

## 2023/24 Quarter 1 Review – Delivery Program 2022-2026

File No: X094861

### Summary

This report reviews the operating and capital results against budget for the 2023/24 financial year, and progress against the performance measures identified within the Operational Plan 2023/24, within the broader Delivery Program 2022-2026.

The new financial year continues to be impacted by supply chain disruptions, capacity constraints and higher costs due to ongoing high inflation. Unemployment also remains very low which underpins a tight labour market. These factors create hurdles and implications for the City, its operations and works programs, although our financial performance for the first quarter of 2023/24 has been less volatile against budget than in recent years.

Council's financial performance at Quarter 1 2023/24 reflects a year-to-date (YTD) Operating Result of \$30.7M against a budget of \$22.6M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, Council has achieved a Net Operating Result of \$19.9M against a budget of \$15.6M. At this stage, Council is forecasting a favourable full year Net Operating Result of \$106.8M, a positive variance of \$10.8M, reflecting higher interest income than budgeted. All major variances are outlined within the body of this report, and full details are provided at Attachment A.

Capital Works expenditure was \$46.1M against a YTD budget of \$48.6M. The annual forecast for the program has been revised to \$218.8M against a full year budget of \$237.6M. A summary of the 2023/24 capital project expenditure and forecast, with minor budget adjustments, are detailed at Attachment B.

Technology and Digital Services Capital Works expenditure for projects developed internally was \$5.3M against a budget of \$5.2M. The annual forecast of \$19.2M is slightly lower than the full year budget of \$21.0M at this time, with minor adjustments to the budget proposed in Attachment B

Plant and Equipment expenditure, net of disposals, was \$1.7M against a budget of \$1.6M, with a full year forecast of \$14.7M which is slightly lower than budget.

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 on code of conduct, major legal issues, the quick response, street banner and venue hire support grants and sponsorship programs, fee-waived and discounted community facilities hire, international travel, property and land use matters approved under delegation and contracts over \$50,000 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 2023, including a Quarter 1 Operating Result (before depreciation, interest, capital related costs and income) of \$30.7M and the full year forecast of \$115.3M and a Net Operating Result of \$19.9M and a full year forecast of \$106.8M 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 \$46.1M and a revised full year forecast of \$218.8M, and approve the proposed adjustments to the adopted budget, including bringing forward \$5.0M of funds into the 2023/24 capital budget, \$0.6M from the capital works contingency, and to reallocate funds within relevant programs within capital budget as detailed in Attachment B to the subject report;
- (C) Council note the Technology and Digital Services Capital Works expenditure of \$5.3M, net of disposals, and a full year forecast of \$19.2M, approve \$0.3M allocation from the capital works contingency, and approve bringing forward \$0.2M of funds into the 2023/24 capital budget as detailed in Attachment B to the subject report;
- (D) Council note the Quarter 1 Plant and Equipment expenditure of \$1.7M, net of disposals, and a revised full year forecast of \$14.7M as detailed in Attachment B to the subject report;
- (E) Council note that there were no Property Acquisitions or Disposal transactions in Quarter 1, and the full year forecast for net Property Acquisitions of \$194.1M;
- (F) Council note the supplementary reports, which detail major legal issues, the quick response, street banner and venue hire support grants and sponsorship programs, fee-waived and discounted community facilities hire, international travel, property and land use matters approved under delegation and contracts over \$50,000 in Quarter 1, as detailed in Attachment C to the subject report;
- (G) Council approve the write-off of a commercial property debt of \$251,086.33 (including GST), for Ion Training Pty Ltd, as their appointed liquidator is in the final phases of submitting a report to the Australian Securities and Investments Commission (ASIC) to wind up the company with little prospect of returning any future dividend to its registered unsecured creditors including the City;
- (H) Council note the attached letter from the Office of Local Government pertaining to 2023/24 Financial Assistance Grants - Advice to Councils at shown at Attachment D to the subject report;
- (I) Council note the Global Cooksafe Coalition Statement of Intent signed by the Chief Executive Officer on 17 October 2023 as shown at Attachment E to the subject report and note that any related activities will be explored for inclusion in the next review of the City's Operational Plan and budget.

**Attachments**

**Attachment A.** Financial Results Summary

**Attachment B.** Capital Expenditure Financial Results

**Attachment C.** First Quarter 2023/24 Supplementary Reports

**Attachment D.** Letter from the Office of Local Government, Local Government Grants Commission, pertaining to 2023/24 Financial Assistance Grants - Advice to Councils

**Attachment E.** Global Cooksafe Coalition Statement of Intent

## Background

1. The City's 2022-2026 Delivery Program and 2023/24 Operational Plan, including the 2023/24 budgets, were adopted by Council on 26 June 2023.
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 2023/24 financial year, and a number of operational highlights that occurred in Q1.
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 including significant variances and proposed budget adjustments for 2023/24 and future years, are at Attachment B.
6. Additional reports on code of conduct, major legal issues, the quick response, street banner and venue hire support grants and sponsorship programs, fee-waived and discounted community facilities hire, international travel, property and land use matters approved under delegation and contracts over \$50,000 are provided at Attachment C for information.
7. The Office of Local Government, Local Government Grants Commission, has provided advice to all councils about the calculation and allocation of the Financial Assistance Grants, and requested that this correspondence be tabled at Council, provided at Attachment D. The correspondence advises on the 2023/24 payment entitlements, notes how changes in population can impact these allocations and a slight overpayment to two councils including Sydney (\$35,538) which will be recovered in the 2024/25 grant, but also flags concerns over the advance payments of grants going forward and challenges to fairly distributing grant payments to councils into the future.
8. On 18 September 2023, Council resolved that the Chief Executive Officer be requested to investigate opportunities for the City of Sydney to work with the Global Cooksafe Coalition. In line with this resolution, the City has signed the Global Cooksafe Coalition statement of intent, along with the City of Melbourne as the first Government Supporters, and this statement is included at Attachment E.

## 2023/24 Operating Budget

9. The adopted 2023/24 budget projected operating income of \$674.2M and operating expenditure of \$559.2M, for an Operating Surplus of \$115.0M. After allowing for interest income of \$20.4M, capital grants and contributions of \$86.8M, depreciation expenses of \$120.7M and capital project related costs of \$5.5M, the City projected a budgeted Net Operating Result for the year of \$96.0M.

## First Quarter Operating Results

10. The Q1 operating result was \$30.7M against a budget of \$22.6M, a favourable variance of \$8.1M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the City achieved a Net Operating Result for the quarter of \$19.9M against a budget of \$15.6M, a favourable variance of \$4.3M.
11. The result includes favourable variances of operating income of \$1.2M, operating expenditure of \$7.1M, interest income of \$4.1M and capital project related costs of \$1.1M, partially offset by unfavourable variances in capital grants and contributions of \$7.6M and depreciation expense of \$1.5M.
12. The primary operating income variations to the budget are detailed in the table below:

Income Type	2023/24 YTD budget variance  Favourable / (Unfavourable)	2023/24 full year budget variance  Favourable / (Unfavourable)	Comment
Commercial properties	\$1.3M	\$0.5M	The favourable YTD result is due to better than expected lessee retention and some reductions, following detailed negotiation processes with property tenants, in amounts required to cover estimated debts associated with the impact of the Covid-19 pandemic. The estimates were based in line with the Federal Government's Code of Conduct for commercial tenancies and New South Wales (NSW) government legislation. The full year projection remains largely on budget at this stage of the year.
Community properties	(\$0.6M)	(\$1.7M)	The unfavourable result reflects a delay in the commencement of the lease of the Business Innovation Hub at 180 George Street.

Operating Grants and Contributions	(\$0.3M)	(\$7.4M)	The annual Financial Assistance Grants were received as an early payment in full last financial year 2022/23. At this stage it is anticipated that there will be no early payment in 2023/24.
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13. The primary operating expenditure variances to the budget are detailed in the table below:

<b>Expenditure Type</b>	<b>2023/24 YTD budget variance</b>  Favourable / (Unfavourable)	<b>2023/24 full year budget variance</b>  Favourable / (Unfavourable)	<b>Comment</b>
Employee benefits and on-costs	\$1.1M	\$8.5M	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.
Government Authority Charges	(\$0.2M)	(\$1.0M)	Higher Fire Brigade and Fire and Emergency Services Levies from the State Government. During Q1, the annual invoice for these levies was received which reflected a 15% increase compared to budget estimates.
Grants, sponsorships and donations	\$1.5M	\$1.3M	Delay in accommodation grant funding relating to the opening of the Business Innovation Space.
Property Related	\$2.3M	\$0.0M	Favourable YTD variance due to the timing to deliver properties operational projects.

14. The variances which adjust the operating result to the net result are detailed in the tables below:

<b>Income Type</b>	<b>2023/24 YTD budget variance</b> Favourable / (Unfavourable)	<b>2023/24 full year budget variance</b> Favourable / (Unfavourable)	<b>Comment</b>
Interest income	\$4.1M	\$12.1M	Higher opening cash balance and higher interest rates than assumed in the budget
Capital grants and contributions	(\$7.6M)	\$1.0M	Lower YTD developer contributions received in the first quarter than budgeted.

<b>Expenditure Type</b>	<b>2023/24 YTD budget variance</b> Favourable / (Unfavourable)	<b>2023/24 full year budget variance</b> Favourable / (Unfavourable)	<b>Comment</b>
Depreciation	(\$1.5M)	(\$2.6M)	Higher expense driven by higher values of new intangible assets than assumed in the budget.
Capital related project costs	\$1.1M	-	Timing of works relating to Crown Street Public Domain and expenditure on works that cannot be capitalised (e.g. demolition costs and NSW Government owned traffic signals).

### **Additional commentary on the Q1 Operating Result**

15. Divisional forecasts indicate that every division (with the exception of corporate costs, explained below) is expecting to be within approved budget limits for 2023/24 as summarised at Attachment A.

16. In Q1, the City received a letter from the Office of Local Government (Attachment D) in relation to 2023/24 Financial Assistance Grants. The letter outlines the Financial Assistance Grants methodology and indicates a strong likelihood there will be no early payment in 2023/24. The unfavourable impact on the budget is \$5.9M in Corporate Costs and \$1.6M in City Services for the road grants component.

### **Commercial Property Debt write-off**

17. Ion Training Pty Ltd was a commercial tenant, operating a gym at the City's 307 Pitt St building. The lease with this tenant commenced on 1 July 2018 for a period of 5 years but was terminated early when the tenant ceasing trading on 1 July 2022. On vacating the premises on 21 September 2022, and deducting the bank guarantee held as security for the lease, the tenant had accumulated net rental arrears of \$251,086.33 (including GST).
18. The rental arrears were accumulated during the Covid-19 period when regulations were in place to protect tenants and this protection included a reasonable recovery period post the end of the Covid-19 period. The City and its outsourced property management contractor has made numerous attempts, within the bounds of the Covid-19 regulations, to recover the outstanding debt.



19. In February 2023, the City received a notification from Balance Insolvency as the liquidator appointed by Ion Training Pty Ltd shareholders, advising that the City has registered its interest as one of the company's unsecured creditors, they are in the process of finalising their liquidation with the Australian Securities and Investments Commission (ASIC), and that there is little likelihood of any dividend to any class of creditor. The City has recently contacted the liquidator and confirmed that they plan to submit their final wind up report to ASIC in November 2023 and that there remains little likelihood of any future dividend to registered creditors.
20. Australian Accounting Standards require that debts that are no longer recoverable must be removed from the City's accounting records, along with any associated provision for doubtful debt. Council's formal approval to write-off the balance of the \$251,086.33 balance of this debt is required, as the value exceeds the upper limit delegated by Council to the Chief Executive Officer.
21. Given the history of this debt and the financial situation of the debtor, at 30 June 2023, the City had already made a full provision for the balance of this doubtful debt, after allowing for the City's right to reclaim the GST back from the Australian Taxation Office for debts that cannot be recovered. The removal of both the debt and the provision from the City's balance sheet will therefore have no impact on the City's 2023/24 financial results.

### **Capital Expenditure**

22. The Capital Works program achieved expenditure of \$46.1M against a YTD budget of \$48.6M.
23. The full year forecast of the capital works program has been reduced from a budget of \$237.6M to \$218.8M following the latest review, which assessed the expected delivery of the projects and revised cost estimates for each individual project.
24. 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 2023/24. Approval is therefore sought to bring forward funds of \$5.0M from future years' capital works forward estimates, to approve \$0.6M from the capital works contingency, and to reallocate funds from within relevant programs within the capital budget to continue to progress these projects as detailed at Attachment B.
25. There are also a number of changes proposed within the future years' forwards estimates. Full details are provided at Attachment B.
26. Significant variances are forecast for a number of the 2023/24 capital programs asset enhancement budgets and future years' forward estimates. These variances are listed and explained at Attachment B.
27. 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 also provided at Attachment B.

28. Technology and Digital Services capital expenditure, for internally developed projects, is \$5.3M against a budget of \$5.2M with a forecast of \$19.2M that is \$1.8M under the full year budget of \$21.0M. Approval is sought to bring forward \$0.2M into 2023/24 and allocate \$0.3M from the capital works contingency, as outlined at Attachment B.
29. Plant and Equipment expenditure incurred year-to-date, net of disposals, was \$1.7M against a budget of \$1.6M with a full year forecast of \$14.7M against a full year budget of \$17.2M at this stage.
30. There were no Property Acquisitions or Divestments in the first quarter, however the full year forecast for net Acquisitions shows an unfavourable forecast of \$4.6M, predominantly reflecting divestments that were budgeted this financial year but are now expected to be finalised next financial year.

### Operational highlights

31. Celebrating and recognising the cultures, history and achievements of Aboriginal and Torres Strait Islander people, NAIDOC Week was held from 2 to 9 July 2023. The theme of NAIDOC Week 2023 was 'For Our Elders' – paying homage to Elders who have played, and continue to play, an important role and hold a prominent place for communities and families. As part of the City's support for NAIDOC Week, around 500 street banners were installed across the city featuring a new artwork by Bundjalung and Gumbaynggirr artist, Kim Healy. Jagun. The new visual identity for the NAIDOC Week celebrations in the city is a multi-dimensional artwork that pays respect to Country while celebrating culture. This year NAIDOC in the City returned to Hyde Park North on 8 July with entertainment including stage performances, family and traditional games, market stalls, learning spaces and a dance circle area for performances. A community bush food planting day was also held at Sydney City Farm on 2 July 2023, attracting 75 residents who got hands-on experience planting a new bush food and habitat display in the farm's orchard.
32. The City's Business Innovation Program ran from 1 May to 24 July 2023. This was the fourth year the program has run. A total of 21 local businesses participated in the free 12-week in-depth business innovation accelerator program. The participants learned from some of the top industry experts and business minds in the country. The program also focused on building a peer support community and strengthening professional networks.
33. The Blackwattle Bay Playground in Glebe was officially opened on 29 July 2023. The upgraded park provides a greener and more pleasant space for everyone to enjoy. Also marking the upgrade of Peace Park, Chippendale improvements on the same day.
34. The Sydney Opera House (SOH) celebrates its 50th anniversary in 2023. In recognition of this significant milestone for Sydney's cultural life, the City established an agreement with Sydney Opera House to feature historic images from the Sydney Opera House collection on eligible construction hoardings within proximity to the House. There are now 3 bespoke historic hoardings on display (for up to three months) in the CBD at 151 Macquarie Street, 10 Bridge Street and 68 York Street (George Street frontage). The artworks document key performances, milestones and artists featured at the Sydney Opera House in celebration of the 50th anniversary.

35. National Tree Day was celebrated on Sunday 30 July 2023 at Prince Alfred Park, Surry Hills, where 250 community volunteers participated in planting 5,000 native grasses, groundcovers and flowering herbs of 12 different plant species (as supplied by Indigigrow – a local indigenous nursery). The community planting supports the bush restoration works of promoting a native meadow habitat in the park. Additionally, Pyrmont Ultimo Landcare Group, and 22 local children and three teachers/parents planted 98 native trees, shrubs and groundcovers of 20 different plant species on 26 July 2023 at Wentworth Park light rail stop open space. Since 2010, the City has undertaken community planting activities to celebrate National Tree Day with over 5,500 volunteers planting more than 40,000 native trees, shrubs and grasses.
36. In February 2023, the City of Sydney facilitated the first trial of an on-street electric vehicle charger with Ausgrid and their supplier EVX. In August 2023 the Local Pedestrian, Cycling and Traffic Calming Committee (LPCTCC) approved eight additional chargers. The City of Sydney now has nine operational locations for kerb-side charging in Millers Point, Dawes Point, Pyrmont, Newtown, Camperdown, Darlinghurst, Alexandria, Rosebery and Glebe.
37. On 19 August 2023 in partnership with the National Indigenous Science Education Program (NISEP), Redfern Community Centre hosted the Indigenous Science Experience. This free, community open event has become a regular part of the annual calendar at the centre, with around 400 people visiting and taking part. The event introduces the community to a hands-on experience with Aboriginal science, technology knowledge and perspectives such as bush foods and medicines, seaweeds for environmental sustainability, Aboriginal astronomy, cultural performances connecting to the science of sound and movement, and Aboriginal tools.
38. During August 2023 the City's computer services were upgraded at 37 libraries, community centres, early education and outside school hours care centres. 15 computers, three laptops, three printers and a kiosk were installed at Darling Square Library, 22 laptops and 20 iPads for the maker space and three computers, 18 laptops, three printers and a mini kiosk were installed at Redfern Community Centre, giving the public access to the latest technology including enhanced Wi-Fi, greater accessibility features, better printing capabilities and more mobile devices.
39. On 2 September 2023, the City of Sydney hosted Northcott Pet Day in partnership with the Surry Hills Neighbourhood Advisory Board, Cat Protection Society of NSW, RSPCA NSW and Counterpoint Community Services. This was the 13th Northcott Pet Day hosted at Eddie Ward Park, Surry Hills providing free pet health services to concession card holders in our local area in partnership with animal welfare organisations and local vets. Northcott Pet Day attracted over 300 residents and 132 companion animals including 86 dogs, 39 cats, three birds, three rabbits and one bearded dragon lizard.
40. Sydney City Farm in St Peters hosted a Science of Nature community open day on 12 August 2023 to celebrate Science Week 2023. The Science of Nature themed event attracted 260 visitors who learnt about urban ecology, Aboriginal culture, and how organic farms work with nature to grow food. Participants were also introduced to local wildlife, shown how to create botanical art, attended a native bee habitat workshop, explores a leaf litter touch tanks full of bugs and Aboriginal educators shared cultural knowledge of native plants and provided bush tucker tastings. The City received a \$5,000 grant from Inspiring NSW as part of National Science Week that assisted to support the event.

41. On 21 September 2023, the City hosted a community outreach event during Emergency Ready Week for social housing residents living in Waterloo in partnership with Mission Australia, NSW State Emergency Service, Australian Red Cross, and NSW Fire and Rescue. Over 60 residents engaged with first responders to access Redi Plans and other resources to assist them to prevent, prepare for, respond to, and recover from emergencies, in particular heatwaves, storms, and fires for the summer months ahead.
42. Sydney Streets returned on 23 September 2023 to celebrate Redfern, bringing the community and visitors together and supporting local businesses. A section of Regent Street was closed to traffic with roving entertainment showcasing all that Redfern has to offer. Sussex, Dixon, Harbour and Hay Streets – between Goulburn and Hay Streets – were closed 30 September 2023 for the Sydney Streets event in Haymarket. The summer Sydney Streets program will continue at Glebe on 14 October 2023 and Darlinghurst on 21 October 2023.

### **Supporting the Global Cooksafe Coalition**

43. The Global Cooksafe Coalition exists to promote universal access to safe and sustainable cooking in new kitchens by 2030 and existing kitchens by 2040. That means fossil fuel-free cooking on energy efficient electric appliances, powered by renewable energy.
44. On 18 September 2023, Council resolved that the Chief Executive Officer be requested to investigate opportunities for the City of Sydney to work with the Global Cooksafe Coalition. In line with this resolution, the City has signed the Global Cooksafe Coalition statement of intent, along with the City of Melbourne, as the first Government Supporters.

### **Financial Implications**

45. At Quarter 1 the YTD Operating Result was \$30.7M, with a full year forecast Operating result of \$115.3M against a budget of \$115.0M, a favourable variance of \$0.3M. At Quarter 1 the YTD Net Operating Result was \$19.9M, with a full year forecast of \$106.8M against a budget of \$96.0M, a favourable variance of \$10.8M.
46. 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.
47. The City remains in a strong financial position with a YTD cash balance of \$812.8M, that is projected to be utilised over the life of the long term financial plan to deliver and maintain the City's strategies, services, assets and infrastructure on behalf of its community.
48. Note that surplus funds not yet required for projects are generally being directed towards specific cash reserves (restrictions), in accordance with Council's resolutions 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 dedicated reserve.

### **Relevant Legislation**

49. 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.
50. 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**

51. The quarterly report is due to be submitted to Council within two months of the end of the respective quarter.
52. The information contained within this report reflects Council's financial performance in the 2023/24 financial year.

### **Public Consultation**

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

**BILL CARTER**

Chief Financial Officer