

## 2019/20 Quarter 2 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 2 2019/20 reflected an Operating Result of \$69.9M, against a year to date (YTD) budget of \$54.5M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Council achieved a YTD Net Surplus of \$58.2M against the surplus budget of \$2.0M. The favourable full year variance of \$56.2M predominately reflects the delay in light rail payment of \$38.6M, 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 Program expenditure of \$86.1M compares to a YTD budget of \$142.9M. The annual forecast for the program has been revised to \$245.0M against the full year budget of \$284.6M. 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 was \$6.0M against the YTD budget of \$9.4M, with a forecast of \$18.5M against the full year budget of \$21.7M.

The Plant and Equipment expenditure at Quarter 2, net of disposals, was \$6.4M against a YTD budget of \$10.2M, with a forecast of \$18.7M against the full year budget of \$19.4M.

Property Divestments of \$25.5M to the end of the second quarter reflects the sale of two properties no longer required for operational purposes, the long term lease of the Oxford Street properties, and the recent strategic acquisition of a property for the Town Hall Square.

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 at Attachment D for information.

The 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 second quarter, ending 31 December 2019, including the Quarter 2 Net Surplus of \$58.2M and the full year Net Surplus forecast of \$54.5M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) note the Quarter 2 Capital Works expenditure of \$86.1M, and full year forecast of \$245.0M, and approve the proposed adjustments to the adopted budget including bringing forward \$6.8M of funds into 2019/20 capital budget, as detailed in Attachment B to the subject report;
- (C) note the Information Services capital expenditure of \$6.0M, net of disposals, and a full year forecast of \$18.5M;
- (D) note the Quarter 2 Plant and Assets expenditure of \$6.4M, net of disposals, and the full year forecast of \$18.7M;
- (E) note the Quarter 2 Property Divestment proceeds of \$25.5M, and the full year forecast net Property Acquisitions of \$131.7M,
- (F) note the operational performance indicators and Quarter 2 achievements against the Operational Plan 2019/20 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 Report 2019/20
- Attachment D.** Second Quarter Supplementary Report 2019/20
- Attachment E.** Environmental Sustainability Progress Report

## Background

1. The City's 2019/20 Operational Plan (within the 2017-2021 Delivery Program), including the 2019/20 budgets, was 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 second quarter (Q2) and full year forecast financial results for the 2019/20 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 2019/20 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.

## 2019/20 Operating Budget

9. 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 contributions for light rail of \$40.9M, Council budgeted for a Net Surplus of \$36.5M.

## Second Quarter Operating Results

10. The Q2 Operating Surplus was \$69.9M against a budget of \$54.5M, a favourable variance of \$15.3M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Net Surplus was \$58.2M against a budget surplus of \$2.0M, a favourable variance of \$56.2M.
11. The result includes an operating income result which is slightly favourable to budget of \$1.8M, a favourable variance to budget of \$13.6M for operating expenditure, a \$3.6M unfavourable variance for capital grants and contributions, the deferred light rail contribution, and unfavourable variances of \$0.8M for depreciation and \$0.6M for capital project related costs that do not lead to the creation of a City asset.

12. The full forecast year Operating Surplus is \$125.6M against a budget of \$112.9M, a favourable variance of \$12.7M. The Net Surplus is forecast to be \$54.5M against a budget of \$36.5M, a favourable variance of \$18.0M.
13. The forecast results include a favourable variance to budget of \$0.4M for operating income, with favourable variances to budget of \$12.2M for operating expenditure, a \$3.3M unfavourable variance for capital grants and contributions, a favourable variance for capital project related costs \$1.3M, and a gain on sale of assets \$6.1M.
14. The primary operating income variations to the budget are detailed in the table below:

<b>Income Type</b>	<b>2019/20 YTD Budget Variance</b>  Favourable / (Unfavourable)	<b>2019/20 Full Year Budget Variance</b>  Favourable / (Unfavourable)	<b>Comment</b>
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.
Commercial Properties	\$2.2M	\$2.2M	The favourable result reflects higher rental returns than anticipated in the budget from a number of properties, while the full year forecast includes additional rental income following the acquisition of the Commonwealth Bank building in George Street.
Enforcement Income	(\$1.7M)	(\$2.4M)	Factors that have contributed to the decrease include staff vacancies, since addressed, and the extreme weather conditions (impacting air quality).
Other Building Fees	\$0.8M	\$0.9M	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	(\$0.8M)	(\$1.8M)	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	(\$0.5M)	(\$1.0M)	Deferring the installation of parking meters in Alexandria while alternative locations are being investigated.

<b>Income Type</b>	<b>2019/20 YTD Budget Variance</b>  Favourable / (Unfavourable)	<b>2019/20 Full Year Budget Variance</b>  Favourable / (Unfavourable)	<b>Comment</b>
Rates and Annual Charges	\$1.5M	\$2.5M	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 reflects the YTD trend.

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

<b>Expenditure Type</b>	<b>2019/20 YTD Budget Variance</b>  Favourable / (Unfavourable)	<b>2019/20 Full Year Budget Variance</b>  Favourable / (Unfavourable)	<b>Comment</b>
Employee Related	\$2.2M	\$5.7M	The variance predominately relates to permanent vacancies, partially offset by an increase in agency staff used to backfill roles.
Expenditure Recovered	(\$1.0M)	(\$2.6M)	Unrecovered funds, largely relating to the planned demolition of the monorail. Offset by savings in the Infrastructure Maintenance.
Government Authority Charges	\$1.6M	\$1.6M	A long held provision for a 15% levy on commercial revenue generated on Crown Land, including Hyde Park, is no longer required recognising the costs incurred by council.

Expenditure Type	2019/20 YTD Budget Variance Favourable / (Unfavourable)	2019/20 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Infrastructure Maintenance	\$3.7M	\$4.9M	Relating mostly to monorail works which have not yet commenced, lower street furniture transition costs due to ongoing contract negotiations, and timing of works relating to condition assessments.
IT Related	\$1.5M	\$0.6M	Slight delays in some IT system development works, still anticipated to be largely completed by year end.
Other Operating Expenditure	\$1.5M	\$1.0M	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.
Property Related Expenditure	(\$1.1M)	(\$0.7M)	Unfavourable variance relating to an anticipated spend in reactive property maintenance work.
Utilities	\$0.6M	\$0.6M	Favourable result relates to reduced consumption YTD. Trend will be monitored before making further reductions for the full year.
Waste Disposal Charges	\$0.8M	\$1.3M	Improved operational practices relating to separation of waste at depots has delivered a reduction in processing costs.

<b>Income Type</b>	<b>2019/20 YTD Budget Variance</b>	<b>2019/20 Full Year Budget Variance</b>	<b>Comment</b>
	Favourable / (Unfavourable)	Favourable / (Unfavourable)	
Capital Grants and Contributions	(\$3.6M)	(\$3.3M)	Timing of these large receipts, related to the construction phase of developments, is challenging to predict.

<b>Expenditure Type</b>	<b>2019/20 YTD Budget Variance</b>	<b>2019/20 Full Year Budget Variance</b>	<b>Comment</b>
	Favourable / (Unfavourable)	Favourable / (Unfavourable)	
Depreciation	(\$0.8M)	\$0.0M	Timing of projects transferred to fixed assets, following completion, has occurred earlier than originally anticipated in the budget.

<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.

16. The City Services Division is forecast to remain within the approved budget, however there are unfavourable forecast results in the Rangers Unit (enforcement income), Parking & Fleet Services Unit (reduced income from parking meters and stations), and the Cleansing & Waste Unit relating to a Council resolution to accept additional granite paving in lieu of invoicing Transport for NSW for light rail street cleaning costs.
17. The City Transformation, Project Management and City Properties Units are also forecasting minor unfavourable results to budget, although results remain within the relevant Divisional approved budgets.

## Capital Expenditure

18. The Capital Works program achieved expenditure of \$86.1M against a YTD budget of \$142.9M, inclusive of the unpaid light rail contribution of \$38.6M.
19. The full year forecast of the capital works program has been reduced from \$284.6M to \$245.0M following the latest review, which assessed the expected delivery of the projects and revised cost estimates for each individual project.
20. Within programs, funding from Capital Works projects that are finalised with savings may be utilised to offset the additional expenditure required for other project's completion.
21. 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 \$6.8M 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.
22. There are also a number of changes proposed within the future years' forwards estimates. Full details are provided in Attachment B.
23. A number of projects are currently forecasting variances within the Significant Projects capital works group for the 2019/20 financial year:
  - (a) Green Infrastructure, major variances include:
    - (i) Renewable Energy Fund Projects - Solar Panel - the 2019/20 budget allowed for PV installation on Perry Park Stage 2. This project has been re-tendered and the building is not likely to be ready for PV until FY 2020/21. Obtaining DAs for some projects is taking longer than originally anticipated.
    - (ii) Water Master Plan LGA - the George St pipeline being installed by the Light Rail contractor was delayed along with the Light Rail project.
  - (b) Green Square Streets and Drainage, major variances include:
    - (i) Town Centre Interface Works - project complexity has highlighted that additional funds may be required to complete the project.
    - (ii) Zetland Ave – Mid (Joynton Ave to Portman St) – revised forecast following recent Quantity Surveyor estimate.
    - (iii) Existing Streets (Portman St) Upgrade - revised forecast following recent Quantity Surveyor estimate.
    - (iv) Zetland Ave (West) – Paul St to Portman St - revised forecast following recent Quantity Surveyor estimate.
    - (v) McDonald St Widening Works - forecast amended to reflect tender being released early 2020 with construction expected to commence mid 2020.
    - (vi) Joynton Ave upgrade (Hansard St to Elizabeth St) - Works proceeding ahead of schedule, funds anticipated to be brought forward.



- (c) Green Square Community Facilities and Open Space, includes a major variance for:
    - (vii) Gunyama Park Aquatic and Recreation Centre - construction of the permanent amenities building and playground moved to late 2020 due to ongoing land acquisition discussions.
  - (d) Johnstons Canal Master Plan & Harold Park Works, major variances include:
    - (i) The Crescent Lands at Johnstons Creek - reduced forecast cost this financial year associated with the time required to mobilise an alternate head contractor.
24. 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, major variances include:
    - (i) Chalmers Cycleway Link - project budget adjusted as confirmed rates based construction documentation is lower than the previous (preliminary) cost estimate.
    - (ii) Saunders and Miller Street - construction delayed so that most of capital spend will be in 2020/21.
  - (b) Open Space and Parks – Enhancement & Renewal, major variances include:
    - (i) Synthetic Sports Field Installations, Perry Park - project forecast reflects the most recent estimates.
    - (ii) Urban Skate Park - Works proceeding ahead of scheduled program.
    - (iii) Observatory Hill Pathways - State Heritage approval is required prior to commencement of construction.
  - (c) Community, Cultural and Recreation Property Related – Enhancement, project variances include:
    - (i) Sydney Park Leachate Site Restoration - difficulty gaining access due to WestConnex works, and a lease holder vacating the site, delayed the first stage of works and therefore the second component of works.
    - (ii) Local Aboriginal Knowledge and Culture Centre (former Redfern Post Office) - consultants fees forecast to design a lift suitable for this heritage building, with works to be carried out in the next financial year.
  - (d) Community, Cultural and Recreation Property Related – Renewal major variances include:
    - (i) Customs House Passenger and Goods Lifts Upgrade - saving as works complete Nov 2019.
  - (e) Corporate and Investment Property Related – Renewal, major variances include:
    - (i) Town Hall House - workspace modifications, various levels - works are postponed pending the development of a Workspace Strategy Plan to inform the extent of scope and prioritise future major works.

- (f) Public Domain Renewal, major variances include:
    - (i) Crowded Place Protection George Street and Alfred Street– funds have been bought-forward from 2020/21 to fund the installation of benches, planters and bollards in George Street and adjacent areas, however the City is yet to be granted access to these areas to complete the installations.
    - (ii) Devonshire Street Planted Arbour - project delayed along with the light rail project, with construction now programmed for next financial year.
    - (iii) Kings Cross Public Domain - Macleay Street - design work has progressed on the project. Following community consultation in November, the scope will be further assessed and costed prior to design amendments and further consultation in March 2020. Construction anticipated to commence in the first half of 2020/21.
  - (g) Infrastructure - Roads Bridges Footways, major variances include:
    - (i) Bridges Major Works Program - City works - bridge works are currently in tender stage and scheduled to commence in early 2020/21. Inner West Council will deliver the work to Booth St Annandale, on behalf of City.
25. 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.
26. Information Services capital expenditure, for internally developed projects, is \$6.0M against a budget of \$9.4M with a forecast of \$18.5M against the full year budget of \$21.7M.
27. The Plant and Equipment expenditure incurred during the year to date, net of disposals, was \$6.4M against a budget of \$10.2M with a forecast of \$18.7M against the full year budget of \$19.4M.
28. The Property Divestments Q2 result of \$25.5M 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 long term lease of Oxford Street has also been finalised, and the full year forecast is for a net Property Acquisition result of \$131.7M, including Council's strategic acquisition of the Commonwealth Bank building in George Street for the Town Hall Square project.

## Operational Highlights

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

- (a) The Green Square stormwater project was officially opened on Saturday 9 November. The two kilometre-long underground stormwater drain, built by the City of Sydney in partnership with Sydney Water, is expected to reduce risk of flooding, improve water quality and save drinking water. Designed to carry up to 30,000 litres of stormwater per second from Epsom Road to Alexandra Canal, the stormwater drain significantly reduces potential flooding across the area.
- (b) The new Darling Square Library opened on Saturday 9 November 2019. The library is housed on two floors of The Exchange. The library will be home to an ideas lab, with a makerspace and unique program of hands-on workshops and events for creativity and learning. The library has a collection of over 30,000 items, including a large Asian literature collection. There's also a dedicated children's area, bookable rooms, public computers and free Wi-Fi.
- (c) The City's latest gender pay equity review found an overall gender pay gap of 7.8 per cent in favour of women, with more women employed in higher paying jobs across the organisation. When we compared men and women in equitable roles, there was a small gender pay gap of 1.1 per cent in favour of men, an improvement on last year's results of 1.7 per cent. By comparison, Australia's national gender pay gap is 14 per cent in favour of men, and in public sector organisations it's 10.7 per cent. To continue our efforts to support gender equity at the City, from 1 January 2020 non-primary carers will be entitled to four weeks paid leave, or eight weeks at half pay.
- (d) In October 2019 the City of Sydney's Sustainable Destination Partnership won the Global Destination Sustainability Index award for outstanding collaboration. Working with accommodation, entertainment and cultural venues, the partnership aims to reduce carbon emissions, improve waste management, procure renewable energy, and reduce water use. Since launching in 2018, the Sustainable Destination Partnership has led the collaboration of hotels, backpacker hostels, serviced apartments, cultural institutions, entertainment venues and industry influencers. A sustainability assessment of the hospitality sector was carried out as part of the program. A strategy was also produced for a 70% reduction in carbon emissions and to divert 90% of its waste by 2030.
- (e) The City has donated \$620,000 to support communities and wildlife affected by bushfires and drought, and a staff fund raising drive will run until March where the Council will match staff donations. The City's efforts are now focused on supporting the Disaster Recovery. Through the Sydney Resilience program, the City is assisting with the coordination of recovery support and we continue to work closely with Local Government NSW.
- (f) The City continues to support cycling infrastructure. Recent cycleways completed include Green Square to Randwick on Epsom Road, Geddes Avenue (between Portman and Paul Streets), Elger Street contraflow in Glebe and Ultimo shared paths. The City also installed four new bike racks at Kelly Street in Ultimo bringing the total number of on street bike parking spaces in the council area to 3,412. In October 2019 more than 5,300 people took part in the City sponsored Spring Cycle, Sydney's largest recreational bike ride.

- (g) In October 2019 the City announced details of the biggest standalone renewables deal for an Australian council. Valued at over \$60 million, the plan will see the City meet its electricity needs using only wind and solar. The 100 per cent renewable electricity commitment is projected to save the City up to half a million dollars a year over the next 10 years. The City has signed agreements with Melbourne-based energy retailer Flow Power to source renewable energy for all of its properties from July 2020.
- (h) The City of Sydney's Christmas festivities commenced on Saturday 23 November 2019 with the Christmas in the City street party taking over streets from Martin Place to Pitt Street Mall. The party featured several stages with live music and celebrity performers, roaming entertainers, lights, decorations, a dancefloor and fireworks. The state's tallest Christmas tree in Martin Place was decked with giant beach balls, 110,000 LED lights and 15,000 native flowers. It was the centrepiece with a sound and light show every 15 minutes from 7.30pm to midnight. Choirs performed every Thursday to Sunday from 6pm to 8.30pm. Pitt Street Mall sparkled under a canopy of two metre-tall stars and 85,000 lights, with late-night trading at major retailers and pop-up outlets. Following the opening night, festivities continued through to Christmas, with concerts and attractions across the city and villages.
- (i) In November 2019 the City signed a Memorandum of Understanding with Southern Sydney Regional Organisation of Councils (SSROC) to Prioritise Recycled Materials in Procurement. The group will work together to develop a common framework for the regional procurement of recycled materials to support and drive the development of the circular economy. SSROC's approach to joint regional procurement will create sufficient demand to influence market development, beyond what individual councils can achieve. SSROC have voluntarily set a target to recycle 45 million glass bottles into useful products each year in an effort to stimulate investment in the region's recycling industry, leveraging collaborative purchasing power. The 11 member councils include Bayside, Burwood, Canada Bay, Canterbury Bankstown, City of Sydney, Georges River, Inner West, Randwick, Sutherland, Waverley, and Woollahra.
- (j) The development of the draft Sustainable Sydney 2050 strategy is continuing. An update was provided to Council in December setting out the proposed framework which includes the vision, 10 strategic directions, principles and targets to measure progress. During December the Citizens Jury concluded their work, submitting their report and recommendations.

## Financial Implications

- 30. At Quarter 2, the Operating Result was \$69.9M, with a Net Surplus of \$58.2M, representing a favourable variance of \$56.2M against budget.
- 31. Financial performance in all principal activities, as defined within the Delivery Program 2017-2021, continues to be satisfactory against budget.
- 32. The full year forecast reflects a Net Surplus of \$54.5M, which is favourable to budget by \$18.0M, as detailed within the body of this report.

33. The 2019/20 year end cash position is forecast to be \$393.2M, which is \$9.6M unfavourable to the adopted budget. The forecast reflects the variances discussed within the body of this report including 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.
34. 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**

35. 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.
36. 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**

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

### **Public Consultation**

38. The information contained within this report reflects Council's financial performance in the 2019/20 financial year.

**BILL CARTER**

Chief Financial Officer