

Relevant Information for Council

FILE: S122357 **DATE:** 14 May 2021

TO: Lord Mayor and Councillors

FROM: Bill Carter, Chief Financial Officer

THROUGH: Monica Barone, Chief Executive Officer

SUBJECT: Information Relevant To Item 6.2 – 2020/21 Quarter 3 Review - Delivery Program 2017-2021

For Noting

This memo is for the information of the Lord Mayor and Councillors.

Purpose

As part of the 2020/21 Quarter 3 Review - Delivery Program review, further information was requested at the meeting of the Corporate, Finance, Properties and Tenders Committee meeting held on 10 May 2021 on the items listed below:

1. Grants, Sponsorship and Donations expenditure

The Q3 Financial report noted Grants, Sponsorships and Donations expenses were \$1.6M unfavourable YTD, while forecast to be favourable by \$1.7M for the full 2020/21 year.

The YTD expenditure over budget reflects Al Fresco grants of \$2.6M being awarded quicker than anticipated in the budget (i.e. before the final quarter of the year), offset by savings in the accommodation grants program (\$0.9M).

The full year forecast includes a full year's savings in the accommodation grants program of as the pandemic delayed a grant of \$0.6M to commence a new cultural space in the former Haymarket library (MOCA), a subsidy of \$0.6M was not required for a childcare provider as they received rent relief in line with the Federal Government's Code for commercial tenancies, and deferral of \$0.3M for the Business Events Sponsorship.

2. City properties managed under a current lease and City properties not currently on an existing long-term lease

The City manages 531 commercial and community, with 434 currently on long term leases and 97 on hold-over. Of the latter, a number of tenants have already received a new lease and are in the final stages of signing, while others are still in negotiation on lease terms or rent.

The vacancy rate for the net lettable area within our property portfolio currently sits at 5.5%, which is well below the Property Council of Australia's Sydney CBD vacancy rate of 8.6%.

3. Salary and Wages related expenditure

The Q3 Financial report noted Salary Related Expenses (workforce costs) were \$7.9M favourable YTD, forecast to be \$11M for the full 2020/21 year. This is in line with savings expected from the workforce management plan, a contributor to the City's Financial Recovery Plan.

In April 2020 Council were briefed on a range of workforce management measures designed to help manage the City's financial sustainability.

Financial recovery measures included:

- Withholding annual salary increases (2.5%) to all senior staff for one year with no catch-up.
- Awarding the 2020 1.5% Award increase to staff in line with the LG State Award increase (budgeted at 2.5% before Covid)
- Withholding performance-based salary progression payments (1.5%) to all staff for one year with no catch-up period.
- Actively reducing annual leave balances for staff back to award entitlements.
- Freezing all non-essential training, conferences and travel to June 2021.
- Suspending non-essential recruitment and agency staff backfilling of non-essential vacancies.
- Managing casuals impacted by the pandemic with the job retention allowance and conversion to permanent positions where there are vacancies. 38 casual employees have since converted to permanent and fixed term employment.

Together these measures were forecast to reduce operating expenditure by about \$17M over 5 quarters (April 2020 to June 2021).

Agency contract staff operating expenditure has also decreased this year as a result of efforts to reduce reliance on agency backfill, Covid related service disruptions and vacancy management.

4. Affordable and Diverse Housing Fund

The Quarter 3 report, in Attachment A, identifies that the City still holds \$4.4M in restricted funds to provide cash and/or in kind support to contribute to this important issue within the City's community, although the vast majority of these funds have already been committed by Council and await projects to reach the stage where the funds can be remitted.

The new draft 2021/22 budget and long term financial plan however, has set aside an additional \$5M for new opportunities that may arise, whether that support is provided in cash, as discounted property sales or another form of value in kind.

5. Capital Works Underspend (waterfall chart in presentation)

The tables below provide additional information on the top ten variances per sub-category:

(a) Minor Adjustments totalling \$19M, across 253 projects for an avg \$75K

Project Name	Budget Variance (\$)	Comment
Electrical works - Switchboard Upgrade - 7 sites	580,540	Additional reviews were undertaken to inform tender process.
Fire Protection Program	460,192	Tender extended in market. Work now commenced on site.
Coronation Hotel Lift Replacement	457,989	Scope and design changes impacted fabrication and delivery.
Sydney Town Hall - Centennial Hall backstage heritage works	423,656	Construction needs to work around events, and will therefore extend into next financial year
Moore Park Road Cycleway	379,220	Project on hold whilst alternative options are investigated.
Waterloo Library - Chimney, Window And External Surface	376,659	Delay in tendering as DA required redesign.
Redfern & Ultimo Community Centre - AGP Tenancy Bathroom Works	376,061	Design options required additional investigation.
Kings Cross Car Park - Exhaust and Supply Fan Replacement	345,648	Tender extension whilst in market. Work has commenced on site.
Hyde Park Lighting	333,962	Approvals required for light fixtures and lux levels from Heritage Council, Design Advisory Panel and Stakeholders
Lift Upgrades - Various Sites	319,260	Required design changes and delays in fabrication and delivery

(b) Timing Adjustments - \$18M over 15 projects

Project Name	Budget Variance (\$)	Comment
Zetland Ave (West) - Paul St to Portman St	3,147,854	Works progressing slower than anticipated due to the coordination with adjacent developers
Existing Streets (Portman St) Upgrade	2,885,798	Works progressing slower than anticipated due to the coordination with adjacent developers
Kings Cross Public Domain - Macleay Street	1,469,411	Construction schedule adjusted to reflect community feedback and covid-19 impacts. Works ceased to support businesses in the lead up to the Christmas and New Year period. Work recommenced on 18 January 2021.
Zetland Avenue - Mid (Joynton Ave to Portman St)	1,253,355	Works progressing slower than anticipated due to the coordination with adjacent developers
Lift Upgrade/Replacement – Various Sites	1,214,454	Tender being prepared for market.
Portfolio wide Air Conditioning Replacements	961,870	Delay in going to market as environmental options were investigated.
Town Hall House - Hot Water Storage Tank Replacement	916,459	Tender delayed while additional environmental initiatives investigated.
City Centre Playground	895,766	Playground delayed to comply with changes to the Crown Lands Act obligations. A Plan of Management is being prepared for the Park. Construction will likely commence in 2023
George Street - Lend Lease Circular Quay VPA	859,871	Payment of contribution to BIS fitout now in line with preferred operator's construction program
Town Hall Arcade (Sydney Square) Waterproofing	840,990	Project investigation and documentation of best water proofing solution has contributed to delay.

6. Summary of Income and Expenditure by Principal Activity

This summary allocates the YTD operating income, expenditure and results to the City's 10 principal activities, however it reflects the same income and expenditure variances to budget, as reported and explained within the body of the report.

The table below explains the major source of income variances to the principal activities:

Principal Activity	Operating Income Variance (\$000)	Major Source of Variance
Integrated transport for a connected City	(1,900)	Reduced income from parking related activities, and timing for receipt of the State's traffic grant
Resilient and inclusive local communities	(1,401)	Reduced income from our venues, and the timing of recognition for AI Fresco grants
A cultural and creative City	(1,599)	Reduced income from facility and community venues
Implementation through effective governance and partnerships	(7,432)	Reduced income from commercial and community properties

7. Development Contributions – what amounts have been deferred to date, and forecast, as a result of the NSW Government changes to payment obligations.

Contributions always fluctuate over time due to the development cycle and other factors, however the City has experienced a noticeable drop in Section 7.11 contributions in 2020/21, far beyond that experienced for Section 61 (City of Sydney Act 1988) contributions, which are not subject to the current deferral arrangements.

A review of development consents issued since 8 July 2020 indicates that there are seven large scale developments which meet the criteria for local infrastructure contributions payments to be deferred to the occupation certificate stage. One development has had a Construction Certificate issued, and payment of the local infrastructure contribution of \$0.9M has been deferred to the Occupation Certificate stage. Analysis of the other six large scale developments, indicates that a further \$6.1M in local infrastructure contributions may have been deferred to the Occupation Certificate stage.

The legislation also extends to development consents issued before 8 July 2020 which have not lapsed. In the time available, it has not been possible to quantify or forecast the contributions amounts that may be deferred as a result of these consents. Although as noted above, the City's financial analysis indicates that Section 7.11 contribution receipts in the 2020/21 financial year to date are around 80-85% down on the preceding three years, suggesting that many of these applicants are taking up the deferral option.

While these impacts should even out over time, as deferred contribution amounts become payable when developments require an Occupation Certificate, there is likely to be a significant delay in the receipt of income and an allowance for this delay has been factored into the draft 2021/22 budget and long term financial plan.

Memo from Bill Carter, Chief Financial Officer

Prepared by: Chief Financial Office Managers

Approved

A handwritten signature in black ink, appearing to read 'P. M. Barone', with a long horizontal flourish extending to the right.

MONICA BARONE

Chief Executive Officer