expenditure of \$113.6M compares to a YTD budget of \$220.1M, again reflecting the deferred light rail payment. The annual forecast for the program has been revised to \$235.4M, assuming that this payment will still be made his financial year, against a full year budget of \$333.6M. A summary of the 2017/18 capital project expenditure and forecast is outlined within the body of this report, and detailed within Attachment B.

The Information Services capital expenditure, for projects developed internally, was \$4.2M which is \$0.8M unfavourable when compared to the YTD budget, and a full year forecast of \$7.0M.

The Plant and Equipment expenditure at Q3, net of disposals, was \$6.0M against a YTD budget of \$12.6M, with a full year forecast of \$14.7M.

Property Divestment proceeds of \$28.1M are the final payment for 115–151 Dunning Avenue, Rosebery and the compulsory acquisition of lands for the Sydney Metro project.

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 note the:

- (A) financial performance of Council for the third quarter, ending 31 March 2018, including the Quarter 3 Net Surplus of \$143.8M and the full year Net Surplus forecast of \$94.3M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) Quarter 3 Capital Works expenditure of \$113.6M and a revised full year forecast of \$235.4M, and approve the proposed adjustments to the adopted budget, including bringing forward of \$2.9M in funds into 2017/18 capital budget, as detailed in Attachment B to the subject report;
- (C) Information Services capital expenditure of \$4.2M, net of disposals, and a full year forecast of \$7.0M;
- (D) Quarter 3 Plant and Assets expenditure of \$6.0M, net of disposals, and the full year forecast of \$14.7M, and approve a transfer of \$0.7M of unspent motor vehicle funds to be repurposed to acquire additional bins;
- (E) Quarter 3 Property Divestment proceeds of \$28.1M, and the full year forecast net Acquisition of \$1.8M; and
- (F) 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 2017/18

## Background

1. The City's 2017-2021 Delivery Program and 2017/18 Operational Plan, including the 2017/18 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 2017/18 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 2017/18 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 provided in Attachment C for information.

## 2017/18 Operating Budget

7. 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.

## Third Quarter Operating Results

8. The Q3 Operating Surplus was \$104.8M against a budget of \$89.6M, a favourable variance of \$15.2M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Net Surplus was \$143.8M against a budget of \$9.3M, a favourable variance of \$134.5M.
9. The result includes an unfavourable variance to budget of \$2.0M for operating income with favourable variances to budget of \$12.0M for operating expenditure, a favourable variance of \$1.5M for interest income, a \$42.5M favourable variance for capital grants and contributions and a favourable variance of \$11.3M for depreciation and the deferred \$63.6M contribution to light rail.
10. The full year forecast Operating Surplus is \$130.1M against a budget of \$114.8M, a favourable variance of \$15.4M. 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 \$94.3M against a budget of \$27.9M, a favourable variance of \$66.4M.
11. The forecast results include an unfavourable variance to budget of \$1.1M for operating income, with favourable variances to budget of \$16.4M for operating expenditure, a \$1.8M favourable variance for interest income, a \$42.0M favourable variance for capital grants and contributions, \$7.8M favourable variance for depreciation and a \$0.6M unfavourable variance for capital project related costs.

12. The primary operating income variations to the budget are detailed in the table below:

<b>Income Type</b>	<b>2017/18 YTD Budget Variance</b>  <b>Favourable / (Unfavourable)</b>	<b>2017/18 Full Year Budget Variance</b>  <b>Favourable / (Unfavourable)</b>	<b>Comment</b>
Advertising Income	\$3.4M	\$4.2M	The favourable variance reflects increased utilisation of street furniture advertising.
Building & Development Application Income	(\$1.1M)	(\$1.4M)	Over the last 12 months there has been a decline in the number and value of applications, which represents less large scale developments.
Enforcement Income	\$2.8M	\$3.4M	Penalty infringement notices are higher than budgeted, reflecting a full complement of staff and favourable weather. The variance is expected to slow down in the final quarter 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	(\$1.7M)	(\$2.5M)	The variance relates to Financial Assistance Grants. 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.
Parking Meter Income	\$0.7M	\$0.8M	The removal of meters for the Sydney Metro project in Hickson road occurred later than anticipated, offset by an additional 53 meters installed in Surry Hills.

Rates & Annual Charges	(\$8.5M)	(\$9.4M)	Loss of Income due to the re-categorisation of lands from business to residential post budget, following the Karimbla (Meriton) court decision.
Work Zone	\$1.9M	\$2.5M	Market reactive, reflecting greater activity than budgeted for this year.

13. The primary operating expenditure variances to the budget are detailed in the table below.

<b>Expenditure Type</b>	<b>2017/18 YTD Budget Variance Favourable / (Unfavourable)</b>	<b>2017/18 Full Year Budget Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Employee Related	\$5.2M	\$6.0M	YTD variance predominately relates to permanent vacancies, partially offset by an increase in agency used to backfill.
Consultancies	\$1.1M	\$0.4M	Timing differences across a number of projects, predominately including light rail feasibility and the sustainability management and reporting platform.
Event Related Expenditure	\$3.2M	\$2.7M	Timing differences on budgeted events, and savings achieved from the new contract for banner installation and cleaning.
Expenditure Recovered	\$1.4M	\$1.9M	Legal Fees recovered from the Surry Hills library project, and recovery of the cost of works completed in Clarence Street bus lane.

Facility Management	(\$0.5M)	(\$1.1M)	Additional property facility management transition-in costs including asset verification, resourcing, and establishment of a new management system.
Grants, Sponsorships and Donations	(\$0.9M)	\$0.5M	Affordable housing grant of \$1.5M paid to Hammond Care in March.
Infrastructure Maintenance	(\$0.3M)	(\$1.4M)	Increased footway and kerb reinstatement works, and urgent works required for the Clarence Street bus lane which are fully recoverable.
Property Related Expenditure	\$2.6M	\$1.6M	A number of operationally budgeted works have been undertaken as minor capital improvements, while some projects require further investigation before work commences.
Utilities	\$1.0M	\$1.3M	Predominately relates to street lighting due to the temporary removal of existing smartpoles from George Street.

<b>Income Type</b>	<b>2017/18 YTD Budget Variance</b> <b>Favourable / (Unfavourable)</b>	<b>2017/18 Full Budget Variance</b> <b>Favourable / (Unfavourable)</b>	<b>Comment</b>
Interest Revenue	\$1.5M	\$1.8M	Council's investments earned additional interest, reflecting higher than anticipated opening cash balances for the year.

<b>Income Type</b>	<b>2017/18 YTD Budget Variance</b>  <b>Favourable / (Unfavourable)</b>	<b>2017/18 Full Budget Variance</b>  <b>Favourable / (Unfavourable)</b>	<b>Comment</b>
Capital Grants and Contributions	\$42.5M	\$42.0M	Contributions in the Green Square urban renewal, South Sydney and CBD areas.

<b>Expenditure Type</b>	<b>2017/18 YTD Budget Variance</b>  <b>Favourable / (Unfavourable)</b>	<b>2017/18 Full Budget Variance</b>  <b>Favourable / (Unfavourable)</b>	<b>Comment</b>
Depreciation	\$11.3M	\$7.8M	Changes to the assessment of buildings to better reflect the life of the assets has reduced the monthly depreciation expense, but additional assets will be capitalised during the year leading to higher depreciation by the year end.

<b>Expenditure Type</b>	<b>2017/18 YTD Budget Variance</b>  <b>Favourable / (Unfavourable)</b>	<b>2017/18 Full Budget Variance</b>  <b>Favourable / (Unfavourable)</b>	<b>Comment</b>
Light Rail Contribution to NSW Government	\$63.6M	\$0M	At this stage, still forecasting to pay this contribution by the financial year end.

14. 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**

15. The Capital Works program achieved expenditure of \$113.6M against a YTD budget of \$220.1M.

16. The full year forecast of the capital works program has now been reduced from a \$333.6M budget to \$235.4M 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. 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 \$2.9M from future years' capital works forward estimates, and to reallocate funds from within relevant programs, to continue these projects.
19. In addition, there are a number of changes proposed within the future years' forwards estimates. Full details are provided in Attachment B.
20. A number of other projects are currently forecasting variances within the major capital works projects for the 2017/18 financial year:
  - (a) Alexandra Canal Depot - additional funding required for additional works and the contract negotiations to finalise contract costs for project close out.
  - (b) Zetland Avenue - Mid (Joynton Avenue to Portman Street) - relocation of various utilities attached to the Huntley Street Bridge has been challenging, delay in statutory approvals impacting the relocation of services concurrently. This combined with wet weather delays and traffic management challenges associated with closing one lane of Huntley Street for extended periods has exacerbated program delays.
21. Significant variances are also forecast for a number of the 2017/18 program budgets and future years' forward estimates, including:
  - (a) Open Space & Parks: Urban Skate Park - Sydney Park - additional time is required to review ground stabilisation options and update the new structural design. East Sydney Small Parks Upgrade 222 Palmer Street - scope is divided into two separate contracts (demolition and landscape). Demolition works will now be delivered under operational budget as it does not lead to asset creation. Sydney Park Cares Precinct - additional time required to meet construction certificate requirements prior to going out to tender.
  - (b) Public Art Local Government Area: George Street Spine - Cloud Arch - the project is in development with final planning approval pending for the arch and footing installation being finalised in coordination with the light rail program. City Centre Public Art - Laneways - additional time is required for contract execution (two artists) and building owner's consent. Connecting Project - Green Square Public Art - project currently in contract negotiation phase.
  - (c) Stormwater Drainage: Drainage works - George Street (associated with light rail) - reduction in scope, works already completed by another contractor and locations which have not been accessible have resulted in lower expenditure.

- (d) Community, Cultural and Recreation Property Related Projects: Lift Upgrades - Various Sites - lift projects are now packaged together, hence extended delivery time is required. Customs House Passenger and goods lifts upgrade; time required for reject and negotiate and long lead time for parts has extended project program. Works to be delivered outside of the Christmas period.
  - (e) Corporate and Investment Property Related Projects: Commercial Property Structural Awning Repairs - Request for Tender currently at market and closing in April 2018. Depot - Bay Street - Bulk Stores, Office Fitout, Bay 1&2 Works; The project scope is currently being finalised and a delivery program being developed to minimise impact on business operations from this site. Portfolio Chiller Upgrades; chillers for key buildings have been replaced through individual projects, other replacement projects will be delivered through asset maintenance program.
  - (f) Infrastructure - Roads Bridges Footways: Cutler Footway and Burton Street Viaduct Restoration - options workshop with Woollahra Council has identified a need to further examine options and cost estimates with associated delay in construction start.
  - (g) Open Space and Parks: Parks General Stage 12 Shannon Reserve - concept design in progress.
  - (h) Public Domain: Pedestrian Lighting - delay in receiving the poles. Local Pedestrian, Cycling and Traffic Calming Committee's projects will be delivered in 2018/19 due to delay with finalising design and approvals.
22. 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.
23. The Plant and Equipment expenditure incurred during the year to date, net of disposals, was \$6.0M against a budget of \$12.6M. The forecast reduction reflects the anticipated delivery of vehicles. Information Services capital expenditure, for projects being delivered internally, was \$4.2M which slightly exceeds the YTD budget, but is within the full year budget of \$9.0M.
24. Approval is sought to reallocate unspent motor vehicle funds (due to timing of delivery) for bin purchases of \$0.7M. The quantity of requested bin services has grown substantially during 2017/18 as more bins reach the end of their life, an increase in the number of new premises which require larger more costly bins and there has been increased demand for Garden Organic bins.
25. There were Property Divestments of \$28.1M for the final payment for 115-151 Dunning Avenue, Rosebery and the compulsory purchase for Sydney Metro project, compared to a YTD budget divestment of \$5.5M.

### **Operational Highlights**

26. There were a number of operational highlights, including:
- (a) Council approved a \$20,000 sponsorship for the "Global Summit of Women 2018" - an annual, international women's economic forum that has been running for 27 years. The mission of the Summit is to bring together women leaders from the public, corporate and non-profit sectors under the common vision of expanding women's economic opportunities globally.

- (b) The City conducted its 20th bi-annual Homelessness Street Count on 20 February 2018. There were 329 people sleeping rough across the Local Government Area and 495 people occupying hostel and temporary accommodation beds. There were 104 less people sleeping rough than in February 2017 - a significant decrease. Homelessness 101 training was also delivered to staff from Sydney Trains and informal training has been provided to the City's customer service staff. The Homelessness Unit coordinated the Inner-City Homelessness Interagency in March 2018. Over 30 different services attended and heard presentations from St Vincent's Homeless Health and Family and Community Services and used the meeting to network.
- (c) A Water Sensitive Sydney summit was hosted by the City to facilitate an industry wide discussion around the broad urban water reform required in Sydney to ensure liveable, resilient and prosperous communities in the face of population growth and climate change. The event was well attended by a broad range of high level industry stakeholders. A summary document is being prepared to present to the NSW Government for consideration in the current recycled water review, and for participants to use to advocate for regulatory and policy changes.
- (d) 2018 was the 22nd year that the City produced the Sydney Chinese New Year Festival, this year celebrating the Year of the Dog with the central event being the Lunar Lanterns exhibition. The Lunar Lanterns exhibition attracted 976,000 visitors. The City also produced the Dragon Boat Races, a lion dance and Chinese firecracker program in Chinatown and a community performance program presenting performers from 34 different Chinese, Korean, Thai, Japanese, Vietnamese, Malaysian and Indonesian community groups.
- (e) Projects to increase canopy cover have continued, with 256 street trees planted this year. Approvals have been obtained for the construction of in-road planting projects in Catherine Street (Glebe) and Primrose Avenue (Rosebery). Works are commencing for Bowman Street and Ripon Way. One thousand trees were given away to City residents at the annual free tree event in April.
- (f) The Annual International Student Lord Mayor's Welcome was held in Sydney Town Hall, attended by around 700 international students. This event is an opportunity to not only welcome students to Sydney, but also provide an opportunity for students to find out about important support services available to them during their time in Sydney.
- (g) Smart Green Apartment buildings have continued to implement waste improvement initiatives in their buildings. Program evaluation has indicated a higher awareness and utilisation of existing City services and many buildings have also implemented initiatives such as charity textile collection bins. Approximately six tonnes of textiles have been diverted from landfill since September. Some buildings are now incorporating a waste and recycling element into their building tours for new residents.
- (h) This period saw the release of two new history walks on the Culture Walks app, celebrating LGBTQi history and women's history in the city. The draft Naming Policy was placed on public exhibition. Public programs included a panel discussion of LGBTQi activism in Sydney, podcasts, and media opportunities. Visitation of online history content YTD is 410,660.

- (i) The Australian premiere of Frameshift, presented by Art & About Sydney and forming part of the 2018 Chinese New Year Festival, was an aerial theatre show taking place at Customs House Square. Combining acrobatic tricks, vertical performance, contemporary dance and b-boy dancing, Frameshift explored the concept of community and infrastructure connected.

### **Financial Implications**

27. At Quarter 3, the Operating Surplus was \$104.8M, with a Net Surplus of \$143.8M, representing a favourable variance of \$134.5M against budget.
28. Financial performance in all principle activities, as defined within the Delivery Program 2017-2021, has generally been satisfactory against budget.
29. The full year forecast reflects a Net Surplus of \$94.3M, which is favourable to budget by \$66.4M.
30. The 2017/18 year end cash position is forecast to be \$494.3M, which is favourable to the budget of \$467.1M by \$27.2M.
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 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 Act 1993 and Local Government (General) Regulation 2005 require quarterly progress reports against the financial objectives and regular reports (at least six monthly) against the Operational Plan.
33. Section 406 of the Act requires councils to comply with the Integrated Planning and Reporting Guidelines, issued by the Chief Executive of the Office of Local Government.

**Critical Dates / Time Frames**

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

**Public Consultation**

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

**BILL CARTER**

Chief Financial Officer