

Item 10**Integrated Planning and Reporting Program and Budget 2020/21 - Adoption****File No: X025796****Summary**

Sustainable Sydney 2030 guides the development and planning for the City of Sydney, a global city that supports a business, tourist and residential population of more than 1.2 million per day. The City has incorporated its 2030 Vision into the Integrated Planning and Reporting framework for NSW local government and developed a suite of documents to support the key directions, targets and major objectives within the Sustainable Sydney 2030 Community Strategic Plan.

Council reviewed and adopted a revised suite of Integrated Planning and Reporting documents in 2017 following the local government elections.

The Integrated Planning and Reporting framework requires the City to demonstrate that its plans and objectives are appropriately resourced and can be achieved as it maintains its core functions, services and assets, and remains sustainable over the long term.

In response to the uncertainty caused by the pandemic, the draft iteration of the budget and Long Term Financial Plan included within the Resourcing Strategy contained a 'base case' 10 year financial plan, and two alternative scenarios should the pandemic impact continue beyond the six month duration initially expected by the Federal Government. Given the financial impact upon the City's finances, the Chief Executive Officer was directed to review the draft budget and formulate a Financial Recovery Plan that would begin to align our resourcing strategy back in line with our long term financial plan.

Council also requested that the Chief Executive Officer develop an Organisational Recovery Plan and a Community Recovery Plan that are the subject of separate reports to Council. The Chief Executive Officer therefore instigated a thorough review of all operational and capital expenditure programs, which has been undertaken during the exhibition period, to complement the Community Recovery Plan.

The current phase of budget reviews and adjustments have been incorporated into the revised budget and Long Term Financial Plan. Changes include upward adjustments to parking related and enforcement income as some restrictions ease earlier than first expected, which have been partially offset by lower commercial property income estimates reflecting the ongoing market conditions.

The City's Financial Recovery Plan has identified reductions in our labour related costs and other operational expenses for the year, however in revising the budget for 2020/21 there have also been additional expenditure increases that have had to be incorporated into the budget. These include additional City support grants, extra operating costs for aquatic and leisure services caused by distancing restrictions, and additional street furniture maintenance costs incurred during the transition to new contract arrangements. As a result, the City's net budgeted Operating Result for 2020/21 has now improved from the exhibited \$77.7M to \$90.6M.

The Financial Recovery Plan has also reviewed the capital works program over the ten years of the long term financial plan. The major projects and works programs are still intact, however we brought forward \$23M of capital works forward in accordance with Council's resolution. We have also reprioritised our public domain funding to ensure we have adequate resources to advance projects with State government support including the pedestrianisation of George Street and other public domain areas within the city centre. Other adjustments reflect the delay to our final contribution payment to the State for the light rail project contribution, savings on several finalised projects, and the re-phasing of works in line with anticipated delivery.

The draft suite of Integrated Planning and Reporting documents, including the 2020/21 annual budget and financial schedules have been amended to recognise the City's response to the Covid-19 (novel coronavirus) pandemic.

The draft suite of Integrated Planning and Reporting documents were endorsed by Council on 18 May 2020 and placed on public exhibition for comment from 19 May to 15 June 2020, in accordance with the requirements of the Local Government Act 1993.

Two submissions on the suite of Integrated Planning and Reporting documents were received on two issues and assessed through internal review. The details of the issues raised in the submissions together with responses and staff recommendations are included in Attachment A.

This report recommends the adoption of the exhibited suite of the 2020 Integrated Planning and Reporting documents, including the revised 2020/21 budgets, incorporating the setting of the rates, in accordance with the requirements of the Local Government Act 1993.

Recommendation

It is resolved that:

- (A) Council note the submissions received from the community on the exhibited suite of the 2020 Integrated Planning and Reporting documents as included in Attachment A to the subject report;
- (B) Council adopt the suite of the draft 2020 Integrated Planning and Reporting documents as endorsed by Council on 18 May 2020, and as amended, including the Operational Plan 2020/21 as shown at Attachment B to the subject report;
- (C) Council adopt the draft Operating and Capital Budget, and future years' forward estimates, reflected in the Operational Plan 2020/21 and Resourcing Strategy 2020, subject to amendments in Attachment B;
- (D) Council note that the 2020/21 budgets include:
 - (i) Operating income of \$591.4M, operating expenditure before depreciation and light rail contribution of \$500.8M for an Operating Result of \$90.6M, and a Net Operating Surplus of \$18.6M after allowing for interest income, depreciation and capital contributions. Allowing for the final light rail contributions to Transport NSW of \$41.1M results in a Net Operating Deficit of \$22.5M;
 - (ii) Capital Works expenditure of \$275.7M;
 - (iii) a capital contingency of \$5.0M;
 - (iv) Plant and Assets net expenditure of \$8.0M;
 - (v) Information/Technology/Digital Capital Works of \$12.3M; and
 - (vi) Net Property Acquisitions of \$121.4M;
- (E) Council adopt the proposed Rating structure and policies, Domestic Waste Management Charges, Stormwater Charges and User Fees and Charges reflected in the Operational Plan 2020/21 and note the minor increase in Ad valorem Rates compared to those included the draft Operational Plan 2020/21, endorsed by Council on 18 May 2020, as set out in the body of the subject report;
- (F) Council note that an annual salary and wages increase of 1.5 per cent will be paid to all City of Sydney Award employees effective from the first pay period of July 2020;
- (G) authority be delegated to the Chief Executive Officer to approve the 2020 Resourcing Strategy as exhibited, including relevant amendments to the Long Term Financial Plan; and
- (H) authority be delegated to the Chief Executive Officer to approve any minor editorial corrections prior to publication and authorise the relevant staff to implement any such corrections.

Attachments

Attachment A. Public Exhibition Submissions and Responses 2020

Attachment B. Operational Plan 2020/21

Background

1. In October 2009, the NSW Government enacted the Local Government (Planning and Reporting) Amendment Act 2009, which set a framework to integrate the various statutory planning and reporting processes as required by the Local Government Act 1993 and the Environmental Planning and Assessment Act 1979.
2. The Integrated Planning and Reporting framework requires strategic planning and resourcing documents with alignment to the term of the elected council. The requirements include a long-term Community Strategic Plan (at least 10 years), a Delivery Program for the term of the council (generally four years), and a detailed Operational Plan that sets out council's projects and activities for the coming 12 months.
3. These documents are all underpinned by a Resourcing Strategy, including a long term financial plan, an asset management plan and a workforce plan, to demonstrate councils have adequate resources to achieve the planned outcomes while ensuring the council's long-term sustainability for its community and stakeholders.
4. The draft Operational Plan 2020/21 and draft Resourcing Strategy 2020 have been developed in alignment with the adopted Delivery Program 2017-2021 and Community Strategic Plan (Sustainable Sydney 2030). A new Delivery Program is required to be adopted by Council by June 2022 following the council elections which have now been deferred until September 2021.
5. Council endorsed the draft Operational Plan 2020/21 and draft Resourcing Strategy 2020 on 18 May 2020. The draft documents were placed on public exhibition for a period of 28 days on 19 May 2020. Public notices were placed in the Sydney Morning Herald newspaper on 25 May and 1 June 2020.
6. The Plans were made available through the City's Sydney Your Say website, which had 249 unique visits and 109 downloads of the documents. The consultation also included notification of the exhibition to 4,032 subscribers to the City's Sydney Your Say e-newsletter.
7. The City received two submissions on two issues through the Sydney Your Say website or email covering several topics. Topics in the public submissions included: child care fees and programs at staffed community centres. These submissions have been internally reviewed, with staff recommending the exhibited content of the draft plans remain unchanged from that exhibited in response to the submissions received.
8. The issues raised in the submissions, together with the responses and staff recommendations, are included in Attachment A.

9. Minor amendments to correct administrative errors and improve the clarity of the documents have been made to the Operational Plan deliverables, fees and charges, and the annual budget and long term financial plan financial statements. The changes include:
- (a) an additional program added to the Operational Plan regarding the proposed City's Community Recovery Plan;
 - (b) updating the Grants and Sponsorship schedule;
 - (c) updating fees and charges for legislated changes such as the interest rate for overdue rates and animal licencing; and
 - (d) additional clarification of the time that applicants can claim for pensioner rebates.
10. In addition, the Ad valorem Rates included in the proposed Rating structure within the draft Operational Plan 2020/21, endorsed by Council on 18 May 2020, have been slightly amended. An adjustment is required due to changes in land parcels, valuations and rating categories occurring after the draft rates were calculated. The adjusted rates will not have a significant impact on individual ratepayers but will realign the annual levy to the budgeted rates income which has not changed.

| Rating Category | Minimum Rate | Ad valorem Rates (in the \$) | Estimated Yield \$M |
|-----------------------------|--------------|------------------------------|---------------------|
| Residential Rate - Ordinary | \$586.85 | 0.00113931 | \$79.5 |
| Business Rate – Ordinary | \$750.95 | 0.00364950 | \$67.0 |
| Business Rate - CBD | \$750.95 | 0.00723067 | \$169.6 |

11. In accordance with Council's resolution, the Chief Executive Officer has undertaken a thorough review of all operational and capital expenditure programs to develop a Financial Recovery Plan to address the financial implications of Covid-19 while complementing the Organisational Recovery Plan and Community Recovery Plan, which have been completed. Changes are described in the budget implications section of this report.
12. The revised financial schedules are included in the revised Operational Plan provided in Attachment B.
13. This report recommends the adoption of the exhibited suite of Integrated Planning and Reporting (2020) documents including the 2020/21 budgets, incorporating the setting of the rates, in accordance with the requirements of the Local Government Act 1993.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

14. Sustainable Sydney 2030 is a vision for the sustainable development of the City to 2030 and beyond. It includes 10 strategic directions to guide the future of the City, as well as 10 targets against which to measure progress. The 2020/21 Operational Plan identifies the activities and projects that will be undertaken to deliver against all 10 strategic directions. The Resourcing Strategy 2020 identifies the City's resourcing requirements to deliver our strategic objectives and our core services.

Organisational Impact

15. The City's establishment has not changed, however the City will be tightly managing vacancies in accordance with these budget parameters. The proposed budget for 2020/21 provides for 1943 full time equivalent (FTE) positions. The City also supports a significant number of additional jobs through the provision of contracts that underpin a range of externally provided projects and services.
16. These positions are required to ensure the ongoing operation of the City, and to advance the outcomes determined within Sustainable Sydney 2030. City staff continue to revise functional operations to determine where opportunities arise to improve effectiveness and efficiency of service delivery, to ensure the organisation as a whole remains financially sustainable.

Social / Cultural / Community

17. The Covid-19 pandemic is an unprecedented public health crisis which is causing an economic crisis. Unemployment is forecast to rise, with job losses impacting sectors particularly concentrated in our city community, such as accommodation and food services, retail trade, arts and recreation services, construction and professional services.
18. These plans and budgets have been developed with the most current and best available information but they are subject to change due to the dynamic health and economic crisis created by the pandemic.
19. The City will adjust to this crisis to ensure the health and wellbeing of the community is our primary focus. We will engage with the community using the principles outlined in our Community Engagement Strategy to ensure changing and emerging priorities are identified.

Budget Implications

20. In response to the uncertainty caused by the pandemic, the draft iteration of the budget and Long Term Financial Plan included within the Resourcing Strategy contained a 'base case' 10 year financial plan, and two alternative scenarios should the pandemic impact continue beyond the six month duration initially expected by the Federal Government.
21. Given the financial impact on the City's finances, the Chief Executive Officer was directed to review the draft budget and formulate a Financial Recovery Plan that would begin to align our resourcing strategy back in line with our long term financial plan. This work has been incorporated into the revised operational and capital budgets within this revised Operational Plan 2020/21.
22. The proposed 2020/21 budget delivers an operating result, prior to interest income, depreciation, capital project related costs and capital contributions, of \$90.6M which is an improvement from the \$77.7M operating result that was included in the suite of the 2020 Integrated Planning and Reporting documents put on exhibition. The improved result, still well below the \$113.8M anticipated before the Covid-19 pandemic, is reflective of the financial measures taken by Council in response to the crisis as the impacts of the Covid-19 pandemic have continued to evolve.
23. While the economic fallout from the health crisis in NSW is far from over, the recovery of a number of City services, at the time of writing, appears to be sooner than initially anticipated. A number of services including parking stations, parking meters and enforcement have begun to improve, which has enabled an increase to their respective budgeted income. However, other revenue sources, including the anticipated amount of commercial property income, has reduced due to the ongoing effects of the economic crisis. Aquatic and Leisure services were originally forecast to deliver net operating income in the order of \$1.0M but due to continuing health restrictions they have now been budgeted as an expense to the City. In addition, while the implementation of a new street furniture contract has been negotiated during the exhibition period and will be submitted to Council for approval this round, there are significant additional maintenance costs in the two year transition period.
24. The City has taken a number of measures to reduce operational costs, across the organisation. These include the suspension of non-essential worker recruitment and a reduction in budgeted overtime. In addition, the City has provision for a salary progression scheme that is outlined in the City's Performance Development and Management Policy. In 2020/21 the City will not pay performance-based salary progression payments to staff. Performance payments for the 2019/20 performance year, normally paid in November 2020 will not be awarded for 12 months.
25. During the exhibition period the City has received confirmation that the parties to the Local Government State Award 2020 have concluded their negotiations and the Award is listed for ratification on 26 June 2020. The proposed salary and wages increases are: 1.5 per cent July 2020, 2 per cent July 2021 and 2 per cent in 2022.

26. The City of Sydney Wages/Salary Award 2017 expires in 2021 and the three annual increases due were passed in 2017, 2018 and 2019. As with previous Award cycles, to maintain consistency with the rest of the sector, the City intends to pay a July 2020 increase for all staff covered by the City's Award by administrative agreement at the rate ratified for the Local Government State Award 2020 (1.5 per cent). The Award does not apply to senior staff, who will not receive an increase this year. Future increases for employees will be agreed in 2021 when a new three year City of Sydney Award is negotiated.
27. It is expected that services, and levels of service will continue to change as we deal with the impacts of the pandemic. We may have to adjust some of our services. Some will be enhanced, some will cease, we may create new ones and scale back others. These changes may be temporary or permanent according to ongoing community priorities and resources.
28. The City also acknowledges that planned deliverables and actions may be impacted or need to be reprioritised based on the effects of this pandemic. New priorities may also emerge. The City anticipates a significant financial impact from this crisis; the breadth and depth of this impact is difficult to assess in this uncertain environment. To reflect this inherent operational uncertainty, two additional financial models have been developed in order to estimate the possible impact of extensions of three and six months of the health and economic crisis beyond the initial six month period forecast by the Federal Government and the basis for the budget.
29. The Financial Recovery Plan has also reviewed the capital works program over the ten years of the long term financial plan. The major projects and works programs are still intact, however we brought forward \$23M of capital works forward in accordance with Council's resolution on 30 March 2020. We have also reprioritised our public domain funding to ensure we have adequate resources to advance projects with State government support including the pedestrianisation of George Street and other public domain areas within the city centre. Other adjustments reflect the delay to our final contribution payment to the State for the light rail project contribution, savings on several finalised projects, and the re-phasing of works in line with anticipated delivery
30. The proposed Capital Works program has been determined within the level of available funds to ensure that sufficient working capital is maintained for the City's long term financial sustainability.
31. The proposed operating and capital expenditure budgets are projected to reduce the City's cash reserves to \$306.2M by 30 June 2021 in line with the long term financial strategy. The utilisation of cash reflects funds being directed to the extensive capital works program.
32. Despite the impacts of the pandemic, the City's strong financial management over the past years provides a strong platform to respond to the current crisis. Over the life of the proposed 10 year financial estimates the key financial performance ratios, set out in the plan, are forecast to return to favourable results relative to industry benchmarks.

33. Within the Resourcing Strategy 2020, the long term financial plan describes the City's major categories of income and expenditure, and the likely risks and opportunities that may influence the City's financial capacity to continue to deliver services. This plan outlines the financial strategies that will maintain sustainable operating surpluses to enable the delivery of the major capital works programs that provide enduring community benefits. It includes the various measures it will use to monitor the City's financial performance.
34. The plan incorporates the City's cash reserves, including all the external restrictions required by legislation to quarantine funds raised for specific purposes, including developer contributions, security deposits, domestic waste and stormwater charges. It also incorporates internal restrictions where Council has resolved to set specific funding aside for employee leave entitlements, asset replacement, and significant Sustainable Sydney 2030 commitments, including Affordable and Diverse Housing Fund, City Centre Transformation, Green Square, and Green Infrastructure (energy, stormwater and waste).
35. The plan continues to provide for future cash funding and utilisation of the restricted cash reserves, reflecting the proposed timing of these major projects and commitments of the City.
36. A full schedule of the user fees and charges proposed for the 2020/21 year is included within the Operational Plan 2020/21. The proposed fees have been set in accordance with Council's pricing policy which requires consideration of a number of factors, including the cost of service provision, whether the goods or services are provided on a commercial basis, and the capacity of the user to pay.

Relevant Legislation

37. The Local Government Amendment (Governance and Planning) Act 2016 was assented to on 30 August 2016. The aim of the Integrated Planning and Reporting framework is to improve integration of various statutory planning and reporting processes undertaken by councils as required by the Local Government Act 1993, the Office of Local Government's guidelines and the Environmental Planning and Assessment Act 1979.
38. Sections 402 to 406 of the Local Government Act 1993 outline the requirements a council must undertake when preparing a community strategic plan, underlying delivery plan and strategies with respect to the council's activities.

Critical Dates / Time Frames

39. Section 405 of the Local Government Act 1993 requires that Council must adopt an Operational Plan, including a statement of the council's revenue policy for the year covered by the operational plan before the beginning of each year.
40. Regulations have been made under section 747B of the Local Government Act 1993 to temporarily modify the application of the Act in response to the Covid-19 pandemic. Councils have been provided with a one month extension to adopt their 2020/21 Operational Plan, budget, rates and fees and charges.

Public Consultation

41. The current suite of Integrated Planning and Reporting documents reflects the vast amount of public consultation and engagement undertaken with the City's community and other interested stakeholders in developing the original Sustainable Sydney 2030 Vision.
42. The City continues to engage with the community when developing significant strategies, projects and policies. Feedback received through these engagement activities have been considered in developing the revised Operational Plan.
43. the City publicly exhibited the draft Resourcing Strategy and draft Operational Plan, including its revenue policy and budgets from 19 May 2020 to 15 June 2020.
44. During this period, the community were invited to make comments and submissions regarding the plans. The City utilised the Sydney Your Say community engagement platform to seek responses on the draft plans. All submissions received by the City have been considered and assessed against the draft planning documents. More details are provided in Attachment A.

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