

Item 2.

2018/19 Quarter 1 Review – Delivery Program 2017–2021

File No: S096187

Summary

This report reviews the operating and capital results against budget for the 2018/19 financial year and progress against the performance measures identified within the Operational Plan 2018/19, being the second year of the Delivery Program 2017-2021.

Council's financial performance at Quarter 1 2018/19 reflected an Operating Result of \$44.4M, against a YTD budget of \$37.8M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs and providing for a \$102.2M Light Rail Contribution to NSW Government, the Council has achieved a Net Deficit of \$30.2M against a deficit budget of \$38.3M. The favourable full year variance of \$8.1M predominately reflects favourable variances in operating expenditure. The major variances are discussed within the body of this report, and full details are provided at Attachment A.

The Capital Works program expenditure of \$91.3M compares to a YTD budget of \$106.0M. The annual forecast for the program has been revised to \$269.5M against a full year budget of \$356.7M. A summary of the 2018/19 capital project expenditure and forecast is outlined within the body of this report, and detailed at Attachment B.

The Information Services capital expenditure, for projects developed internally, was \$1.7M which is \$0.8M favourable when compared to the YTD budget, and a full year forecast of \$12.6M.

The Plant and Equipment expenditure at Quarter 1, net of disposals, was \$2.5M against a YTD budget of \$2.6M, with a full year forecast of \$20.6M.

Progress against the Delivery Program performance measures is generally satisfactory, with full details provided at Attachment C, and a number of operational achievements are highlighted within the body of this report.

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 (Quarter 2) and June (Quarter 4) 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 at Attachment C for information.

Recommendation

It is resolved that Council:

- (A) note the financial performance of Council for the first quarter, ending 30 September 2018, including the Quarter 1 Net Deficit of \$30.2M and the full year Net Surplus forecast of \$7.2M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the Quarter 1 Capital Works expenditure of \$91.3M and a revised full year forecast of \$269.5M, and approve the proposed adjustments to the adopted budget, including bringing forward \$3.0M of funds into 2018/19 capital budget, as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$1.7M, net of disposals, and a full year forecast of \$12.6M;
- (D) note the Quarter 1 Plant and Assets expenditure of \$2.5M, net of disposals, and the full year forecast of \$20.6M;
- (E) note the Quarter 1 Property Divestment proceeds of \$0.01M, and the full year forecast net Divestment of \$58.3M;
- (F) 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 1, as detailed in Attachment C to the subject report.

Attachments

- Attachment A.** Financial Results Summary
- Attachment B.** Capital Expenditure Financial Results
- Attachment C.** First Quarter Supplementary Report 2018/19

Background

1. The City's 2017-2021 Delivery Program and 2018/19 Operational Plan, including the 2018/19 budgets, were adopted by Council on 25 June 2018.
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 first quarter (Q1) and full year forecast financial results for the 2018/19 financial year, and the achievements to date against the Operational Plan objectives.
4. A Q1 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 at Attachment A.
5. The Capital Expenditure results to Q1, 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 at 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 also provided at Attachment C for information.

2018/19 Operating Budget

7. The adopted 2018/19 budget projected operating income of \$595.9M and operating expenditure of \$470.2M, for an Operating Surplus of \$125.6M. After allowing for interest income of \$14.0M, capital grants and contributions of \$82.8M, depreciation expenses of \$109.4M, capital project related costs of \$11.3M and the outgoing contribution for light rail of \$102.2M, Council budgeted for a Net Deficit of \$0.6M.

First Quarter Operating Results

8. The Q1 Operating Surplus was \$44.4M against a budget of \$37.8M, a favourable variance of \$6.6M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Net Deficit was \$30.2M against a budget deficit of \$38.3M, a favourable variance of \$8.1M.

The result includes an operating income result which is slightly unfavourable to budget, a favourable variance to budget of \$6.7M for operating expenditure, a favourable variance of \$0.8M for interest income, a \$0.9M unfavourable variance for capital grants and contributions and a favourable variance of \$1.5M for depreciation.

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

Income Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Building and Development Income	(\$0.2M)	(\$0.8M)	Over the last 12 months there has been a decline in the number and value of applications, which represents less large scale developments.
Commercial Properties	(\$0.3M)	\$0M	YTD result reflects the fact that Level 20 in THH and kiosks relocated for the light rail project have not been tenanted as anticipated in the budget. The full year forecast accounts for unbudgeted rental income, including 6-8 Huntley Street.
Parking Meter Income	\$0.2M	(\$0.5M)	The forecast reflects the planned removal of meters located on Place Management NSW lands in January 2019.
Rates and Annual Charges	\$0.6M	\$0M	Minor variance includes supplementary rates post budget.
Work Zone	\$0.3M	\$0.5M	Market reactive, reflecting greater activity than budgeted for this year.

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

Expenditure Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Employee Related	\$2.2M	\$5.3M	YTD variance predominately relates to permanent vacancies, partially offset by an increase in agency used to backfill.
Expenditure Recovered	\$0.1M	\$0.5M	Legal Fees recovered in regards to Westconnex matters.
Infrastructure Maintenance	\$0.8M	\$1.1M	Minor budget contingency provided in infrastructure maintenance pending finalisation of a number of major service contracts.
Legal Fees	(\$0.3M)	(\$0.5M)	Additional costs incurred for Westconnex matters which are recoverable.
Other Operating Expenditure	\$0.4M	(\$2.3M)	The forecast relates to Council resolution to agree an accelerated roll out of LED street lights with Ausgrid.
Property Related Expenditure	\$1.0M	\$2.7M	The favourable variance reflects less reactive cleaning and property leasing costs, due to a lower number of leasing transactions than anticipated, and the fact that preventative property maintenance is still being transitioned in with the new provider. Due diligence expenditure for property transactions is being partially accounted for in other expenditure categories.

Expenditure Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Service Contracts	\$0.4M	\$0.3M	Growth rate in domestic waste services slightly below that anticipated in the budget.
Utilities	\$0.1M	\$0.5M	Contract prices have been marginally below pre-tender estimate rates anticipated in developing the budget.
Waste Disposal Charges	(\$0.2M)	(\$1.4M)	The additional expense reflects a significant increase in recycle processing costs, post budget, due to the introduction of the China Sword policy.

Income Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Interest Revenue	\$0.8M	\$2.0M	Council's investments earned additional interest, reflecting higher than anticipated opening cash balances for the year.

Income Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Grants and Contributions	(\$0.9M)	\$0M	Contributions are received unevenly throughout the year, while the budget is spread proportionately.

Expenditure Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Depreciation	\$1.5M	\$0M	Timing of capital projects being completed to date, but anticipated to be complete by the year end.

11. The City's finance performance has generally been strong across Council. Corporate costs area are forecasting an unfavourable variance, related to Council's post budget decision to accelerate the rollout of LED street lighting with Ausgrid.
12. The Planning Assessments unit are forecasting an unfavourable result due to a downturn in development application fees, however the overall Division is within budget.
13. Venue Management are also forecasting an unfavourable result, relating to a reduction in venue hire, and again the overall Division is within approved budget.
14. In adopting the 2018/19 budget, Council resolved for staff to report back the financial implications of retaining Waterloo library, in order to allow the CEO time to finalise contract and other arrangements. The revised amounts, very similar to the preliminary estimates, are included for information below:

	Council Report- June 2018	Revised Amount to Q1 Council Report (forecast)	Annual Ongoing
Increase in Operational Budget - Ongoing (Includes Staffing, Collection ,Programs, Public Access Computer Cost)	\$478,000	\$446,000	\$458,000
Increase in Plant and Asset Budget - Ongoing : Book and Electronic Vote	\$100,000	\$100,000	\$100,000
Increase in –Staffing – One Off	\$60,000	\$55,000	\$0
Increase in Plant and Asset – One Off	\$71,500	\$43,000	\$0

Capital Expenditure

15. The Capital Works program achieved expenditure of \$91.3M against the YTD budget of \$106.0M.
16. The full year forecast of the capital works program has been reduced from \$356.7M to \$269.5M following the latest review, which has assessed the expected delivery of the projects and revised cost estimates for each individual project.
17. Capital Works projects that are finalised with savings may be utilised to offset the additional expenditure in programs requiring additional funds for project completion.
18. Progress on a number of projects has also advanced beyond that included within the program budget projections for 2018/19. Approval is therefore sought to bring forward funds of \$3.0M from future years' capital works forward estimates, and to reallocate funds from within relevant programs, to continue these projects.
19. There are also a number of changes proposed within the future years' forwards estimates. Full details are provided in Attachment B.
20. A number of projects are currently forecasting variances within the major capital works projects for the 2018/19 financial year:
 - (a) Gunyama Park Aquatic and Recreation Centre - latent conditions (contaminated soil, additional concrete slabs/foundations) have hampered the contractor's ability to prepare the site.
 - (b) Green Infrastructure:
 - (i) Sydney Park Water Harvesting Priority 1: Treatment Plant - cost estimates of reference design has highlighted a need for additional budget.
 - (ii) Cook and Phillip Energy Services - no suitable tender responses, so a recommendation to cancel the tender and negotiate with suitable suppliers is being sought in the same round as this report.
 - (iii) Major Properties Efficiency Improvements - variance to annual forecast reflects a shift in project phasing for lighting upgrades (to 2019/20), with overall project forecast remaining the same.
 - (iv) Green Square Water Reuse – Non Potable - evaluating opportunity to reuse material onsite to achieve a project savings.
 - (c) Green Square Library and Plaza - forecast savings to be realised at Q2, pending any final adjustment works identified during the initial period of library operations.
 - (d) Green Square Community Facilities and Open Space:
 - (i) Dyuralya Park - contractor performance is ahead of schedule with project budget being re-phased to reflect current delivery program.
 - (ii) Drying Green Park - project proceeding on an alternative delivery model to reduce risk of delivery.
 - (e) Crescent Lands at Johnstons Creek - additional funds required based on final pre-tender cost estimate due to remediation works and construction length.

- (f) Green Square Streets and Drainage:
 - (i) Ebsworth Street, Tweed Place, Fellmonger Place, Barker Street (nth) – predicted savings, with project being delivered by external party as part of a VPA. Developer has shifted construction timeline due to not achieving pre-commitment targets.
 - (ii) Joynton Avenue (Hansard Street to Elizabeth Street), Zetland Avenue (Joynton Avenue to Portman Street) and (Joynton Avenue to Victoria Park Parade) - following termination of the previous contractor, a revised procurement strategy is now being finalised.
 - (iii) Green Square Trunk Drain – potential savings on link road to Alexandra Canal.
 - (iv) Green Square to Ashmore Connection - project budget being re-phased to reflect the delivery strategy.
 - (g) Erskineville Trunk Drainage - budget cost based on preliminary options study conducted in 2016. Revised forecast based on concept design, which has further defined project risks.
21. Significant variances are also forecast for a number of the 2018/19 program budgets and future years' forward estimates, including:
- (a) Bicycle Related Works – Enhancement:
 - (i) Green Square to Randwick Cycleway - construction tenders were significantly below QS pre-tender estimate.
 - (ii) Bondi Junction to City Cycleway - total project forecast reflects current quantity surveyor's estimate on fully developed scope and recent tightening of working hours, versus budget based on earlier preliminary concept design. Project still dependent on State funding.
 - (b) Community, Cultural and Recreation Property Related – Enhancement:
Roseberry Child Care Centre – outdoor playground upgrade, forecast increase due to additional scope, refined design, and updated delivery timeline.
 - (c) Open Space and Parks – Enhancement:
 - (i) Synthetic Sports Field Installations, Perry Park - funds to be moved to following year in accordance with current delivery program.
 - (ii) Urban Skate Park, Sydney Park - additional funds requested based on final pre-tender cost estimate.
 - (iii) Sydney Park Cares Precinct - project budget to be re-phased to reflect the development of the site strategy.
 - (iv) Perry Park Recreational Facilities - project nearing completion with anticipated savings.
 - (v) Hyde Park Tree Replacement and Other Works - project budget to be re-phased to align with staged delivery and to minimise community disruption.

- (d) Stormwater Drainage Enhancement: Joynton Avenue Stormwater drainage upgrade - following the unsuccessful tendering process, a revised scope of works has been developed. REF for the revised scope on exhibition with a new tender to then be called.
 - (e) Community, Cultural and Recreation Property Related – Renewal:
 - (i) Cook and Phillip Aquatic and Fitness Centre Works Package - forecast increase due to additional scope, refined design, and extra costs of undertaking works with centre open.
 - (ii) Public Toilets, George street North and South - additional funds required for sandstone façade remediation.
 - (iii) Customs House, Façade Upgrade stage 2 - additional funds to undertake the required remediation.
 - (iv) Leachate Plant Upgrades – when licensee vacates the site, demolition of adjacent buildings and early works can begin.
 - (f) Corporate and Investment Property Related – Renewal:
 - (i) Bay Street Depot staff accommodation - project budget to be re-phased to align with staged delivery and to minimise disruption to this operational facility.
 - (ii) Town Hall House workspace modifications - forecast increase due to additional scope, refined design, and updated delivery timeline.
 - (g) Infrastructure, Roads Bridges Footways - Paver In-Fill program ahead of schedule, with a request to bring funds forward to be presented at Q2.
 - (h) Public Domain Renewal - City Centre Pedestrian Improvements - project at Loftus Street has been delayed to coordinate with significant development in the Circular Quay area (APDG).
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 \$2.5M against a budget of \$2.6M with a slight underspend forecast reflecting some projects being deferred to next financial year. Information Services capital expenditure, for internally developed projects, is \$1.7M against a budget of \$2.5M with a forecast to meet the full year budget of \$12.6M.
24. The Property Divestments forecast result reflects Council' s purchase of Redfern Post Office.

Operational Highlights

25. There were a number of operational highlights, including:

- (a) The Sustainable Sydney Office Plan and the Making Sydney a Sustainable Destination Plan were both endorsed at the August 2018 Council meeting.
- (b) Increased tree canopy cover - Projects to increase canopy cover have continued, with 258 street trees planted YTD. In road planting projects have progressed well in Ripon Way Rosebery, Morehead Street Redfern and Bowman Street Pyrmont completed. Concept plans are being developed for Boyce Street Glebe.
- (c) Homelessness count numbers decreasing:
 - (i) The City conducted its 21st bi-annual Homelessness Street Count in August 2018. There were 278 people sleeping rough across the LGA and 495 people occupying hostel and temporary accommodation beds. This is a decrease of 108 people compared to the August 2017 count. City staff supported intensive outreach operations lead by NSW Family and Community Services to offer temporary and long term housing solutions for people sleeping rough in hotspot locations, including Belmore Park, State Library, St James Church and Wynyard. As a result, 22 people have moved into long term accommodation.
 - (ii) 52 people have been housed in permanent accommodation during this reporting period by the Homelessness Assertive Outreach Response Team (HART), coordinated by the City, together with NSW Family and Community Services (FACS). The HART continued weekly patrols along with place based operations to ensure people sleeping rough have a coordinated approach to better access safe, long term housing with support.
- (d) Advocate for decrease in waiting time and journey time for pedestrians – Transport for NSW reduced phase times for most Central Business District intersections from 110 seconds to 90 seconds. The City continues to work with Roads and Maritime Services and the Sydney Coordination Office on pedestrian priority in the City Centre.
- (e) Community programs and services:
 - (i) 220,401 attendances at the City's 13 staffed or partially staffed community facilities, programs and events. 238 programs to promote and support inclusion and diversity were offered, with 269 programs out of 297 accessible to people with a disability.
 - (ii) 3,590 bookings were made by groups for community venues with a total of 5,020 bookings taken across the City's 13 staffed and 28 unstaffed community space.
 - (iii) Meals on Wheels delivered 9,639 meals to 188 clients, and provided 30 hours of assessment and 199 hours of care coordination including 32 home visits. Community Transport provided 4,701 passenger trips and 223 community bus hires.

- (iv) 37,868 attendances at health and wellbeing programs targeting city workers, people experiencing homelessness, mental health issues or substance use issues, refugees, seniors, young people and people with disability.
26. Development assessments - The median (net) assessment time to determine applications (DA and S96) for the quarter was 41 days, an improvement of 8 days down from 49 days for 2017/18.

Financial Implications

27. At Quarter 1, the Operating Result was \$44.4M, with a Net Deficit of \$30.2M, representing a favourable variance of \$8.1M against budget.
28. Financial performance in all principle activities, as defined within the Delivery Program 2017-2021, continues to be satisfactory against budget.
29. The full year forecast reflects a Net Surplus of \$7.2M, which is favourable to budget by \$7.7M, as detailed above.
30. The 2018/19 year end cash position is forecast to be \$567.1M, which is favourable to the budget of \$488.5M by \$78.6M.
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 2018/19 financial year.

BILL CARTER

Chief Financial Officer