

ITEM 2. 2007/08 QUARTER 2 REVIEW – CORPORATE PLAN 2008-2011**FILE NO: S050057****SUMMARY**

This report reviews the operating results and capital expenditure against budget for the 2nd Quarter (Q2) of the 2007/08 financial year, and progress against the performance measures identified within the 2008-2011 Corporate Plan.

The Q2 Net Surplus was \$55.1M or \$18.1M better than budget of \$37.0M. This reflects higher income, a number of operational expenditure savings, increased interest income, additional capital contributions, and profit on sales of assets. The forecast Net Surplus for the full year is \$75.5M or \$13.8M better than the budget of \$61.7M.

Capital Works expenditure is \$55.2M or \$9.8M behind the Q2 budget of \$65.0M with activity forecast to accelerate during the remainder of the year to deliver \$150.2M against the budgeted programmed works of \$174.8M.

The Plant and Asset net expenditure is \$6.1M against a Q2 budget of \$14.3M with a full year forecast of \$25.9M against the budget of \$28.0M.

Progress against the Corporate Plan performance measures has been generally satisfactory.

RECOMMENDATION

It is resolved that Council:

- (A) note the financial and operational performance of Council for the 2nd Quarter (Q2) ending 31 December 2007;
- (B) note the forecast Net Surplus of \$75.5M, an improvement of \$13.8M over the full year budget of 2007/08;
- (C) note the forecast Capital Works expenditure of \$150.2M against the full year budget of \$174.8M;
- (D) note the forecast net Plant and Asset expenditure of \$25.9M against the full year budget of \$28.0M; and
- (E) note the performance indicators and Q2 achievements against the Corporate Plan objectives as detailed in Attachment C to the subject report.

ATTACHMENTS

Attachment A: Financial Results Summary

Attachment B: Capital Expenditure Financial Results

Attachment C: Second Quarter Performance Report – Corporate Plan

Attachment D: Supplementary Information – Quarter 2

BACKGROUND

1. The City's 2008-2011 Corporate Plan, including 2007/08 budgets, was adopted by Council on 25 June 2007.
2. The Local Government Act requires quarterly progress reports against the financial and operational objectives detailed within this Plan.
3. This report provides financial results for Quarter 2 (Q2) of the 2007/08 financial year.
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 Corporate Plan, are provided at Attachment A.
5. Additional reports regarding sponsorships and grants, approved contract panels, progress on the safe city strategy, overseas travel by staff, agency contract staff expenditure and utilisation of contingency funds in Q2 are also provided in Attachment D for information.

2007/08 BUDGET

6. The adopted 2007/08 budget projected operating income of \$366.3M and operating expenditure of \$294.5M for an Operating Surplus before depreciation and interest of \$71.8M. After allowing for interest income of \$22.0M, depreciation expense of \$47.1M and capital grants and contributions of \$15.0M, Council budgeted for a Net Surplus of \$61.7M

SECOND QUARTER OPERATING RESULTS

7. The Operating Surplus before depreciation and interest is \$52.9M against a budget of \$42.2M, a favourable variance of \$10.7M. After allowing for interest income, depreciation, capital income and profit on disposal of assets, the Net Surplus is \$55.1M against a budget of \$37.0M, an improvement of \$18.1M.
8. The result reflects favourable variances to budget of \$2.9M for operating income, \$7.8M for operating expenditure, \$2.5M for interest income, \$0.9M for depreciation, \$2.6M for capital grants and contributions and \$1.4M for profit on sale of assets.
9. The primary operating income variances to the budget are detailed in the table below:

Income Type	Q2 YTD Budget Variance Favourable / (Unfavourable)	2007/08 Forecast Variance Favourable / (Unfavourable)	Comment
Building and Development Application Fees	\$0.506M	\$0.170M	This is due to a higher than expected volume of development applications during the first quarter which is expected to trail off in the remainder of the year.
Parking Meters	\$1.485M	\$2.650M	Increased reliability of meters and level of activity contribute to the favourable variance.
Parking Station Income	\$0.289M	\$0.701M	Better than expected performance of Goulburn St Parking Station
Venue/Facility Income	(\$0.219M)	(\$0.756M)	Venue/Facility income is under budget due to the delayed opening of the Ian Thorpe Aquatic Centre with lower than budgeted patronage. This is partially offset by lower management fee expenses.

10. The primary operating expenditure variances to the full year budget are detailed in the table below:

Expenditure Type	Q2 YTD Budget Variance Favourable / (Unfavourable)	2007/08 Forecast Variance Favourable / (Unfavourable)	Comment
Salaries and Wages Related	\$1.108M	\$2.780M	Higher than anticipated staff vacancies are partially offset by higher agency costs
Consultancies	\$0.754M	\$0.147M	A number of projects commencing later than anticipated across the organisation.
Enforcement and Infringement Costs	(\$1.249M)	(\$1.747M)	Cash receipts for fines issued last year have been greater than the conservative amount accrued in the 2006/07 accounts leading to increased Police profit share, with the budget for the profit share also understated for the 2007/08 year.
Event Related Expenditure	\$0.576M	(\$0.031M)	The result reflects timing differences between actual events and the phasing of the budget. The unfavourable forecast reflects 2030 projects that were unspent in 2006/07 and will now be incurred this year.
Expenditure Recovered	\$0.867M	\$1.462M	The Q2 and forecast variance predominantly reflect the partial recovery of the cost of undergrounding Energy Australia's cables in Glebe Point Rd (\$0.8M).
Infrastructure Maintenance	\$1.175M	\$1.350M	Savings reflect lower than anticipated reactive maintenance for granite sealing and Smart-poles, offset in part by additional graffiti removal costs. The program for maintaining the footpath and roadway assets is behind due to the impact of wet weather (\$0.4M) however at this stage the majority of the program is expected to be complete by year end.

Expenditure Type	Q2 YTD Budget Variance Favourable / (Unfavourable)	2007/08 Forecast Variance Favourable / (Unfavourable)	Comment
IT Related Expenditure	\$0.517M	\$0.094M	The Q2 favourable variance is due to timing differences in purchasing software licences & maintenance agreements.
Other operating expenditure	\$0.940M	\$0.623M	Reflects savings in management fees for Ian Thorpe Aquatic Centre as a result of the delayed opening.
Printing and Stationery	\$0.549M	\$0.189M	The City's Waste Education Program is commencing later than anticipated and there are other minor savings across Council at this stage.
Service Contracts	(\$0.496M)	(\$0.675M)	Additional 2006/07 domestic waste costs determined after completion of last year's accounts and the volumes of waste collected have been higher than anticipated in the budget.

Interest Income

Q2 YTD Budget variance Favourable/ (Unfavourable)	Q2 Annual Forecast Variance Fav/(Unfav)	Comment
\$2.493M	\$3.500M	The forecast reflects a higher opening cash balance than budgeted arising from a shortfall in the forecast 2006/07 capital expenditure, lower than expected capital works expenditure to date this year and a higher than expected net surplus.

Depreciation Expense

Q2 YTD Budget variance Favourable / (Unfavourable)	Q2 Annual Forecast Variance Fav / (Unfav)	Comment
\$0.858M	\$0.000M	Lower than forecast capital expenditure in previous year has resulted in lower depreciation charges. The forecast remains unchanged as the favourable variance will be offset by the final write down of the Domain Car Park assets.

Profit on Sale of Assets

Q2 YTD Budget variance Favourable / (Unfavourable)	Q2 Annual Forecast Variance Fav /(Unfav)	Comment
\$1.359M	\$1.359M	Proceeds from the sale of 112-136 Broadway exceeded the book value of this investment property.

11. Major variances to the capital income budget are detailed in the table below:

Q2 YTD Budget variance Favourable / (Unfavourable)	Q2 Annual Forecast Variance Fav /(Unfav)	Comment
\$2.643M	\$2.400M	Includes S61 contribution of \$2.8M for the stage two redevelopment of the Mid City cinema complex.

12. Financial performance in all principal activities, as defined within the Corporate Plan, has generally been satisfactory against budget. It should be noted that these interim financial results do not reflect any change in the value of Council's investment properties or investment securities as these accounting adjustments are recognised in the financial accounts at year end as required by the relevant accounting standards. This practice reflects Council's intention to hold these assets for the longer term. For 2007/08, the Department of Local Government has also directed councils to revalue their broader property, plant and equipment assets and to then bring to account any significant movements in their current book values.

CAPITAL EXPENDITURE

13. The Capital Works expenditure incurred for Q2 was \$55.2M against a budget of \$65.0M. The full year forecast at \$150.2M is \$23.7M under the full year budget of \$174.8M following a major review of the capital works program and considering the known commitments already recorded within the financial system.
14. The review assessed the capital works program in respect to forecast delivery of the projects and revised cost estimates and, at this stage, the majority of the 2007/08 program will be achieved. However, some projects reflect additional expenditure to that budgeted in the current year, while others require additional planning and design work before they can proceed.

15. The major increases identified for 2007/08 budget year represent timing differences as works budgeted for next financial year have been brought forward to accelerate completion. These include the Cook & Phillip Park upgrade (\$0.5M), Green Square Town Centre (\$2M), Redfern Park (\$0.5M) and Walter Read Reserve (\$1M). Conversely there are a number of projects with lower forecasts for the current year, including Rushcutters Bay Park / Reg Bartley Oval (\$1.9M), Surry Hills Facility (\$2M), Sydney Town Hall (\$3.5M) and Town Hall House (\$1.1M), where the projects have been delayed pending final design planning or work has been disrupted.
16. From a total project perspective, it should be noted that a significant saving of \$1.0M is forecast for the Redfern / Regent Street upgrade, however, additional funding is estimated to be required for Prince Alfred Park & Pool (\$6.8M) and Sydney Town Hall (\$6M) as noted by Council on 10 December 2007 and 19 November 2007 respectively. No additional funding approval is sought at this time as these estimates will be further refined in developing the 2009-2012 Corporate Plan and 2008/09 Capital Works budgets.
17. A financial summary of the capital program along with a status report on all capital projects that exceed \$5M in value is provided at Attachment B.
18. Council's approval to acquire a property in Dunning Avenue, Rosebery, and payment of the required deposit, has also resulted in capital expenditure of \$3.7M which is noted within the financial summary as Property Acquisition / Divestment costs.
19. The Plant and Assets expenditure incurred during the year, net of disposal, is \$6.1M against the current Q2 YTD budget of \$14.3M. The under-spend of \$8.2M is partially due to the time taken to finalise project briefs and commence acquisition, however, the full year forecast indicates that a total of \$25.9M will be spent against a full year budget of \$28.0M.

PERFORMANCE INDICATORS

20. A number of priority projects and target dates were included in the Corporate Plan to measure Council's organisational performance in 2007/08.
21. Progress of priority projects has generally been satisfactory within the year. Full commentary in respect of the achievements against the planned objectives is provided at Attachment C.

FINANCIAL IMPLICATIONS

22. The Q2 Net Surplus of \$55.1M represents an \$18.1M improvement over the current budget of \$37.0M, while the forecast Net Surplus for the full year of \$75.5M is \$13.8M above the budget of \$61.7M. The result continues to contribute to the City's financial reserves, its interest earnings and provide additional funding opportunities for the City to continue its planned capital enhancements to the public domain and infrastructure assets across the local government area.
23. The cash generated by this surplus, together with the forecast capital expenditure for the full year, results in an estimated decrease in Council's available cash of \$55.5M at year end compared with the budgeted cash utilisation of \$96.1M.

RELEVANT LEGISLATION

24. Local Government Act 1993 and Local Government (Financial Management) Regulation 1993.

CRITICAL DATES / TIME FRAMES

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

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