

2023/24 Quarter 2 Review – Delivery Program 2022-2026

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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 City 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 2 2023/24 reflected a year to date (YTD) operating result of \$55.4M against a budget of \$47.2M. 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 \$36.4M against a budget of \$33.2M. At this stage, Council is forecasting a favourable full year Net Operating Result of 107.8M, a positive variance of \$11.8M. All major variances are outlined within the body of this report, and full details are provided in Attachment A.

The Capital Works Program YTD expenditure of \$88.3M compares to a budget of \$103.8M. The annual forecast for the program has been revised to \$220.3M against a full year budget of \$241.8M. A summary of the 2023/24 capital project expenditure and forecast is outlined within the body of this report, and detailed in Attachment B.

The Technology and Digital Services Capital Works expenditure for projects developed internally is \$9.2M YTD, against a budget of \$13.5M. The annual forecast of \$19.9M slightly lower than the full year budget of \$21.3M with adjustments to the budget proposed in Attachment B.

Plant and Equipment YTD expenditure, net of disposals, was \$3.5M against a budget of \$3.6M while the full year forecast of \$16.8M is slightly lower than annual budget of \$17.3M.

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 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 D for information.

Recommendation

It is resolved that:

- (A) Council note the financial performance of Council for the second quarter, ending 31 December 2023, including a Quarter 2 Net Operating Result for the year of \$36.4M and the full year forecast of \$107.8M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) Council note the Quarter 2 Capital Works expenditure of \$88.3M and a revised full year forecast of \$220.3M, and approve the proposed adjustments to the adopted budget, including bringing forward \$14.0M of funds into the 2023/24 capital budget and \$0.8M 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 \$9.2M, net of disposals and a full year forecast of \$19.9M, including bringing forward \$0.1M of funds into the 2023/24 capital budget and \$1.3M from the capital works contingency as detailed in Attachment B to the subject report;
- (D) Council note the Quarter 2 Plant and Equipment expenditure of \$3.5M, net of disposals, a revised full year forecast of \$16.8M, including bringing forward \$1.2M of funds into the 2023/24 capital budget and \$0.4M from the capital works contingency as detailed in Attachment B to the subject report;
- (E) Council note the Quarter 2 net Property divestments of \$0.4M, and the full year forecast net Property Acquisitions of \$194.3M;
- (F) Council note the operational performance indicators and Quarter 2 achievements against the Operational Plan 2023/24 objectives, as detailed in Attachment C to the subject report; and
- (G) Council note the additional supplementary reports, which include details on code of conduct, major legal issues, 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 D to the subject report for information.

Attachments

- Attachment A.** Financial Results Summary
- Attachment B.** Capital Expenditure Financial Results
- Attachment C.** Delivery Program 2022-2026 Half Yearly Progress Report
- Attachment D.** Second Quarter Supplementary Report 2023/24

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 second quarter (Q2) and full year forecast financial results for the 2023/24 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 2023/24 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.

2023/24 Operating Budget

8. 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, capital project related costs of \$5.5M, this was a Net Operating Result for the Year budget of \$96.0M.

Second Quarter Operating Results

9. The Q2 operating result was \$55.4M against a budget of \$47.2M, a favourable variance of \$8.2M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs and gain on sale of assets, the Net Operating Result for the Year Attributable to Council was \$36.4M against a budget of \$33.2M, a favourable variance of \$3.2M.
10. The results include favourable variances of \$3.5M for operating income, \$4.7M for operating expenditure, \$9.4M for interest income and \$1.1M for capital project related costs which are partially offset by unfavourable variances of \$14.2M for capital grants and contributions and \$1.4M for depreciation expense.

11. 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	\$3.4M	\$2.7M	The favourable YTD result is due to better than expected lessee retention, improved turnover rent for the Capitol Theatre, and some provision reductions following detailed negotiation processes with property tenants required to cover 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 reflects these impacts.
Community properties	(\$1.3M)	(\$1.8M)	The unfavourable result reflects a delay in the commencement of the lease of the Business Innovation Hub at 180 George Street.
Enforcement Income	\$0.9M	\$2.6M	Higher volumes of fines for parking and commercial waste infringements issued in the CBD than anticipated in the budget.
Operating Grants and Contributions	\$0.5M	(\$7.7M)	The annual Financial Assistance Grants were received as an early payment in full last financial year. At this stage it is anticipated that there will be no early payment in 2023/24 relating to next financial year.

Income Type	2023/24 YTD budget variance Favourable / (Unfavourable)	2023/24 full year budget variance Favourable / (Unfavourable)	Comment
Private Work Income	(\$0.2M)	\$2.3M	Forecast reflects recoverable costs for Sydney Metro Upgrade in Surry Hills, which is offset by higher Infrastructure Maintenance costs (noted below)

12. The primary operating expenditure variations to the budget are detailed in the table below:

Expenditure Type	2023/24 YTD budget variance Favourable / (Unfavourable)	2023/24 full year budget variance Favourable / (Unfavourable)	Comment
Employee benefits and on-costs	(\$0.5M)	\$1.5M	Predominately relates to permanent vacancies, using agency staff to backfill essential roles. In addition, leave taken has been lower than anticipated YTD, which is forecast to increase substantially in the second half of the year in line with prior years.
Consultancies	\$1.2M	\$1.3M	A range of smaller consultancies across the organisation, yet to commence.
Enforcement and Infringement Costs	(\$0.5M)	(\$2.2M)	Higher cash receipts for enforcement activities in line with favourable enforcement income driving higher processing and profit share expenses to the state government.

Expenditure Type	2023/24 YTD budget variance Favourable / (Unfavourable)	2023/24 full year budget variance Favourable / (Unfavourable)	Comment
Grants, sponsorships and donations	(\$0.7M)	\$1.3M	YTD impacted by earlier than anticipated payment of Food Grants. Favourable full year forecast driven by delay in accommodation grant funding relating to the opening of the Business Innovation Hub.
Infrastructure Maintenance	(\$0.9M)	(\$4.5M)	Increased roadway maintenance for Sydney Metro Upgrade in Surry Hills, accelerated delivery of minor maintenance jobs across the LGA, and new contracts with price increases beyond what was assumed in the budget for street trees maintenance, and additional CCTV pipe inspections.
IT Related Expenditure	\$1.6M	\$2.5M	Favourable, due to a combination of savings relating to multiple projects and software applications coming under budget or not yet commenced.
Property Related	\$2.8M	\$2.0M	Favourable YTD due to revised timing of preventative maintenance projects (still expected to be delivered within the year). The full year favourable variance reflects revised scheduling of planned asset maintenance and savings in reactive maintenance.

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

Income Type	2023/24 YTD budget variance Favourable / (Unfavourable)	2023/24 full year budget variance Favourable / (Unfavourable)	Comment
Interest income	\$9.4M	\$12.1M	Higher opening cash balance and higher interest rates than assumed in the budget.
Capital grants and contributions	(\$14.2M)	\$1.0M	Lower YTD developer contributions received than budgeted The timing of these receipts is challenging to predict, but expected to increase in the final 6 months of the year.

Expenditure Type	2023/24 YTD budget variance Favourable / (Unfavourable)	2023/24 full year budget variance Favourable / (Unfavourable)	Comment
Depreciation	(\$1.4M)	(\$2.6M)	Higher expense driven by higher values of new intangible assets than assumed in the budget.
Capital related project costs	\$1.1M	\$1.1M	Includes 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 Q2 Operating Result

14. 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 in Attachment A.
15. Corporate Costs are forecasting an unfavourable result as the budget for the Federal Government Assistance grant which has been forecast to zero for 2023/24 (as noted above) is included in Corporate Costs.

Capital Expenditure

16. The Capital Works program achieved expenditure of \$88.3M against a YTD budget of \$103.8M.
17. The full year forecast of the capital works program has been reduced from a budget of \$241.8M to \$220.3M 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 2023/24. Approval is therefore sought to bring forward funds of \$14.0M from future years' capital works forward estimates, to approve \$0.8M 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.
19. There are also a number of changes proposed within the future years' forwards estimates. Full details are provided at Attachment B.
20. 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.
21. 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.
22. Technology and Digital Services capital expenditure, for internally developed projects, is \$9.2M against a budget of \$13.5M with a forecast of \$19.9M that is \$1.4M under the full year budget of \$21.3M. Approval is sought to bring forward \$0.1M of future years funds into 2023/24 and allocate \$1.3M from the capital works contingency, as outlined at Attachment B.
23. Plant and Equipment expenditure incurred year-to-date, net of disposals, was \$3.5M against a budget of \$3.6M with a full year forecast of \$16.8M against a full year budget of \$17.2M at this stage. Approval is sought to bring forward \$1.2M into 2023/24 and allocate \$0.4M from the capital works contingency, as outlined at Attachment B.

24. There is a YTD net property divestment of \$0.4M relating to compulsory divestment of land to Transport for NSW as part of Westconnex works at St Peters partly offset by the City's acquisition of land at O'Riordan Street as part of the Green Square to Ashmore project. The full year forecast of \$194.3M for net Acquisitions includes the purchase of a property at 4C-4F Alexandria, approved by Council in November 2023.

Operational Highlights

25. The City of Sydney, alongside McGregor Coxall (architects) and Regal Innovations'; Drying Green Park project won the infrastructure category of the National Landscape Architecture Awards. Earlier this year the project won the Australian Institute for Landscape Architects NSW chapter award for Excellence in the parks and open space, progressing to the national awards presented in October.
26. A free lunchtime organ recital was held in Centennial Hall on 16 October 2023, presented by the City Organist. As well as enjoying some very exciting music, audiences discovered how the grand organ works and the unique sounds it can produce. The organist was also joined by organist Samuel Giddy for some 4-hands duets. On 20 December 2023, the NSW Police band together with the grand organ performed a Christmas story in words and music including a massed choir, children's choir, soprano and harp, and on 28 December 2023 a performance was held featuring young organists of our city.
27. On 21 October 2023, in Green Square Plaza the City held an Aboriginal astronomy and star gazing event. The event celebrated Aboriginal cultural heritage and knowledge through cultural story telling by Brett Leavy, including animations of virtual song lines. The Barayagal First Nations choir sang songs and shared language with participants by teaching songs and singing in Aboriginal languages. These activities were followed by star gazing with the assistance of five volunteers from Northern Sydney Astronomy Society, who provided an opportunity to engage in guided star gazing.
28. We've installed 200 bespoke temperature gauges across our local area to measure how heat impacts the city, and the effectiveness of trees and parks in absorbing heat. The study is being carried out with Western Sydney University and it's the first time a local government area in Sydney's east has been mapped in this way. The air temperature loggers used in the study are shielded from direct solar radiation inside reusable and passively ventilated white aluminium cans. They record temperatures every 10 minutes and will provide more than three million data points throughout the study, which runs until March 2024. Some of the loggers will also measure relative humidity which can gauge the so-called 'feels like' temperature.
29. On 25 November 2023, the City of Sydney and Women's and Girls' Emergency Centre ran a workshop with residents which described the links between inequality and gender-based violence. The workshop covered the role we all play in supporting people who have experienced domestic and family violence and its prevention and was delivered as part of the UN Women's 16 Days of Activism against Gender-Based Violence. The 16 days started on 25 November 2023, which is the International Day for the Elimination of Violence against Women, and ran until 10 December 2023, Human Rights Day.

30. To celebrate International Day of People with Disability (IDoPWD) on 3 December 2023 the City hosted a number of events including an afternoon high tea in Green Square, an NDIS information session at Redfern Community Centre, a selection of short films from the Focus on Ability Short Film Festival showing at Ron Williams (Redfern) and Cliff Noble (Alexandria) Community Centres, a breakfast to assist local business to focus on access and inclusion, and sports days at Perry Park Recreation Centre in Alexandria.
31. The City's Christmas program of events included Santa's Sydney Sleigh Ride on 30 November 2023 – Santa Claus was transported by Sleigh surrounded by a 65-piece marching band and Christmas elves on reindeer tricycles - from Circular Quay to Martin Place where the Martin Place Christmas tree was turned on for the first time. Other activities included free Christmas concerts at Pyrmont, Surry Hills, Rosebery, Rushcutters Bay and Alexandria. All Christmas Village Concerts included two hours of staged entertainment, kid's activities, sausage sizzle and Santa photos. Also, during December, the City hosted End of Year Celebration Luncheons at the Juanita Nielsen, Cliff Noble, Ultimo and St Helen's Community Centres.
32. Greenhouse, a new business innovation hub situated at Circular Quay opened in October 2023. The City has contributed over the next decade through the Accommodation Grants Program. Currently operating across two floors, Greenhouse will unlock its full capacity in 2024 by opening the third floor, which will be used as a dedicated event space. The hub will offer a total of 3,800 square meters of affordable workspace and provide versatile event space. Greenhouse is specifically designed to cater to green economy-focused startups and scaleups, with Greenhouse also offering a comprehensive range of high-quality, affordable programs, events, and support services. These initiatives aim to empower Sydney's climate tech startups, helping them expand into global markets and make a positive impact on the green economy and zero-carbon.
33. The City of Sydney was awarded the Diversity and Inclusion Leadership Award for Excellence 2023, by Urban Development Institute of Australia (UDIA) and MYBOS. Nominees for this award must demonstrate that diversity and inclusion is embedded in their organisation or company and show its impact. The City of Sydney received the award for its progressive leadership in diversity and inclusion. The City has also been recognised as an Inclusive Employer by the Diversity Council Australia.
34. Clarence Street, one of Sydney's oldest and busiest roads, has been resurfaced – with 200 tonnes of recycled asphalt and the equivalent of 120,000 recycled glass jars. About 40 per cent of glass collected in the city's yellow bins is not fit for reuse as a glass container, so this portion of it has been redirected to the roads, which use the hard material in lieu of sand, one of the world's most in-demand resources. Since July 2021 the City of Sydney has used about 1.5 million recycled glass jars and more than 6,000 tonnes of reclaimed asphalt in its road renewal program. As part of its commitment to create more circular economy streams and reduce waste that ends in landfill, the City has also used other materials such as crumbed rubber, printer toner and soft plastics in asphalt mixes in road resurfacing. The top five centimetres of road surface was removed, recycled and replaced with asphalt containing the crushed glass. The one-kilometre road running from the Harbour Bridge to Town Hall was resurfaced block-by-block at night to minimise traffic impacts.

35. The City's New Year's Eve team and pyrotechnic experts worked on arrangements for the 2023 New Year's Eve event for 15 months. On the night there were up to 1000 accredited personnel behind the scenes and 250 volunteers making sure everything ran smoothly. This year's fireworks display featured more than 8.5 tonnes of fireworks launched from the Sydney Harbour Bridge, barges on the harbour, Sydney Opera House sails and city rooftops. The festivities focussed on celebrating Indigenous voices, in a 5½-hour program that included a smoking ceremony, AI-generated illustrations projected onto the Sydney Harbour Bridge pylons, and an appearance from animated dogs Bluey and Bingo. The celebrations kicked off at 7.30pm on the harbour with a traditional smoking ceremony before a Welcome to Country. The 9pm family-friendly fireworks were set to an original soundtrack produced by Yuin artist and rapper Nooky and Sydney-based singer 18YOMAN. Illustrations of First Nations figures were projected onto the pylons throughout the night. They also told the story of Pemulwuy, a Bidjigal man and one of the most famous resistance fighters of the colonial era. Brisbane-based composer and producer, Peter Goodwin, also known as THE SWEATS created the music for the 23-minute midnight display, which was live-streamed and presented on a synchronised simulcast on KIIS 1065.

Financial Implications

36. At Quarter 2 the YTD Operating Result was \$55.4M, with a full year forecast Operating result of \$115.1M against a budget of \$115.0M. At Quarter 2 the YTD Net Operating Result was \$36.4M, with a full year forecast of \$107.8M against a budget of \$96.0M, a favourable variance of \$11.8M.
37. 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.
38. The City remains in a strong financial position with a YTD cash balance of \$789.7M, 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.
39. 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

40. 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.
41. 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

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

Public Consultation

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

BILL CARTER

Chief Financial Officer