

2023-24 Quarter 4 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.

Challenging economic conditions have impacted the city's financial position through supply chain disruptions, capacity constraints and elevated costs due to persistent high inflation. Unemployment was very low which underpins a tight labour market. These factors created hurdles and implications for the City, its operations and works programs. Despite these challenges our current and financial performance for 2023/24 has been less volatile against budget compared to recent years. We are now beginning to see signs of inflation and unemployment rates returning to normal levels.

Council's financial performance at Quarter 4 2023/24 reflected a full year operating result of \$126.2M against a budget of \$115.0M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, loss on sale of assets and gain on revaluation of properties, the Council has achieved a Net Operating Result of \$156.9M against a budget of \$96.0M.

All major variances are outlined within the body of this report, and full details are provided at Attachment A.

The Capital Works Program expenditure of \$182.5M compares to a budget of \$255.1M. A summary of the 2023/24 capital project expenditure is outlined within the body of this report, and detailed in Attachment B.

The Technology and Digital Services Capital Works expenditure for the full year for projects developed internally was \$16.3M, against a budget of \$22.7M.

Plant and Equipment expenditure, net of disposals, was \$9.0M against the annual budget of \$19.3M.

The balance of Property Acquisitions (net of proceeds from divestment) for the year was \$1.6M.

This report presents the City's interim financial results against budget for the 2023/24 financial year. Full year financial results are being finalised as part of the preparation of the annual financial statements, which are subject to external audit. Should final adjustments be made to the results presented in this report, significant changes will be highlighted in the report accompanying the annual financial statements, to be presented to Council in October 2024.

Progress against the Delivery Program 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.

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 D for information.

An additional recommendation is provided for the extension of the Temporary Use of Road Space for Outdoor Dining 'alfresco city' outdoor dining program, that supports businesses by introducing temporary rules to facilitate outdoor dining, fast tracking applications, waiving fees and reallocating road space for more outdoor dining, initially with essential funding support from the NSW Government.

Recommendation

It is resolved that Council:

- (A) note the interim financial performance of Council for the 2023/24 financial year ending 30 June 2024, including the Net Surplus of \$156.9M as outlined within the report and summarised at Attachment A to the subject report;
- (B) note the full year Capital Works expenditure of \$182.5M for 2023/24, approve the proposed revote of \$20.3M and adjustments to future years forward estimates, to increase the adopted 2024/25 budget to \$247.1M including \$8.0M of contingency to progress the planned capital works, as detailed in the Attachment B to the subject report;
- (C) note the Technology and Digital Services (TDS) capital expenditure of \$16.3M for 2023/24 and approve the proposed revote of \$2.0M and other adjustments totalling (\$0.6M), to increase the adopted 2024/25 TDS capital budget to \$25.4M as shown in Attachment B in the subject report;
- (D) note the full year Plant and Equipment expenditure of \$9.0M for 2023/24 (net of disposals) and approve the proposed revote of \$7.3M, to increase the adopted 2024/25 net budget to \$25.9M as show in Attachment B in the subject report;
- (E) note the full year net Property Acquisitions of \$1.6M;
- (F) note the operational performance indicators and quarter and full year achievements against the Delivery Program 2022-2026 objectives, as detailed in Attachment C to the subject report;
- (G) note the supplementary report which details 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 in Quarter 4, as detailed in Attachment D to the subject report; and
- (H) approve amendment of the date for working with business and approval of outdoor dining on the road area in Appendix 1 of the Outdoor Dining Guidelines to 30 June 2025.

Attachments

- Attachment A.** Financial Results Summary
- Attachment B.** Capital Expenditure Financial Results
- Attachment C.** Delivery Program 2022-2026 - June 2024 Progress Report
- Attachment D.** Fourth 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 Delivery Program.
3. This report provides the fourth quarter (Q4) and full year financial results for the 2023/24 financial year, and the achievements against the Delivery Program and Operational Plan objectives.
4. A Q4 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 for the 2023/24 year, together with a summary of project expenditure, and proposed budget revote and adjustments for 2023/24 and future years, are outlined within the body of this report and detailed at Attachment B.
6. A Quarter 4 progress report against the operational performance measures identified within the 2022-2026 Delivery Program Plan is provided within Attachment C.
7. Additional reports, including 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 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, the budgeted Net Operating Result for the Year was \$96.0M.

Fourth Quarter Operating Results

9. The interim Q4 Operating Surplus was \$126.2M against a budget of \$115.0M, a favourable variance of \$11.2M. After allowing for interest income, capital grants and contributions, depreciation, capital project related costs, loss on the sale of assets and a gain on revaluation of properties, the Net Surplus was \$156.9M against a budget surplus of \$96.0M, a favourable variance of \$60.9M.
10. The result includes favourable variances of \$12.9M for operating income, \$19.2M for interest income, \$29.4M for capital grants and contributions and \$12.3M gain on revaluation of properties, partially offset by unfavourable variances in operating expenditure of (\$1.7M), depreciation expense of (\$1.9M), capital project related costs of (\$8.4M) and loss on sale of assets (\$0.9M).

11. The primary operating income variations to the budget are detailed in the table below:

Income Type	2023/24 Full Year Budget Variance Favourable/ (Unfavourable)	Comment
Commercial Properties	\$8.9M	<p>The favourable result is due to better than anticipated QVB income, lessee retention, rent review adjustments and improved turnover rent for the Capitol Theatre.</p> <p>In addition, there were some provision reductions following detailed negotiation processes with property tenants required to cover debts associated with the impact of the Covid-19 pandemic. The earlier estimates were based on the Federal Government's Code of Conduct for commercial tenancies and New South Wales (NSW) government legislation.</p>
Enforcement Income	\$3.5M	Higher volumes of infringements for parking and commercial waste issued in the CBD, than anticipated in the budget.
Operating Grants and Contributions	(\$1.7M)	<p>85% of the 2023/24 Financial Assistance Grants were received on 30 June, with the remainder to be received in 2024/25.</p> <p>In addition, the revised timing of the delivery of the Safer Cities Her Way program has resulted in a delay in receiving the contribution from NSW Government.</p>
Other Building Fees	\$1.5M	<p>Favourable variance for hoarding fees, specifically for 2 Chifley Square (re-development of the site including demolition and construction of a new 41-storey building).</p> <p>In addition, an increase in Public Domain and Drainage income.</p>
Other Fees	\$1.9M	<p>Majority of the variance relates to a tenancy make good contribution at Woolstores and revenue from the Green Square recycled water facility.</p> <p>In addition, the new catering contract exceeded expectations set in the budget following the commencement of the new contract.</p>

Income Type	2023/24 Full Year Budget Variance Favourable/ (Unfavourable)	Comment
Parking Meter Income	(\$1.4M)	Unfavourable variance reflects lower transaction volumes and forgone revenue relating to events (such as FIFA World Cup and AI-Fresco dining).
Private Work Income	\$2.5M	Favourable variance reflects recoverable costs for Sydney Metro Upgrade in Surry Hills, which is offset by higher Infrastructure Maintenance costs (noted below)
Rates & Annual Charges	(\$3.0M)	Unfavourable business rates income due to sites taken over by Sydney Metro making them temporarily exempt.

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

Expenditure Type	2023/24 Full Year Budget Variance Favourable/ (Unfavourable)	Comment
Employee Benefits and on-costs	(\$6.3M)	The variance relates to the use of agency staff, including backfilling permanent vacancies in essential roles and additional project work.
Bad & Doubtful Debts	(\$2.3M)	Increase in provision largely attributed to the ongoing challenging economic environment following the COVID-19 pandemic. Specific provisioning for commercial property tenants and health and building related outstanding debts.
Consultancies	\$2.7M	Variances across many projects including delays in Safer Cities Her Way Program.
Enforcement & Infringement Costs	(\$1.0M)	Higher cash receipts for enforcement activities in line with favourable enforcement income, driving higher processing and profit share expenses to the NSW Government.

Expenditure Type	2023/24 Full Year Budget Variance Favourable/ (Unfavourable)	Comment
Event Related Expenditure	\$1.4M	Savings across events such as Sydney Streets, Christmas celebrations, New Years Eve and Art & About.
Grants, Sponsorships and Donations	\$2.5M	Favourable variance due to timing delays with the Affordable Housing.
Infrastructure Maintenance	(\$6.1M)	Increased roadway maintenance for Sydney Metro Upgrade in Surry Hills, accelerated delivery of minor maintenance jobs across the LGA, and new contracts with rate increases higher than assumed in the budget for street trees maintenance.
IT Related Expenditure	\$2.5M	Favourable, due to a combination of savings relating to multiple projects and software applications coming under budget or not yet commenced.

13. The variances which adjust the Operating Result to the Net Result are detailed in the table below:

Income Type	2023/24 Full Year Budget Variance Favourable/ (Unfavourable)	Comment
Interest Income	\$19.2M	Higher opening cash balance and higher interest rates than assumed in the budget.
Capital Grants and Contributions	(\$6.0M)	Timing of contributions towards capital works projects.
Capital Grants - Works in Kind (Non-Cash)	\$35.3M	Recognition of assets received as part of developments were higher than anticipated. Significant land dedication sites were:

Income Type	2023/24 Full Year Budget Variance Favourable/ (Unfavourable)	Comment
		<p>\$31.1M Lendlease Circular Quay development, 174-182 George Street</p> <p>\$3.4M - 106-116 Epsom Rd Zetland and \$2.4M - 94-104 Epsom road Zetland</p> <p>It is worth noting that income received for our developer contributions plans, is not new funds, in that both plans continue to recoup the City's previous expenditure as we forward funded infrastructure and facilities in preparation for the coming development.</p> <p>The right to receive Works in Kind contributions and land dedications are recognised for significant developments across the council area, however the timing of delivery or receipt of these contributions is contingent on development progress.</p>

Expenditure Type	2023/24 Full Year Budget Variance Favourable/ (Unfavourable)	Comment
Depreciation	(\$1.9M)	Higher expense driven by higher values of new intangible assets than assumed in the budget.
Capital Project Related Costs	(\$8.4M)	Reflects the timing of expenditure on works that cannot be capitalised (e.g. Temporary works, Utilities, demolition costs and NSW Government owned traffic signals).

Income Type	2023/24 Full Year Budget Variance Favourable/ (Unfavourable)	Comment
Gain on Revaluation of Properties (Non-Cash)	\$12.3M	Annual external investment property revaluation, with the biggest increases relating to 343 George Street and Woolstores.

Additional Commentary on Q4 Operating Result

14. The full year operating result for each Division was within budget. There were a number of units which had minor unfavourable variances, largely attributable to salary and wages.
15. In addition, Corporate Costs variance is due to unfavourable business rates income as noted above, and to Salaries and Wages whereby the City budgets for the rate of vacancies expected throughout the year in Corporate, while the actual savings are reflected in each of the relevant Divisions.

Capital Expenditure

16. Capital Works program expenditure was \$182.5M, against a full year budget of \$255.1M. In the current high inflationary environment, construction cost escalation continues to challenge project budgets. The City's experience is consistent with surrounding Councils who report significant cost increases in capital projects.
17. A number of significant projects were completed in 2023/24 such as The Crescent Synthetic Sports Field, Wimbo Park, Sydney Park Mitigation works, North Roseberry Park and Green Link, Michael Kelly Rest Area, 119 Redfern Street and Perry Park Synthetic Sports Field.
18. Given the work in progress, a further \$20.3M of unspent funds at year end are required to be carried forward and revoted in addition to the capital works program adopted as part of the 2024/25 Operational Plan in June. Revoting these funds will retain the adopted total project budget for these projects, and ensure adequate funding to continue the capital works projects during 2024/25 and into future years.
19. A final review of the program has been undertaken, to take into account the adopted budget, revised revotes, the project timelines, the required community engagement and the capacity to deliver the projects in the difficult market conditions. Following this review, it is recommended that (\$9.7M) is pushed to future years forward estimates, for a revised 2024/25 capital works budget totalling \$247.1M including an \$8.0M contingency.
20. A financial summary of the 2023/24 Capital Works program, a schedule showing the funds carried forward and deferred, the revised 2024/25 budget and future years' forward estimates, and a status report on all active capital projects exceeding \$5.0M in value is provided in Attachment B.

21. Significant variances for a number of the 2023/24 capital projects and program budgets are listed and explained at Attachment B.
22. The Plant and Assets expenditure incurred during the year, net of disposals, was \$9.0M against a budget of \$19.3M. The underspend predominately reflected plant and assets which could not be delivered within the year. It is proposed to revoke an additional \$7.3M, to increase the adopted 2024/25 net budget to \$25.9M as shown in Attachment B.
23. Technology and Digital Services capital works expenditure was \$16.3M against a budget of \$22.7M. The proposed revoke of \$2.0M of funds, and other adjustments totalling (\$0.6M), will increase the adopted 2024/25 TDS capital budget to \$25.4M as shown in Attachment B.
24. Property Acquisitions and Divestments resulted in net acquisitions of \$1.6M for the 2023/24 year, against a net acquisition budget of \$189.5M. The actual of \$1.6M relates 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 and the deposit amount for the divestment of the Fig & Wattle depot.

Extension of Temporary Use of Road Space for Outdoor Dining

25. Since the start of the Covid-19 pandemic, the City has played an important role in supporting the community and the economy through actions such as grants, programs and fee waivers. The Covid-19 'alfresco city' outdoor dining program supported businesses by introducing temporary rules to facilitate outdoor dining, fast tracking applications, waiving fees and reallocating road space for more outdoor dining, with essential funding support from the NSW Government.
26. To continue supporting business recovery, Council resolved in November 2022 to extend the outdoor dining fee waiver until June 2025 and investigate what on-street dining locations may be able to be made permanent. The NSW Government funded on-street dining initiative ended on 30 April 2023 and in March 2023 Council resolved to continue the temporary on-street dining program to 31 December 2024 to allow time for the investigation.
27. As the review and investigation into each site are ongoing, it is recommended that the temporary on-street dining arrangements with concrete barriers continue to 30 June 2025; and the date in Appendix 1 of the Outdoor Dining Guidelines be amended to 30 June 2025. This aligns the program with the City's current outdoor dining fee waiver and allow staff more time to investigate options going forward.
28. The costs associated with continuing the use of the concrete barriers until 30 June 2025 are estimated to be just over \$1.3M which includes the continued hire of the concrete barriers, maintenance of the barriers and the retention of three temporary Council staff positions associated with the program. These costs have been included in the City Life operational budget for the 2024/25 financial year which was adopted by Council on 24 June 2024.
29. All existing on-street dining approvals will be able to continue in their current form until 30 June 2025, subject to their re-approval which will be assessed in accordance with the Guidelines.

Operational Highlights

30. There were a number of operational highlights, including (in chronological order):
- (a) To mark the start of Youth Week 2024 (from 11 April to 21 April) a free community BBQ was held at Redfern Community Centre. It was attended by 100 people including children, young people and community members from Redfern and across the local government area. In conjunction with Youth Week, 200 people attended an “Youth Express” event for young people, 80 people attended Young Online Gamers Take Customs House event held 18 April, 17 young people took part in a multi-sport “Aussie sports” program which aims to engage young people and increase participation in physical activity, and 100 young people and community members attended the annual 3x3 basketball competition for ages 12 to 17 at Peter Forsyth Auditorium. Additionally, the Betty Makin Youth Awards were held at Redfern Town Hall on 16 April, attended by 100 young people, community members and service providers. The awards night recognises the importance of activism and service within the community for young people aged 12 to 24. The Awards also highlight and rewards the work carried out by local youth workers and youth services.
 - (b) A free open day was held on 14 April 2024 to mark the 5th anniversary of Perry Park Recreation Centre. Teaming up with local sporting clubs like the City of Sydney Basketball Association, Roller Fit, ProVolley Academy and Play Pickle, we offered a variety of casual sport sessions including pickleball, roller skating, netball, basketball, futsal, volleyball and badminton. Over 300 adults and 200 children joined in the sporting activities.
 - (c) In partnership with Gamarada, the Coloured Diggers March was held in recognition of the importance of Anzac Day, commencing at Redfern Community Centre with a Welcome to Country from Auntie Barbara Simms and followed by a ceremony at Redfern Park. The event included dances by the Glen Dancers led by Glen Collis and the Bunja Bunja Butterfly Dancers led by Rayma Johnson.
 - (d) 119 Redfern Street – Aboriginal Knowledge and Culture Centre – officially opened on 11 May 2024, providing a gathering place for local Aboriginal and Torres Strait Islander communities. The centre provides two levels of multi-purpose community and commercial space within a highly visible and culturally significant location near existing community and cultural services in Redfern. The conversion of 119 Redfern Street – formerly a post office - is the winner of the National Trust (NSW) Heritage Awards for Architecture.
 - (e) The new Multipurpose Synthetic Sports Field at The Crescent, Annandale was launched in May 2024. The new synthetic sports field is suitable for hockey 5s, futsal, 5-a-side soccer, senior hockey practice, junior matches, and community training in all weather conditions. There is new park and sports field lighting, new native trees, plants and spectator seating.

- (f) Public Art – In Through the Out Door by Callum Morton was launched in May 2024. The installation is located at Market Row and Mullins Street, Sydney. The artworks reimagine 3 rear doorways in city laneways. Through colour and pattern expressed in tiles and lighting, the artworks play with the unconscious life of passers-by, testing their memory of encounters around the city. The striking motifs are inspired by landmarks familiar to Sydneysiders, including the geometry of the Sydney Opera House’s exterior shells, the floor of the Queen Victoria Building, Sol LeWitt’s mural in the foyer of Australia Square and the beaming rays of the infamous Luna Park entrance.
- (g) The flagship National Simultaneous Storytime (NSS) in-person and live-streamed event was held at Green Square library on 22 May 2024. Now in its 24th year, NSS is an initiative of the Australian Library and Information Association (ALIA). A picture book, written and illustrated by an Australian author and illustrator, is read simultaneously in libraries, schools, pre-schools, family day cares, and many other places around the country. Each year a location based on the theme of the book is chosen for the flagship event. Past locations include Taronga Zoo, the National Library and the International Space Station. This year the location was the Green Square library and the book titled ‘Bowerbird Blues’ was read by the author Aura Parker. Bowerbird Blues is a story set in Sydney, discussing themes of sustainability, longing and connection. The event was attended in-person by 55 adults and children, and 2.3 million online.
- (h) National Reconciliation Week was held from 27 May to 3 June 2024, and the theme this year was ‘Now More Than Ever’. Acclaimed author and film director, Brenda Matthews, spoke about her personal journey as a child removed by the State to grow up with a white family and her learnings to reconcile with the past at a Reconciliation Week Event held at Redfern Community Centre. Also in conjunction with Reconciliation Week:
 - (i) Nearly 100 community members attended a community cultural cruise with Tribal Warrior aboard the Mari Nawi (Big Canoe). Attendees learnt about First Nations culture, history, and stories of Sydney Harbour. They heard stories about the Gadigal, Guringai, Wangal, Gammaraigal and Wallumedegal Peoples of Sydney Harbour, and enjoyed a guided walking tour of Belang- le-wool (Clark Island). Whilst on the island, the tour guide and students performed traditional dances.
 - (ii) Barayagal choir led the community in song at the Green Square Library and Ultimo Community Centre on 29 and 30 May 2024. Over 50 participants attended workshops where they were treated to a special performance before joining in to sing Blackfella/Whitefella by Warumpi Band.
 - (iii) An insightful talk (Combat Racism and Support First Nations Communities) facilitated by Dr Georgia Durmush regarding actions to eliminate racism in the community took place at the Redfern Community Centre.

Financial Implications

- 31. At Quarter 4 the Operating Result was \$126.2M, a favourable variance of \$11.2M against budget, while the Net Surplus was \$156.9M, or \$60.9M ahead of budget.

32. The City remains in a strong financial position with a closing cash balance of \$766.3M, 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.
33. 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

34. 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.
35. 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

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

Public Consultation

38. There is no requirement for prior public consultation for this report.

SCOTT MCGILL

Acting Chief Financial Officer