

Item 2.

2018/19 Quarter 4 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 4 2018/19 reflected an Operating Result of \$153.5M, against a budget of \$125.6M, which is favourable by \$27.9M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, light rail contribution to NSW Government, gain on sale of assets and a gain on the revaluation of investment properties, the Council achieved a Net Surplus of \$94.4M against a budget deficit of \$0.6M. The favourable full year variance of \$94.9M predominately reflects the deferred payment of \$38.6M to NSW Government for the contribution to the light rail, and a \$58.4M gain on revaluation of the investment properties, along with favourable variances in operating income and expenditure. The major variances are discussed within the body of this report, and full details are provided at Attachment A.

The Capital Works expenditure for the year was \$173.4M compared to a full year budget of \$365.8M, again including the deferred light rail payment. A summary of the 2018/19 capital project expenditure and proposed budget net revote of funds to 2019/20 and future year forward estimates are outlined within the body of this report, and detailed within Attachment B

The Information Services capital expenditure, for projects developed internally, was \$8.8M which is \$4.6M favourable when compared to a full year budget of \$13.4M.

The Plant and Equipment expenditure, net of disposals, was \$11.9M against a full year budget of \$21.7M.

Property Acquisition and Divestment net expenditure at year end was \$23.6M, including planned property divestments, partially offset by the acquisition of Redfern Post Office and Customs House.

The interim financial results are still being finalised as part of the preparation of the annual financial statements, which are subject to external audit in August. It is anticipated that there may therefore be some final adjustments to the results presented in this report. Any significant changes will be highlighted in the report covering the annual financial statements, to be presented to Council in October 2019.

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

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

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.

Recommendation

It is resolved that Council:

- (A) note the financial performance of Council for the 2019 financial year ending 30 June 2019, including the Net Operating Surplus of \$94.4M as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the full year Capital Works expenditure of \$173.4M and approve the proposed revote of budget and other adjustments, which will increase the adopted 2019/20 budget of \$235.0M by \$33.2M to \$268.2 (including a total of \$40.9M for light rail contributions), and note the forward estimates as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$8.8M, and approve the proposed revote of \$4.4M and adjustments to increase the adopted budget 2019/20 to \$20.2M;
- (D) note the full year Plant and Assets expenditure of \$11.9M, net of disposals, and approve the proposed net revote of \$5.4M to increase the adopted 2019/20 net budget to \$19.4M;
- (E) note the full year Property Acquisition/Divestment net expenditure of \$23.6M and amendment to the adopted 2019/20 net budget to \$72.7M to reflect the deferred settlement for lease of properties.
- (F) note the operational performance indicators and quarter and full year achievements against the Delivery Program 2017-2021 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 4, 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
- (I) Note the minor changes to fee and charges as specified in paragraph 10 within the body of the report.

Attachments

- Attachment A.** Financial Results Summary
- Attachment B.** Capital Expenditure Financial Results
- Attachment C.** Fourth Quarter Operational Plan Report 2018/19
- Attachment D.** Fourth 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 fourth quarter (Q4) and full year financial results for the 2018/19 financial year, and the achievements to date against the Operational Plan.
4. A Q4 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 for the 2018/19 year, 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. A Q4 progress report against the operational performance measures identified within the 2017-2021 Delivery Program Plan is provided in Attachment C
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 C for information.
8. Details on the progress of the City's environmental sustainability programs, and projects for the quarter, are provided in 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.

Fees and Charges 2019/20

10. There have been minor administrative changes to the fees and charges since Council adopted the 2019/20 Operational Plan:
 - (a) Legislative change – a change in a regulation (Protection of Environment Operations) published on 21 June 2019, set fees for clean-up notices, prevention notices and noise control notices. The City is required to adopt the legislated fee.
 - (b) Administrative correction – hoarding fees were stated as an annual amount, whereas the fee specified a weekly rate per m² occupied:
 - (i) Zone 1 Circular Quay, City Centre amended from \$735 Market per m²/week to \$14.13 Market per m²/week.
 - (ii) Zone 2 All other non-CBD areas amended from \$367 Market per m²/week to \$7.05 Market per m²/week.

Fourth Quarter Operating Results

11. The full year Operating Surplus was \$153.5M against a budget of \$125.6M, a favourable variance of \$27.9M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, light rail contribution to NSW Government, gain on the sale of assets and gain on the revaluation of investment properties, the Net Surplus was \$94.4M against a budgeted deficit of \$0.6M, a favourable variance of \$94.9M.
12. The full year result includes an operating income result which is favourable to budget by \$10.3M, a favourable variance to budget of \$17.5M for operating expenditure, a favourable variance of \$3.4M for interest income, a \$28.0M unfavourable variance for capital grants and contributions, a favourable variance of \$5.6M for depreciation, an unfavourable variance for capital project related costs \$13.0M, the deferred \$38.6M contribution to light rail, gain on sale of assets \$1.9M and a gain on the revaluation of investment properties of \$58.4M.
13. The primary operating income variations to the budget are detailed in the table below:

Income Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Building and Development Income	(\$2.0M)	Over the last 12 months there has been a decline in the number and value of applications, reflecting fewer large scale developments.
Commercial Properties	\$5.5M	The variance predominately relates to increased income for QVB driven by higher occupancy and lower capital works than anticipated.
Enforcement Income	(\$1.3M)	Unfavourable result reflects adverse weather conditions early on, the impact of Place Management NSW taking over responsibility for parking on their roads from January 2019, and staff training needs.
Grants and Contributions	\$1.9M	Higher Federal Assistance Grants were received than budgeted
Other Building Fees	\$1.1M	Increased Street Furniture income due to an increase in digitisation of panels.

Income Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Rates and Annual Charges	\$3.4M	Reversal of a provision relating to a court matter which is no longer required.
Work Zone	\$2.3M	Favourable variance reflects the construction activity in the City, higher than budgeted for this year.

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

Expenditure Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Employee Related	(\$0.2M)	<p>The net unfavourable variance arises from an adjustment to our provision for workers compensation, as estimated by the actuary's annual report, reflecting an increase in the value of potential claims in future years, and the impact of lower long term bond rates.</p> <p>The adjustment more than offset the favourable variance for salaries and wages related to permanent vacancies, partially offset by increases in agency staff used to backfill.</p>
Event Related Expenditure	\$2.4M	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 Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Grants, Sponsorship and Donations	\$3.7M	The variance reflects the St George affordable housing grant, which has now been budgeted for payment in 2020/21.
Infrastructure Maintenance	\$7.5M	The contingency provided in infrastructure maintenance, pending finalisation of some major service contracts, including waste disposal charges and IT costs, has been expensed in the relevant expense categories. Monorail station rectification works will now take place in 2019/20.
IT Related	(\$2.4M)	Accelerated integration of the new properties management software. Noted above, contingency was held in infrastructure related to account for part of this cost.
Property Related Expenditure	\$1.0M	<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 budget for due diligence expenditure, for planned property acquisitions and divestments, has been partially accounted for within other expenditure categories.</p>

Expenditure Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Service Contracts	\$1.4M	Favourable variances across a range of minor service contracts and activities.
Utilities	\$1.2M	Electricity budget was increased due to a new contract, but the actual costs were much lower than anticipated.

Interest Revenue

Income Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Interest Revenue	\$3.4M	Higher than anticipated opening cash balances, along with Council's investments which earned additional interest above budget and lower capital and operating expenditure.

Capital Grants and Contributions

Income Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Grants and Contributions	(\$27.9M)	Anticipated development is proceeding for a number of the major sites budgeted, with the contributions for the Green Square developer rights scheme now anticipated to be received during the 2019/20 financial year.

Capital Project Related Costs

Income Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Project related costs	(\$13.0M)	The variance reflects greater capital expenditure on works that cannot be capitalised (e.g. demolition works, traffic lights, etc.) than provided in the budget.

Depreciation

Income Type	2018/19 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Depreciation	\$5.6M	Timing of capital projects being completed to date.

Light Rail Contribution

Income Type	2018/19 Full Year Budget Variance	Comment
	Favourable / (Unfavourable)	
Light Rail Contribution to NSW Government	\$38.6M	Works are progressing by ALTRAC with a revised opening date announced by TfNSW of 7 December 2019 from Circular Quay to Randwick and March 2020 to Kingsford. Payment is anticipated in 2019/20.

Gain on Sale of Assets

Income Type	2018/19 Full Year Budget Variance	Comment
	Favourable / (Unfavourable)	
Gain on Sale of Assets	\$1.9M	Represents gain on disposal of vehicles, parking meters and other property.

Gain on Properties

Income Type	2018/19 Full Year Budget Variance	Comment
	Favourable / (Unfavourable)	
Gain on Revaluation of Properties	\$58.4M	Represents a valuation gain recognised following the annual external revaluation of the City's investment properties.

15. The City's financial performance has generally been strong across Council with a few units exceeding their adopted budget, but are within the Divisional adopted budget.

Capital Expenditure

16. The Capital Works program achieved expenditure of \$173.4M against a full year budget of \$365.8M.
17. A number of projects were completed in 2018/19, including: Dyuralya Park, Geddes Avenue and Paul Street, Green Square Community Library and Darling Exchange Library Fit out works. Numerous asset renewal programs were also completed during the year.
18. The capital works program adopted as part of the 2019/20 Operational Plan in June, anticipated higher expenditure in 2018/19. It is therefore necessary to carry forward and revote a further \$41.3M of unspent funds into the future year's capital works and forward estimates to ensure sufficient funding to undertake these capital works projects during 2019/20 and beyond.
19. Following a final review of the program, taking into account the revised revotes, the project timelines, the time required for community engagement and the capacity to deliver the program, it is recommended that \$8.1M is moved into the future years forward estimates for a net 2019/20 revised budget of \$268.2M (including \$40.9M for light rail contributions to the State Government).
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 financial summary of the 2018/19 Capital Works program, a schedule showing the funds carried forward and deferred, and the revised 2019/20 budget with future years' forward estimates by significant project and program are provided in Attachment B.
22. The Plant and Assets expenditure incurred during the year, net of disposals, was \$11.9M against a budget of \$21.7M, the underspend predominately reflecting plant and assets which were not delivered within the year. It will therefore be necessary to carry forward or revote an additional \$5.4M, and will increase the adopted 2019/20 budget for Plant and Assets from net \$14.0M to net \$19.4M. A financial summary of the 2018/19 result against budget, and the revised 2019/20 budget are included in Attachment B.
23. Information Services capital works expenditure, for projects being delivered internally, was \$8.8M against a budget of \$13.4M. It will therefore be necessary to carry forward and revote an additional \$4.4M. This will increase the adopted 2019/20 budget for Information Services capital works from \$16.8M to \$20.2M.
24. The Property Acquisition and Divestments which includes the acquisition of Redfern Post Office and Customs House and planned divestments resulted in net acquisition of \$23.6M for the year 2018/19 year against a Divestment budget of \$69.9M.

Operational Highlights

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

- (a) On 14 June the City announced seven entries shortlisted in the Alternative Housing Ideas Challenge. Smart homes with eye scanners, pop up shelters in unused buildings and affordable ownership models are just some of the ideas on the list. The shortlisted entries were judged out of around 230 as part of the international challenge. Our communities will have the opportunity to provide feedback on the shortlisted concepts as part of the City's consultation to shape Sydney 2050.
- (b) The City and other leading Sydney businesses joined forces in May to sign up to Sydney's single use pledge. The new pledge aims to dramatically reduce single-use plastics by eliminating common items including plastic straws, bottled water and single-use cups. More than 50 organisations have so far taken the pledge, including the Sydney Opera House, Atlassian, Fox Studios and Star Entertainment Group.
- (c) In November 2018 a food scrap collection trial commenced at two City owned properties; Town Hall House and Pittsway Arcade. From November till May 2019, the average landfill generated per month has dropped by 30% and over 14,000kg of food scraps has been collected from both sites and turned into green energy and nutrient rich fertiliser. Following the trial period an audit program will be undertaken across all other City of Sydney sites, to inform a future action plan to continue improving waste management for this portfolio. With the success of the food scraps collection trial this will continue as a standard recycling stream for Town Hall House and Pittsway Arcade and new sites will be identified as part of the rollout of the Waste Improvement Program.
- (d) In March 2019 the City of Sydney launched a world-first trial of 'Green' geopolymers concrete made using industrial waste from coal-fired power stations and steel manufacturing as road material. Working with researchers from the University of NSW, the trial is being conducted on a 30m section of Wyndham Street in Alexandria, which is en route to Sydney Airport and one of its busiest inner city streets. The new concrete blend will use Geopolymer cement, made from fly ash and blast furnace slag, replacing traditional Portland cement and recycled materials. Geopolymer cement generates just 300 kilos of CO₂ per tonne of cement, compared to 900 kilos from traditional Portland cement production. The carbon emissions savings per tonne is equivalent to the electricity used by an average household every two weeks.
- (e) Over the past year, there were 899,518 attendances at the City's 13 staffed or partially staffed community facilities, programs and events. A total of 963 instances of programs to promote and support inclusion and diversity were offered by City Spaces this period, with 1,068 programs out of 1,115 accessible to people with a disability. A total of 14,811 bookings were made by groups for community venues, with a total of 20,003 bookings taken across the City's 13 staffed and 28 unstaffed City Spaces. Of these, 10,530 bookings were at community rates and 2,333 at self-help rates.

- (f) The development of our planning for Sydney in 2050 continues and we are working towards consolidating the findings and recommendations of the research program which has explored future opportunities across social, cultural, economic, environmental, transport and place domains. These will be synthesised with the community insights received following an extensive program of engagement. This synthesis will inform the next phase of strategy development and formulation for the 2050 Community Strategic Plan. A 2050 Issues Paper has been developed which examines cross-cutting themes of growth, liveability, diversity, environment and economy; integrating progress, challenges and opportunities to consider in our planning for 2050 and to draw out ideas from stakeholders to feed into the next phase of engagement.
- (g) Commencing in June, the updated Late Night Trading Planning Controls allow businesses in the city centre to apply to trade up to 24 hours a day. This will give Sydney's night-time economy, which already employs more than 35,000 people and is worth more than \$4 billion each year, a major boost. Businesses will need to apply for the new hours through a development application. This includes demonstrating good management and showing how they'll manage any impacts on their neighbours. Changes will also be subject to the NSW Government's lockout laws, where they apply. The City was commended in June 2019 for this work in the Planning for jobs and skills category of the Greater Sydney Commission's 2019 Greater Sydney Planning awards.
- (h) Implementation of the Resilient Sydney Strategy is underway with 12 actions being implemented and five of the 35 actions already completed (as at June 2019). A few examples are. Direction 4 of the Strategy "Get Ready" is focussed on emergency preparedness. General Managers and CEOs of the councils of metropolitan Sydney came together on the 7th March 2019 for a Leaders Emergency Management Symposium, hosted by Resilient Sydney and the NSW Office of Emergency Management for Action 24. Every council of Sydney is being engaged to promote community preparedness and to reduce exposure to hazards through the 'Get Prepared' app in partnership with the Australian Red Cross for Action 23. Direction 3 of the Strategy focuses on social cohesion and connection for disaster resilience. In delivery of Action 16, Resilient Sydney hosted the 'Disaster Prevention is Social Public' forum with U.S expert Daniel Aldrich on May 16th 2019. As part of Action 18 a number of councils across Sydney, including the City of Sydney engaged in supporting communities to know their neighbours through Neighbour Day initiatives. In June 2019, Resilient Sydney received the Chief Commissioner's Award at the Greater Sydney Planning Awards.
- (i) A total of 184 people have been housed in permanent accommodation 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. The Homelessness Unit coordinate the WISH (Woolloomooloo Integrated Services Hub), a monthly one stop shop which brings together over 16 services in one location to assist people with access to health, housing, specialist support and other services. There were 566 outcomes for the WISH this year. A total of 424 people have been assisted to exit homelessness, or prevent homelessness as a result of programs supported by funding from the City.

Financial Implications

26. At this stage, the Operating Result is \$153.5M and a Net Surplus of \$94.4M, representing a favourable variance of \$94.9M against budget. These Q4 results are interim, pending final audit clearance, and a separate report will confirm these results in October.
27. Financial performance in all principle activities, as defined within the Delivery Program 2017-2021, continues to be satisfactory against budget.
28. The 2018/19 year end cash position is \$623.4M, which is favourable to the budget of \$484.2M by \$139.2M. This variance reflects the higher opening cash balances, delays in the light rail contribution combined with lower capital and operational expenditure than budgeted.
29. 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

30. 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.
31. 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

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

Public Consultation

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

BILL CARTER

Chief Financial Officer