

2023/24 Quarter 3 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.

Challenging economic conditions continue to impact the city's financial position through supply chain disruptions, capacity constraints and higher costs due to ongoing persistently 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 current and projected financial performance for 2023/24 has been less volatile against budget than in recent years.

Council's financial performance at Quarter 3 2023/24 reflected a year to date (YTD) operating result of \$95.5M against a budget of \$74.2M. 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 \$80.9M against a budget of \$53.3M. At this stage, Council is forecasting a favourable full year Net Operating Result of 115.0M, a positive variance of \$19.0M. 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 \$128.2M compares to a budget of \$161.9M. The annual forecast for the program has been revised to \$196.9M against a full year budget of \$254.0M. 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 \$12.5M YTD, against a budget of \$17.0M. The annual forecast of \$16.7M lower than the full year budget of \$22.7M.

Plant and Equipment YTD expenditure, net of disposals, was \$5.7M against a budget of \$7.9M while the full year forecast of \$16.2M is slightly lower than annual budget of \$18.9M.

Property Acquisitions (net) at Quarter 3 were \$10.4M.

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 fee-waived and discounted community facilities hire, the quick response, street banner and venue hire support grants and sponsorship programs, major legal issues, 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 third quarter, ending 31 March 2024, including a Quarter 3 Net Operating Result for the year of \$80.9M and the full year forecast of \$115.0M, as outlined in the subject report and summarised in Attachment A to the subject report;
- (B) Council note the Quarter 3 Capital Works expenditure of \$128.2M and a revised full year forecast of \$196.9M, and approve the proposed adjustments to the adopted budget, including bringing forward \$2.0M of funds into the 2023/24 capital budget and \$1.0M 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 \$12.5M, net of disposals and a full year forecast of \$16.7M;
- (D) Council note the Quarter 3 Plant and Equipment expenditure of \$5.7M, net of disposals and a revised full year forecast of \$16.2M and approve the proposed adjustments to the adopted budget as detailed in attachment B to the subject report;
- (E) Council note the Quarter 3 net Property Acquisitions of \$10.4M, and the full year forecast net Property Divestments of \$2.9M;
- (F) Council note the supplementary reports, which detail fee-waived and discounted community facilities hire, the quick response, street banner and venue hire support grants and sponsorship programs, major legal issues, international travel, property and land use matters approved under delegation and contracts over \$50,000 as detailed in Attachment C to the subject report;
- (G) Council approve an increase of \$40,000 cash to the current year's 2023/24 Quick Response grant budget allocation to a new total of \$400,000. This increase in funds is to support the high demand in Quick Response grant applications and to be sourced from City Life's existing overall budget savings.

Attachments

- Attachment A.** Financial Results Summary
- Attachment B.** Capital Expenditure Financial Results
- Attachment C.** Third Quarter 2023/24 Supplementary Reports

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 third quarter (Q3) and full year forecast financial results for the 2023/24 financial year, and the achievements to date against the Operational Plan objectives.
4. A Q3 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 Q3, 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. Additional reports, including details on fee-waived and discounted communities facilities hire, the Quick Response, Banner Pole and Reduced Rate Grant Programs, major legal issues, international travel, property, and land use matters approved under delegation and contracts over \$50,000 are also provided at Attachment C for information.

2023/24 Operating Budget

7. 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.

Third Quarter Operating Results

8. The Quarter Three (Q3) operating result was \$95.5M against a budget of \$74.2M, a favourable variance of \$21.3M. 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 \$80.9M against a budget of \$53.3M, a favourable variance of \$27.6M.
9. The results include favourable variances of \$10.0M for operating income, \$11.4M for operating expenditure, \$14.9M for interest income and \$0.2M for Net Gain on Sale of Assets, which are partially offset by unfavourable variances of \$5.9M for capital grants and contributions, \$1.7M for depreciation expense and \$1.2M for Capital Related Project Costs.

10. 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	\$8.2M	\$9.6M	The favourable YTD result is due to better than expected lessee retention, improved turnover rent for the Capitol Theatre, rent review adjustments 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.
Enforcement Income	\$3.0M	\$2.9M	Higher volumes of Infringements for parking and commercial waste issued in the CBD, than anticipated in the budget.
Operating Grants and Contributions	\$0.5M	(\$8.3M)	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.
Other Building Fees	\$0.2M	\$1.0M	Favourable variance reflective of better than expected Hoarding and Public Domain and Drainage Fees.

Income Type	2023/24 YTD budget variance Favourable / (Unfavourable)	2023/24 full year budget variance Favourable / (Unfavourable)	Comment
Parking Meter Income	(\$1.1M)	(\$1.3M)	Unfavourable variance reflects lower transaction volumes compared to the previous year.
Private Work Income	\$0.1M	\$2.3M	Forecast reflects recoverable costs for Sydney Metro Upgrade in Surry Hills, which is offset by higher Infrastructure Maintenance costs (noted below)
Rates & Annual Charges	(\$1.0M)	(\$1.2M)	Unfavourable residential and business income due to sites taken over by Sydney Metro making them exempt temporarily.

11. 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	(\$2.8M)	(\$2.9M)	The variance relates to the use of agency staff, including backfilling permanent vacancies in essential roles.
Consultancies	\$1.8M	\$1.7M	A range of smaller consultancies across the organisation, yet to commence.

Expenditure Type	2023/24 YTD budget variance Favourable / (Unfavourable)	2023/24 full year budget variance Favourable / (Unfavourable)	Comment
Enforcement and Infringement Costs	(\$0.9M)	(\$1.5M)	Higher cash receipts for enforcement activities in line with favourable enforcement income driving higher processing and profit share expenses to the NSW Government.
Grants, sponsorships and donations	\$2.8M	\$1.0M	YTD favourable variance due to timing delays with the Affordable Housing and Festival Grants as well as savings in accommodation grant funding.
Infrastructure Maintenance	(\$0.7M)	(\$7.4M)	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	\$1.9M	\$1.6M	Favourable, due to a combination of savings relating to multiple projects and software applications coming under budget or not yet commenced.
Property Related	\$3.0M	\$1.9M	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.

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

Income Type	2023/24 YTD budget variance	2023/24 full year budget variance	Comment
	Favourable / (Unfavourable)	Favourable / (Unfavourable)	
Interest Income	\$14.9M	20.1M	Higher opening cash balance and higher interest rates than assumed in the budget.
Capital Grants and contributions	(\$0.7M)	\$4.8M	Lower YTD developer contributions received than budgeted. The timing of these receipts is challenging to predict, but at this stage we still expect to receipt against the forecasted full-year position. Additionally, on a full year basis, the change in contribution (as noted directly below) to monetary from Works in Kind is translating through to the overall favourable variance.
Capital Grants - Works in Kind	(\$5.2M)	(\$3.0M)	YTD variance reflective of change in contribution from Works in Kind to monetary contribution as a result of a developer going into liquidation. Full year variance reflects adjusted projection.

Expenditure Type	2023/24 YTD budget variance	2023/24 full year budget variance	Comment
	Favourable / (Unfavourable)	Favourable / (Unfavourable)	
Depreciation	(\$1.7M)	(\$2.6M)	Higher expense driven by higher values of new intangible assets than assumed in the budget.
Capital related project costs	(\$1.2M)	(\$1.6M)	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 Q3 Operating Result

13. Divisional forecasts indicate that every division (with the exception of City Services and Corporate, explained below) is expecting to be within approved budget limits for 2023/24 as summarised in Attachment A.
14. City Services are forecasting an unfavourable result which reflects an accelerated delivery of minor maintenance jobs across the LGA. This was enabled by a favourable overall operating result at Council level.
15. Corporate Costs are also forecasting an unfavourable result which is attributable to two factors, including the budgeted Federal Government Assistance grant which has been forecast to zero for 2023/24 (as noted above) as well as the variance in Salaries and Wages whereby the City budgets for the rate of vacancies expected throughout the year in Corporate, while the actual savings for known vacancies are then forecast in each of the relevant Divisions as the year progresses.

Capital Expenditure

16. The Capital Works program achieved expenditure of \$128.2M against a YTD budget of \$161.9M.
17. The full year forecast of the capital works program has been reduced from a budget of \$254.0M to \$196.9M 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 \$2.0M from future years' capital works forward estimates, to approve \$1.0M 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 YTD capital expenditure, for internally developed projects, is \$12.5M against a budget of \$17.0M with a forecast of \$16.7M that is \$6.0M under the full year budget of \$22.7M.
23. Plant and Equipment expenditure incurred YTD, net of disposals, was \$5.7M against a budget of \$7.9M with a full year forecast of \$16.2M against a full year budget of \$18.9M at this stage. Approval is sought to reallocate funds from within relevant programs within the capital budget to continue to progress these projects as detailed at Attachment B.
24. There is a YTD net property Acquisitions expenditure of \$10.4M relating to acquisition of land at O'Riordan Street as part of the Green Square to Ashmore project and an additional property acquisition at 4C-4F Huntley St Alexandria, which is partially offset by a compulsory Divestment of land to Transport for NSW as part of Westconnex works at St Peters. The full year forecast of a \$2.9M net Divestment includes the deposit amount for the divestment of the Fig & Wattle depot which is expected to be received in Q4 (with the balance to be received in 2024/25 as budgeted).

Operational highlights

25. The City increased its support for the Yabun Festival, held on 26 January 2024 at Victoria Park, Broadway in the form of a \$190,000 grant. Additionally, festivalgoers enjoyed complimentary access to Victoria Park Pool on the day. Now in its 21st year, the Yabun Festival is Australia's largest one-day celebration of Aboriginal and Torres Strait Islander cultures, with Yabun meaning 'music to a beat' in the Sydney Aboriginal language. The festival consists of Corroboree, performances from First Nations musicians, a marketplace, discussions, speeches and children's activities. This year the festival featured an epic lineup of emerging and established musicians, including Emily Wurramara, Frank Yamma, Tasman Keith, Fred Leone, and Velvet Trip. Dance performances by groups from across Sydney and NSW graced the Corroboree Ground, showcasing the rich cultural heritage of the region. The Speak Out tent also hosted conversations about topics relevant to Aboriginal communities, creating an inclusive space for dialogue.

26. The opening event for Sydney Lunar Festival 2024, Sydney Lunar Streets took place on 10 February 2024 in Dixon, Harbour, Sussex, Hay and Thomas streets with food stalls, lion and dragon dancing, and entertainment. The official opening ceremony was held on 16 February and included the traditional Eye Dotting Ceremony, Welcome to Country and Smoking Ceremony, Dragon Dancing, Dragon Boat Racing Finals and Medal Presentations. Sydney provides the biggest Lunar New Year celebration outside of Asia. The City also hosted a celebration of the lunar new year of the Dragon with community members at Ultimo Community Centre on 16 February 2024. Two Lunar Spectacular shows at Centennial Hall, Sydney Town Hall - a free cultural celebration of dance and music – were held on 17 February 2024.
27. On 9 February 2024, the Lord Mayor, with ACON, hosted a LGBTIQ+ Safety Summit to address the growing violence and hate towards our sexually and gender diverse communities. Following the summit, on 19 February 2024 Council endorsed the Lord Mayoral Minute – Progressing Action on Safety for our LGBTIQ+ Communities.
28. City staff and volunteers walked the streets of the Local Government Area on the night of 27 February 2024 to count and record people sleeping rough. There were 280 people counted sleeping rough across the local area, a one per cent increase from the February 2023 count of 277 people.
29. On 6 March 2024 at Centennial Hall, Sydney Town Hall, international students were officially welcomed at the Lord Mayor's official annual welcome for international students to mark the start of the international students' journey and help students to make lifelong connections with Sydney. This event also officially inducted 24 members of the City's International Student Leadership and Ambassador Program.
30. On 7 March 2024, an affordable, social and inclusive housing forum was held at Sydney Town Hall, bringing together Mayors, Councillors, General Managers and senior employees across Metropolitan Sydney Councils, as well as industry experts to discuss providing affordable housing at the local level. Hear from housing peak bodies and major community housing providers that partner with Councils to build affordable housing. On 14 March 2024 at the Glebe Town Hall, 30 March at Erskineville Town Hall and 21 March 2024 at Redfern Oval Community Room, social housing forums were held.
31. Sydney Town Hall has been a major landmark in the heart of the city centre for over 130 years and a much-loved public venue. Built between 1868 and 1889 from local Sydney sandstone quarried in Pyrmont, it occupies the site which was once the old Sydney burial ground. On 9 March 2024, we held our first open day for the Town Hall since 2016 for the community to explore the history and architecture of one of Sydney's most iconic buildings through an accessible and fun program of activities. The program includes family friendly craft, History and Curator talks, tours of Sydney Town Hall, an organ recital, storytelling workshops, Auslan interpreted Story time and a singalong.
32. The Sydney Streets event continued in summer with parts of Potts Point (17 February 2024), Surry Hills (6 April 2024), Glebe (9 March 2024), Redfern (16 March 2024), Pyrmont (23 March 2024) and Darlinghurst (24 February 2024) closed to traffic for a day and transformed into zones with live music, games, offers and entertainment for the whole family. Local businesses and organisations hosted various in-store and pop-up attractions from fresh food offerings and giveaways to alfresco dining, competitions, and classes. Musicians, dancers, child-friendly entertainers, and small stages with live entertainment kept the vibe going into the evening.

33. A fun, free, family-friendly open day for Sydney's trans and gender diverse communities was held at Cook + Phillip Park Pool on Sunday 31 March 2024. On International Transgender Day of Visibility, visitors and their families and friends enjoyed free exclusive access to the pools and gym, and were treated to a DJ, aqua aerobics classes and roaming entertainment.
34. In March 2024, the City of Sydney won the Built Projects – City and Regional Scale Award for its transformation of George Street. The awards recognize contemporary Australian urban design of the highest quality and aim to encourage innovation in the built environment across cities, towns, and communities. They are co-convened by the Australian Institute of Architects, the Australian Institute of Landscape Architects (AILA) and the Planning Institute of Australia (PIA). The Australian Urban Design Awards recognise good design that creates connections between people and places, transforming spaces for community and addressing challenges like climate change.
35. In March 2024 the City completed the upgrade of Wimbo Park, Surry Hills which included more shade trees and an open lawn, more parkland and less paving, more casual seating, a shared zone along Parkham Lane and a walking path through the park, a play area with in-ground trampolines and softfall mounds, a fenced and planted buffer separating the park from the light rail, reinstating the Wimbo Paddock Mural and Stonemasons monument. The upgrade has transformed a small rest area into 4,600 square metres of open lawns, trees, seating and play areas for children.

Financial Implications

36. At Quarter 3 the YTD Operating Result was \$95.5M, with a full year forecast Operating result of \$116.1M against a budget of \$115.0M. At Quarter 3 the YTD Net Operating Result was \$80.9M, with a full year forecast of \$115.0M against a budget of \$96.0M, a favourable variance of \$19.0M.
37. As the evolving and challenging operating environment has continued this financial year, the City has continued to review in detail, its operational and capital programs within the long-term financial plan, to closely monitor the 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 \$784.3M, which 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