Item 3.

2025/26 Quarter 3 Review – Delivery Program 2025-2029

File No: X115821

Summary

This report reviews the operating and capital results against budget for the 2025/26 financial year, and progress against the performance measures identified within the Operational Plan 2025/26, within the broader Delivery Program 2025-2029.

Council's financial performance at Quarter 3 2025/26 reflects a year-to-date (YTD) Operating Result of $84.8M against a budget of $89.2M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, Council has achieved a Net Operating Result of $76.6M against a budget of $65.5M.

At Quarter 3, Council is forecasting a favourable full year Net Operating Result of $109.3M, a positive variance of $0.4M, reflecting an operating result in line with budget, higher interest income and lower capital grants and contributions than budgeted. All major variances are outlined within the body of this report, and full details are provided in Attachment A.

Capital Works expenditure was $175.4M against a YTD budget of $207.1M. The annual forecast for the program has been revised to $278.0M against a full year budget of $316.4M. A summary of the 2025/26 capital project expenditure and forecast, with minor budget adjustments, are detailed in Attachment B.

Technology and Digital Services Capital Works YTD expenditure for projects developed internally was $21.1M against a budget of $25.2M. The annual forecast of $28.7M is $2.7M lower than the full year budget of $31.4M. A budget adjustment is requested as at Quarter 3, as outlined in Attachment B.

Plant and Equipment YTD expenditure, net of disposals, was $10.4M against a budget of $15.6M, with a full year forecast of $21.9M against a full year budget of $32.3M.

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 is provided bi-annually after the December (Quarter 2) and June (Quarter 4) financial quarters, in line with integrated planning and reporting requirements.

Reports which contain supplementary information are provided at Attachment C.

Emerging Risk - Geopolitical Impacts on Fuel and Contract Costs

Geopolitical developments in the Middle East continue to present volatility risks to global fuel markets and are anticipated to flow through goods and services in City contracts.

In response, the City has established a cross-functional working group to monitor developments, assess potential impacts on fuel costs, and coordinate mitigation actions. A structured process is in place to regularly review market movements and model potential budget implications.

While the City's current exposure is being actively managed, sustained or escalating disruption could place upward pressure on operating costs. This risk continues to be closely monitored.

The City has received around 50 claims and or notifications from suppliers relating to increased costs. The City is assessing these claims and potential response measures to limit the impact on the Operating Result while ensuring ongoing delivery of key services.

Quarterly Budget Review Statement

The Office of Local Government (OLG) has recently introduced revised Quarterly Budget Review Statement (QBRS) reporting requirements, including mandatory standardised templates. These templates are intended to improve sector-wide consistency and comparability of financial reporting. While the City has historically prepared comprehensive quarterly financial reports using internally developed formats that better reflect our organisational structure and performance drivers, compliance with the OLG requirements necessitates the use of the prescribed QBRS templates.

To ensure both regulatory compliance and the provision of meaningful financial information to Council, the City will present both the OLG-mandated QBRS templates provided in Attachment D and its existing internal quarterly financial reports. This approach enables Council to continue receiving detailed, decision useful information while also meeting reporting obligations.

Recommendation

It is resolved that:

(A) Council note the financial performance of Council for the third quarter, ending 31 March 2026, including a Quarter 3 Operating Result (before depreciation, interest, capital related costs and income) of $84.8M and the full year forecast of $117.1M and a Net Operating Result of $76.6M and a full year forecast of $109.3M 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 $175.4M and a revised full year forecast of $278.0M, and approve the proposed adjustments to the adopted budget, including bringing forward $0.3M and utilise $5.7M in contingency, and reallocate the funds within relevant programs as outlined in attachment B, budget adjustments section;

(C) Council note the Technology and Digital Services Capital Works expenditure of $21.1M, and a full year forecast of $28.7M and approve the reallocation of $0.19M funds within relevant programs within capital budget as detailed in Attachment B, budget adjustments section;

(D) Council note the Quarter 3 Plant and Equipment expenditure of $10.4M, net of disposals, and a full year forecast of $21.9M;

(E) Council note the net Property Divestments of $7.9M as at quarter 3, and the full year forecast of $169.9M;

(F) Council note the supplementary reports, which detail the quick response and venue hire support grants and street banner sponsorship programs, major legal issues and international travel in Quarter 3, as detailed in Attachment C to the subject report;

(G) Council note the Office of Local Government (OLG) Quarterly Budget Review Statement (QBRS) in Attachment D to the subject report; and

(H) Council approve the write-off of commercial property debts totalling $284,666.87 (including GST), for Fotolab Pty Ltd and Harbour City International Pty Ltd.

Attachments

Attachment A. Financial Results Summary

Attachment B. Capital Expenditure Financial Results

Attachment C. Third Quarter 2025/26 Supplementary Reports

Attachment D. QBRS Budget Review Statement March 2026

Background

1. The City's Resourcing Strategy 2025 and the 2025/26 Operational Plan, including the 2025/26 budgets, were adopted by Council on 23 June 2025.

2. The Local Government Act 1993 requires quarterly progress reports against the financial objectives and 6-monthly progress reports against the Delivery Program.

3. This report provides the third quarter and full year forecast financial results for the 2025/26 financial year, and a few operational highlights that occurred in the quarter.

4. A third quarter 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 in Attachment A.

5. The Capital Expenditure results to quarter 3, together with a summary of project expenditure including significant variances and proposed budget adjustments for 2025/26 and future years, are in Attachment B.

6. Additional reports which contain supplementary information are also provided at Attachment C for information.

2025/26 Operating Budget

7. The adopted 2025/26 budget projected operating income of $748.5M and operating expenditure of $631.4M, for an Operating Surplus of $117.1M. After allowing for interest income of $30.4M, capital grants and contributions of $97.4M, depreciation expenses of $129.0M and capital project related costs of $7.1M, the City projected a budgeted Net Operating Result for the year of $108.9M.

Third Quarter Operating Results

8. The Q3 operating result was $84.8M against a budget of $89.2M, an unfavourable variance of $4.4M. After allowing for interest income, capital grants and contributions, depreciation and capital project related costs, the City achieved a Net Operating Result YTD of $76.6M against a budget of $65.5M, a favourable variance of $11.1M.

9. The result includes favourable variances in operating expenditure of $9.9M, interest income of $2.1M, capital grants and contributions of $8.3M, depreciation of $1.7M and capital project related costs of $3M. These were partially offset by an unfavourable variance in operating income of $14.3M.

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

Income Type	**2025/26 YTD budget variance**	**2025/26 full year forecast to budget variance**	**Comment**
Building & Development Application Income	($2.7M)	($2.9M)	Reduction in large development applications and a change in recognition of Development Application (DA) fees, which are now being deferred until the determination date under AASB 15 revenue recognition requirements.
Commercial Property Income	($4.3M)	($4.7M)	A challenging leasing market and changing let up assumptions leading to lower than expected income.
Enforcement Income	($3.2M)	($4.5M)	Longer than usual periods of inclement weather disrupted operations, resulting in fewer infringements earlier in the year.
Other Income	$6.6M	$7.7M	Income relating to the delayed settlement of the Fig and Wattle property divestment.
Parking Meter Income	($1.1M)	($1.3M)	Parking meter revenue is up 8% year on year. However inclement weather and improved public transport options have resulted in an unfavourable variance to budget.
Private Work Income	($2.2M)	($2.2M)	When utilities, developers or residents dig up roads and footpaths we charge a fee to restore and inspect. The budget was based on prior year income levels which included a few large projects. This trend has not continued in 2025/26, the forecast has been reduced.
Work Zone	($2.9M)	($3.8M)	The average value of work zone applications received are trending lower, and for shorter durations.

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

Expenditure Type	**2025/26 YTD budget variance**	**2025/26 full year forecast to budget variance**	**Comment**
Employee Benefits and On-costs	($1.4M)	$2.0M	The forecast variance is primarily due to permanent vacancies, partially offset by an increase in agency staff used to backfill essential roles.
Consultancies	$0.5M	$1.4M	A range of smaller variances across the organisation.
Enforcement & infringement costs	($0.8M)	($1.1M)	The budget assumed profit share arrangements with the NSW Government would cease in 2025/26. The finalisation of these arrangements remain under negotiation.
Event Related	$1.6M	$1.8M	The variance reflects savings from reduced spend on outdoor dining, banners, and major event related activities.
Infrastructure Maintenance	$4.6M	$3.1M	Parks contract transition costs were lower than anticipated, along with delays in the finalisation of the stormwater asset condition contract resulting in the forecast reduction.
Property related expenditure	($3.0M)	($2.2M)	Largely driven by the lift in reactive and preventative property maintenance.
Service Contracts	($0.7M)	($1.4M)	Additional resources to address higher than contracted clean-up and bulky waste volumes.

Expenditure Type	2025/26 YTD budget variance	2025/26 full year forecast to budget variance	Comment
Stores & Materials	$1.3M	$1.2M	The cumulative impact of multiple smaller variances.
Waste Disposal Charges	$1.5M	$1.4M	Reduced expenditure due to lower residual waste and comingled recycling tonnages, plus a lower comingled recycling unit rate under the new processing contract.

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

Type	2025/26 YTD budget variance	2025/26 full year forecast to budget variance	Comment
Interest income	$2.1M	$2.9M	Higher actual interest rates on investments have been achieved compared to the budget assumption (4.25%). The lift in official interest rates by the Reserve Bank of Australia at their February & March meeting, driven by persistent inflation above the target range (2% - 3%), indicates rates will remain higher than anticipated.
Capital grants and contributions (Cash and WIK)	$8.3M	($3.2M)	The result reflects a higher-than-expected contribution from works-in-kind (non-cash) capital grants. While overall capital contributions are lower than the prior year, receipts to date are below budget expectations and remain uncertain.

Additional commentary on the third quarter operating result

13. Financial performance has been generally satisfactory across Council year to date. Most divisions are forecasting full year results that are favourable to their annual operating result budgets for 2025/26, apart from the Chief Operating Office, City Planning, Development and Transport and City Services (noted below). There are some individual units that are currently forecasting to have unfavourable results due to specific increased operational demands, as summarised at Attachment A.

14. The Chief Operations Office is forecasting an unfavourable operating result due to increased activity and costs associated with reactive and planned property maintenance, as well as a challenging commercial property leasing market.

15. City Planning, Development and Transport is forecasting an unfavourable operating result due to a decline in income from development applications.

16. City Services division is forecasting unfavourable operating result due to the profit share arrangement with the NSW Government. This expense was not included in the budget; the City has formally requested a cessation of this agreement with the NSW Government that has been in place for over 25 years.

Capital Expenditure

17. The Capital Works program achieved expenditure of \$175.4M against a YTD budget of \$207.1M.

18. The full year forecast of the capital works program has been reduced from a budget of \$316.4M to \$278.0M following the latest review, which assessed the expected delivery of projects and revised cost estimates for each individual project.

19. Progress on a number of projects and programs has advanced beyond that included within the program budget projections for 2025/26. Approval is therefore sought to bring forward funds of \$0.3M from future years' capital works forward estimates, and to approve the transfer of \$5.7M from capital works contingency, and to reallocate funds from relevant programs within the capital budget to continue to progress projects as detailed at Attachment B.

20. Significant variances are forecast for some of the 2025/26 capital program 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 YTD, for internally developed projects, is \$21.1M against a budget of \$25.2M with a forecast of \$28.7M that is \$2.7M lower than the full year budget of \$31.4M. Approval is sought to reallocate funds from relevant programs within the capital budget to continue to progress projects as detailed at Attachment B.

23. Plant and Equipment expenditure incurred YTD, net of disposals, was $10.4M against a budget of $15.6M with a full year forecast of $21.9M against a full year budget of $32.3M.

24. In the third quarter, the full-year forecast for net property acquisitions and divestments is $169.9M. This assumes the sale of the Fig and Wattle Site by 30 June and also includes a positive variance of $47.6M against budget, due to the deferred the acquisition timeframe for the building at 542–544 George Street, Sydney.

Commercial Property Debt Write Off

25. Fotolab Pty Ltd was a former commercial tenant, operating a photographic development and digital imaging business at the City’s 303 Pitt Street building. The lease with this tenant was assigned to the City when it acquired the 303-305 Pitt Street building in late 2016 (the lease commenced 1 January 2015 for a 4 year term with a 5 year option). The tenant experienced difficulty trading during the COVID period and vacated in April 2022. On vacating the premises, and after deducting the bank guarantee held as security for the lease, the tenant had accumulated net rental arrears of $173,647.82 (including GST).

26. The City has made numerous unsuccessful attempts to recover the outstanding debts, eventually seeking legal advice to recover these debts. The advice determined that, based on available information (including recent correspondence with the former tenant), that there was a very low likelihood of recovery.

27. Harbour City International Pty Ltd was a former commercial tenant, operating a travel agency business, booking interstate and international travel arrangements for individuals and businesses at the City’s 303 Pitt Street building. The lease with this tenant was also assigned to the City when it acquired the 303-305 Pitt Street building in late 2016 (the lease commenced 12 April 2016 for a 3 year term with a 3 year option). This tenant experienced difficulty trading during the COVID period (noting that the City provided rental relief at that time, within the bounds of the COVID regulations) and vacated the premises during the COVID period. On vacating the premises, the tenant had accumulated rental arrears of $111,019.05 (including GST).

28. The City has had difficulty contacting this tenant since they vacated and made numerous unsuccessful attempts to recover the outstanding debt, eventually seeking legal advice to recover the debt. The advice obtained is that attempts to reach the former tenant were unsuccessful and as such it is deemed that they are unable to be located.

29. Due to these reasons, it is recommended that Council write off both debts.

Operational Highlights

30. During this quarter the operational highlights included:

(a) The City's Lunar New Year celebrations in February 2026 included Sydney Lunar Festival with markets, music, drumming, and lion and dragon dancing in Haymarket, and events at our community centres and libraries such as traditional Chinese performances, dancing, crafts, calligraphy and a Crimson Horse Year talk with Feng Shui practitioner, Christine Gao. The City also partnered with the Kids Cancer Project, the official Sydney Lunar Festival charity partner, in a family fun day on 28 February 2026. On 22 February the Museum of Chinese in Australia opened in 744 George Street, Haymarket. The City supports the Museum through its Accommodation Grants Program. The first exhibition held at the museum – "Haymarket Merchants: The Making of Sydney's Chinatown" – honours the early Chinese merchant families who built the district. Celebrations concluded with a Lunar Extravaganza was held at Centennial Hall where cultural groups gave performances in dance, music and song.

(b) The NSW Seniors Festival Comedy Show was held at Sydney Town Hall on 3 March 2026 which over 1,000 senior people attended. This annual event encourages older people to see the lighter side of life as part of the festival's cultural activities which also included a Rock and Roll party at the Reginald Murphy Community Centre featuring live music, food and drinks, healthy ageing activities such as pickleball, yoga, tai chi, boxercise, a strength and movement class, walking groups, a stroke safe information session and an older driver confidence workshop. Our libraries hosted brain training workshops and a 'learn tech at your own pace' session.

(c) We completed works to upgrade a number of our reserves – Vescey Reserve in Redfern, Regent Street Reserve in Paddington, Robyn Kemmis Reserve in Glebe and Cooper Street and Edgley Street reserves in Surry Hills. The upgrades included new seating, water bubblers, improved pathways, upgrade lighting, new gardens and lawn areas, and a new playground at Edgley Street reserve. At Robyn Kemmis Reserve we installed play equipment; a nature play area with plants and sandstone boulders; improved the barbecue area with seating and paving; planted more small trees and shrubs; and added a gated fence with low planting around the park boundary. We also completed an upgrade of Wulaba Park in Waterloo, installing new seating and garden areas, planting new trees and repairing paving.

(d) To help in reaching our tree canopy target, we gave 1,000 trees away to residents on 28 March 2026. To encourage diversity in the City's greenery, 25 different types of plants were distributed, ranging from exotic species to those locally indigenous and native to Australia, some which produce fruit or flowers, some deciduous and others evergreen. The smallest type given away was the port wine magnolia from China while the largest was the tulipwood, which hails from eastern Australia.

(e) Cooling hubs, run by St Vincent's Hospital Sydney in partnership with the City of Sydney, provide an area for people experiencing homelessness to cool down with fans, misting spray and bottled water. They are activated during heatwaves in Sydney and operated 11 times over 3 years, with the last in early January 2026 during the "most significant" severe southern heatwave in years, when Western Sydney experienced its hottest day in 6 years.

(f) The 2026 Sydney Gay and Lesbian Mardi Gras festivities kicked off with the raising of the Progress Pride flag above Sydney Town Hall from 13 February to 1 March. The City hosted a stall at Mardi Gras Fair Day and over 40,000 people attended the markets in Victoria Park on 15 February 2026. Those visiting the City of Sydney’s stall were invited to contribute to a pride-themed art mural, make pronoun badges, check pet information and microchips, play dress ups and take photos at the photobooth, and take home free seedlings from City Farm. The City also took part in the Mardi Gras parade as we have done for more than 20 years This year the parade celebrated diverse communities and amplified trans visibility. 75 staff dressed in white, pink and blue who, when combined, formed a large-scale transgender flag followed behind the float themed Our Trans pride. Our pride.

(g) This year, the theme of International Women’s Day was Balance the Scales. Inspired by this theme, we presented the Superwomen of Justice: International Women’s Day pop art card making workshop at The Darling Square Library Makerspace. The workshop celebrated Australian trailblazers from Lilian Fowler and Jessie Street to prominent First Nations leaders and contemporary advocate Sherele Moody. Using photographs, including images sourced from the City of Sydney Archives, participants created bold pop art style cards.

(h) We also held our annual 3x3 basketball tournament at the KGV Recreation Centre in The Rocks on 8 March 2026. Ten teams took part in the tournament, with more than 40 participants competing. These events highlighted the City of Sydney’s ongoing commitment to promoting gender equality through inclusive participation in sport and strengthening community connections.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

31. Sustainable Sydney 2030–2050 Continuing the Vision renews the communities’ vision for the sustainable development of the city to 2050. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress.

32. The Delivery Program, Operational Plan and Resourcing Strategy support the achievement of the desired social, cultural, environmental and economic outcomes contained within the Community Strategic Plan Delivering Sustainable Sydney 2030–2050. This report supports the implementation of all strategic directions and objectives.

Organisational Impact

Risks

33. This approach is within the City's risk appetite, which states:

- The City has a responsibility to ensure that it has sufficient resources in the short, medium and long term to provide the levels of service that are both affordable and considered appropriate by the community.

- We maintain a cautious appetite to financial risks, aiming to minimise the likelihood and impact of significant financial losses. We prioritise the protection of our financial resources and our long-term financial sustainability. We strive to ensure that our financial decisions are well informed, based on sound financial analysis and are aligned with our strategic objectives.

- We assess our capacity to absorb financial losses and maintain sufficient financial resources to mitigate the impact of most unexpected events.

- We have minimal appetite for operating deficits as our operating surpluses are the primary source of funds to renew our assets and our capital works program.

Financial Implications

34. At quarter 3 the YTD Operating Result was $84.8M, with a full year forecast Operating Result of $117.1M, which is in line with budget. At quarter 3, the YTD Net Operating Result was $76.6M, with a full year forecast of $109.3M against a budget of $108.8M, a favourable variance of $0.4M.

35. As the evolving and challenging operating environment continues this financial year, the City will continue to closely monitor trends in forecast financial performance in detail against operational and capital programs within the long-term financial plan and ensure that reviews of our plans maintain our long-term financial sustainability.

36. The City remains in a strong financial position with a YTD cash balance of $692.2M on 31 March 2026, 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.

37. The operating result includes income from the anticipated settlement of the Fig and Wattle property sale, if the settlement does not proceed, the operating result would be negatively impacted.

Relevant Legislation

38. The Local Government Act 1993 and Local Government (General) Regulation 2021 require quarterly progress reports against the financial objectives.

39. In August 2025, the Office of Local Government issued revised Quarterly Budget Review Statement Guidelines under section 203(3) of the Local Government (General) Regulation 2021. The Guidelines mandate all councils to adopt a standardised reporting format and to submit finalised Quarterly Budget Review Statements and associated data returns to the Office of Local Government.

40. Section 406 of the Local Government Act 1993 requires councils to comply with the Integrated Planning and Reporting Guidelines, issued by the Chief Executive of the Office of Local Government. Essential element 4.9 of the Guidelines require regular reports (at least 6 monthly) against the Delivery Program.

Critical Dates / Time Frames

41. The quarterly report is due to be submitted to Council within 2 months of the end of the respective quarter.

42. The information contained within this report reflects Council's financial performance in the current financial year.

Public Consultation

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

JEAN-MICHEL CARRIERE

Executive Director Finance and Procurement