

Item 2.

2018/19 Quarter 2 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 2 2018/19 reflected an Operating Result of \$79.4M, against a YTD budget of \$65.7M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, light rail contribution to NSW Government, loss on revaluation of book value investment funds and gain on sale of assets the Council has achieved a YTD Net Deficit of \$1.2M against a deficit budget of \$53.8M. The favourable full year variance of \$52.6M predominately reflects the deferred payment of \$38.6M for the contribution to the light rail to NSW Government and 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 \$117.3M compares to a YTD budget of \$195.3M, again reflecting the deferred light rail payment. If the light rail payment was excluded the variance would be \$39.4M. The annual forecast for the program has been revised to \$255.3M against a full year budget of \$359.7M. 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 \$3.8M which is \$2.1M favourable when compared to a YTD budget \$5.9M, and a full year forecast of \$12.9M.

The Plant and Equipment expenditure at Quarter 2, net of disposals, was \$5.7M against a YTD budget of \$9.0M, with a full year forecast of \$19.6M.

Property Acquisition and Divestment net proceeds at Q2 of \$3.6M include the planned property divestments partially offset by the acquisition of Redfern Post Office.

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.

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.

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 and the City's own operations. This is provided at Attachment E

Recommendation

It is resolved that Council:

- (A) note the financial performance of Council for the first quarter, ending 31 December 2018, including the Quarter 2 Net Deficit of \$1.2M and the full year Net Surplus forecast of \$4.7M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the Quarter 2 Capital Works expenditure of \$117.3M and a revised full year forecast of \$255.3M, and approve the proposed adjustments to the adopted budget, including the transfer of \$0.3M from capital works contingency, and bringing forward of \$4.1M in funds into 2018/19 capital budget, as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$3.8M, and a full year forecast of \$12.9M, and approve the transfer of \$0.4M from capital works contingency;
- (D) note the Quarter 2 Plant and Assets expenditure of \$5.7M, net of disposals, and the full year forecast of \$19.6M;
- (E) note the Quarter 2 Property Acquisition/Divestment net proceeds of \$3.6M, and the full year forecast net proceeds of \$117.0M;
- (F) note the operational performance indicators and Quarter 2 achievements against the Operational Plan 2018/19 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 2, 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.** Second Quarter Operational Plan Report 2018/19
- Attachment D.** Second Quarter Supplementary Report 2018/19
- Attachment E.** Environmental Sustainability Progress Report

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 second quarter (Q2) and full year forecast financial results for the 2018/19 financial year, and the achievements to date against the Operational Plan objectives.
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 Operational Plan, are provided at Attachment A.
5. The Capital Expenditure results to Q2, 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. Progress against the Operational Plan 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.
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 at Attachment D for information.
8. 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 and the City's own operations. This is provided at Attachment E.

2018/19 Operating Budget

9. 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.

Second Quarter Operating Results

10. The Q2 Operating Surplus was \$79.4M against a budget of \$65.7M, a favourable variance of \$13.7M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, light rail contribution to NSW Government, loss on revaluation of book value investment funds and gain on sale of assets, the Net Deficit was \$1.2M against a budget deficit of \$53.8M, a favourable variance of \$52.6M.

11. The Q2 result includes an operating income result which is slightly unfavourable to budget \$0.9M, a favourable variance to budget of \$14.6M for operating expenditure, a favourable variance of \$1.7M for interest income, a \$7.7M unfavourable variance for capital grants and contributions, a favourable variance of \$3.0M for depreciation, a favourable variance for capital project related costs \$1.5M, the deferred \$38.6M contribution to light rail, loss on revaluation of book value investment funds \$0.6M and gain on sale of assets \$2.6M.
12. The full forecast year Operating Surplus is \$136.6M against a budget of \$125.6M, a favourable variance of \$11.0M. The Net Surplus is forecast to be \$4.7M against a budget deficit of \$0.6M, a favourable variance of \$5.3M.
13. The forecast results include an unfavourable variance to budget of \$3.6M for operating income, with favourable variances to budget of \$14.6M for operating expenditure, a favourable variance of \$4.1M for interest income, a \$16.1M unfavourable variance for capital grants and contributions, \$3.4M favourable variance for depreciation, a favourable variance for capital project related costs \$0.9M, loss on revaluation of book value investment funds \$0.6M and gain on sale of assets \$2.6M.
14. 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	(\$0.6M)	(\$1.0M)	Over the last 12 months there has been a decline in the number and value of applications, reflecting less large scale developments.
Commercial Properties	(\$0.5M)	(\$1.5M)	YTD result reflects the fact that parts of 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 allows for reduced income, slightly offset by unbudgeted rental income for 6-8 Huntley Street.
Enforcement Income	(\$1.1M)	(\$2.0M)	Unfavourable results reflects adverse weather conditions, the impact of Place Management NSW taking responsibility for parking on their roads from January, and staff training needs.

Income Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Grants and Contributions	\$0.3M	\$0.6M	The new Child Care Subsidy is now paid directly to providers and passed on as a fee reduction to families. This has resulted in an increase to the City.
Other Fees	\$0.8M	\$0.7M	Primarily reflects an invoice to Transport for NSW for street cleaning along the light rail corridor, noting that the invoices remain unpaid to date.
Parking Meter Income	\$0.3M	(\$0.5M)	The unfavourable forecast reflects the removal of meters from Place Management NSW lands in January.
Work Zone	\$1.0M	\$1.5M	The favourable variance reflects the amount of construction in the City, higher than budgeted for this year.

15. 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	\$4.8M	\$6.1M	The variance predominately relates to permanent vacancies, partially offset by an increase in agency used to backfill.
Expenditure Recovered	\$0.3M	\$1.4M	Legal Fees recovered in regards to Westconnex matters.

Expenditure Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Infrastructure Maintenance	\$2.7M	\$1.0M	The contingency provided in infrastructure maintenance, pending finalisation of major service contracts, has been expensed to waste disposal charges.
IT Related	\$0.6M	(\$1.6M)	Generally favourable due to timing of expenditure, while the forecast relates to the accelerated integration of the new properties management software.
Legal Fees	(\$0.2M)	(\$0.6M)	Additional costs incurred for Westconnex matters which are recoverable (as above) and Meriton related litigation.
Other Operating Expenditure	\$0.8M	(\$1.9M)	The forecast relates to Council resolution requesting Ausgrid to accelerate their LED street light upgrade program.
Property Related Expenditure	\$0.9M	\$4.0M	<p>The budget provided funds for additional works arising from an audit of the City's property asset register, as part of the transition to a new service provider. Finalisation of this audit, and implementation of the new maintenance regime, has been progressively brought on during the year.</p> <p>A number of projects planned for this year, including the demolition of the stone yard depot will take place later than anticipated in the budget, while plans for some other minor works are not required.</p>

Expenditure Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
			A budget for due diligence expenditure, for planned property acquisitions and divestments, has been partially accounted for within other expenditure categories.
Service Contracts	\$1.0M	\$1.7M	Fewer waste tonnages collected than anticipated in the budget.
Utilities	\$0.1M	\$0.6M	Contract prices have been marginally below anticipated pre-tender estimates used to develop the budget.
Waste Disposal Charges	(\$0.4M)	(\$2.1M)	Increased recycling volumes and additional expenses reflecting the 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	\$1.7M	\$4.1M	Higher than anticipated opening cash balances, along with Council's investments which earned additional interest above budget. The forecast reflects this, along with interest on the forecast operational underspend.

Income Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Grants and Contributions	(\$7.7M)	(\$16.1M)	Anticipated development is proceeding for a number of the major sites budgeted, however under the Green Square developer rights scheme, contributions are not required until later in the development cycle (i.e. first construction certificate for habitable space)

Income Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Project related costs	\$1.5M	\$0.9M	The variance reflects the anticipated timing of expenditure on works that cannot be capitalised (e.g. demolition, traffic lights, etc.)

Income Type	2018/19 YTD Budget Variance Favourable / (Unfavourable)	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Depreciation	\$3.0M	\$3.4M	Timing of capital projects being completed to date, but anticipated to be complete by the year end.

Income Type	2018/19 YTD Budget Variance	2018/19 Full Year Budget Variance	Comment
	Favourable / (Unfavourable)	Favourable / (Unfavourable)	
Light Rail Contribution to NSW Government	\$38.6M	\$0.0M	At this stage, the forecast reflects the expectation that the City will pay this contribution by year end.

Income Type	2018/19 YTD Budget Variance	2018/19 Full Year Budget Variance	Comment
	Favourable / (Unfavourable)	Favourable / (Unfavourable)	
Gain on Sale of Assets	\$2.6M	\$2.6M	Represents the net book gain on disposal of vehicles, parking meters and other property.

16. The City's finance performance has generally been strong across Council.
17. At this stage, City Rangers unit are forecasting more than 10 per cent unfavourable result due to the decline in enforcement income.

Capital Expenditure

18. The Capital Works program achieved expenditure of \$117.3M against the YTD budget of \$195.3M.
19. The full year forecast of the capital works program has been reduced from \$359.7M to \$255.3M following the latest review, which has assessed the expected delivery of the projects and revised cost estimates for each individual project.
20. Capital Works projects that are finalised with savings may be utilised to offset the additional expenditure in programs requiring additional funds for project completion.
21. A transfer of \$0.3M from the capital works contingency is required to complete the projects as set out in attachment B.
22. 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 \$4.1M from future years' capital works forward estimates, and to reallocate funds from within relevant programs, to continue these projects.
23. There are also a number of changes proposed within the future years' forwards estimates. Full details are provided in Attachment B.

24. A number of projects are currently forecasting variances within the major capital works projects for the 2018/19 financial year:
- (a) Green Infrastructure:
 - (i) Cook and Phillip Energy Services: at the end of 2018, Council approved the cancellation of the tender and direct negotiations with companies qualified to do the work.
 - (ii) Green Square Water Reuse – Non Potable: Potential saving, evaluating opportunity to reuse material onsite to achieve project savings.
 - (b) Green Square Community Facilities and Open Space - Drying Green Park: works to be carried out by another contractor.
 - (c) Johnstons Canal Master Plan and Harold Park Works: The Crescent lands at Johnstons creek: Contractor progressing faster than anticipated.
 - (d) Green Square Streets and Drainage:
 - (i) Green Square to Ashmore Connection: environmental review process has taken longer than expected.
 - (ii) Geddes Avenue and Paul Street (North): a revised procurement strategy is now being finalised with remaining works to be carried out by another contractor.
 - (iii) Gadigal Avenue North: liaising with RMS to finalise design, construction will proceed once design is complete.
 - (e) Light Rail – CBD to South East - Deferred payment, but still forecasting to pay this contribution by the financial year end.
 - (f) Erskineville Trunk Drainage: collaborating with Sydney Water to ascertain needs and project costs.
25. Significant variances are also forecast for a number of the 2018/19 program budgets and future years' forward estimates, including:
- (a) Community, Cultural and Recreation Property Related – Renewal: Leachate Plant Upgrades: The surrounding site is now vacant, with tenders for demolition of disused minor buildings and the old stone yard have been received and are being assessed. The area will revert to parkland and improve drainage.
 - (b) Infrastructure – Roads Bridges Footways –Renewal:
 - (i) Cutler Footway and Burton Street Viaduct Restoration: the mitigation strategy will be to closely monitor the program to minimise delays during the current reject and negotiation phase.
 - (ii) Paver In-Fill Program: program accelerated within total program budget. Adjustment in Attachment B.

- (c) Public Domain - Renewal:
 - (i) Devonshire Street Planted Arbour: delays in the light rail project along Devonshire Street has affected progress on the Arbour.
 - (ii) Pedestrian Lighting: awaiting further advice on Ausgrid program.
 - (iii) Cycling safety works and bike parking program: program accelerated within total program budget, adjustment in attachment B.
 - (iv) City Centre Pedestrian Improvements: works deferred to 2019/20 pending third party approval.
 - (d) Open Space and Parks – Enhancement:
 - (i) Perry Park – Stage 2 Basketball Court: revised estimate to reflect the cost associated with current design
 - (e) Public Art LGA – Enhancement:
 - (i) Sculpture Walk review – conservation and deaccession: collaborating with the Royal Botanic Gardens to determine project cost and timeframe.
 - (ii) Eora Journey – Redfern Terrace: tender cancelled due to withdrawal by artist team. Project scope being reviewed.
 - (f) Public Domain - Enhancement: George Street Spine – Laneways: delay in light rail construction has deferred commencement of laneway capital works projects along George Street.
26. 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.
27. The Plant and Equipment expenditure incurred during the year to date, net of disposals, was \$5.7M against a budget of \$9.0M with a forecast reduction of \$2.0M, reflecting some acquisitions deferred to next financial year. During the budget allocation of Plant and Equipment, each item is classified into categories, and \$1.5M of Christmas items were inadvertently categorised as plant rather than equipment.
28. Information Services capital expenditure, for internally developed projects, is \$3.8M against a budget of \$5.9M with a forecast of \$12.9M, which slightly exceeds budget. There is a request for additional funds of \$0.4M from contingency in Attachment B.
29. The Property Acquisition and Divestments forecast result reflects the acquisition of Redfern Post Office and planned divestments.

Operational Highlights

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

- (a) The new Green Square Library opened to the public on 10 September 2018 and was formally launched along with Green Square Plaza on 27 October 2018. The library is one of the main community facilities that will form part of the new Green Square town centre. This expands the City's library network to a total of nine branches, supplemented by two library link services, a home library service, and a range of online services including eBooks, e-audiobooks, e-comics and music and movie streaming. In addition to the services available at all library branches, Green Square Library provides a number of new and unique services including a musical instrument collection, music room with a baby grand piano, computer lab and bookable meeting rooms.
- (b) Since opening, Green Square Library has experienced strong demand and high levels of usage. Of particular significance is the very high number of new members. On average, approximately 1,600 people join the City's library network each month. Since the opening of Green Square Library in September this increased to more than 2,200 on average per month, with Green Square Library accounting for approximately 35 per cent of all new members between September and December.
- (c) The review of Sustainable Sydney 2030 will bring together the ideas of our community with new research and evidence to build on our vision of Green, Global and Connected. In November 2018 community sessions commenced to introduce Sustainable Sydney 2050. These sessions included activities related to local planning, services and future planning for our city. Engagement with the community will be underpinned by research and analysis including a reconfirmation of current work underway toward our 2030 targets.
- (d) One of Australia's largest urban stormwater recycling schemes has been switched on in Green Square. Each year up to 320 million litres of polluted stormwater will be diverted from waterways, treated and piped directly into residential, commercial and community buildings. The recycled stormwater is able to be used in washing machines, to flush toilets and to water parks and gardens. Precious drinking water will be saved and water bills will be cut for residents and businesses which is a win for our community and the environment.
- (e) Sydney Christmas in the City for 2018 was four weeks of special events, with new trees and decorations. The season began with a new expanded event on Saturday 24 November from Martin Place to Market Street and included Pitt Street and a pedestrianised George Street for the first time. The event included roaming entertainment, pop-up stages and choirs, as well as an increased number of retail activations in Pitt Street Mall under the Canopy of Light as well as the lighting of the tree and fireworks. Retailers reported increased footfall on Saturday 24 November as well as an increase in social media coverage throughout the season. There were also five Village Christmas Concerts, which were expanded to include Green Square for the first time in 2018.

- (f) The Resilient Sydney Strategy was released on 24 July 2018. The strategy is the outcome of more than two years' engagement across 1,000 people and organisations using the 100 Resilient Cities approach and tools. All councils across metropolitan Sydney including staff and key divisions in the City of Sydney have been involved and are now undertaking actions to deliver the strategy. Embedding resilience within organisations is key to this work. The City has shown leadership by being one of the first councils to embed resilience within our Community Strategic Plan. The City is participating in actions such as collaboration to measure and report on metropolitan carbon emissions, piloting a disaster preparedness planning program, incorporating shocks and stresses into planning processes, measuring social cohesion whilst operationalising resilience in our own strategic plans. Businesses, other levels of government, civil society and residents of Sydney are also now undertaking actions.
- (g) The City recorded more than 442,000 attendances at its 13 staffed or partially staffed community facilities, programs and events. This represents a 9 per cent increase over the same period in 2017/18. A total of 10,115 bookings were taken across the City's 13 staffed and 28 unstaffed City Spaces.
- (h) On 27 October the 3.8-hectare public park at Harold Park opened on the site of the former paceway. The park has a large, custom-built playground with slides, timber climbing stack, outdoor seating, barbeques and shade structures. There are new trees, shrubs and landscaping, open lawn areas, cycling and walking paths, and a wildlife corridor. It also includes an extensive stormwater harvesting and treatment scheme, providing 80 per cent of the irrigation needs at Harold Park, Jubilee Oval and the northern end of Federal Park. The park is located between the Glebe cliff face and new apartments and adjacent to the restored Tramsheds.
- (i) In August 2018 two sector sustainability plans were endorsed by Council: Making Sydney a Sustainable Destination and Sydney's Sustainable Office Buildings Plan. The plans focus on opportunities for improving environmental performance in two specific sectors of the City's built environment and were developed with significant industry consultation. The City will implement actions from the plan through 2019 – 2022.
- (j) In late 2018 Ausgrid started an accelerated roll-out of energy-efficient LED street lights in the City's local government area to replace conventional street lights. Between the end of November 2018 and the end of June 2019, Ausgrid expects to replace about 3,500 of the street lights it owns on residential streets and other minor roads in the City. Carbon emissions from street lighting will reduce by about 1,000 tonnes of carbon a year, and operational cost savings will also be achieved, thanks to reductions in light bulb failures (LEDs last over 10 years) and reductions in electricity use (typically over 50 per cent). Following on replacement of street lights on residential roads, Ausgrid will replace street lights on main roads and in other locations with higher lighting levels (e.g. commercial centres). This will involve another 6,000 light fittings and will result in savings of another 2,400 tonnes of carbon a year. Ausgrid plans to finish the full roll-out (9,500 fittings in all) within two years.

Financial Implications

31. At Quarter 2, the Operating Result was \$79.4M and a Net Deficit of \$1.2M, representing a favourable variance of \$52.6M against YTD budget. The variance predominantly relates to the deferred payment of the light rail contribution to the State (\$38.6M) pending successful delivery of the project outcomes required under the Deed.
32. Financial performance in all principle activities, as defined within the Delivery Program 2017-2021, continues to be satisfactory against budget.
33. The full year forecast reflects a Net Surplus of \$4.7M, which is favourable to budget by \$5.3M, as detailed above. Note the forecast anticipates payment of the second contribution before year end.
34. The 2018/19 year end cash position is forecast to be \$635.3M, which is favourable to the budget of \$485.5M by \$149.8M.
35. 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

36. 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.
37. 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

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

Public Consultation

39. The information contained within this report reflects Council's financial performance in the 2018/19 financial year.

BILL CARTER

Chief Financial Officer