

ITEM 5. PRESENTATION OF THE 2015/16 FINANCIAL STATEMENTS TO COUNCIL

FILE NO: S115002.002

SUMMARY

This report presents the City's 2015/16 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 21 November 2016.

The City of Sydney's Income Statement for the year ended 30 June 2016 reports a Net Operating Result for the year of \$112.1M, in accordance with relevant accounting standards and reporting requirements, against a budget of \$23.6M. The increase above budget is mainly due to the higher than expected level of capital grants and contributions during the year, relating to the dedication of land and works to the City, as a result of Voluntary Planning Agreements with developers and the revaluation of the City's Investment Properties.

In finalising the 2015/16 Financial Statements, some further adjustments were made to the results reported to Council within the 2015/16 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 \$11.6B, an increase of \$4.0B over the year. This significant increase can largely be attributed to the Office of Local Government-mandated revaluation of certain fixed asset classes, in particular, the "Community" land class.

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 its ongoing operations and programs, and the \$1.8B capital works program identified within the City's 2016/17 to 2025/26 Long Term Financial Plan.

The 2015/16 financial statements incorporate mandatory disclosures of financial performance ratios within the Statement of Performance Measurement (Note 13 of the General Purpose Financial Statements) and the Report on Infrastructure Assets (Special Schedule 7). These ratios include those mandated as part of the Fit for the Future benchmarks, as well as other relevant performance indicators.

Effective measurement and monitoring of a range of relevant performance indicators, particularly related to asset management, remains an ongoing challenge. The City supports the ongoing effort 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 appropriate benchmarks set for these indicators. In the interim, the City has reported all mandatory indicators, and additional (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 2015/16 Financial Statements.

RECOMMENDATION

It is resolved that Council:

- (A) receive the Financial Statements for City of Sydney for the year ended 30 June 2016, 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 2015/16 Annual Financial Statements; and
- (E) authorise that notice be given, by newspaper advertisement, of public presentation of the audited 2015/16 Financial Statements for the City of Sydney at the Council meeting on 21 November 2016.

ATTACHMENTS

Attachment A: 2015/16 Financial Statements

Attachment B: Auditor's Report on the 2015/16 Financial Statements

BACKGROUND

1. The 2015/16 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
 - (iii) Special Schedule 8 – Permissible Income Calculation
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. For 2015/16, the following classes/asset types were revalued, in accordance with Office of Local Government requirements:

- (a) Community Land (including Council-owned Community land, and Council-controlled land owned by 3rd parties, eg. Crown Reserves);
 - (b) Land Improvements;
 - (c) City Art; and
 - (d) Heritage Collection.
8. The draft Financial Statements were reviewed by the Audit Risk and Compliance Committee on 5 October 2016 for endorsement to Council for authorisation.
9. The 2015/16 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).
10. 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.
11. In cases where the mandatory ratios provide an inadequate or misrepresentative 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. The importance of providing this additional disclosure to the readers of the financial statements was brought into focus by the NSW Government's '*Fit for the Future*' program for local government reform. The City's submission to IPART in 2015 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.
12. PricewaterhouseCoopers, Council's external auditor, has completed their review and advised that they will be issuing an unqualified audit opinion on the 2015/16 Financial Statements.

FINANCIAL IMPLICATIONS

13. The Financial Statements reflect a Net Operating Result of \$112.1M against a budget of \$23.6M. The favourable result is due to the higher than expected level of capital grants and contributions during the year for the dedication of land and works to the City, as a result of Voluntary Planning Agreements with developers, and a significant revaluation increment in respect of the City's Investment Properties.
14. The Q4 Report to Council on 15 August 2016 reported an interim Net Operating Result of \$63.0M, however these fourth quarter results are always interim, pending finalisation and close out of the financial year end. The increase of \$49.1M reflects additional developer contributions, an upwards revaluation of the investment properties, and three minor accounting adjustments.

15. Movements from the Q4 Report to the Financial Statements comprised:

	\$M Fav/(Un fav)
Net Operating Result (reported at Q4 Review)	\$63.0
Recognition of Capital Contributions Income (works in kind and land dedication recognition)	\$32.7
Revaluation of Investment Property Portfolio	\$17.3
Capital Work in Progress expenditure reclassified to Operating Expense	(\$0.6)
Depreciation adjustments resulting from fixed asset finalisation	(\$0.4)
Minor Adjustment to Public Liability Provision	\$0.1
Net Operating Result (Final)	\$112.1

16. All significant variances to budget were explained in detail in the Q4 Report, as presented to Council on 15 August 2016.
17. Since that report, additional capital contributions of \$32.7M were recognised as a result of finalising the accounting treatment of land dedicated to the City from Voluntary Planning Agreements with developers, largely comprising land under roads. The City's investment properties have also been subject to a detailed market appraisal incorporating site inspections this year, which is undertaken about every five years, resulted in an upward revaluation of \$17.3M.
18. It is also worth noting the City's Net Operating Result excluding capital grants and contributions, is a deficit of \$15.0M against a budgeted deficit of \$35.8M. The deficit reflects the City's contribution to the NSW State Government's light rail project, the second year of a six year obligation in line with the long term financial plan, and for this reason the Financial Statements also report a Net Operating Result (surplus) of \$33.6M excluding capital contributions and contribution to light rail.
19. 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 \$1.8B capital works program identified within the City's 2016/17 to 2025/26 Long Term Financial Plan.

RELEVANT LEGISLATION

20. 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)).
21. 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)).

22. This meeting must be held within five weeks of the receiving the audit opinion.

CRITICAL DATES / TIME FRAMES

23. The 2015/16 Financial Statements must be prepared, audited and submitted to the Office of Local Government by 31 October 2016.

24. A public notice must be placed to advise that the 2015/16 Financial Statements and the Auditor's Report will be presented to the public at the Council meeting of 21 November 2016. The Financial Statements will be included in the Annual Report which must be lodged with the Department of Local Government by 30 November 2016.

PUBLIC CONSULTATION

25. After the City's 2015/16 Financial Statements are endorsed by Council, a notice will be issued to present the audited statements to the public at the Council meeting of 21 November 2016.

BILL CARTER

Chief Financial Officer