

Item 3.

2019/20 Quarter 1 Review – Delivery Program 2017–2021

File No:

Summary

This report reviews the operating and capital results against budget for the 2019/20 financial year, and progress against the performance measures identified within the Operational Plan 2019/20, being the third year of the Delivery Program 2017-2021.

Council's financial performance at Quarter 1 2019/20 reflected an Operating Result of \$38.4M, against a YTD budget of \$31.5M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Council has achieved a YTD Net Surplus of \$32.0M against a YTD surplus budget of \$24.7M. The favourable full year variance of \$7.3M predominately reflects favourable variances in operating income, operating expenditure, capital grants and contributions, and is partially offset by depreciation and capital related costs. 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 \$41.5M compares to a YTD budget of \$38.9M. The annual forecast for the program has been revised to \$270.8M against a full year budget of \$273.2M. A summary of the 2019/20 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 \$2.6M, which is \$1.8M favourable when compared to the YTD budget, and a full year forecast of \$19.4M, slightly under the budget of \$20.2M.

The Plant and Equipment expenditure at Quarter 1, net of disposals, was \$3.6M against a YTD budget of \$5.7M, with a full year forecast of \$19.2M.

Property Divestments of \$22.0M within the first quarter reflect the sale of two properties no longer required for operational purposes, while the net full year forecast result reflects the recent strategic acquisition of a property for the Town Hall Square project.

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 2019, including the Quarter 1 Net Surplus of \$32.0M and the full year Net Surplus forecast of \$45.9M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the Quarter 1 Capital Works expenditure of \$41.5M and a revised full year forecast of \$270.8M, and approve the proposed adjustments to the adopted budget, including bringing forward \$13.3M of funds into 2019/20 capital budget, as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$2.6M, net of disposals, and a full year forecast of \$19.4M;
- (D) note the Quarter 1 Plant and Assets expenditure of \$3.6M, net of disposals, and the full year forecast of \$19.2M;
- (E) note the Quarter 1 Property Divestment proceeds of \$22.0M, and the full year forecast net Property Acquisitions of \$134.7M; 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 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 2019/20

Background

1. The City's 2017-2021 Delivery Program and 2019/20 Operational Plan, including the 2019/20 budgets, were adopted by Council on 24 June 2019.
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 2019/20 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 2019/20 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.

2019/20 Operating Budget

7. The adopted 2019/20 budget projected operating income of \$609.5M and operating expenditure of \$496.6M, for an Operating Surplus of \$112.9M. After allowing for interest income of \$14.3M, capital grants and contributions of \$68.0M, depreciation expenses of \$107.5M, capital project related costs of \$10.3M and outgoing contribution for light rail of \$40.9M, Council budgeted for a Net Surplus of \$36.5M.

First Quarter Operating Results

8. The Q1 Operating Surplus was \$38.4M against a budget of \$31.5M, a favourable variance of \$7.0M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Net Surplus was \$32.0M against a budget surplus of \$24.7M, a favourable variance of \$7.3M.
9. The result includes an operating income result which is slightly favourable to budget of \$2.2M, a favourable variance to budget of \$4.8M for operating expenditure, a \$1.2M favourable variance for capital grants and contributions and an unfavourable variances of \$0.5M for depreciation and \$0.6M for capital project related costs not leading to the creation of a City of Sydney asset.

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

Income Type	2019/20 YTD Budget Variance Favourable / (Unfavourable)	2019/20 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Advertising Income	\$0.6M	\$0.4M	Positive variance is driven mostly by the growth of digital advertising within the CBD from the current street furniture advertising contract.
Building and Development Applications	\$0.4M	\$0.4M	Higher value development applications including the Mirvac development at 505-523 George St and Greater Union.
Commercial Properties	\$1.6M	\$2.8M	The favourable result reflects higher rental returns than anticipated in the budget from a number of properties, while the full year forecast increase includes new rental income following the recent acquisition of the Commonwealth Bank building in George Street.
Enforcement Income	(\$1.0M)	(\$2.1M)	Factors that have contributed to the decrease thus far include wet weather days. It is forecast that the trend will continue downward for the full year.
Other Building Fees	\$0.3M	\$0.2M	Mostly relating to higher than anticipated crane fee income, an increase in the number of construction driveways applied for in the CBD, and the renewal of footway ramps.
Other Fees	(\$0.4M)	(\$1.6M)	Council resolved to accept additional granite paving in lieu of invoicing TfNSW for light rail street cleaning costs, after the budget was adopted.
Parking Meter Income	(\$0.3M)	(\$0.6M)	In part, reflects delays in the plan to install parking meters in Alexandria while alternative locations are being investigated.

Rates and Annual Charges	\$1.0M	\$0.0M	Favourable YTD result relates to an increase in domestic waste charges following the bin audit conducted as part of the introduction of the new contract. The full year forecast is being reviewed as the process is completed.
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11. The primary operating expenditure variances to the budget are detailed in the table below:

Expenditure Type	2019/20 YTD Budget Variance Favourable / (Unfavourable)	2019/20 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Employee Related	\$1.0M	\$4.6M	The variance predominately relates to permanent vacancies, partially offset by an increase in agency used to backfill.
Infrastructure Maintenance	\$1.7M	\$1.0M	Relating mostly to monorail works which have been offset in recoveries, and have not yet commenced.
IT Related	\$0.9M	\$0.3M	Slight delays in some IT system development works, still anticipated to be largely completed by year end.
Other Operating Expenditure	\$0.5M	\$0.2M	The variance mainly relates to delays in Ausgrid's accelerated rollout of the LED lighting upgrade program, pending the need to implement new safe working methods.

Expenditure Type	2019/20 YTD Budget Variance Favourable / (Unfavourable)	2019/20 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Property Related Expenditure	(\$0.4M)	(\$0.3M)	Minor unfavourable variance mostly relating to the timing of reactive property maintenance work. The YTD variance relates mainly to major work at 137 Palmer Street (timber floor repairs) and work at ABC pool. Forecast increased to reflect a slight lift in spend for the year.
Utilities	\$0.4M	\$0.4M	Favourable result relates to reduced consumption in the first quarter. Trend will be monitored before making further reductions for the full year.
Waste Disposal Charges	\$0.3M	\$0.9M	Improved operational practices relating to separation of waste at depots has delivered a reduction in processing costs.

Income Type	2019/20 YTD Budget Variance Favourable / (Unfavourable)	2019/20 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Grants and Contributions	\$1.2M	\$1.7M	A significant site in the Ashmore Estate has progressed, and the infrastructure contributions due to date have been received. Timing of these large receipts is challenging to predict.

Expenditure Type	2019/20 YTD Budget Variance Favourable / (Unfavourable)	2019/20 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Depreciation	(\$0.5M)	\$0.0M	Timing of projects transferred to fixed assets, following completion, has occurred earlier than originally anticipated in the budget.

12. The City Rangers Unit is forecasting an unfavourable result due to a downturn in enforcement income. The Cleansing & Waste Unit is also forecasting an unfavourable result, relating to a reduction in cleaning income due to a Council resolution to accept additional granite paving in lieu of invoicing TfNSW for light rail street cleaning costs. Overall the City Services Division is forecasting to remain within the approved budget.

Capital Expenditure

13. The Capital Works program achieved expenditure of \$41.5 against a YTD budget of \$38.9M.
14. The full year forecast of the capital works program has been reduced from \$273.2M to \$270.8M following the latest review, which assessed the expected delivery of the projects and revised cost estimates for each individual project.
15. Capital Works projects that are finalised with savings may be utilised to offset the additional expenditure in programs requiring additional funds for project completion.
16. Progress on a number of projects has also advanced beyond that included within the program budget projections for 2019/20. Approval is therefore sought to bring forward funds of \$13.3M from future years' capital works forward estimates, and to reallocate funds from within relevant programs, into the 2019/20 budget to continue the progress on these projects.
17. There are also a number of changes proposed within the future years' forwards estimates. Full details are provided in Attachment B.
18. A number of projects are currently forecasting variances within the Significant Projects capital works group for the 2019/20 financial year:
 - (a) Green Infrastructure:
 - (i) Sydney Park Water Harvesting Priority 2: Harvesting Works and Priority 3: System Management -This project has two components with one to follow the other, namely harvest work and system management work. It was hoped that the first could be completed and the second started in 2019/20. Difficulty accessing the existing harvest works and subsequent discovery of latent conditions in these works have slowed down work on the first component.
 - (ii) Cook and Phillip Energy Services - The tender for this project led to a reject and negotiate process. Due diligence during negotiations indicated that the project involved greater complexity than initially thought. Resolving this matter extended the negotiation period with the consequence that project completion is now expected early in the next financial year.
 - (iii) Major Properties Efficiency Improvements - A revised delivery strategy will now see this project delivered by internal resources.
 - (b) Green Square Streets and Drainage:
 - (i) Geddes Avenue & Paul St (North) - Project is part of the broader package of works. Additional funds for 2019/2020 will be sourced from projects within the same area if required in quarter 2.
 - (ii) Zetland Ave – Mid (Joynton Ave to Portman St) – Stormwater work commenced earlier than planned.
 - (iii) Existing Streets (Portman St) Upgrade - Project timeline is being reviewed due to site complexities.

- (iv) Joynton Ave upgrade (Hansard St to Elizabeth St) - Works proceeding ahead of program with funds to be brought forward in quarter 2 if required.
 - (v) Zetland Ave (West) – Paul St to Portman St - Project timeline is being reviewed due to site complexities.
 - (vi) Green Square to Ashmore Connection - Ausgrid construction license not yet received for western section of works and may delay completion of the early works to next financial year.
 - (vii) Town Centre Interface Works - Project complexity has highlighted that additional funds may be required to complete the project.
 - (viii) McDonald St Widening Works - Forecast amended to reflect tender being released early 2020 with construction expected to commence mid 2020.
- (c) Erskineville Trunk Drainage - Collaborating with Sydney Water to determine project cost.
19. Significant variances are also forecast for a number of the 2019/20 capital program budgets and future years' forward estimates, including:
- (a) Bicycle Related Works – Enhancement:
 - (i) Chalmers Cycleway Link - Project delivery accelerated with NSW Government funding for construction this financial year. Funding brought forward from future year.
 - (ii) Liverpool St Western Link (Sussex to Darling Harbour) - Project delivery accelerated with NSW Government funding for construction this financial year. Funding brought forward from future year.
 - (iii) Saunders and Miller Street - Project delivery accelerated with NSW Government funding for construction this financial year. Funding brought forward from future year.
 - (iv) Wilson and Burren St Cycleway - Additional funds have been approved to reflect the extensive unforeseen latent conditions.
 - (v) Bondi Junction to City Cycleway - Forecast reflects highest cost option. A review of various options has commenced, including detailed engineering review underway to reduce total project forecast.
 - (vi) Lawson Street/Lawson Square - Scope of works is currently under review to determine if additional funds are required.
 - (b) Community, Cultural and Recreation Property Related – Enhancement:
 - (i) Alexandria Child Care Centre - Upgrade Kitchen Playroom Kit – Re-phasing of works to ensure child care operations can be maintained.
 - (ii) Glebe Library - Customer Service Point Improvement - Project will be completed in 2019/20. Funds to be brought forward from future year.
 - (iii) Darling Exchange Library Fit out Works – Potential savings forecast.

- (iv) Local Aboriginal Knowledge and Culture Centre (Redfern) - Consultants fees forecast to design lift suitable for this heritage building. Works to be carried out in 2020/21
- (c) Open Space and Parks – Enhancement:
- (i) Synthetic Sports Field Installations, Perry Park - Project forecast reflects latest expert report.
 - (ii) Open Space Renewal – Archibald Fountain and Water Stairs Waterproofing - Initial consultancy engagement needed to define project scope prior to commencing actual conservation works (project update included in November Council Report).
 - (iii) Perry Park Recreational Facilities - Project costs need to be consolidated with the Stage 2 budget.
 - (iv) Hyde Park Tree Replacement and Other Works - Project aiming to complete construction early 2020.
 - (v) Sydney City Farm - Project budget reforecast to 2020/21 and future years, due to environmental issues and interdependencies with depot works causing delays.
 - (vi) Alexandria Park School - Long term strategic plan indicates that further investigation is required.
 - (vii) Alexandria Canal - New Sportsfield - Strategic site assessment indicates that other sports fields should be prioritised. Options are under review.
- (d) Stormwater Drainage Enhancement: Joynton Avenue Stormwater drainage upgrade – latest forecast based on Quantity Surveyor estimation.
- (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 while the centre is kept 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) Sydney Park Leachate Site Restoration - Difficulty gaining access due to WestConnex works and a lease holder vacating the site has delayed the first stage of works.
 - (v) Leachate Plant Upgrades – Progress on this project is linked to or contingent on the leachate site restoration project. Part of the scope for the project will now be delivered through this related project. The balance of the work needs to wait until the leachate site restoration work is complete.

- (f) Corporate and Investment Property Related – Renewal:
 - (i) Sydney Town Hall External Works Stage 3 - Site complexity required construction tender phase to be extended. Forecast reflects the delivery timeline.
 - (ii) Paddington Town Hall – Long Term Works – The Properties unit are prioritising operationally critical, statutory and compliance related projects.
 - (g) Infrastructure, Roads Bridges Footways:
 - (i) Johnston Creek – Replacement of Footbridge - Revised project timeline reflects Sydney Water's program. Installation of the footbridge is expected to commence by mid 2020.
 - (h) Public Domain Renewal:
 - (i) Danks Street East – Public Domain Works - The project scope has increased following arboriculture recommendations and other site issues. The cost estimates have increased due to a change in scope and the new Civil Works Contract schedule of rates.
 - (ii) Devonshire Street Planted Arbour - Forecast extended out to next financial year to reflect delay in program and construction.
20. 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.
21. Information Services capital expenditure, for internally developed projects, is \$2.6M against a budget of \$4.4M with a forecast of \$19.4M which is slightly below the full year budget of \$20.2M.
22. The Plant and Equipment expenditure incurred during the year to date, net of disposals, was \$3.6M against a budget of \$5.7M with a slight underspend forecast for the full year.
23. The Property Divestments Q1 result reflects the sale of Stockton House and a former council depot site in Redfern, as resolved by Council, the latter to a community housing provider to promote affordable housing. The full year forecast is for a net Property Acquisition result, with a variance that reflects Council's strategic acquisition of the Commonwealth Bank building in George Street for the Town Hall Square project.

Operational Highlights

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

- (a) The Resilient Sydney Platform, a collaboration between Resilient Sydney, City of Sydney and Kinesis, received the overall award for the Best Smart City Project and the environmental outcomes category at the Committee for Sydney's Smart City Awards 2019. The Platform will help Sydney's 33 metropolitan councils track their environmental performance and gives them a standardised evidence base for decision making, while also enabling collaboration, action and advocacy. Resilient Sydney was also awarded the Best Mobility Outcome Initiative.
- (b) Green Square Library and Plaza was awarded the NSW Premier's Prize, the John Verge Award for Interior Architecture and awards in public architecture and urban design at the NSW Architecture Awards announced on 5 July. Harold Park received The Lloyd Rees Award for Urban Design and was jointly awarded the 2019 Lord Mayor's Prize. The area includes nearly four hectares of public parkland, cycling and walking paths and playgrounds. It also allows for future affordable housing. Winners of the NSW awards will compete in the national awards later this year.
- (c) In July the City hosted the Future Asia Business Summit which focussed on Sydney thriving in a smart Asian century. The event partnered with Asialink and Sydney University. Other events included a Sydney Nagoya tourism industry roundtable, a Smart Transport seminar, an International Student Entrepreneurship talk and VIP functions for a visiting delegation from the City of Nagoya. Four hundred people attended the main Future Asia Business Summit in Centennial Hall, 90 attended a VIP Breakfast Reception, 20 attended the AsiaLink Boardroom Briefing, 70 attended the USyd Smart Transport in China seminar and 80 attended the INTERCHANGE International Student Entrepreneurship Talk.
- (d) A record 10,000 people celebrated Aboriginal and Torres Strait Islander cultures at this year's NAIDOC in the City in Hyde Park on Saturday 13 July. The day's events included children's activities, sports programs, craft activities and tasty treats from the popular earth oven.
- (e) The City commenced the first phase of its residential food scraps collection and recycling trial on 29 July. A total of 330 houses and 53 apartment buildings are taking part in the trial, making the new service accessible to just over 4,300 homes. Initial results from the trial indicate early success. In the first five weeks of the trial, the City collected and recycled 14.29 tonnes of food scraps.
- (f) The City received the 2019 Australian HR Award for Best Workplace Diversity and Inclusion Program. The award recognises efforts to build an inclusive workplace that provides opportunity and equity for women, Aboriginal and Torres Strait Islander peoples, the LGBTIQ community, people with disability and refugees. In particular the award recognised the City as being an employer of choice for women.
- (g) Development of the Sustainable Sydney 2050 strategy continues. The findings from the Children's and Youth engagement programs were presented to the Lord Mayor and Councillors at events in August. A public call for ideas to transform the city to 2050 generated more than 1,300 ideas which are now being evaluated and prioritised by the Citizens Jury who will report their findings in December 2019.

- (h) The number of people accessing crisis accommodation in Sydney's inner city has increased in the past 12 months. Although the latest City of Sydney street count results showed a drop in people sleeping rough, almost 100 extra people were found to have booked into temporary living arrangements compared to August 2018. There were 254 people found sleeping rough on the city's streets on 6 August, when a team of 140 volunteers, council staff and homelessness advisers roamed around Sydney between 1am and 3am. That was down from 278 last year.
- (i) Community programs and services:
 - (i) 223,671 attendances at the City's 13 staffed or partially staffed community facilities, programs and events. This represents an 11 per cent increase compared to the same period in 2017/18.
 - (ii) 242 programs to promote and support inclusion and diversity were offered, with 265 programs out of 290 accessible to people with a disability.
 - (iii) 5,442 bookings were taken across the City's 13 staffed and 28 unstaffed City Spaces, with 588 bookings at self-help rates, and 3,610 at community rates. This represents a 35 per cent increase in bookings at community rates compared to the same period last year.
 - (iv) Meals on Wheels delivered 8853 meals to 152 clients, and provided 59 hours of assessment and 280 hours of care coordination including 35 home visits. Community Transport provided 4737 passenger trips and 117 community bus hires.

Financial Implications

- 25. At Quarter 1, the Operating Result was \$38.4M, with a Net Surplus of \$32.0M, representing a favourable variance of \$7.3M against budget.
- 26. Financial performance in all principle activities, as defined within the Delivery Program 2017-2021, continues to be satisfactory against budget.
- 27. The full year forecast reflects a Net Surplus of \$45.9M, which is favourable to budget by \$9.4M, as detailed within the body of this report.
- 28. The 2019/20 year end cash position is forecast to be \$361.6M, which is \$54.0M unfavourable to the adopted budget. The variance reflects the strategic acquisition of a property for the Town Hall Square project, which was expected to occur in future years of the long term financial plan.
- 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 2019/20 financial year.

BILL CARTER

Chief Financial Officer