

Item 2.

2017/18 Quarter 4 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 Q4 2017/18 reflected an Operating Result of \$140.1M, against a full year budget of \$114.8M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Council has achieved a Net Surplus of \$171.8M against a budget of \$27.9M. The favourable full year variance of \$144.0M predominately reflects the deferred payment of \$63.6M for the contribution to the light rail to NSW Government and higher developer contributions. 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 \$149.1M compares to a full year budget of \$336.6M, again reflecting the deferred light rail payment. 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 \$5.8M which was \$3.2M favourable when compared to the full year budget.

The Plant and Equipment expenditure at Q4, net of disposals, was \$10.9M against a full year budget of \$20.9M.

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 2018.

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 2018, including the Net Surplus of \$171.8M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the full year Capital Works expenditure of \$149.1M, and approve the proposed revote of budget and other adjustments, which will increase the adopted 2018/19 budget of \$342.8M by \$13.9M to \$356.7M (including \$102.2M for light rail contributions), and note the forward estimates as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$5.8M, net of disposals, and approve the proposed revote of \$2.1M to increase the adopted 2018/19 budget to \$12.6M;
- (D) note the full year Plant and Assets expenditure of \$10.9M, net of disposals, and approve the proposed net revote of \$5.3M and additional budget of \$0.6M; to increase the adopted 2018/19 net budget to \$21.7M;
- (E) note the full year Property Acquisition expenditure of \$5.3M, net of divestments;
- (F) note the operational performance indicators and quarter and full year achievements against the Delivery Program 2017-2021 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 2017/18
- Attachment D.** Fourth 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 fourth quarter (Q4) and full year results for the 2017/18 financial year, and the achievements to date against the Operational Plan objectives.
4. A Q4 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 2017/18 year, together with a summary of project expenditure, and proposed budget adjustments for 2018/19 and future years, are outlined within the body of this report and detailed in Attachment B.
6. A Q4 progress report against the operational performance measures identified within the 2017-2021 Delivery Program Plan is provided in 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 in 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.

Fourth Quarter Operating Results

10. The full year Operating Surplus was \$140.1M against a budget of \$114.8M, a favourable variance of \$25.4M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Net Surplus was \$171.8M against a budget of \$27.9M, a favourable variance of \$144.0M.
11. The result includes a favourable variance to budget of \$4.2M for operating income with favourable variances to budget of \$21.2M for operating expenditure, a favourable variance of \$2.4M for interest income, a \$42.3M favourable variance for capital grants and contributions and a favourable variance of \$14.5M for depreciation and the deferred \$63.6M contribution to light rail.

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

Income Type	2017/18 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Advertising Income	\$5.1M	The favourable variance reflects increased utilisation of street furniture advertising.
Building & Development Income	(\$1.5M)	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	\$4.7M	Penalty infringement notices are higher than budgeted, reflecting a full complement of staff and favourable weather.
Grants and Contributions	\$1.9M	Change in accounting treatment of Federal grants for roads to recovery from Capital to Operating.
Other Building Fees	\$1.7M	Market reactive, Crane and Hoarding income are favourable to budget due to increased activity in the Local Government Area.
Parking Meter Income	\$1.0M	The removal of meters for the Sydney Metro project in Hickson road occurred later than anticipated, and an additional 62 meters installed in Surry Hills.
Rates and Annual Charges	(\$11.9M)	Loss of Income due to the re-categorisation of lands from business to residential post budget, following the Karimbla (Meriton) court decision. On 17 and 18 July, the Court of Appeal heard arguments in the matter of Karimbla v City of Sydney regarding the appropriate rating categorisation for land under development. The ruling was reserved. It is hoped that a ruling will be received by October 2018.
Work Zone	\$2.8M	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:

Expenditure Type	2017/18 Full Year Budget Variance. Favourable / (Unfavourable)	Comment
Employee Related	\$5.5M	YTD variance predominately relates to permanent vacancies, partially offset by an increase in agency used to backfill.
Consultancies	\$1.1M	Timing differences across a number of projects, including light rail feasibility, site auditing for environmental monitoring and the sustainability management and reporting platform.
Event Related Expenditure	\$3.6M	Timing across some projects including the significant infrastructure upgrade for Christmas which will be delivered in 2018/19. Savings achieved from the new contract for banner installation and cleaning and across some of the events. Also a change in the categorisation of costs compared to the budget.
Expenditure Recovered	\$2.1M	Legal Fees recovered from the Surry Hills library project, recovery of the cost of works completed in Clarence Street bus lane and removal and or relocation of street furniture.
Facility Management	(\$1.5M)	Additional property facility management transition-in costs including asset verification, resourcing, and establishment of a new management system.
Grants. Sponsorships and Donations	\$1.3M	Accommodation grants program - Vacancy at Joynton Avenue community centre. Environmental Grants and Knowledge Exchange program had fewer than anticipated applications.
Infrastructure Maintenance	(\$1.8M)	Increased footway and kerb reinstatement works, and urgent works required for the Clarence Street bus lane which are fully recoverable.

Expenditure Type	2017/18 Full Year Budget Variance. Favourable / (Unfavourable)	Comment
Other Operating Expenditure	\$1.2M	<p>Savings in 100 resilient cities program of works due to timing the release of the Resilient Sydney strategy into the new financial year to align with needs of external partners, including 100 Resilient Cities and the UN Environmental Program Finance Initiative Summit in July 2018. Other savings were possible through working with partners and other councils to deliver this metropolitan program.</p> <p>Accelerating initiatives program - timing of expenditure due to finalising the appropriate resources to deliver the program.</p>
Property Related Expenditure	\$3.7M	<p>A number of property works were found to be of capital nature and delivered as part of the capital works program and not in operational expenditure.</p> <p>Not all works which were to be carried out during the transition of the facility management were not completed before the end of the financial year.</p> <p>Due diligence on property transactions; expenditure is taking place in a different category to where it was budgeted.</p>

Income Type	2017/18 Full Year Budget Variance. Favourable / (Unfavourable)	Comment
Interest Revenue	\$2.4M	Council's investments earned additional interest, reflecting higher than anticipated opening cash balances for the year.

Income Type	2017/18 Full Year Budget Variance. Favourable / (Unfavourable)	Comment
Capital Grants and Contributions	\$42.3M	Contributions in the Green Square urban renewal, South Sydney and CBD areas.

Expenditure Type	2017/18 Full Year Budget Variance. Favourable / (Unfavourable)	Comment
Depreciation	\$14.5M	Changes to the componentisation 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.

Expenditure Type	2017/18 Full Year Budget Variance. Favourable / (Unfavourable)	Comment
Capital Project related costs	(\$2.6M)	In completed projects, costs that do not contribute to the final asset values are expensed to this account.

Expenditure Type	2017/18 Full Year Budget Variance. Favourable / (Unfavourable)	Comment
Light Rail Contribution to NSW Government	\$63.6M	Payment will be made in August 2018.

14. The City's finance 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 \$149.1M against a full year budget of \$336.6M.
16. A number of projects were completed in 2017/18, including: Alexandra Canal Depot, Victoria Park Improvements, Bellevue Cottage Bathroom Upgrade, Argyle Street Upgrade - Lower Fort Street to Kent Street, Harold Park Tramshed and Community Space, Alexandria Town Hall and Kepos Street Playground. Numerous asset renewal programs were also completed during the year.
17. The capital works program adopted as part of the 2018/19 Operational Plan in June, anticipated higher expenditure in 2017/18. It is therefore required to now carry forward or "revote" a further \$52.0M of these unspent funds into the future year's forward estimates to ensure sufficient funding is approved to undertake these capital works projects during 2018/19 and beyond.
18. Following a final review of the 2017/18 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 \$38.1M is now pushed into the future years forward estimates for a 2018/19 revised budget of \$356.7M (including \$102.2M for the light rail contributions).
19. A financial summary of the 2017/18 Capital Works program, a schedule showing the funds carried forward and deferred, and the revised 2018/19 budget with future years' forward estimates by significant project and program are provided in Attachment B.
20. Information Services capital works expenditure, for projects being delivered internally, was \$5.8M against a budget of \$9.0M. It will therefore be necessary to carry forward (or revote) an additional \$2.1M. This will increase the adopted 2018/19 budget for Information Services capital works from \$10.5M to \$12.6M.
21. The Plant and Assets expenditure incurred during the year, net of disposals, was \$10.9M against a budget of \$20.9M, 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 \$5.3M and additional budget of \$0.6M for additional plant and equipment, will increase the adopted 2018/19 budget for Plant and Assets from net \$15.7M to net \$21.7M.

22. A financial summary of the 2017/18 Plant and Assets result against budget, and the revised 2018/19 budget, are included in Attachment B.
23. Property Acquisitions and Divestments which includes the final payment for 115-151 Dunning Avenue, Rosebery, the compulsory purchase by Sydney Metro and the acquisition of 6-8 Huntley Street Alexandria. This resulted in net acquisitions of \$5.3M for the 2017/18 year, against a Divestment budget of \$110.1M.

Operational Highlights

24. There were a number of operational highlights, including:
 - (a) Over the past year, there were 809,637 attendances at the City's 13 staffed or partially staffed community facilities, programs and events. A total of 908 programs to promote and support inclusion and diversity were offered by City Spaces this period, with 1,073 programs of a total of 1,235 accessible to people with a disability. 13,470 bookings were made by groups for community venues with a total of 18,553 bookings taken across the City's 13 staffed and 28 unstaffed City Spaces.
 - (b) 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. The City was recognised for the 175th Anniversary Exhibition at the 2018 National Trust Heritage Awards and noted as Highly Commended in the Education and Interpretation category. The National Trust have also approached the City to use images from the 175th Exhibition catalogue for their 2019 Diary.
 - (c) The 2018 Sydney Chinese New Year Festival, took place from 16 February to 4 March, the 22nd year that the City has produced the festival. The central event was the Lunar Lanterns exhibition. The City also produced a launch on 16 February, the Dragon Boat Races on 24 and 25 February, 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. The festival coordinated an associated event program featuring 81 associated events produced by 41 Associated Event Partners. The 2018 Lunar New Year total audience reach through media channels was approximately 1.6 billion.
 - (d) During the second half of the 2017/18 financial year, Business Events Sydney utilised City of Sydney funding to successfully secure ten events for the city. These events secured in 2017/18 are expected to deliver over 70,500 delegate days to the city, generating an estimated direct expenditure of over \$64m for the economy.
 - (e) Public domain and greening the city - Over 8,000 sq metres of public domain landscaping was completed, together with 68,204 plants and 700 street trees planted this year contributing to a greener, cooler city.
 - (f) While the diversion of city's residential waste has decreased by 2 per cent, the per capita annual waste generation rate of our residents has reduced by 21kgs, from 324kgs to 303kgs.

- (g) In June 2018 the 'Sustainable Destination Partnership' was launched at the Sydney Opera House bringing together 40 organisations from the city's accommodation and entertainment sector committed to reducing their environmental impact under a three year Memorandum of Understanding.
 - (h) The City of Sydney has been recognised with top honours in a global sustainability report 'CDP Cities', scoring highest in the Asia Pacific region for climate disclosure, collection of environmental data and exemplary reporting. The City of Sydney recently participated in the C40 Clean Energy, Low Carbon Districts, Cool Cities and Private Buildings Efficiency networks international meetings. These meetings brought together cities, business, governments and civil partners to explore new models for precinct developments and operations. The City of Sydney also contributed to an international evaluation panel for Carbon Neutral Cities Alliance Innovation Grants.
 - (i) The Future Asia Business Summit was held in May 2018 and was attended by over 400 local and international businesses. Through evaluation, 100 per cent of survey participants felt they had a better understanding of market opportunities in Asia. The City also partnered with Austrade, AusIndustry, Department of Foreign Affairs and Trade and Export Finance Insurance Corporation (EFIC) to hold a Free Trade Agreements Seminar which was attended by 174 local businesses and stakeholders.
 - (j) As part of the Future Asia Business Summit, the City provided a briefing to 100 local international stakeholders including foreign consular corp and bilateral chambers of commerce on key initiatives such as Chinese New Year, International Education Action Plan, safety for international visitors, Tech Startups Action Plan and Grants and Sponsorships.
25. In addition to the achievements highlighted above, progress against the City's other priority projects has generally been satisfactory. Full commentary in respect to the achievements against the planned objectives is provided in Attachment C.
26. The Quarterly Environmental Sustainability progress report is included separately as 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

27. At this stage, the Operating Result is \$140.1M, with a Net Operating Surplus of \$171.8M, representing a favourable variance of \$144.0M against budget. These Q4 results are interim, pending final audit clearance, and a separate report will confirm these results in October.
28. Financial performance in all principal activities, as defined within the Delivery Program 2014-2017, has generally been satisfactory against budget.
29. The 2017/18 year end cash position is was \$603.2M, which is favourable to the budget of \$467.8M by \$135.4M. This variance reflects the higher opening cash balances, delays in the light rail contribution combined with lower capital and operational expenditure than budgeted.

30. 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

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 2017/18 financial year.

BILL CARTER

Chief Financial Officer