

**ITEM 2. 2008/09 QUARTER 3 REVIEW – CORPORATE PLAN 2009-2012**

**FILE NO: S063897**

**SUMMARY**

This report reviews the operating and capital results against budget for Quarter 3 of the 2008/09 financial year and reports progress against the performance measures identified within the 2009-2012 Corporate Plan.

The City achieved an Operating Surplus to the end of Quarter 3 of \$79.4M. The result is \$18.1M higher than the YTD budget of \$61.3M and reflects increases in operating income, and a number of operational expenditure favourable variance. The Operating Surplus variance plus additional interest income and higher than anticipated capital grants and contributions have more than offset higher depreciation expenses and a provision for potential loss on investment funds to deliver a Net Surplus of \$68.0M, \$13.8M better than the YTD budget of \$54.2M. The Net Surplus for the full year is forecast to be \$68.4M which is in line with budget with details provided in the body of the report.

Capital Works expenditure for Quarter 3 was \$91.2M against a YTD budget of \$128.5M. The full year forecast for the capital works program has been revised to \$128.3M. A summary of the Capital Works program at Q3 is outlined within the report and detailed within Attachment B.

The Plant and Asset expenditure, net of disposals, to the end of Quarter 3 was \$9.1M against the YTD budget of \$20.9M. The shortfall reflects a number of timing changes within the program, however, a review of the program has also identified that \$8.1M of acquisitions that will not be completed this year.

The Property acquisition / divestment net expenditure at Quarter 3 was \$38.0M which is in line with the YTD budget.

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 Quarter ending March 2009;
- (B) note the Q3 Net Surplus of \$68.0M and the full year forecast Net Surplus of \$68.4M;
- (C) note the Quarter 3 Capital Works expenditure of \$91.2M and the full year forecast of \$128.3M;
- (D) approve the transfer of \$0.5M of project savings to the Capital Works Contingency to fund additional Capital Works expenditure of \$0.3M as itemised in paragraphs 16 and 17 of the subject report;

- (E) approve movement of \$0.1M from future year estimates to the 2008/09 Capital Works budget to allow the commencement of the project earlier than anticipated as itemised in paragraph 18 of the subject report;
- (F) approve the increase project capital budgets in line with capital works grants and contributions received as outlined paragraph 19 of the subject report.
- (G) note the Quarter 3 Plant and Asset net expenditure of \$9.1M and the full year forecast of \$21.9M;
- (H) note the Quarter 3 Property Acquisition Divestments expenditure of \$38.0M and the full year forecast of \$38.0M; and
- (I) note the performance indicators and Quarter 3 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:** Quarter 3 Performance Report – Corporate Plan

**Attachment D:** Supplementary Information – Quarter 3

**BACKGROUND**

1. The City's 2009-2012 Corporate Plan, including 2008/09 budgets, was adopted by Council on 30 June 2008.
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 3 of the 2008/09 financial year.
4. A Quarter 3 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 in Attachment A.
5. Additional reports regarding expenditure against contingency funds, overseas travel, approved contract panels, and sponsorships and grants allocated in Quarter 3 are also provided in Attachment D for information.

**2008/09 OPERATING BUDGET**

6. The adopted 2008/09 budget projected operating income of \$384.1M and operating expenditure of \$305.1M for an Operating Surplus of \$79.0M. After allowing for interest income of \$24.8M, depreciation expense of \$50.1M and capital grants and contributions of \$15.0M, Council budgeted for a Net Surplus of \$68.8M.

**OPERATING RESULTS**

7. The Operating Surplus at the end of Quarter 3 was \$79.4M against a budget of \$61.3M, a favourable variance of \$18.0M. After allowing for interest income, depreciation, capital income, a provision against financial investments and gain on disposal of assets, the Net Surplus was \$68.0M against a budget of \$54.2M, an improvement of \$13.8M.
8. The result reflects favourable variances to budget of \$2.0M for operating revenue, \$16.0M for operating expenditure, \$2.7M for interest income and \$2.8M for capital grants and contributions. Unfavourable variances recorded were \$6.5M for depreciation and financial investment provisions of \$3.2M.
9. The Net Surplus for the full year is forecast to be \$68.4M against budget of \$68.8M.
10. The primary operating income variances to the budget are detailed in the table below:

<b>Income Type</b>	<b>Q3 YTD Budget Variance Favourable / (Unfavourable)</b>	<b>2008/09 Forecast Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Rates and Annual Charges	\$0.7M	\$1.0M	Additional revenue derived from new residential strata titles.
Enforcement Income	\$1.0M	\$0.8M	Recovery rate of PINs issued in prior years was higher than allowed for in the 2007/08 YE accounts.
Grants and Contributions	\$1.5M	\$1.3M	RTA lighting grant due in 2007/08 (\$0.8M) was received in 2008/09 and higher than anticipated Federal grants (\$0.3M).
Parking Station Income	\$0.7M	\$1.1M	Kings Cross parking station unbudgeted income generated from December 2008 onward.
Venue/ Facility Income	(\$1.3M)	(\$1.8M)	Lower than anticipated revenue against budget targets set for Ian Thorpe Aquatic Centre (\$1.1M)

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

<b>Expenditure Type</b>	<b>Q3 YTD Budget Variance Favourable / (Unfavourable)</b>	<b>2008/09 Forecast Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Salaries and Wages Related	\$0.7M	(\$1.4M)	Accounting standards require employee leave provisions to be calculated by discounting projected liabilities at the long term bond rate. As this rate has significantly reduced in recent months the accounting value of the liabilities is expected to rise by \$1.7M at year end.

<b>Expenditure Type</b>	<b>Q3 YTD Budget Variance Favourable / (Unfavourable)</b>	<b>2008/09 Forecast Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
Consultancies	\$1.7M	\$1.0M	Variance reflects the timing of a number of projects and increased use of internal resources.
Event Related Expenditure	\$1.4M	\$0.3M	YTD favourable variance is mainly due to timing differences and minor savings across a wide range of events.
Infrastructure Maintenance	\$1.8M	\$1.2M	Lower than budgeted YTD maintenance expenditure across a range of projects, including parks (\$0.7M), Smartpoles (\$0.2M), roads (\$0.2M) and footway (\$0.3M) with more focus on footway capital works. Activity is expected to increase in Q4.
Legal Fees	\$0.7M	\$0.9M	Lower requirement for external legal services due to increased use of internal resources
Property Related Expenditure	\$1.0M	\$0.8M	Lower level of activity during transition to new service provider (\$0.6M) and lower property valuation and leasing costs (\$0.4M)
Public Domain Enhancement Contributions	\$0.6M	\$1.0M	Program changes have reduced expenditure on the undergrounding of cables (\$0.6M).
Service Contracts	\$0.9M	\$0.5M	Lower than anticipated growth in households has reduced domestic waste collection costs (\$0.6M). In addition lower ad hoc security services have been required (\$0.2M)

**Interest Income**

<b>Q3 YTD Budget Variance Favourable / (Unfavourable)</b>	<b>2008/09 Forecast Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
\$2.7M	\$1.6M	Increased interest income reflects a higher opening cash balance and lower capital expenditure. The significant reduction in interest rates since September 2008 will continue to impact on interest income through to year end.

**Depreciation Expense**

<b>Q3 YTD Budget Variance Favourable / (Unfavourable)</b>	<b>2008/09 Forecast Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
(\$6.5M)	(\$9.0M)	Operational building assets were revalued as part of the 2007/08 year end accounts. This occurred after the 2008/09 Budget was finalised, and the magnitude of the upward revaluation has resulted in a significant increase to depreciation expense.

**Capital Grants and Contributions**

<b>Q3 YTD Budget Variance Favourable / (Unfavourable)</b>	<b>2008/09 Forecast Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
\$2.8M	\$1.5M	A capital contribution (\$94) in relation to Victoria Park (\$5.0M) was received in March. Grants for capital works including Waterloo Youth Facility (\$0.4M) and a Sustainability Grant from the Federal Government for property facilities (\$0.7M) have been received.

**Gain / (Loss) on Investment Funds**

<b>Q3 YTD Budget Variance Favourable / (Unfavourable)</b>	<b>2008/09 Forecast Variance Favourable / (Unfavourable)</b>	<b>Comment</b>
(\$3.2M)	(\$7.2M)	A provision has been made of \$3.2M to write down a number of investments to their estimated recovery values due to the global financial crisis. An additional provision of \$4.0M is forecast in order to provide for a further decline in indicative values of CDOs and capital protected investments as outlined in the March investment report.

12. Financial performance in all principal activities, as defined within the Corporate Plan, has generally been satisfactory against budget and Council continues to maintain its strong financial position.

**CAPITAL EXPENDITURE**

13. The Capital Works expenditure incurred to the end of Quarter 3 was \$91.2M against a budget of \$128.5M. The full year forecast has been reduced to \$128.3M following a review of the capital works program.
14. The review assessed the capital works program in respect to forecast delivery of the projects and revised cost estimates. Some projects will require additional funding to complete while others require additional planning and design work before they can proceed. A summary of these projects are included in Attachment B.
15. Significant underspends are forecast for the 2008/09 financial year for components of major Capital Works programs that will not be completed in accordance with budget timing that was established 12 months ago:
- (a) Bicycle Related Works (\$13.0M) – additional traffic modelling, consultation, tendering and design requirements have impacted on timing.
  - (b) Property Related Projects (\$11.3M) – timing changes across a range of projects not proceeding this financial year some of which have been impacted by the transition to the new service provider.
  - (c) Open Spaces and Parks (\$4.3M) - timing changes across a range of projects and Renwick St. playground not proceeding this financial year.
  - (d) Public Domain Projects (\$4.1M) – timing across a range of projects
16. The Glebe Point Road Streetscape Upgrade has reached practical completion with only some localised drainage works near the Bridge St intersection still to be finalised. Permanent savings for this project are \$0.5M and can be transferred to the Capital Works Contingency which at Q2 was fully utilised.

17. Increased funding, through transfers from the Capital Works Contingency, is sought for the following projects:
  - (a) Installation of solar panels on Sydney Town Hall (\$0.1M) - the \$0.5M balance of the funds for this project, approved by Council in November, will be allocated in the 2009/10 Capital Works Budget.
  - (b) Affordable Housing Project (\$0.2M) - further feasibility and site assessments.
18. Signage upgrades at community facilities under the 2009 - 2012 Corporate Plan has a forward estimate in 2009/10 of \$0.5M. Approval is sought to bring forward \$0.1M into 2008/09 as the project is ready to commence earlier than anticipated.
19. A number of Capital Works related grants and contributions have been recognised in Q3. These funds allow an increase in the scope of projects and approval is sought to allow a commensurate increase in the project budgets. Details of the individual grants and contributions are set out below:
  - (a) Glebe Foreshore Stage 2 (\$0.2M) – funds received from the Federal Government for pontoons.
  - (b) Waterloo Oval Plan of Management Works (\$0.3M) – funds received under a planning agreement to fund repair of a retaining wall.
  - (c) Waterloo Oval Youth Facility (\$0.4M) – contribution received from the South Sydney Youth Service to assist in funding of this project.
  - (d) Sydney Park Master Plan Works (\$0.1M) – a green space grant from the State Government has been received as a contribution towards the project for the playground upgrade.
  - (e) Property Facilities (\$0.7M) – a grant has been received from the Federal Government as part of the Regional and Local Community Infrastructure Program to fund ESD initiatives.
20. A financial summary of the capital program along with a status report on all capital projects that exceed \$5M in value is provided in Attachment B.
21. The Plant and Assets expenditure incurred for Quarter 3, net of disposals, is \$9.1M against the current YTD budget of \$20.9M. The under-spend of \$11.8M is partially due to the time taken to finalise project briefs and commence acquisition. However, on review a number of items have been identified that will not be completed in the 2008/09 year, which is reflected in the revised full year forecast of \$21.8M.
22. Property Acquisitions / Divestments are forecast at a net cost of \$38.0M against the budget of \$27.5M due to a revision in the timing for the sale of a Council property in the Green Square Town Centre, as a consequence of current market conditions.

## **PERFORMANCE INDICATORS**

23. A number of priority projects and target dates were included in the Corporate Plan to measure Council's organisational performance in 2008/09.

24. 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**

25. The Quarter 3 YTD Operating Surplus of \$79.4M is \$18.1M higher than the YTD budget of \$61.3M.
26. The Quarter 3 Net Surplus of \$68.0M compares with budget of \$54.2M an improvement of \$13.8M.
27. The current annual Net Surplus is forecast to be \$68.4M in line with the full year budget of \$68.8M. The main items contributing to the change in budget performance in the final quarter relate to year end accounting adjustments for employee leave provisions (\$1.7M) and financial investments (\$4.0M), lower than budgeted interest income (\$1.1M) and higher depreciation (\$2.5M).
28. The 2008/09 year end cash position is forecast to be \$381.7M which is \$92.9M favourable compared with budget of \$288.8M predominately reflecting the higher than anticipated opening cash balance and lower than budgeted capital expenditure.

**RELEVANT LEGISLATION**

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

**CRITICAL DATES / TIME FRAMES**

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

**JOHN BARBELER**

Director Corporate Services

Bill Carter, Finance Manager