

ITEM 2. PRESENTATION OF THE 2014/15 FINANCIAL STATEMENTS TO COUNCIL

FILE NO: S115002.001

SUMMARY

This report presents the City's 2014/15 Financial Statements to Council and seeks authorisation to issue the public notice of the intention to present the audited statements to the public at the Council meeting of 7 December 2015.

The City of Sydney's Income Statement for the year ended 30 June 2015 reports a Net Operating Result of \$210.5M, in accordance with relevant accounting standards and reporting requirements, against a budget of \$55.0M. The increase above budget is mainly due to the higher than expected level of capital grants and contributions during the year, and more specifically relates to the dedication of land and works to the City, at no cost as a result of Voluntary Planning Agreements with developers.

In the process of finalising the 2014/15 Financial Statements, some adjustments were made to the results reported to council within the 2014/15 Quarter 4 Review of the Delivery Program. These adjustments are summarised in the attached background information.

The Statement of Financial Position reports Net Assets of \$7.6B, an increase of \$0.2B over the year.

The City of Sydney continues to be in a strong, stable financial position. The City is well placed to fund its operations on an ongoing basis, with sufficient financial resources to support the \$1.9B capital works program identified within the City's 2015/16-2024/25 Long Term Financial Plan.

The 2014/15 financial statements incorporate additional mandatory disclosures of financial performance ratios within the Statement of Performance Measurement. These ratios include those mandated as part of the Fit for the Future benchmarks, as well as other, additional performance indicators.

The City supports the ongoing measurement and monitoring of a range of relevant performance indicators, to assess and report each council's financial and asset management sustainability, and will continue to work with the Office of Local Government to refine the definition and current benchmark set for these indicators. In the interim, the City has reported both the mandatory and supplementary indicators, where it believes these provide more relevant information for the readers of the financial statements.

The City's external auditor, PricewaterhouseCoopers, has completed its review and advised that it will be issuing an unqualified audit opinion on the 2014/15 Financial Statements.

RECOMMENDATION

It is resolved that Council:

- (A) receive the Financial Statements for City of Sydney for the year ended 30 June 2015, as shown at Attachment A to the subject report;

- (B) authorise the Lord Mayor, the Deputy Chair of the Corporate, Finance, Properties and Tenders Committee, Chief Executive Officer, and the Chief Financial Officer to sign the General Purpose Financial Statements;
- (C) authorise the Lord Mayor, the Deputy Chair of the Corporate, Finance, Properties and Tenders Committee, Chief Executive Officer, and the Chief Financial Officer to sign the Special Purpose Financial Statements;
- (D) receive the auditor's reports on the 2014/15 Annual Financial Statements; and
- (E) authorise that notice be given, by newspaper advertisement, of public presentation of the audited 2014/15 Financial Statements for the City of Sydney at the Council meeting on 7 December 2015.

ATTACHMENTS

Attachment A: 2014/15 Financial Statements

Attachment B: Auditor's Report on the 2014/15 Financial Statements

BACKGROUND

1. The 2014/15 Financial Statements have been prepared for the City of Sydney in accordance with applicable Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, the Local Government Act 1993 and Regulations and the Local Government Code of Accounting Practice and Financial Reporting (the Code).
2. The Annual Financial Statements comprise the:
 - (a) General Purpose Financial Statements**
 - (i) Income Statement
 - (ii) Statement of Comprehensive Income
 - (iii) Statement of Financial Position
 - (iv) Statement of Changes in Equity
 - (v) Statement of Cash Flows
 - (b) Special Purpose Financial Statements**
 - (i) Income Statement of Business Activities
 - (ii) Statement of Financial Position of Business Activities
 - (c) Special Schedules (note that these schedules are not subject to audit)**
 - (i) Special Schedule 1 – Net Cost of Services
 - (ii) Special Schedule 7 – Report on Infrastructure Assets
3. Notes to the accounts provide supporting information, and these, together with the above Financial Statements, fulfil all related statutory financial reporting requirements and are included within the City's Annual Report.
4. PricewaterhouseCoopers, the City's external auditor, has reviewed the Financial Statements and has indicated that it will provide the City with an unqualified audit opinion.
5. The Office of Local Government requires councils to value non-current assets at fair value on a staged approach of valuing different asset classes in different years, and to continue the cycle on a rolling basis.
6. As a result, the valuation process comprises revaluations of each asset class on a maximum five year cycle basis. The City has the option to undertake valuations more frequently, if required.
7. Under this five year cycle, no classes of assets required revaluation during 2014/15. This is due to the revaluation of Infrastructure assets (e.g. roads, footways, drainage assets) being brought forward to 2011/12 (originally due no later than 2014/15).

8. For 2015/16, the following classes/asset types are due to be revalued:
 - Operational Land (brought forward one year to align with related land classes)
 - Community Land
 - Crown Reserves
 - Land Improvements
 - City Art
 - Heritage Collection
 - Other structures
9. The draft Financial Statements were reviewed by the Audit Risk and Compliance Committee on 30 September 2015 for endorsement to Council for authorisation.
10. The 2014/15 financial statements incorporate mandatory disclosures of financial performance ratios within the Statement of Performance Measurement (Note 13 in the General Purpose Financial Statements) and the Report on Infrastructure Assets (Special Schedule 7). These ratios include performance measures forming part of the NSW Government's *Fit for the Future* assessment, and the City's performance is broadly consistent with projections for 2014/15 submitted to the Independent Pricing and Regulatory Tribunal (IPART) in June 2015.
11. While the City supports the ongoing measurement and monitoring of a range of relevant performance indicators, to assess and report each council's financial and asset management sustainability, there remain a number of reservations about the current definition and mandatory benchmarks for a number of these indicators. The City's management and financial staff have provided submissions on these concerns, as have a number of other local government professionals and auditors, and we will continue to work with the Office of Local Government to refine the current suite of indicators.
12. In cases where the mandatory ratios provide an inadequate or misleading measure of the City's underlying financial performance and/or position, the City has provided supplementary indicators that eliminate some or all of these inadequacies to present a more realistic and balanced view. This is absolutely essential at a time when many readers of the financial statements will consider these performance indicators to be a guide to the City's capacity to be assessed as 'Fit For the Future', under the NSW Government's program for local government reform. The City's submission to IPART in respect of *Fit for the Future* articulated the inherent shortcomings of the key ratios and benchmarks, including Operating Performance, Debt Service (benchmark) and Asset Renewal.
13. These issues have also been raised with PricewaterhouseCoopers as Council's external auditor, who have completed their review and advised that they will be issuing an unqualified audit opinion on the 2014/15 Financial Statements.

FINANCIAL IMPLICATIONS

14. The Financial Statements reflect a Net Operating Result of \$210.5M (versus Budget \$55.0M) and a Net Operating Result excluding Capital Grants and Contributions of \$7.7M (versus Budget \$6.8M). The increase above budget is mainly due to the higher than expected level of capital grants and contributions during the year, in particular the dedication of land and works to the City, at no cost, as a result of Voluntary Planning Agreements with developers.

15. The Q4 Report to Council on 3 August 2015 reflected an Operating Surplus of \$119.1M (versus Budget \$106.5M) and a Net Surplus (Net Operating Result) of \$215.7M (versus Budget \$55.0M). There is a difference of \$5.2M between the Q4 and the 2014/15 Financial Statements' Net Operating Result.

	\$M Fav/(Unfav)
Net Operating Result (reported at Q4 Review)	\$215.7
Capital Work in Progress expenditure reclassified to Operating Expense	(\$3.6)
Asset Disposals (assets replaced by completed capital works)	(\$1.3)
Adjustment to Investment Property Valuation movements	(\$0.2)
Depreciation Adjustment (assets arising from completed capital projects)	(\$0.2)
Minor Adjustments to Rates and Annual Charges	\$0.1
Net Operating Result (Final)	\$210.5

The significant variances to budget were all explained in detail in the Q4 Report which was presented to Council on 3 August 2015.

16. The City of Sydney continues to be in a strong stable financial position. The City is well placed to fund its operations on an ongoing basis, with sufficient financial resources to support \$1.9B capital works program identified within the City's 2015/16-2024/25 Long Term Financial Plan.

RELEVANT LEGISLATION

17. The Local Government Act (1993) requires Council's annual financial statements to be prepared and audited within four months after the end of the year concerned (section 416(1)).
18. The Local Government Act (1993) further requires that, as soon as practicable after a Council receives a copy of the auditor's reports:
- (a) it must fix a date for the meeting at which it proposes to present its audited financial statements, together with the auditor's reports, to the public; and
 - (b) it must give public notice of the date so fixed (section 419(1)).
19. This meeting must be held within five weeks of the receiving the audit opinion.

CRITICAL DATES / TIME FRAMES

20. The 2014/15 Financial Statements must be prepared, audited and submitted to the Office of Local Government by 31 October 2015.
21. A public notice must be placed to advise that the 2014/15 Financial Statements and the Auditor's Report will be presented to the public at the Council meeting of 7 December 2015. The Financial Statements will be included in the Annual Report which must be lodged with the Department of Local Government by 30 November 2015.

PUBLIC CONSULTATION

22. After the City's 2014/15 Financial Statements are endorsed by Council, a notice will be issued to present the audited statements to the public at the Council meeting of 7 December 2015.

BILL CARTER

Chief Financial Officer