

## 2018/19 Quarter 3 Review – Delivery Program 2017–2021

File No: S096187

### Summary

This report reviews the operating and capital results against the 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 3 2018/19 reflected an Operating Result of \$123.0M, against a YTD budget of \$97.9M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, light rail contribution to NSW Government, gain on revaluation of book value investment funds and gain on sale of assets, the Council has achieved a YTD Net Surplus of \$27.4M against a deficit budget of \$26.0M. The favourable full year variance of \$53.3M 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 \$138.4M compares to a YTD budget of \$256.0M, again reflecting the deferred light rail payment. If the light rail payment was excluded the variance would be \$79.0M. The annual forecast for the program has been revised to \$235.6M against a full year budget of \$363.3M. 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 \$5.7M which is \$4.5M favourable when compared to a YTD budget \$10.2M, and a full year forecast of \$9.7M.

The Plant and Equipment expenditure at Quarter 3, net of disposals, was \$7.7M against a YTD budget of \$14.3M, with a full year forecast of \$16.1M.

Property Acquisition and Divestment net expenditure at Q3 of \$21.6M includes the planned property divestments partially offset by the acquisition of Redfern Post Office and Customs House.

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 (Q2) and June (Q4) 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 in Attachment C for information.

## Recommendation

It is resolved that Council:

- (A) note the financial performance of Council for the third quarter of the 2019 financial year, ending 31 March 2019, including the Quarter 3 Net Surplus of \$27.4M and the full year Net Surplus forecast of \$12.0M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the Quarter 3 Capital Works expenditure of \$138.4M and a revised full year forecast of \$235.6M, and approve the proposed adjustments to the adopted budget, including the bringing forward of \$2.5M in funds into the 2018/19 capital budget, as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$5.7M, and a full year forecast of \$9.7M, and approve the proposed adjustments to the adopted budget by bringing forward \$0.3M in funds into the 2018/19 capital budget;
- (D) note the Quarter 3 Plant and Assets expenditure of \$7.7M, net of disposals, and the full year forecast of \$16.1M;
- (E) note the Quarter 3 Property Acquisition/Divestment net expenditure of \$21.6M, and the full year forecast net proceeds of \$37.6M; and
- (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 3, as detailed in Attachment C to the subject report.

## Attachments

- Attachment A.** Financial Results Summary
- Attachment B.** Capital Expenditure Financial Results
- Attachment C.** Third 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 third quarter (Q3) and full year forecast financial results for the 2018/19 financial year.
4. A Q3 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 Q3, 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.

## Third Quarter Operating Results

8. The Q3 Operating Surplus was \$123.0M against a budget of \$97.9M, a favourable variance of \$25.1M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, light rail contribution to NSW Government, gain on revaluation of book value investment funds and gain on sale of assets, the Net Surplus was \$27.4M against a budgeted deficit of \$26.0M, a favourable variance of \$53.3M.
9. The Q3 result includes an operating income result which is favourable to budget by \$3.2M, a favourable variance to budget of \$21.9M for operating expenditure, a favourable variance of \$2.5M for interest income, a \$22.1M unfavourable variance for capital grants and contributions, a favourable variance of \$5.3M for depreciation, a favourable variance for capital project related costs \$1.0M, the deferred \$38.6M contribution to light rail, gain on revaluation of book value investment funds \$0.1M and gain on sale of assets \$2.9M.

10. The full forecast year Operating Surplus is \$148.6M against a budget of \$125.6M, a favourable variance of \$22.9M. The Net Surplus is forecast to be \$12.0M against a budget deficit of \$0.6M, a favourable variance of \$12.6M.
11. The forecast results include a favourable variance to budget of \$2.6M for operating income, with favourable variances to budget of \$20.3M for operating expenditure, a favourable variance of \$3.2M for interest income, a \$22.8M unfavourable variance for capital grants and contributions, \$5.4M favourable variance for depreciation, a favourable variance for capital project related costs \$0.9M, gain on revaluation of book value investment funds \$0.1M and gain on sale of assets \$2.9M.
12. The primary operating income variations to the budget are detailed in the table below:

| <b>Income Type</b>              | <b>2018/19 YTD Budget Variance</b><br><br>Favourable /<br>(Unfavourable) | <b>2018/19 Full Year Budget Variance</b><br><br>Favourable /<br>(Unfavourable) | <b>Comment</b>   |
|---------------------------------|--|--|--|
| Building and Development Income | (\$1.4M)   | (\$1.7M)   | Over the last 12 months there has been a decline in the number and value of applications, reflecting less large scale developments.  |
| Enforcement Income              | (\$0.5M)   | (\$0.8M)   | Unfavourable results reflect adverse weather conditions, the impact of Place Management NSW taking over responsibility for parking on their roads from January 2019, and staff training needs. |
| Other Fees                      | \$1.0M   | \$1.0M   | Primarily reflects charges to Transport for NSW for street cleaning along the light rail corridor, noting that the invoices remain unpaid to date.   |
| Rates and Annual Charges        | \$2.6M   | \$2.0M   | Increase in residential strata subdivisions and domestic waste charges.  |
| Work Zone                       | \$1.8M   | \$2.2M   | The favourable variance reflects the amount of construction in the City, higher than budgeted for this year.   |

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

| <b>Expenditure Type</b>           | <b>2018/19 YTD Budget Variance</b><br><br>Favourable /<br>(Unfavourable) | <b>2018/19 Full Year Budget Variance</b><br><br>Favourable /<br>(Unfavourable) | <b>Comment</b>  |
|-----------------------------------|--|--|---|
| Employee Related                  | \$6.2M   | \$5.9M   | The variance predominately relates to permanent vacancies, partially offset by an increase in agency used to backfill.  |
| Event Related Expenditure         | \$2.0M   | \$1.8M   | There were savings on some new contracts and projects for Major Events and Festivals, and timing of some projects taking place later than anticipated in the budget.  |
| Expenditure Recovered             | \$1.1M   | (\$0.2M)   | Recovery of an insurance claim for road repairs in Green Square. The recovery of monorail demolition works now expected to take place in 2019/20.   |
| Grants, Sponsorship and Donations | \$3.4M   | \$0.2M   | YTD variance reflects the St George affordable housing grant which is forecast to occur by June 2019.   |
| Infrastructure Maintenance        | \$3.6M   | \$6.3M   | The contingency provided in infrastructure maintenance, pending finalisation of some major service contracts, including waste disposal charges and IT costs, which has been expensed in the relevant category. Monorail expenditure is in this category and will take place in 2019/20. |
| IT Related                        | (\$1.1M)   | (\$1.7M)   | Accelerated integration of the new properties management software.  |

| <b>Expenditure Type</b>      | <b>2018/19 YTD Budget Variance</b><br><br>Favourable / (Unfavourable) | <b>2018/19 Full Year Budget Variance</b><br><br>Favourable / (Unfavourable) | <b>Comment</b>  |
|------------------------------|---|---|---|
| Other Operating Expenditure  | \$0.2M  | (\$1.5M)  | The forecast relates to Council resolution requesting Ausgrid to accelerate their LED street light upgrade program.   |
| Property Related Expenditure | \$2.9M  | \$6.8M  | <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> <p>A budget for due diligence expenditure, for planned property acquisitions and divestments, has been partially accounted for within other expenditure categories.</p> |
| Service Contracts            | \$1.0M  | \$1.2M  | Reduction in number of properties serviced for domestic waste and savings across a range of other business activities.  |
| Waste Disposal Charges       | (\$0.5M)  | (\$2.1M)  | Increased costs of processing recycling material due to the introduction of the China National Sword policy.  |

| <b>Income Type</b> | <b>2018/19 YTD Budget Variance</b><br>Favourable / (Unfavourable) | <b>2018/19 Full Year Budget Variance</b><br>Favourable / (Unfavourable) | <b>Comment</b>   |
|--------------------|---|---|--|
| Interest Revenue   | \$2.5M  | \$3.2M  | Higher than anticipated opening cash balances, along with Council's investments which earned additional interest above budget and lower capital and operating expenditure. |

| <b>Income Type</b>               | <b>2018/19 YTD Budget Variance</b><br>Favourable / (Unfavourable) | <b>2018/19 Full Year Budget Variance</b><br>Favourable / (Unfavourable) | <b>Comment</b>  |
|----------------------------------|---|---|---|
| Capital Grants and Contributions | (\$22.1M)   | (\$22.8M)   | 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) |

| <b>Income Type</b>            | <b>2018/19 YTD Budget Variance</b><br>Favourable / (Unfavourable) | <b>2018/19 Full Year Budget Variance</b><br>Favourable / (Unfavourable) | <b>Comment</b>  |
|-------------------------------|---|---|---|
| Capital Project related costs | \$1.0M  | \$0.9M  | The variance reflects the slower than anticipated timing of expenditure on works that cannot be capitalised (e.g. demolition, traffic lights, etc.) |

| <b>Income Type</b> | <b>2018/19 YTD Budget Variance</b> | <b>2018/19 Full Year Budget Variance</b> | <b>Comment</b>                                      |
|--------------------|------------------------------------|--|---|
|                    | Favourable / (Unfavourable)        | Favourable / (Unfavourable)              |   |
| Depreciation       | \$5.3M                             | \$5.4M                                   | Timing of capital projects being completed to date. |

| <b>Income Type</b>                        | <b>2018/19 YTD Budget Variance</b> | <b>2018/19 Full Year Budget Variance</b> | <b>Comment</b>   |
|---|------------------------------------|--|--|
|   | 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. |

| <b>Income Type</b>     | <b>2018/19 YTD Budget Variance</b> | <b>2018/19 Full Year Budget Variance</b> | <b>Comment</b>  |
|------------------------|------------------------------------|--|---|
|                        | Favourable / (Unfavourable)        | Favourable / (Unfavourable)              |   |
| Gain on Sale of Assets | \$2.9M                             | \$2.9M                                   | Represents gain on disposal of vehicles, parking meters and other property. |

14. The City's finance performance has generally been strong across Council.

#### **Capital Expenditure**

15. The Capital Works program achieved expenditure of \$138.4M against the YTD budget of \$256.0M.
16. The full year forecast of the capital works program has been reduced from \$363.3M to \$235.6M 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 \$2.5M 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. There are a number of projects which are forecasting to exceed their current approved total budget. Approval for additional funds have been sought in the draft 2019/20 budget and forward estimates, which is a subject of report in this Council cycle. (See Integrated Planning and Reporting Program and Budget 2019/20 – Public Exhibition)
21. A number of projects are currently forecasting variances within the major capital works projects for the 2018/19 financial year:
  - (a) Green Infrastructure:
    - (i) Town Hall Trigenation - Final payments have been rescheduled to 2019/20. Installation of replacement base-load electric chiller now expected in 2019/20 with the rectification & recommissioning of generation units due to finalise in Q2 2019/20.
    - (i) Water Masterplan LGA - A review of other water management capital works opportunities are being undertaken and will likely commence delivery in next financial year.
  - (b) Green Square Streets and Drainage:
    - (i) Gadigal Avenue North - Savings are being transferred to Lachlan Precinct Public Domain Integration Works.
22. Significant variances are also forecast for a number of the 2018/19 program budgets and future years' forward estimates, including:
  - (a) Public Domain - Renewal:
    - (i) City Centre Transformation - Associated works - Project implementation program for light rail associated projects are ahead of schedule.
    - (ii) City Centre Pedestrian Improvements - Works at Loftus Gresham and Bent Street Sydney have been deferred. Sydney Buses have asked for work to be deferred until after light rail project is complete.
  - (b) Infrastructure – Roads, Bridges and Footways:
    - (i) Bridges Major Works Program - Inner West council has deferred the construction works on Booth Street Bridge, project is currently in design phase. Construction has been scheduled for 2019/20.
  - (c) Public Domain – Enhancement:

City South Urban Renewal Public Domain integration works - Project scoping has been reduced due to uncertainty surrounding redevelopment of the adjacent site.

- (d) Open Space and Parks – Enhancement:
    - (i) Perry Park – Stage 2 Basketball Court - Cash flow being aligned with the program.
    - (ii) Sydney Park Cares Precinct - Tender related. A mitigation strategy is in place to minimise budget impact and project delays.
  - (e) Bicycle Related Works – Enhancement:
    - (i) Green Square to Randwick Cycleway - Saving due to construction tenders being below pre-tender estimate.
23. 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.
24. The Plant and Equipment expenditure incurred during the year to date, net of disposals, was \$7.7M against a budget of \$14.3M with a forecast reduction of \$5.6M, reflecting some acquisitions deferred to next financial year.
25. Information Services capital expenditure, for internally developed projects, is \$5.7M against a budget of \$10.2M with a forecast of \$9.7M. There is a request for additional funds of \$0.3M to be brought forward from future years provision in Attachment B.
26. The Property Acquisition and Divestments forecast result reflects the acquisition of Redfern Post Office and Customs House and planned divestments.

### **Operational Highlights**

27. There were a number of operational highlights, including:
- (a) Over 1.21 million people attended Sydney Lunar Festival 2019 (SLF19) which was held from 1-10 February 2019 and celebrated the Year of the Pig. This was the 23rd year that the City has produced the Sydney Lunar Festival (formerly known as the Sydney Chinese New Year Festival). A total of 536 artists were contracted including lantern artists, community dancers and lion dancers. Twenty-eight per cent of groups in the Community Performance Program were first-time participants in the Festival, a positive reflection of the Festival's evolution, including first-time representation from Taiwanese and Vietnamese communities.
  - (b) The development of our Sustainable Sydney 2050 plan continues. Activities are focussed on building the evidence base for the strategy through research and analysis of data and an extensive community engagement program. The research program explores familiar issues with a view to the 2050 timeframe, including environment, transport, using technology to manage the city, as well as exploring and measuring issues of concern such as inequality and community wellbeing. All studies are underway and will be completed mid-2019.

- (c) The community engagement program is now gathering information using a range of engagement approaches. Activities include community sessions (including multi-lingual sessions), pop-up consultations, workshops and briefings with local business organisations and residents groups, sector or age-specific consultation including the MCA Youth Ambassadors. Workshops have been held with the City's advisory panels and with businesses at the Sydney Startup Hub. An extensive online survey is also underway. The findings of this phase of research and engagement will be consolidated and considered in a workshop with stakeholders in June before we move into the next stage of strategy development.
- (d) On 19 February 2019, the 22nd bi-annual Homelessness Street Count took place. The count was conducted between 1am and 3am and involved the participation of approximately 20 City of Sydney employees, 180 volunteers and 30 advisors. Three hundred and seventy-three people were counted sleeping rough across the Local Government Area, with 522 crisis and temporary accommodation beds occupied. The last summer count (February 2018) found 329 people were sleeping rough in Sydney.
- (e) The option to receive Online Rate Notices was introduced in February 2019, allowing ratepayers to set their delivery preference to receive their Rate Notices by email. The first emailed notices are scheduled for July 2019. With over 100,000 rating assessments, this service is in response to requests from ratepayers for this service and has the potential to substantially reduce the cost of printing and posting, while also reducing the environmental impact. There are currently 11,300 ratepayers registered for online services, however, the City is aiming to grow this significantly. Within the Sydney metropolitan area, the take-up rate for electronic rate notice delivery is between 10-15 per cent, however customer feedback indicates many of our ratepayers will utilise this service. We are therefore aiming for a target of electronic rate notice deliveries in the order of 20-30 per cent.
- (f) On 16 March 2019, the Frances Newton Reserve in Darlinghurst was officially opened. The City worked with the community to design this new park with entry steps from Palmer Street. Children will enjoy an imaginative play space including stepping stones, speaking tubes, distorting mirrors, a rain wheel and timber animals. The City is also working with locals to build a new community garden.
- (g) The Alternative Housing Ideas Challenge opened on Tuesday 26 March 2019. The Ideas Challenge is open to anyone with new ideas to boost the diversity of housing across the city and wider community, with a focus on identifying and developing new models to increase affordable alternative housing supply. The Ideas Challenge will reframe the future of housing supply in Sydney to be more diverse, exploring creative tenancy arrangements, new funding and delivery models. The Ideas Challenge closes at 5pm on Wednesday 8 May 2019 and up to six participants will receive \$20,000 each to further develop their concepts following consideration by an independent jury.
- (h) In March 2019, the City of Sydney acquired the Customs House building from the Commonwealth Department of Finance. The purchase means the building will remain in public hands. The City has leased and managed the building since 1994. Customs House is one of Sydney's most important buildings, welcoming a million visitors through its doors each year. It's a cultural centre, public library, exhibition space and provides commercial offices, cafes and space for events and the ever-evolving scale model of our city centre.

- (i) On 30 March 2019, the City officially opened the new Perry Park Recreation Centre. This \$12 million multipurpose sports centre features two indoor and two outdoor courts. It caters for netball, basketball, volleyball, badminton and futsal. It also has a kiosk, reception area, a staff office and change rooms.

On the same day, the City officially launched Dyurayla Square in Green Square. This 2,000 square metre community meeting place will be used for small events, markets and performances. The square is linked by shared pathways and cycleways for safe and easy access to nearby shops on Archibald Avenue and open space in Wulaba Park.

### Financial Implications

28. At Quarter 3, the Operating Result was \$123.0M and a Net Surplus of \$27.4M, representing a favourable variance of \$53.3M 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.
29. Financial performance in all principle activities, as defined within the Delivery Program 2017-2021, continues to be satisfactory against budget.
30. The full year forecast reflects a Net Surplus of \$12.0M, which is favourable to budget by \$12.6M, as detailed above. Note: the forecast anticipates payment of the second contribution for the light rail to the State before year end.
31. The 2018/19 year end cash position is forecast to be \$573.7M, which is favourable to the budget of \$481.4M by \$92.3M.
32. 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

33. 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.
34. 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**

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

**Public Consultation**

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

**BILL CARTER**

Chief Financial Officer