

2022/23 Quarter 1 Review - Delivery Program 2022-2026

Summary

This report reviews the operating and capital results against budget for the 2022/23 financial year, and progress against the performance measures identified within the Operational Plan 2022/23, within the broader Delivery Program 2022-2026.

After three long years of ongoing disruption from the Covid pandemic, and its impact upon our community and our own operations, the City developed its plans and budgets to continue support for our economic recovery. The City is however now facing new and evolving challenges, with inflation in Australia at 7.3 per cent over the year to the September quarter, its highest level since the early 1990's.

While global factors explain much of this inflation increase, domestic factors are also playing a role with widespread upward pressure on prices from strong demand, a tight labour market driving wage growth, supply chain disruptions and capacity constraints in some sectors of the economy. These resource constraints and pricing issues are expected to continue to impact our operational services, and our capital works program, throughout the year.

Council's financial performance at Quarter 1 2022/23 reflected a year to date (YTD) operating result of \$34.1M against a budget of \$32.8M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Council has achieved a YTD Net Operating Result of \$53.2M against a budget of \$21.4M.

At this stage, Council is forecasting a favourable full year variance of \$12.0M which predominately reflects higher interest income (\$7.8M) arising from higher interest returns than budgeted, along with increased capital grants and contributions and a favourable operating result. All significant variances to budget are outlined within the body of this report and detailed at Attachment A.

The Capital Works Program YTD expenditure of \$33.4M compares to a budget of \$36.6M. The annual forecast for the program has been revised to \$196.6M against a full year budget of \$209.8M. A summary of the 2022/23 capital project expenditure and forecast is outlined within the body of this report, and detailed at Attachment B.

The Technology and Digital Services Capital Works expenditure for projects developed internally is \$4.6M YTD, almost in line with budget. The annual forecast of \$20.4M slightly exceeds the full year budget of \$19.0M at this time, and while this forecast continues to be reviewed, minor adjustments to the budget are proposed in Attachment B.

Plant and Equipment YTD expenditure, net of disposals, was \$1.4M against a budget of \$2.0M, while the full year forecast of \$10.9M is in line with the annual budget.

Property Acquisitions / Divestments (net) at Quarter 1 were \$114.6M, and currently forecast at \$112.8M for the full year.

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 and reporting 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:

- (A) Council note the financial performance of Council for the first quarter, ending 30 September 2022, including a Quarter 1 Net Operating Result for the Year of \$53.2M and the full year forecast of \$89.0M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) Council note the Quarter 1 Capital Works expenditure of \$33.4M and a revised full year forecast of \$196.6M, and approve the proposed adjustments to the adopted budget, including bringing forward \$6.1M of funds into the 2022/23 capital budget and \$0.5M from the capital works contingency as detailed in Attachment B to the subject report;
- (C) Council note the Technology and Digital Services Capital Works of \$4.6M, net of disposals, and a full year forecast of \$20.4M, and approve the allocation of \$0.3M from capital works contingency as detailed in Attachment B to the subject report;
- (D) Council note the Quarter 1 Plant and Equipment expenditure of \$1.4M, net of disposals, a revised full year forecast of \$10.9M, and approve bringing forward \$1.9M of funds into the 2022/23 budget and \$30K from capital works contingency as detailed in Attachment B to the subject report;
- (E) Council note the Quarter 1 net Property Acquisitions of \$114.6M, and the full year forecast net Property Acquisitions of \$112.8M;
- (F) Council 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 2022/23

Background

1. The City's 2022-2026 Delivery Program and 2022/23 Operational Plan, including the 2022/23 budgets, were adopted by Council on 27 June 2022.
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 2022/23 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 2022/23 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.

2022/23 Operating Budget

7. The adopted 2022/23 budget projected operating income of \$651.1M and operating expenditure of \$530.1M, for an Operating Surplus of \$121.0M. After allowing for interest income of \$7.5M, capital grants and contributions of \$68.9M, depreciation expenses of \$114.4M, capital project related costs of \$5.8M, this was a Net Operating Result for the Year budget of \$77.1M.

First Quarter Operating Results

8. The Q1 operating result was \$34.1M against a budget of \$32.8M, a favourable variance of \$1.3M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the Net Operating Result for the Year Attributable to Council was \$53.2M against a budget of \$21.4M, a favourable variance of \$31.8M.
9. The result includes favourable variances of \$6.4M for operating expenditure, \$28.0M for capital grants and contributions, interest income of \$1.6M and capital project related costs of \$1.4M, all of which are partially offset by unfavourable variances in operating income of \$5.1M and depreciation expense of \$0.8M.
10. The primary operating income variations to the budget are detailed in the table below

Income Type	2022/23 YTD Budget Variance Favourable / (Unfavourable)	2022/23 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Commercial Property	(\$0.2M)	(\$1.5M)	The unfavourable forecast reflects a number of vacancies due to continued adverse market conditions, offset in the first quarter by a recovery of charges for a CBD stratum
Enforcement Income	(\$2.2M)	(\$3.7M)	Inclement weather disrupted operations, and there are challenges with recruitment and retention due to the tight labour market
Rates and Annual Charges	\$1.5M	\$1.3M	Rate exempt property are progressively reviewed.
Work Zone	(\$0.6M)	(\$2.0M)	There are lower volumes of work zone applications, and for shorter periods, as developers seek to reduce costs in challenging inflationary environment with supply chain constraints.

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

Expenditure Type	2022/23 YTD Budget Variance Favourable / (Unfavourable)	2022/23 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Employee benefits and on-costs	\$4.1M	\$12.2M	Predominately relates to permanent vacancies, in a very tight and competitive labour market, partially offset by an increase in agency staff used to backfill essential roles. Noting that agency staff are also subject to similar supply/demand forces.

Expenditure Type	2022/23 YTD Budget Variance	2022/23 Full Year Budget Variance	Comment
	Favourable / (Unfavourable)	Favourable / (Unfavourable)	
Bad and Doubtful Debts	(\$1.0M)	(\$3.8M)	Additional provisions required to reflect uncertainty on the collectability of rents from a number of commercial tenants, impacted by the ongoing effects of Covid-19.
Event Related Expenditure	\$0.0M	\$1.3M	Sydney Street Events forecast expenses reallocated to Traffic Management in Other Operating Expenditure (below)
Infrastructure Maintenance	\$1.5M	(\$0.1M)	Inclement weather delaying parks maintenance including turfing and landscape projects which are expected to be delivered by year-end
Other Operating Expenditure	(\$0.3M)	(\$2.0M)	Sydney Street Events forecast for Traffic Management costs as well as delayed Ausgrid LED rollout that was budgeted to conclude last financial year.
Waste Disposal Charges	\$0.6M	\$2.0M	Lower tonnages than assumed in the budget, which anticipated a continuation of higher tonnages experienced in the prior two financial years

Income Type	2022/23 YTD Budget Variance Favourable / (Unfavourable)	2022/23 Full Year Budget Variance Favourable / (Unfavourable)	Comment
Capital Grants and Contributions	\$28.0M	\$3.0M	The variance is being driven by significant contributions in the CBD including a large development in Pitt Street.
Interest income	\$1.6M	\$7.8M	Higher opening cash balance and higher interest rates than budgeted.

12. The adopted 2022/23 operating budget was developed as the City was emerging from the second wave of the Covid-19 pandemic. Operational contingencies in the operating budget were therefore set at \$4.5M to include an allowance for the uncertain operating and financial environment.
13. The Chief Operations Office Division, in particular the City Properties Unit, continues to experience increasing uncertainty relating to commercial property income, and bad debts, as we progress negotiated outcomes with tenants that have been significantly impacted by the pandemic and the effects of its long tail. Market conditions are also driving some additional property vacancies, above that allowed in the budget.
14. At this stage the City Services Division is also forecasting to be unfavourable to budget, primarily driven by revenue shortfalls in advertising, work zones and enforcement income.
15. All divisional forecasts are being closely monitored, and additional contingency funding required, would be sought as part of a future quarterly report.

Capital Expenditure

16. The Capital Works program achieved expenditure of \$33.4M against a YTD budget of \$36.6M.
17. The full year forecast of the capital works program has been reduced from a budget of \$209.8M to \$196.6M following the latest review, which assessed the expected delivery of the projects and revised cost estimates for each individual project.
18. Capital Works projects that are finalised with savings may be utilised to offset the additional expenditure in programs requiring additional funds for project completion. Progress on a number of projects has also advanced beyond that included within the program budget projections for 2022/23. Approval is therefore sought to bring forward funds of \$6.1M from future years' capital works forward estimates, approve \$0.5M from the capital works contingency, and to reallocate funds from within relevant programs within the 2022/23 capital budget to continue to progress these projects.
19. There are also a number of changes proposed within the future years' forwards estimates. Full details are provided in Attachment B.

20. Significant variances are forecast for a number of the 2022/23 capital programs asset enhancement budgets and future years' forward estimates, including
- (a) Public Domain:
 - (i) Green Square to Ashmore Connection - additional funds sought for future years which was the subject of a Council report in October 2022.
 - (b) Open Space and Parks:
 - (i) North Rosebery Park - Council resolved additional budget for this project, which was required for additional scope, higher construction costs, salary, design and consultant costs, inflation and contingency. The tender is in the market and due to close late November.
 - (c) Bicycle Related Works:
 - (i) Oxford Street west and Liverpool Street Cycleway - forecast project variance is based on the quantity surveyor's higher cost plan of the concept design than originally anticipated.
21. Significant variances are also forecast for a number of the 2022/23 capital programs asset renewal budgets and future years' forward estimates, including
- (a) Open Space and Parks asset renewal:
 - (i) Open Space Renewal - Hyde Park Lighting - additional funding required to deliver the project following recent cost estimate of the tender documents.
 - (ii) Parks General - Harry Noble Reserve - finalisation of design following Council resolution. Estimated project costs are higher due to additional scope requested by the community.
 - (b) Properties asset renewal:
 - (i) Cook and Phillip Aquatic and Fitness Centre - Works Package - total project variance represents substantial increase in scope and cost estimates based on more developed documentation.
 - (ii) The Breezeway - Renovation - Transport for NSW contribution secured with Letter of Intent received.
 - (iii) Lift Upgrade/Replacement – Various Sites - two phases for delivery are included in the Total Project Budget: phase 1 is based on impending contract; while phase 2 delivery method is under review.
22. A financial summary of the Capital Works program, the proposed budget adjustments, and a status report on all commenced capital projects exceeding \$5.0M in value is provided at Attachment B.

23. Technology and Digital Services capital expenditure, for internally developed projects, is \$4.6M against a budget of \$4.8M with a forecast of \$20.4M that is \$1.4M over the full year budget of \$19.0M. Approval is sought to allocate \$0.3M from capital contingency for this financial year, as outlined at Attachment B. Additional funds may also be sought in future quarterly reviews, however at this stage all annual forecasts are being further refined.
24. Plant and Equipment expenditure incurred year-to-date, net of disposals, was \$1.4M against a budget of \$2.0M with a full year forecast of \$10.9M against a full year budget of \$11.3M at this stage. Approval is however sought to bring forward \$1.9M of funds from future years to progress the purchase of Footway Sweepers and Steam Plan ahead of the budgeted program, as well as \$30K from capital contingency. We have identified that lead times for this equipment could enable delivery this financial year.
25. The acquisition of the Woolstores properties occurred in September, while the purchase of 15 O'Riordan Street was originally anticipated during the final three months of 2021/22 financial year. The forecast changes to the annual budget relate to acquisitions and divestments occurring later than initially expected, but still within the long term financial plan.

Operational Highlights

26. NAIDOC Week celebrates the history, culture and achievements of Aboriginal and Torres Strait Islander peoples and is celebrated by all Australians. This year it was held from 3 to 10 July 2022, and on 9 July 2022 NAIDOC in the City was proudly presented by Gadigal Information Service Aboriginal Corporation in partnership with the City of Sydney. The theme for 2022 was 'Get Up. Stand Up. Show Up'. This year's celebration included the Fig Tree Markets, traditional games from various First Nations communities and peoples, street theatre where First Nations performers shared stories and performances and Bayumi Hub hosting a celebratory program of talented First Nations storytellers and contemporary music artists. Due to wet weather this year the event was held at Town Hall House.
27. A community planting for National Tree Day 2022 was held at Federal Park, Glebe on Sunday 31 July 2022 where everyone had the opportunity to plant a native shrub, grass or vine that will help restore native vegetation in this area along Johnstons Creek. On the day, 234 volunteers participated in planting 5,000 native grasses, shrubs and trees. Additional activities included an Urban Ecology biodiversity walk led by the City's Urban Ecology Coordinator which showcased the recently completed Johnstons Creek canal project.
28. On Saturday 16 July 2022 a Bush Food Planting Day was held at Sydney City Farm in Sydney Park. The event attracted 50 residents who got hands-on experience planting a new bush food and habitat display garden designed by Aboriginal owned business Bush to Bowl. The garden features a diversity of local Australian native plants as bush foods. Attendees also took part in interactive guided walks facilitated by Aboriginal educators from Koori Kinnections and potted up a bush food plant to take home.
29. The City ran a number of July school holiday programs focused on creative participation opportunities for children and youth at Darling Square Makerspace, Pine Street Creative Arts Centre and at Library branches. These programs support social connection, sustainability, creative participation, and digital citizenship. Collaborating on the delivery with a number of City service areas, programs were attended by 166 children and young people aged 6 to 17 years over two weeks.

30. A Recycle It Saturday e-waste and recycling drop-off event was held on 27 August 2022 at Alexandra Canal Depot. This is the third time the City of Sydney partnered with Waverley Council and Woollahra Municipal Council to provide a joint Recycle It Saturday event open to residents from all three council areas. The event attracted 759 attendees (including pedestrians and cyclists), of which 520 were City of Sydney residents, 127 were Waverley Council residents and 83 were Woollahra Council residents. Recycle It Saturday is a quarterly drop-off event where residents can bring a wide range of household items for recycling including: clothes, linen and toys in great condition; polystyrene and soft plastics; electrical items and batteries; light bulbs; printer cartridges; household gas cylinders; large cardboard; and x-rays.
31. In celebration of 'Wear It Purple Day', a Wear It Purple Roller Derby demonstration by Sydney University Roller Derby League was held on 27 August 2022 at Peter Forsyth Auditorium in Glebe. Attendees were invited to learn to participate in roller derby at the event. 37 people participating in the workshop on the day.
32. The City has completed extensive façade remediation and roof repair to its heritage-listed Corporation Building on the southwestern corner of Hay and Parker streets Sydney. Originally constructed in 1894, the building's recent upgrade will see it preserved for generations to come. Formally a building containing offices, refreshment rooms and toilets for the clerks and produce agents working at the New Belmore Markets, today the building contains an entertainment space for the arts.
33. The Australian Life and Little Sydney Lives Photography Exhibition in Hyde Park was launched on 15 September 2022, with works exhibited from 15 September to 9 October 2022. The winners of the two exhibitions were announced at the event. Approximately 2000 images were received as part of the \$10,000 prize from which 28 finalists from around the country were selected for Australian Life and 20 finalists were selected for Little Sydney lives. Customs House and selected libraries will exhibit the Australian Life finalists' images from October 2022 to January 2023.
34. The International Water Association (IWA) is the largest international network of water professionals, with members from 140 countries. On 13 September 2022 at the biennial IWA World Water Congress Project Innovation Awards, the City's Green Square Trunk Drain project was awarded Silver in the Performance Improvement and Operational Solutions Category. Applications for the awards came from a record 52 countries. The \$140 million, new two-kilometre underground stormwater drain installed from Zetland to Alexandria has been critical in reducing flood risk and has been vital to development going ahead in the Green Square area.
35. A "Spring Connection" event was held at the Cliff Noble Centre in Alexandria on Wednesday 14 September 2022. The event was designed as an opportunity for community members to reconnect and build their social networks in local community after the extended impacts of the Covid-19 pandemic resulted in significant periods of social isolation, particularly for older people.
36. The City has installed 11 markers for Yananurala, a 9km storytelling walk along the harbour foreshore led by Indigenous curator Emily McDaniel. These markers highlight significant Aboriginal people and places using the Sydney Aboriginal language where possible.

37. To increase awareness and understanding of the history and ongoing experience of Australian South Sea Islanders, consider how we engage with community to understand needs and priorities, consider advocacy opportunities and mark National Recognition Day on 25 August, the Australian South Sea Islander Flag was raised for the day during a ceremony at Sydney Town Hall. A community event was also held at Redfern Community Centre which include a welcome to country and smoking ceremony, and a range of cultural performances, food, spoken word, history talks, storytelling, panel discussions and screening of the documentary film 'Footprints'.
38. The City marked the passing of Her Majesty Queen Elizabeth II, in a number of ways including; flags on all City Town Halls and Buildings flew at half-mast for one week; the bell at Sydney Town Hall tolled 96 times at midday 9 September 2022; assistance with road closures and event coordination for the Proclamation Ceremony held on Sunday 11 September 2022; several posts over City of Sydney social media and a City of Sydney News story (In pictures: Queen Elizabeth II in Sydney); and an online condolence book on the City's website.

Financial Implications

39. At Quarter 1 the YTD Operating Result was \$34.1M, with a full year forecast Operating result of \$123.3M against a budget of \$121.0M, a favourable variance of \$2.3M.
40. At Quarter 1 the YTD Net Operating Result was \$53.2M, with a full year forecast of \$89.1M against a budget of \$77.1M, a favourable variance of \$12.0M.
41. At Quarter 1, approval is sought to allocate \$0.9M capital contingency for capital works, technology and digital services and plant and equipment.
42. As the evolving and challenging operating environment continues this financial year, the City will continue to review in detail its operational and capital programs within the long-term financial plan, to closely monitor our forecast financial performance and ensure that all plans remain in line with our long term financial sustainability.
43. The City remains in a strong financial position with a YTD cash balance of \$702.7M that includes unrestricted funds of \$357.3M, noting that the 2022/23 year-end cash position is forecast to reduce to \$578.9M.
44. Note that 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

45. The Local Government Act 1993 and Local Government (General) Regulation 2021 require quarterly progress reports against the financial objectives and regular reports (at least six monthly) against the Operational Plan.
46. 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

47. The quarterly report is due to be submitted to Council within two months of the end of the respective quarter.
48. The information contained within this report reflects Council's financial performance in the 2022/23 financial year.

Public Consultation

49. There is no requirement for public consultation for this report.

BILL CARTER

Chief Financial Officer