

Presentation of the 2020/21 Financial Statements and Audit Reports to Council

File No: X025180

Summary

This report presents the City's 2020/21 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 15 November 2021.

The City of Sydney's Income Statement for the year ended 30 June 2021 reports a Net Operating Result for the year of \$195.6M, in accordance with relevant accounting standards and reporting requirements, against a budgeted loss of \$22.5M.

In 2020/21 the City experienced a difficult operating environment brought on by the Covid-19 pandemic. The various financial impacts of the pandemic on the City's operating revenues and expenditures and the City's substantial response to support the Community, were set out in detail in the Q4 report to Council in August 2021.

The favourable result against budget shown in the financial statements is mainly due to a substantial revaluation of the City's Investment Properties, the recognition of significant Heritage Floor Space awards in respect of City-owned properties, the recognition of assets transferred to the City associated with the Sydney Light Rail project, lower operating expenditure and gains on the disposal of assets. Note that the first three of these elements represent significant non-cash accounting entries that recognise the receipt or revaluation of assets.

In completing the 2020/21 Financial Statements, a number of final adjustments were made to the results reported to Council within the 2020/21 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 \$12.4B, a decrease of \$1.8B over the year, reflecting a significant downwards revaluation of the book value of a number of land asset classes. The Office of Local Government requires councils to value non-current assets at fair value, on a staged approach over different years, and to continue this cycle on a rolling basis.

In 2020/21 the City engaged an external valuer to re-assess the book value of land and building assets, having previously estimated community and crown/third party owned land values using the Valuer General's assessment of surrounding land values. As a result of this valuation, investment properties, operational land and buildings increased in value while community and crown/third party owned land under the care and control of the City decreased significantly in value (noting that this reduction in book value offsets a substantial increase in these two asset classes in the previous financial year).

The City of Sydney remains in a strong, stable financial position. Despite the financial impacts of the Covid-19 pandemic, the City is revising its financial recovery plans to ensure that it remains well placed to fund its operations and programs on an ongoing basis, with sufficient financial resources to support the \$1.7B capital works program identified within the City's 2021/22 to 2030/31 Long Term Financial Plan.

The 2020/21 financial statements incorporate mandatory disclosures of financial performance ratios within the Statement of Performance Measurement (Note G6 of the General Purpose Financial Statements) and the Report on Infrastructure Assets (a Special Schedule). The ratios include performance measures and benchmarks mandated by the Office of Local Government (OLG), along with other relevant performance indicators.

Effective measurement and monitoring of a range of relevant performance indicators, particularly those related to asset management, remains an ongoing challenge. The City supports the ongoing effort to assess and report upon every council's financial and asset management sustainability, and will continue to work with the Office of Local Government to refine definitions and appropriate benchmarks set for financial indicators. In the interim, the City has reported all mandatory indicators, and included additional (supplementary) indicators where it believes these provide more relevant information for the readers of the financial statements.

The City is also seeking to work with the Office of Local Government to develop approaches to fixed asset valuation that meet Australian Accounting Standards and are applied with consistency and certainty across the local government sector. Valuation adjustments, which are notional book entries and non-cash in nature, can have a very significant impact on the financial position of a Council, as was the case in the 2020/21 financial year.

The City's external auditor, the Audit Office of NSW, has completed its review and advised that it will be issuing an unqualified audit opinion on the 2020/21 Financial Statements.

Recommendation

It is resolved that Council:

- (A) receive the Financial Statements for City of Sydney for the year ended 30 June 2021, as shown at Attachment A to the subject report;
- (B) authorise the Lord Mayor, Councillor Jess Scully (member – Audit, Risk and Compliance Committee), Chief Executive Officer, and the Chief Financial Officer to sign the General Purpose Financial Statements;
- (C) authorise the Lord Mayor, Councillor Jess Scully (member – Audit, Risk and Compliance Committee), Chief Executive Officer, and the Chief Financial Officer to sign the Special Purpose Financial Statements;
- (D) receive the auditor's reports on the 2020/21 Annual Financial Statements; and
- (E) authorise that notice be given, through Sydney Your Say, of public presentation of the audited 2020/21 Financial Statements for the City of Sydney at the Council meeting on 15 November 2021.

Attachments

Attachment A. Draft 2020/21 Financial Statements

Attachment B. Draft Auditor's Report on the 2020/21 Financial Statements

Background

1. The 2020/21 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 December 2020 (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 – Permissible Income for General Rates
 - (ii) Special Schedule – Report on Infrastructure Assets as at 30 June 2021.
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. 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.
5. 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.
6. For the 2020/21 financial year the City engaged an external valuer to re-assess the value of land and building assets. As a result of their valuation, investment properties, operational land and buildings increased in value. Community and crown/third party owned land that is under the care and control of council decreased significantly in value (note that this reduction offset a substantial increase in these asset classes in the previous financial year). All except one of these changes in estimates represent are reflected in the Statement of Financial Position (balance sheet) only. The exception is the investment property asset class which is included in the Net Operating Result. All are non-cash adjustments.

7. A detailed explanation of the change in valuation methodology for the asset classes mentioned above is set out in note G4-3 of the General Purpose Financial Statements.
8. The draft Financial Statements were reviewed by the Audit Risk and Compliance Committee on 7 October 2021 for endorsement to Council for authorisation.
9. The 2020/21 financial statements incorporate mandatory disclosures of financial performance ratios within the Statement of Performance Measurement (Note G6 in the General Purpose Financial Statements) and the Report on Infrastructure Assets.
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.
12. 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.
13. The Audit Office of NSW, the City's external auditor, has completed their review and advised they will be issuing an unqualified audit opinion on the 2020/21 Financial Statements.

Financial Implications

14. The Financial Statements reflect a Net Operating Result for the year of \$195.6M, in accordance with relevant accounting standards and reporting requirements, against a budgeted loss of \$22.5M and a Net Operating Result excluding Capital Grants and Contributions of \$50.7M versus a budgeted loss \$55.6M.
15. The favourable Net Operating Result against budget is mainly due to a substantial revaluation of the City's Investment Properties, the recognition of a significant Heritage Floor Space awards in respect of City-owned properties, the recognition of public domain assets transferred to the City under the terms of the Light Rail Agreement with the NSW Govt, lower operating expenditure and gains on the disposal of assets. Note that the first three of these elements are not budgeted and represent non-cash accounting entries that recognise the receipt or revaluation of assets.
16. The Quarter 4 Report to Council on 16 August 2021 reflected a Net Operating Result of \$148.4M . There is a difference of \$47.2M between the Q4 Net Operating Result and the 2020/21 Financial Statements' Net Operating Result.

17. Adjustments made after the Q4 Report largely relate to the recognition of assets transferred to the City associated with the Sydney Light Rail project, disposal of assets replaced by the Light Rail project, finalisation of accounting for completed capital projects, recognition of additional non-cash capital contributions income, and depreciation adjustments arising from year end asset accounting finalisation, and can be summarised as follows.
18. Movements from the Quarter 4 Report to the Financial Statements comprised:

	\$M Fav/(Unfav)
Recognition of Light Rail asset transfers received by the City	78.40
Disposal of assets demolished as part of the Light Rail project	(24.30)
Finalise expensing of complete capital works	(11.48)
Finalise capital contributions accounting - recognition of Works in Kind completed and land transferred	10.97
Finalise Depreciation (based on finalised capitalisation of new assets)	(3.54)
Finalisation of other asset disposals	(2.66)
Final YE accrual adjustments	(0.14)
Final adjustment to Provision for Doubtful Debts (Expected Credit Loss model calculation, per AASB 9)	(0.02)

19. The significant variances to budget were detailed within the Q4 Report, as presented to Council on 16 August 2021.
20. The City of Sydney remains in a strong, stable financial position. Despite the financial impacts of the Covid-19 pandemic, the City is revising its financial recovery plans to ensure that it remains well placed to fund its operations and programs on an ongoing basis, with sufficient financial resources to support the \$1.7B capital works program identified within the City's 2021/22 to 2030/31 Long Term Financial Plan.

Relevant Legislation

21. 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)).

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

Critical Dates / Time Frames

24. The 2020/21 Financial Statements must be prepared, audited and submitted to the Office of Local Government by 31 October 2021.
25. A public notice must be placed to advise that the 2020/21 Financial Statements and the Auditor's Report will be presented to the public at the Council meeting of 15 November 2021. The Financial Statements will be included in the Annual Report which will be lodged with the Office of Local Government by 30 November 2021..

Public Consultation

26. Following endorsement of the City's 2020/21 Financial Statements by Council, a notice will be issued via the Sydney Your Say website, for the presentation of the audited statements to the public at the Council meeting of 15 November 2021.

BILL CARTER

Chief Financial Officer

Attachment A

Draft 2020/21 Financial Statements



General Purpose Financial Statements

Annual Report
2020/2021



Council of the City of Sydney

General Purpose Financial Statements

for the year ended 30 June 2021

Contents	Page
Understanding Council's Financial Statements	3
Statement by Councillors and Management	4
Primary Financial Statements:	
Income Statement	5
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Independent Auditor's Reports:	
On the Financial Statements (Sect 417 [2])	87
On the Financial Statements (Sect 417 [3])	88

Overview

City of Sydney is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

456 Kent Street
Sydney NSW 2000

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note B1-2.

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.cityofsydney.nsw.gov.au.

Council of the City of Sydney

General Purpose Financial Statements

for the year ended 30 June 2021

Understanding Council's Financial Statements

Introduction

Each year NSW local governments are required to present audited financial statements to their council and community.

What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2021.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, property, plant and equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's financial statements are required to be audited by the NSW Audit Office.

In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

Who uses the Financial Statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the audit report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

Council of the City of Sydney

General Purpose Financial Statements

for the year ended 30 June 2021

Statement by Councillors and Management made pursuant to Section 413(2)(c) of the *Local Government Act 1993* (NSW)

The attached general purpose financial statements have been prepared in accordance with:

- the *Local Government Act 1993* and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the Local Government Code of Accounting Practice and Financial Reporting.

To the best of our knowledge and belief, these statements:

- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 18 October 2021.

Clover Moore
Lord Mayor
18 October 2021

Jess Scully
Councillor
18 October 2021

Monica Barone
Chief Executive Officer
18 October 2021

Bill Carter
Responsible Accounting Officer
18 October 2021

Council of the City of Sydney

Income Statement

for the year ended 30 June 2021

<i>Original unaudited budget</i>				<i>Actual</i>	<i>Actual</i>
2021	\$ '000		Notes	2021	2020
	Income from continuing operations				
372,343	Rates and annual charges	B2-1		369,374	360,527
102,130	User charges and fees	B2-2		106,687	112,374
33,530	Other revenue	B2-3		75,790	60,551
14,166	Grants and contributions provided for operating purposes	B2-4		24,071	15,309
33,108	Grants and contributions provided for capital purposes	B2-4		144,701	86,296
5,817	Interest and investment income	B2-5		5,501	13,880
69,200	Other income	B2-6		100,971	72,172
–	Net gains from the disposal of assets	B4-1		20,740	11,109
630,294	Total income from continuing operations			847,835	732,218
	Expenses from continuing operations				
240,954	Employee benefits and on-costs	B3-1		231,358	251,115
247,538	Materials and services	B3-2		251,715	218,245
–	Borrowing costs	B3-3		254	263
102,903	Depreciation, amortisation and impairment for non-financial assets	B3-4		122,011	116,623
61,398	Other expenses	B3-5		46,871	40,229
652,793	Total expenses from continuing operations			652,209	626,475
(22,499)	Operating result from continuing operations			195,626	105,743
(22,499)	Net operating result for the year attributable to Council			195,626	105,743
(55,605)	Net operating result for the year before grants and contributions provided for capital purposes			50,925	19,447

The above Income Statement should be read in conjunction with the accompanying notes.

Council of the City of Sydney

Statement of Comprehensive Income

for the year ended 30 June 2021

\$ '000	Notes	2021	2020
Net operating result for the year – from Income Statement		195,626	105,743
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-8	(189,338)	830,101
Movement in Trust Assets reserve - Crown land revaluation ¹	G4-3	(1,855,827)	1,248,726
Total items which will not be reclassified subsequently to the operating result		(2,045,165)	2,078,827
Total comprehensive income for the year attributable to Council		(1,849,539)	2,184,570

(1) Council has updated its valuation methodology in respect of Crown and Community Land, incorporating input from external valuers (previously generalised valuation information from the Valuer General was utilised in valuations of these classes. Note G4-3 details this change in estimates.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Council of the City of Sydney

Statement of Financial Position

as at 30 June 2021

\$ '000	Notes	2021	2020
ASSETS			
Current assets			
Cash and cash equivalents	C1-1	51,051	123,436
Investments	C1-2	417,600	335,250
Receivables	C1-4	57,858	53,636
Inventories	C1-5	989	594
Contract assets and contract cost assets	C1-6	17,195	16,326
Other	C1-11	6,997	5,871
Non-current assets classified as 'held for sale'	C1-7	35,599	54,915
Total current assets		587,289	590,028
Non-current assets			
Investments	C1-2	186,604	174,107
Receivables	C1-4	31,248	31,677
Infrastructure, property, plant and equipment	C1-8	11,470,866	13,317,244
Investment property	C1-9	384,259	344,700
Intangible Assets	C1-10	52,550	48,850
Right of use assets	C2-1	12,551	13,361
Other	C1-11	112	126
Total non-current assets		12,138,190	13,930,065
Total assets		12,725,479	14,520,093
LIABILITIES			
Current liabilities			
Payables	C3-1	104,047	93,562
Contract liabilities	C3-2	27,467	9,269
Lease liabilities	C2-1	203	183
Employee benefit provisions	C3-4	63,717	63,218
Provisions	C3-5	9,927	6,895
Total current liabilities		205,361	173,127
Non-current liabilities			
Contract liabilities	C3-2	46,070	23,714
Lease liabilities	C2-1	12,960	13,530
Employee benefit provisions	C3-4	5,104	5,979
Provisions	C3-5	22,578	20,800
Total non-current liabilities		86,712	64,023
Total liabilities		292,073	237,150
Net assets		12,433,406	14,282,943
EQUITY			
Accumulated surplus	C4-1	4,192,250	3,996,623
IPPE revaluation reserve	C4-1	5,227,265	5,414,640
Trust Assets Reserve	C4-1	3,013,891	4,871,680
Total equity		12,433,406	14,282,943

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Council of the City of Sydney

Statement of Changes in Equity

for the year ended 30 June 2021

\$ '000	Notes	as at 30/06/21				as at 30/06/20			
		Accumulated surplus	IPPE revaluation reserve	Trust assets reserve	Total equity	Accumulated surplus	IPPE revaluation reserve	Trust assets reserve	Total equity
Opening balance at 1 July		3,996,624	5,414,641	4,871,680	14,282,945	3,909,434	4,596,225	3,592,805	12,098,464
Changes due to AASB 1058 and AASB 15 adoption		–	–	–	–	(91)	–	–	(91)
Restated opening balance		3,996,624	5,414,641	4,871,680	14,282,945	3,909,343	4,596,225	3,592,805	12,098,373
Net operating result for the year		195,626	–	–	195,626	105,743	–	–	105,743
Restated net operating result for the period		195,626	–	–	195,626	105,743	–	–	105,743
Other comprehensive income									
Gain (loss) on revaluation of infrastructure, property, plant and equipment ¹	C1-8, G4-3	–	(189,338)	(1,855,827)	(2,045,165)	–	830,101	1,248,726	2,078,827
Other comprehensive income		–	(189,338)	(1,855,827)	(2,045,165)	–	830,101	1,248,726	2,078,827
Total comprehensive income		195,626	(189,338)	(1,855,827)	(1,849,539)	105,743	830,101	1,248,726	2,184,570
Transfers between equity items		–	1,962	(1,962)	–	(18,463)	(11,686)	30,149	–
Closing balance at 30 June		4,192,250	5,227,265	3,013,891	12,433,406	3,996,623	5,414,640	4,871,680	14,282,943

(1) Council has updated its valuation methodology in respect of Crown and Community Land, incorporating input from external valuers (previously generalised valuation information from the Valuer General was utilised in valuations of these classes. Note G4-3 details this change in estimates.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Council of the City of Sydney

Statement of Cash Flows

for the year ended 30 June 2021

<i>Original unaudited budget</i> 2021	\$ '000	Notes	Actual 2021	Actual 2020
Cash flows from operating activities				
Receipts:				
372,343	Rates and annual charges		370,105	353,767
101,717	User charges and fees		116,276	118,632
5,817	Investment and interest revenue received		4,662	14,559
45,274	Grants and contributions		87,983	83,394
–	Bonds, deposits and retention amounts received		19,398	10,989
104,232	Other receipts from Operating Activities		148,987	138,810
Payments:				
(240,954)	Employee benefits and on-costs		(230,936)	(248,730)
(241,279)	Materials and services		(308,101)	(190,818)
–	Borrowing costs		(254)	(263)
–	Bonds, deposits and retention amounts refunded		(12,433)	(13,616)
(57,781)	Other payments for Operating Activities		(45,044)	(119,685)
89,369	Net cash provided by (or used in) operating activities	G1-1a	150,643	147,039
Cash flows from investing activities				
Receipts:				
234,977	Sale/Redemption of investment securities		83,250	57,500
–	Redemption of term deposits		496,000	829,000
157,900	Sale of infrastructure, property, plant and equipment		101,361	88,439
–	Sale of intangible assets		31,671	–
Payments:				
–	Purchase of investment securities		(17,100)	(21,300)
–	Acquisition of term deposits		(657,000)	(900,740)
(1,120)	Purchase of investment property		(1,207)	(400)
(525,771)	Purchase of infrastructure, property, plant and equipment		(246,606)	(213,825)
(12,299)	Purchase of intangible assets		(13,209)	(13,055)
(146,313)	Net cash flows from investing activities		(222,840)	(174,381)
Cash flows from financing activities				
Payments:				
–	Principal component of lease payments		(188)	(109)
–	Net cash flows from financing activities		(188)	(109)
(56,944)	Net change in cash and cash equivalents		(72,385)	(27,451)
116,688	Cash and cash equivalents at beginning of year		123,436	150,887
59,744	Cash and cash equivalents at end of year	C1-1	51,051	123,436
246,535	plus: Investments on hand at end of year	C1-2	604,204	509,357
306,279	Total cash, cash equivalents and investments		655,255	632,793

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Council of the City of Sydney

Contents for the notes to the Financial Statements for the year ended 30 June 2021

A About Council and these financial statements	12
A1-1 Basis of preparation	12
B Financial Performance	16
B1 Functions or activities	16
B1-1 Income, expenses and assets – by function/activity	16
B1-2 Components of functions or activities	17
B2 Sources of income	18
B2-1 Rates and annual charges	18
B2-2 User charges and fees	19
B2-3 Other revenue	20
B2-4 Grants and contributions	21
B2-5 Interest and investment income	24
B2-6 Other income	25
B3 Costs of providing services	26
B3-1 Employee benefits and on-costs	26
B3-2 Materials and services	27
B3-3 Borrowing costs	28
B3-4 Depreciation, amortisation and impairment of non-financial assets	28
B3-5 Other expenses	29
B4 Gains or losses	30
B4-1 Gain or loss from the disposal, replacement and de-recognition of assets	30
B5 Performance against budget	31
B5-1 Material budget variations	31
C Financial position	33
C1 Assets we manage	33
C1-1 Cash and cash equivalents	33
C1-2 Financial investments	33
C1-3 Restricted cash, cash equivalents and investments	35
C1-4 Receivables	37
C1-5 Inventories	39
C1-6 Contract assets and Contract cost assets	40
C1-7 Non-current assets classified as held for sale	41
C1-8 Infrastructure, property, plant and equipment	42
C1-9 Investment properties	46
C1-10 Intangible assets	47
C1-11 Other	49
C2 Leasing activities	50
C2-1 Council as a lessee	50
C2-2 Council as a lessor	52
C3 Liabilities of Council	54
C3-1 Payables	54
C3-2 Contract Liabilities	55

Council of the City of Sydney

Contents for the notes to the Financial Statements for the year ended 30 June 2021

C3-3 Borrowings	57
C3-4 Employee benefit provisions	58
C3-5 Provisions	62
C4 Reserves	64
C4-1 Nature and purpose of reserves	64
D Council structure	65
D1 Results by fund	65
D2 Interests in other entities	65
D3 Discontinued operations	65
D3-1 Discontinued operations	65
E Risks and accounting uncertainties	66
E1-1 Risks relating to financial instruments held	66
E2-1 Fair value measurement	69
E3-1 Contingencies	73
F People and relationships	75
F1 Related party disclosures	75
F1-1 Key management personnel (KMP)	75
F1-2 Councillor and Mayoral fees and associated expenses	75
F2 Other relationships	75
F2-1 Audit fees	75
G Other matters	76
G1-1 Statement of Cash Flows information	76
G2-1 Commitments	77
G3-1 Events occurring after the reporting date	78
G4 Changes from prior year statements	79
G4-1 Changes in accounting policy	79
G4-2 Correction of errors	79
G4-3 Changes in accounting estimates	79
G5 Statement of developer contributions as at 30 June 2021	n/a
G5-1 Summary of developer contributions	n/a
G5-2 Developer contributions by plan	n/a
G5-3 Contributions not under plans	n/a
G5-4 S7.4 planning agreements	n/a
G5-5 S64 contributions	n/a
G6 Statement of performance measures	82
G6-1 Statement of performance measures – consolidated results	82
H Additional Council disclosures (unaudited)	84
H1-1 Statement of performance measures – consolidated results (graphs)	84

A About Council and these financial statements

A1-1 Basis of preparation

These financial statements were authorised for issue by Council on 18 October 2021. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting.

Council is a not for-profit entity.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts. Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes and are clearly marked in the following:

- Income statement
- Statement of cash flows
- Note B5-1 – Material budget variations

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain infrastructure, property, plant and equipment and investment property.

Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

These estimates and assumptions include:

- (i) estimated fair values of investment properties – refer Note C1-9
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 11 and Note C1-8
- (iii) estimated former depot remediation provisions – refer Note C3-5
- (iv) employee benefit provisions – refer Note C3-4.

Significant judgements in applying the Council's accounting policies

- i. Impairment of receivables – refer Note C1-4 and E1-1-b.
- ii. Determination of whether performance obligations are sufficiently specific and whether the contract is within the scope of AASB 15 *Revenue from Contracts with Customers* and/or AASB 1058 *Income of Not-for-Profit Entities* – refer to Notes B2-2 – B2-4.
- iii. Determination of the lease term, discount rate (when not implicit in the lease) and whether an arrangement contains a lease – refer to Note C2-1.

A1-1 Basis of preparation (continued)

Monies and other assets received by Council

The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

The Consolidated Fund consists of cash and other assets associated with general purpose operations only.

The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies.

Trust monies and property subject to Council's control have been included in these reports.

The following Trust monies and properties are held by Council but not considered to be under the control of Council and therefore are excluded from these financial statements:

- Sale of Land for Unpaid Rates (residual amounts after outstanding sums recovered)
- Bequests – Trust
- QVB Replacement Fund
- Sydney Metropolitan Mayors Association

A separate statement of monies held in the Trust Fund is available for inspection at the council office by any person free of charge

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

Volunteer services

Council utilises volunteers in the provision of some services. Whilst the contributions of volunteers are a valued aspect of certain services provided to the community, the financial value of these contributions is not considered material, and furthermore, would not be otherwise purchased. Accordingly, volunteer services are not recognised in these financial statements.

Covid-19 Pandemic

On 11 March 2020, the World Health Organisation declared Coronavirus (Covid-19) a global pandemic, and its impacts on the health of the Australian community and economy have become acute. In late March 2020, Council resolved to implement a number of economic stimulus and recovery measures, including fees and charges waivers, additional grant and donation expenditure, and potential 'fast tracked' capital works. In addition, Council has sought to apply the *National Code of Conduct for commercial tenancies* in respect of property leases, which incorporates rent waivers and deferrals for eligible tenants.

These statements reflect the continuing financial impact of the Covid-19 pandemic, incorporating the above measures to the extent incurred, along with additional impacts to income resulting from financial hardship. Estimates of expected credit losses in respect of receivables have been updated to reflect impacts on debt collection experienced over the course of the pandemic to date. The market valuations of Council's investment properties likewise reflect rent waivers and deferrals, however to date, there is limited evidence of the pandemic having a substantial impact upon commercial property values. For Infrastructure, Property, Plant and Equipment assets, Council's strategy is chiefly to realise 'value in use' for these assets, and accordingly, no financial impact has been recognised at this time in respect of Covid-19. This position will be continually re-assessed in future accounting periods, and to the extent that any impacts can be reliably estimated, asset values will be adjusted appropriately in these statements at that time.

A1-1 Basis of preparation (continued)

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2021 reporting period.

Council has elected not to apply any of these pronouncements in these financial statements before their operative dates.

Council's assessment of these new standards and interpretations (where they have been deemed as having a material impact on Council's future financial performance, financial position and cash flows) are set out below:

AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current

AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date

This Standard amends AASB 101 Presentation of Financial Statements to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current.

For example the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

Council does not expect any material impact from the above amendments and to its classification of liabilities as current or non-current.

This standard has an effective date for the 30 June 2024 reporting period.

AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018 - 2020 and Other Amendments

This Standard amends a number of standards as follows:

- AASB 1 to simplify the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences,
- AASB 3 to update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations,
- AASB 9 to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability,
- AASB 116 to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset,
- AASB 137 to specify the costs that an entity includes when assessing whether a contract will be loss-making and
- AASB 141 to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

Council does not expect any material impact from the above amendments.

This standard has an effective date for the 30 June 2023 reporting period.

New accounting standards adopted during the year

During the year Council adopted the following accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective from 1 July 2020:

- AASB 1059 Service Concession Arrangements: Grantor and associated amendments
- AASB 2018 – 6 Amendments to Australian Accounting Standards – Definition of a business

A1-1 Basis of preparation (continued)

- AASB 2018 – 7 Amendments to Australian Accounting Standards – Definition of material
- AASB 2019 – 3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform
- AASB 2019 – 5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia
- AASB 2019 – 7 Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP / GFS Reconciliations
- AASB 2020 – 4 Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at G4-1.

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B Financial Performance

B1 Functions or activities

B1-1 Income, expenses and assets - by function/activity

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note B1-2.

\$ '000	<i>Income</i>		<i>Expenses</i>		<i>Operating result</i>		<i>Grants and contributions</i>		<i>Carrying amount of assets</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
Functions or activities										
Globally competitive and innovative city	35,430	33,275	43,455	52,649	(8,025)	(19,374)	2,091	5	3,646	2,440
Leading environmental performer	1,944	1,274	83,745	88,832	(81,801)	(87,558)	1,479	2,612	321,546	237,805
Integrated transport for a connected city	84,904	75,995	79,141	75,788	5,763	207	21,469	18,246	1,443,174	987,870
City for walking and cycling	103,820	2,478	2,296	2,247	101,524	231	97,164	24,645	71,948	71,948
Lively and engaging city centre	–	–	1,415	439	(1,415)	(439)	–	–	1,544	2
Resilient and inclusive local communities	52,439	26,195	138,257	132,585	(85,818)	(106,390)	36,072	49,693	6,263,257	6,871,587
Cultural and creative city	1,543	2,099	6,040	7,310	(4,497)	(5,211)	1,321	188	169	61
Housing for a diverse community	–	–	6,131	2,254	(6,131)	(2,254)	–	–	–	–
Sustainable development, renewal and design	18,277	92,269	39,101	44,103	(20,824)	48,166	366	–	8,331	6,871
Implementation through effective governance and partnerships	228,687	177,970	252,628	220,267	(23,941)	(42,297)	1,699	77	4,611,864	6,341,509
General purpose income	320,791	320,663	–	–	320,791	320,663	7,111	6,139	–	–
Total functions and activities	847,835	732,218	652,209	626,474	195,626	105,744	168,772	101,605	12,725,479	14,520,093

B1-2 Components of functions or activities

Details relating to the Council's functions or activities as reported in B1-1 are as follows:

Globally competitive and innovative city

Activities include economic development, cultural events, tourism as well as other factors contributing to a global city that are not included under other activities, such as lifestyle, cultural diversity, adequate transport and affordable housing.

Leading environmental performer

Activities comprise ecologically sustainable development including environmental projects and program development, cleansing and waste services, drainage and recycling.

Integrated transport for a connected city

Activities comprise advocacy for the State and Federal Governments to invest in a high quality world-class transport system that is well planned, efficient and integrated as an essential cornerstone of sustainable development. Additional services include planning and transport management, road and streetscape maintenance, inspection and parking.

City for walking and cycling

Activities include providing alternative, active and sustainable means of transport to provide a bicycle-friendly environment and a pedestrian plan based on public space life studies. Activities are aimed at improving health and reducing greenhouse emissions and road congestion for the City.

Lively and engaging city centre

Activities include the provision of more safe and attractive public spaces for people to enjoy themselves and to create more activities that enliven the City's streets and public spaces.

Resilient and inclusive local communities

Activities comprise planning activities, economic development, and the provision of parks and recreation areas for both local residents and daily visitors. Responsibilities include community development interaction, building strong and positive relationships and partnerships with community organisations and the provision of community facilities.

Cultural and creative city

Activities comprise the provision of spaces for artists to work and show their wares, the use of public domain to make art more accessible to the public and the recognition and celebration of the traditional and living Aboriginal and Torres Strait Island culture.

Housing for a diverse community

Activities include planning and facilitating partnerships and using planning controls to identify the character of the villages and provide guidance on what developments should look like. Planning controls are also used to guarantee a percentage of affordable housing units in large developments where relevant. Support is also given to State and Federal Government initiatives to expand affordable housing opportunities.

Sustainable development, renewal and design

Activities comprise the use of planning and regulatory powers to set controls and targets for renewal and ensure that residential and commercial development is appropriate to its broader setting.

Implementation through effective governance and partnerships

Activities comprise a commitment to work in partnership with government, business and community and to be open and accountable to the community that is served. The process includes aligning corporate planning and organisational structure through effective governance procedures in support of all activities.

B2 Sources of income

B2-1 Rates and annual charges

\$ '000	2021	2020
Ordinary rates		
Residential	78,853	74,956
Business	231,003	228,830
Less: pensioner rebates (mandatory)	(416)	(403)
Less: pensioner rebates (Council policy)	(1,795)	(1,775)
Rates levied to ratepayers	307,645	301,608
Pensioner rate subsidies received	363	361
Total ordinary rates	308,008	301,969
Annual charges		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	60,600	57,774
Stormwater management services	2,119	2,077
Less: pensioner rebates (mandatory)	(260)	(247)
Less: pensioner rebates (Council policy)	(1,093)	(1,046)
Annual charges levied	61,366	58,558
Total annual charges	61,366	58,558
Total rates and annual charges	369,374	360,527

Council has used 2019 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts which is the beginning of the rating period to which they relate.

Prepaid rates are recognised as a financial liability until the beginning of the rating period.

Pensioner rebates relate to reductions in rates and certain annual charges for eligible pensioners' place of residence in the local government council area that are not subsidised by the NSW Government.

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates and are in substance a rates payment.

B2-2 User charges and fees

\$ '000	Timing	2021	2020
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Planning and building regulation	2	18,692	16,349
Private works – section 67	2	5,367	5,293
Health inspections	2	209	1,192
Total fees and charges – statutory/regulatory		24,268	22,834
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Child care	2	1,169	1,260
Advertising space income	2	6,406	7,539
Parking meter income	2	35,179	32,490
Parking station income	2	7,241	7,893
Recreation facilities hire	2	12,607	14,975
Venue hire	2	2,192	4,875
Workzone and filming fees	2	14,016	15,020
Other	2	3,609	5,488
Total fees and charges – other		82,419	89,540
Total user charges and fees		106,687	112,374
Timing of revenue recognition for user charges and fees			
User charges and fees recognised over time (1)		–	–
User charges and fees recognised at a point in time (2)		106,687	112,374
Total user charges and fees		106,687	112,374

Accounting policy

Revenue arising from user charges and fees is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service. There is no material obligation for Council in relation to refunds or returns.

Where an upfront fee is charged such as membership fees for the leisure centre the fee is recognised on a straight-line basis over the expected life of the membership.

Licences granted by Council are all either short-term or low value and all revenue from licences is recognised at the time that the licence is granted rather than the term of the licence.

2019 accounting policy

User charges and fees are recognised as revenue when the service has been provided.

B2-3 Other revenue

\$ '000	<i>Timing</i>	2021	2020
Award of heritage floor space	2	44,064	20,688
Ex gratia rates	2	694	735
Fines	2	30,272	29,984
Revenue from contractual claims	2	48	7,000
Sponsorship and donations	2	27	199
Other	2	685	1,945
Total other revenue		75,790	60,551

Timing of revenue recognition for other revenue

Other revenue recognised over time (1)		–	–
Other revenue recognised at a point in time (2)		75,790	60,551
Total other revenue		75,790	60,551

Accounting policy for other revenue

Where the revenue is earned for the provision of specified goods / services under an enforceable contract, revenue is recognised when or as the obligations are satisfied.

Statutory fees and fines are recognised as revenue when the service has been provided, the payment is received or when the penalty has been applied, whichever occurs first.

Other revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

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B2-4 Grants and contributions

\$ '000	Timing	Operating 2021	Operating 2020	Capital 2021	Capital 2020
General purpose grants and non-developer contributions (untied)					
General purpose (untied)					
Current year allocation					
Financial assistance – general component	2	5,585	4,776	–	–
Financial assistance – local roads component	2	1,526	1,363	–	–
Amount recognised as income during current year		7,111	6,139	–	–
Special purpose grants and non-developer contributions (tied)					
Cash contributions					
Previously specific grants:					
Child care	2	2,723	2,502	–	–
Environmental programs	2	517	170	246	70
Library	2	684	654	–	–
Community and recreation	2	7,303	941	24	–
Transport (other roads and bridges funding)	2	2,762	2,523	14,760	5,048
Previously contributions:					
External contributions to capital projects	2	–	–	715	2,090
Other contributions	2	2,971	2,380	–	–
Total special purpose grants and non-developer contributions – cash		16,960	9,170	15,745	7,208
Non-cash contributions					
Land dedications	2	–	–	9,617	21,991
Asset transfers arising from Sydney Light Rail project	2	–	–	78,396	3,950
Total other contributions – non-cash		–	–	88,013	25,941
Total special purpose grants and non-developer contributions (tied)		16,960	9,170	103,758	33,149
Total grants and non-developer contributions		24,071	15,309	103,758	33,149
Comprising:					
– Commonwealth funding		9,448	8,345	6,705	3,175
– State funding		11,652	4,584	8,324	1,943
– Other funding		2,971	2,380	88,729	28,031
		24,071	15,309	103,758	33,149

Developer contributions

\$ '000	Notes	Timing	Operating 2021	Operating 2020	Capital 2021	Capital 2020
Developer contributions:						
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):						
Cash contributions						
S 7.4 – contributions using planning agreements		2	–	–	1,361	7,632
S 7.11 – contributions towards amenities/services		2	–	–	2,803	19,975
S 61 – fixed development consent levies		2	–	–	18,044	21,134
Total developer contributions – cash			–	–	22,208	48,741

B2-4 Grants and contributions (continued)

\$ '000	Notes	Timing	Operating 2021	Operating 2020	Capital 2021	Capital 2020
Non-cash contributions						
S 7.4 – contributions using planning agreements		2	–	–	16,616	4,222
S 7.11 – contributions towards amenities/services		2	–	–	2,119	184
Total developer contributions non-cash			–	–	18,735	4,406
Total contributions			–	–	40,943	53,147
Total grants and contributions			24,071	15,309	144,701	86,296

Timing of revenue recognition for grants and contributions

Grants and contributions recognised over time (1)

Grants and contributions recognised at a point in time (2)

Total grants and contributions

–	–	–	–
24,071	15,309	144,701	86,296
24,071	15,309	144,701	86,296

Unspent grants and contributions

Certain grants and contributions are obtained by Council on the condition they be spent in a specified manner or in a future period but which are not yet spent in accordance with those conditions are as follows:

\$ '000	Operating 2021	Operating 2020	Capital 2021	Capital 2020
Unspent grants and contributions				
Unspent funds at 1 July	153	102	–	19
Add: Funds received and not recognised as revenue in the current year	2,384	84	898	–
Less: Funds received in prior year but revenue recognised and funds spent in current year	(153)	(33)	–	(19)
Unspent funds at 30 June	2,384	153	898	–

Contributions ¹

Unspent cash contributions and future works receivable at 1 July

Add: contributions recognised as revenue in the reporting year but not yet spent in accordance with the conditions**Less:** contributions recognised as revenue in previous years that have been spent during the reporting year**Unspent contributions at 30 June**

–	–	130,499	150,468
–	–	14,462	26,501
–	–	(67,155)	(46,470)
–	–	77,806	130,499

(1) Council recognises revenue in respect of works in kind contributions where the agreed value of the works is secured via lodgement of a bank guarantee and/or cash security deposit. The delivery of these future works can extend over multiple accounting periods. Upon completion and acceptance of works by Council, the outstanding contribution debtor is cleared, and assets recognised as Infrastructure, Property Plant and Equipment. Works not secured via guarantee or deposit are recognised as revenue upon transfer to Council.

B2-4 Grants and contributions (continued)

Accounting policy

Grants and contributions – enforceable agreement with sufficiently specific performance obligations

Grant and contribution revenue from an agreement which is enforceable and contains sufficiently specific performance obligations is recognised as or when control of each performance obligations is transferred.

The performance obligations vary according to the agreement but include provision of public events, planting of trees and delivery of training courses for members of the public. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Performance obligations may be satisfied either at a point in time or over time and this is reflected in the revenue recognition pattern. Point in time recognition occurs when the beneficiary obtains control of the goods / services at a single time (e.g. completion of the project when a report / outcome is provided), whereas over time recognition is where the control of the services is ongoing throughout the project (e.g. provision of community health services through the year).

Where control is transferred over time, generally the input methods being either costs or time incurred are deemed to be the most appropriate methods to reflect the transfer of benefit.

Capital grants

Capital grants received by Council under an enforceable contract for the acquisition or construction of infrastructure, property, plant and equipment to identified specifications which will be under Council's control on completion are recognised as revenue as and when the obligation to construct or purchase is completed.

For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project.

For acquisitions of assets, the revenue is recognised when the asset is acquired and controlled by the Council.

Developer contributions

Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of sections 7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979* (EP&A Act).

While Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and, accordingly, would not be payable to Council.

Developer contributions may only be expended for the purposes for which the contributions were required, but Council may apply contributions according to the priorities established in work schedules for the contribution plan.

Other grants and contributions

Assets, including cash, received from other grants and contributions are recognised at fair value when the asset is received. Council considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

Once the assets and liabilities have been recognised then income is recognised for any remaining asset value at the time that the asset is received.

B2-5 Interest and investment income

\$ '000	2021	2020
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	274	348
– Cash and investments	5,230	12,258
Fair value adjustments		
– Recovery of prior year losses – Collateralised Debt Obligations (CDOs)	–	1,260
Amortisation of premiums and discounts		
– Financial assets at amortised cost	(3)	14
Total interest and investment income (losses)	5,501	13,880

Interest and investment income is attributable to:**Unrestricted investments/financial assets:**

Overdue rates and annual charges (general fund)	275	348
General Council cash and investments	2,461	6,299

Restricted investments/funds – external:

Development contributions		
– Section 7.11	–	934
– Planning agreements/bonus floorspace levy	241	568
Domestic waste management operations	269	543
Stormwater Management Service Charge	–	12
Specific Purpose Unexpended Grants	14	2

Restricted investments/funds – internal:

Internally restricted assets	2,241	5,174
Total interest and investment income	5,501	13,880

Accounting policy

Interest income is recognised using the effective interest rate at the date that interest is earned.

Dividends (if applicable) are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

B2-6 Other income

\$ '000	Notes	2021	2020
Fair value increment on investment properties			
Fair value increment on investment properties		39,004	5,230
Total fair value increment on investment properties	C1-9	39,004	5,230
Rental income			
Investment properties			
Lease income - investment properties		18,865	16,723
Total investment properties		18,865	16,723
Other commercial property income			
Lease income from Council properties not classified as Investment Property under AASB 140		33,430	38,012
Lease income relating to variable lease payments not dependent on an index or a rate		9,672	12,207
Total other lease income		43,102	50,219
Total rental income	C2-2	61,967	66,942
Total other income		100,971	72,172

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B3 Costs of providing services

B3-1 Employee benefits and on-costs

\$ '000	2021	2020
Salaries and wages	185,735	202,383
Travel expenses	68	243
Employee leave entitlements (ELE)	20,290	23,028
Superannuation – defined contribution plans	15,379	15,640
Superannuation – defined benefit plans	3,811	5,820
Workers' compensation insurance	10,363	6,990
Fringe benefit tax (FBT)	480	695
Training costs (other than salaries and wages)	653	1,060
Other	1,019	1,766
Total employee costs	237,798	257,625
Less: capitalised costs	(6,440)	(6,510)
Total employee costs expensed	231,358	251,115
Number of 'full-time equivalent' employees (FTE) at year end	1,738	1,803

Accounting policy

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note E3-1 for more information.

B3-2 Materials and services

\$ '000	Notes	2021	2020
Advertising		1,519	1,581
Asset maintenance and minor purchases		8,692	8,145
Audit Fees	F2-1	217	212
Bank charges		1,866	1,764
Books and periodicals		114	154
Contractor and consultancy costs:			
– Building and facilities management		41,513	46,662
– City infrastructure management		13,499	12,938
– Consultancies		2,804	4,090
– Parks management		20,447	18,787
– Project costs and minor contracts		22,777	25,221
– Waste disposal, recycling and graffiti removal		36,624	32,980
Computing costs		10,853	7,718
Councillor and Mayoral fees and associated expenses	F1-2	836	801
Event and project costs		5,453	12,895
Insurance		4,122	2,614
Land tax and water rates		1,803	1,778
Parking enforcement – payment to NSW government		2,294	3,484
Property related expenditure - other		1,929	1,905
Postage and couriers		1,226	1,224
Printing and stationery		1,298	1,402
Public domain enhancement contributions		5,243	4,350
Raw materials and consumables		4,593	4,961
Research and development		285	333
Security		2,625	2,535
Storage		657	669
Street lighting		4,244	4,304
Telephone and communications		2,486	2,350
Utilities		4,632	5,081
Legal expenses:			
– Legal expenses: planning and development		944	508
– Legal expenses: other		995	2,335
Lease expenses:			
– Expenses from short-term leases		–	36
– Expenses from leases of low value assets		69	64
– Variable lease expense relating to usage		445	493
Other materials and services		4,116	4,559
Contribution to Transport for NSW – Light Rail CBD to South East ¹		41,100	–
Total materials and services		252,320	218,933
Less: capitalised costs		(605)	(688)
Total materials and services		251,715	218,245

Accounting policy

Expenses are recorded on an accruals basis as the Council receives the goods or services.

(1) Under the terms of the Light Rail Development Agreement (the Agreement) between the City of Sydney and the NSW Government, the City provided a \$220M total contribution towards the delivery of the CBD and South East Sydney light rail project. Progress payments were made and expenses recognised over a number of financial years, commensurate with agreed project milestones. For the year ended 30 June 2020, the required milestones had not been achieved, but were subsequently agreed between the City, Transport for NSW and the project contractor in July 2020. The final contribution installment (for \$41.1M excluding GST) was paid in August 2020.

B3-3 Borrowing costs

\$ '000	2021	2020
(i) Interest bearing liability costs		
Interest expense relating to leases	254	263
Total borrowing costs expensed	254	263

Accounting policy

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed as incurred.

B3-4 Depreciation, amortisation and impairment of non-financial assets

\$ '000	Notes	2021	2020
Depreciation and amortisation			
Plant and equipment		11,800	11,954
Office equipment		3,029	2,661
Furniture and fittings		3,416	3,544
Infrastructure:	C1-8		
– Buildings – non-specialised		32,552	35,134
– Buildings – specialised		504	487
– Roads		23,671	22,108
– Stormwater drainage		4,242	3,681
– Open space/recreational assets		26,541	22,207
Right of use assets	C2-1	448	461
Other assets:			
– Library books		1,254	1,277
– Poles and lighting		7,240	5,901
– Public art / open museum		482	501
Intangible assets – software (amortisation)	C1-10	6,832	6,707
Total gross depreciation and amortisation costs		122,011	116,623
Total depreciation, amortisation and impairment for non-financial assets		122,011	116,623

Accounting policy

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives.

Impairment of non-financial assets

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are not tested for impairment since these assets are assessed on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

Intangible assets not yet available for use, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other non-financial assets that do not meet the criteria above are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

B3-5 Other expenses

\$ '000	Notes	2021	2020
Impairment of receivables			
Properties and sundry debtors		796	1,365
Total impairment of receivables	C1-4	796	1,365
Other			
Contributions/levies to other levels of government		17,238	14,927
Donations, contributions and assistance to other organisations (Section 356)		28,837	23,937
Total other		46,075	38,864
Total other expenses		46,871	40,229

Accounting policy

Other expenses are recorded on an accruals basis when Council has an obligation for the expenses.

Impairment expenses are recognised when identified.

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B4 Gains or losses

B4-1 Gain or loss from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2021	2020
Gain (or loss) on disposal of property (excl. investment property)			
Proceeds from disposal – property		10,146	6,688
Less: carrying amount of property assets sold/written off		(866)	(509)
Gain (or loss) on disposal		9,280	6,179
Gain (or loss) on disposal of plant and equipment			
	C1-8		
Proceeds from disposal – plant and equipment		732	1,264
Less: carrying amount of plant and equipment assets sold/written off		(1,190)	(389)
Gain (or loss) on disposal		(458)	875
Gain (or loss) on disposal of infrastructure			
	C1-8		
Proceeds from disposal – infrastructure		–	–
Less: carrying amount of infrastructure assets sold/written off		(1,844)	(1,786)
Gain (or loss) on disposal		(1,844)	(1,786)
Gain (or loss) on disposal of investments			
	C1-2		
Proceeds from disposal/redemptions/maturities – investments		83,250	57,500
Less: carrying amount of investments sold/redeemed/matured		(83,250)	(57,500)
Gain (or loss) on disposal		–	–
Gain (or loss) on disposal of term deposits			
	C1-2		
Proceeds from disposal/redemptions/maturities – term deposits		496,000	829,000
Less: carrying amount of term deposits sold/redeemed/matured		(496,000)	(829,000)
Gain (or loss) on disposal		–	–
Gain (or loss) on disposal of non-current assets classified as 'held for sale'			
	C1-7		
Proceeds from disposal – non-current assets 'held for sale'		90,000	87,175
Less: carrying amount of 'held for sale' assets sold/written off		(54,915)	(81,334)
Gain (or loss) on disposal		35,085	5,841
Gain (or loss) on disposal of intangible assets			
	C1-10		
Proceeds from disposal – transferable rights (Heritage Floor Space)		31,671	–
Less: carrying amount of transferable rights sold/written off		(28,698)	–
Gain (or loss) on disposal		2,973	–
Light Rail Project			
Carrying amount of assets demolished in association with Light Rail project		(24,296)	–
Gain (or loss) on disposal		(24,296)	–
Net gain (or loss) on disposal of assets		20,740	11,109

Accounting policy

Gains and losses on disposals are determined by comparing proceeds with carrying amount. The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

B5 Performance against budget

B5-1 Material budget variations

Council's original budget was adopted by the Council on 29/06/2020 and is not required to be audited. The original projections on which the budget was based have been affected by a number of factors. These include state and federal government decisions, including new grant programs, changing economic activity, environmental factors, and by decisions made by Council.

While these General Purpose Financial Statements include the original budget adopted by Council, the Act requires Council to review its financial budget on a quarterly basis, so it is able to manage the variation between actuals and budget that invariably occur during the year.

Material variations of more than 10% between original budget and actual results or where the variance is considered material by nature are explained below.

Variation Key: **F** = Favourable budget variation, **U** = Unfavourable budget variation.

\$ '000	2021 Budget	2021 Actual	2021 ----- Variance -----	
REVENUES				
Other revenues	33,530	75,790	42,260	126% F
Other revenues are favourable against budget largely due to the recognition of income associated with the award of transferable heritage floor space rights at City owned CBD buildings (\$44.1M). This favourable variance was offset in part by adverse impact of the Covid-19 pandemic on enforcement income. A flexible approach to enforcement was adopted which led to a significant reduction in fines.				
Capital grants and contributions	33,108	144,701	111,593	337% F
Capital contributions were favourable to budget. The timing of these contributions is difficult to predict. At Green Square, significant infrastructure assets and dedications of land were delivered by developers at a number of sites during the year. In addition, under the terms of the Light Rail Development Agreement between the City of Sydney and the NSW Government public domain assets associated with the project have been transferred to the City (\$78.4M). The timing and quantum of the recognition of these assets has been uncertain and was not included in the budget. Contributions toward development in the CBD (known as Section 61 contributions) were favourable to budget reflecting continued strong development activity.				
Net gains from disposal of assets	–	20,740	20,740	∞ F
Council does not budget for gains on disposal of assets, due to their non-recurrent nature, uncertainty of timing and the inherent volatility of sale proceeds. Individual asset sales are approved with appropriate delegated authority, taking into consideration the proposed price offered by the purchaser and the carrying value of the asset/s. The gain reflects where sale proceeds exceed the asset book value of property including: the disposal of council depot sites, proceeds from a compulsory divestment of three parcels City-owned land at Observatory Hill to the NSW Department of Education, and heritage floor space relating to CBD buildings sold in the market at a price higher than the original award. These gains were offset in part by the disposal of public domain assets demolished as part of the Light Rail project.				
Other income	69,200	100,971	31,771	46% F

Council does not budget for the fair value increments on investment properties (\$39.0M). This favourable result against budget was offset in part by lower than budgeted rental income from the City's investment and other commercial properties which was unfavourable to budget due to continued impact of the Covid-19 pandemic.

B5-1 Material budget variations (continued)

\$ '000	2021 Budget	2021 Actual	2021 ----- Variance -----	
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EXPENSES

Materials and services	247,538	251,715	(4,177)	(2)% U
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Council's adopted budget included approximately \$20.4M for waste collection within Other Expenses. Subsequent to the adoption of the budget, the waste collection portion of the budget was separated from the s88 Waste Levy paid to the NSW Government. This allowed the re-classification of the the collection costs to Materials and Contracts with the balance (approx \$6.0M) retained in Other expenses - contributions/levies to other levels of Government. In addition, this expense category was impacted by project costs, associated with the delivery of the City's significant capital works program but not adding to the enduring benefit to the asset, being re-classified as operating expenses. This expenditure is often related to initial options reviews and/or the demolition of assets and was higher than anticipated in the budget. The expenditure was incurred against public domain, roadway and parks works and a number of Information Technology projects. In addition, the budget for aquatics facility management fees were netted off against income and included in the User Fees and Charges category only. For the purposes of the actual results shown in financial statements both gross income and expenditure have been included thereby significantly increasing the amount shown for facility management fees as part of this category. These increases were offset by savings across a wide range of activity caused by the Covid-19 pandemic. In particular, cancellation of a number of major events, including New Year's Eve, led to significant savings.

Other expenses	61,398	46,871	14,527	24% F
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Refer to Materials and Contracts commentary above. Council's adopted budget included approximately \$20.4M for waste collection within Other Expenses. Subsequent to the adoption of the budget, the waste collection portion of the budget was separated from the s88 Waste Levy paid to the NSW Government. This allowed the re-classification of the the collection costs to Materials and Contracts with the balance (approx \$6.0M) retained in Other expenses - contributions/levies to other levels of Government. Prior year comparatives were also reclassified. The overall savings in this category were offset, in part, by additional community support grants that occurred in response to the Covid-19 pandemic.

STATEMENT OF CASH FLOWS

Cash flows from investing activities	(146,313)	(222,840)	(76,527)	52% U
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The performance against budget reflects lower than anticipated capital works and property acquisition expenditure. In particular, the budget anticipated a commercial property acquisition of approximately \$100M, however a suitable site (or sites) could not be located during the 2020/21 financial year. In terms of capital works, contract issues and approval delays have slowed progress on a number of projects. Unspent budget for these projects is to be revoted into future years. These elements reduced the anticipated cash outflows however they were more than offset by additional investment in term deposits and investment securities. This increase can be noted in the amount of investments on hand at the end of the year.

C Financial position

C1 Assets we manage

C1-1 Cash and cash equivalents

\$ '000	2021	2020
Cash and cash equivalents		
Cash on hand and at bank	11,998	6,643
Cash-equivalent assets		
– Deposits at call	34,053	56,793
– Short-term deposits	5,000	60,000
Total cash and cash equivalents	51,051	123,436

Reconciliation of cash and cash equivalents

Total cash and cash equivalents per Statement of Financial Position	51,051	123,436
Balance as per the Statement of Cash Flows	51,051	123,436

Accounting policy

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

C1-2 Financial investments

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Debt securities at amortised cost				
Long term deposits	398,000	90,000	252,000	75,000
NCD's, FRN's (with maturities > 3 months)	19,600	96,604	83,250	99,107
Total	417,600	186,604	335,250	174,107
Total financial investments	417,600	186,604	335,250	174,107
Total cash assets, cash equivalents and investments	468,651	186,604	458,686	174,107

Accounting policy

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, Council classifies its financial assets into the following categories – those measured at:

- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income – equity instrument (FVOCI-equity)

C1-2 Financial investments (continued)

Financial assets are not reclassified subsequent to their initial recognition. Council has assessed its investment business model as held to maturity under AASB 9. Accordingly, all investments for the reporting periods shown were held at amortised cost.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Council's financial assets measured at amortised cost comprise trade and other receivables, term deposits and cash and cash equivalents in the Statement of Financial Position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, impairment and gains or loss on de-recognition are recognised in profit or loss.

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C1-3 Restricted cash, cash equivalents and investments

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Total cash, cash equivalents and investments	468,651	186,604	458,686	174,107
attributable to:				
External restrictions	7,194	61,441	50,153	66,416
Internal restrictions	188,270	125,163	220,981	107,691
Unrestricted	273,187	–	187,552	–
	468,651	186,604	458,686	174,107

\$ '000	2021	2020
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund	3,288	153
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External restrictions – included in liabilities

	3,288	153
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External restrictions – other

External restrictions included in cash, cash equivalents and investments above comprise:

Developer contributions – general	30,902	84,820
Domestic waste management	34,445	30,984
Stormwater management	–	612

External restrictions – other

	65,347	116,416
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Total external restrictions

	68,635	116,569
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Internal restrictions

Council has internally restricted cash, cash equivalents and investments as follows:

Affordable and diverse housing fund	4,348	8,475
City centre transformation reserve	–	41,100
Commercial property reserve	98,038	88,038
Employees leave entitlement	6,844	6,887
Green infrastructure	13,977	17,477
Green square reserve	86,325	86,325
Heritage conservation fund	48,170	23,714
Infrastructure contingency	–	2,280
Performance cash bonds and retentions	30,310	23,345
Public liability insurance	646	404
Renewable energy reserve	7,375	7,747
Workers compensation	17,400	22,880

Total internal restrictions

	313,433	328,672
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Total restrictions

	382,068	445,241
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Internal restrictions over cash, cash equivalents and investments are those assets restricted only by a resolution of the elected Council.

C1-3 Restricted cash, cash equivalents and investments (continued)

Policy on internal and external restrictions on cash, cash equivalents and investments

Cash, cash equivalents and investments are restricted for prudent financial management purposes as follows:

Developer Contributions - 100% of cash Developer Contributions levied under Section 7.11, Section 61, Bonus Floor Space scheme and Voluntary Planning Agreements (including the Developer Rights Scheme for Green Square Town Centre) received but not yet expended in accordance with the applicable deed or contributions plan.

Contributions - Capital Works - 100% of cash contributions provided to Council by third parties that are yet to be expended on the project/s for which they were provided.

Unexpended Grants - 100% of cash grants received not spent during the year are treated as restricted funds.

Domestic Waste - Any cash surplus from operations is held as a restricted asset to fund future capital expenditure or process improvements to the Domestic Waste collection business.

Stormwater Management - Funds received through the stormwater levy are set aside for various structural and non-structural programs used to reduce urban stormwater pollution. Unspent funds are held as restricted assets.

Affordable and Diverse Housing - Income receipts dedicated by Council for the purposes of contributing towards the delivery of affordable and/or diverse housing are set aside for future projects and initiatives as endorsed by Council.

City Centre Transformation - Monies set aside to meet future contributions to the State Government in respect of the future transformation of George Street into a shared pedestrian zone incorporating light rail. Final instalment payment was made in August 2020.

Commercial Properties - Funds that are surplus to requirements, set aside to reinvest and continue the revenue stream from and maintain diversification of Council's large commercial and investment property portfolio.

Community Facilities - Cash set aside for the future acquisition or development of property to improve community spaces or replacement facilities that meet community needs at that time.

Employee Leave Entitlements - 10% of the employee leave entitlement provision is set aside to fund extraordinary movements of staff. Normal annual payments of leave entitlements are funded from operating income.

Green Infrastructure - Monies set aside for implementing green infrastructure projects including co/trigeneration plants, water recycling and evacuated waste systems to deliver enhanced environmental benefits to the organisation and community.

Green Square - Monies set aside in anticipation of Green Square infrastructure not funded by developer contributions or grant funding.

Heritage Conservation Fund - Cash received through Alternative Heritage Floor Space Allocation Scheme, yet to be expended on heritage related projects in accordance with the council-adopted policy.

Infrastructure Contingency - 100% of monies are set aside for the funding of urgent and expensive rectification of historic buildings and ageing infrastructure (e.g. stormwater).

Operational Facilities - Cash set aside for the future acquisition or development of properties to supplement or replace buildings within the current building assets portfolio that provide infrastructure for the operation of Council's services.

Performance Bond Deposits - All security deposits are held as restricted funds.

Public Liability Insurance - Cash has been restricted for 100% of the provision.

Public Roads - In accordance with Section 43 (4) of the Roads Act (NSW) 1993, proceeds from the sale of (former) public road are set aside for the acquisition of land for public roads, and/or carrying out works on public roads.

Renewable Energy - Monies set aside to develop renewable energy for the organisation that can be derived from wind, solar or geo-thermal sources.

Workers Compensation Insurance - In accordance with actuarial advice, Council restricts funds for 100% of the provision, as advised by an external consulting actuary (in order to meet the requirements of the State Insurance Regulatory Authority, SIRA).

C1-4 Receivables

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Purpose				
Rates and annual charges	8,047	–	8,464	–
Interest and extra charges relating to rates	120	–	112	–
User charges and fees	13,045	–	14,925	–
Accrued interest on investments	1,278	–	1,505	–
Net GST receivable	2,544	–	3,070	–
Rental debtors	18,342	2,287	14,903	–
Outstanding works in kind contributions	17,942	28,961	14,001	31,677
Total	61,318	31,248	56,980	31,677
Less: provision of impairment				
Rental debtors and User charges & fees	(3,460)	–	(3,344)	–
Total provision for impairment – receivables	(3,460)	–	(3,344)	–
Total net receivables	57,858	31,248	53,636	31,677
Externally restricted receivables				
Domestic waste management	634	–	635	–
Domestic waste management – interest & extra charges	22	–	23	–
Works receivable (developer contributions)	17,942	28,961	14,001	31,677
Total external restrictions	18,598	28,961	14,659	31,677
Unrestricted receivables	39,260	2,287	38,977	–
Total net receivables	57,858	31,248	53,636	31,677

\$ '000	2021	2020
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	3,344	3,613
+ new provisions recognised during the year	3,309	2,115
– amounts already provided for and written off this year	(686)	(76)
– amounts provided for but recovered during the year	(4)	(37)
– unused amounts reversed	(2,503)	(2,271)
Balance at the end of the year	3,460	3,344

Accounting policy

Receivables are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Impairment

Impairment of financial assets measured at amortised cost is recognised on an expected credit loss (ECL) basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical

C1-4 Receivables (continued)

experience and informed credit assessment, and including forward-looking information. Additional disclosure related to Council's ECL model is provided at Note E2-1.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. For non-rates debtors, Council uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Council uses the presentation that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Council in full, without recourse by the Council to actions such as realising security (if any is held) or
- the financial assets (for non-rates debtors) are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach.

On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

A debt write-off is only considered after all attempts and appropriate measures of collecting the debt have failed, and where at least one of the following conditions is satisfied: the debt cannot be proven; the debt is of a size that makes the use of external debt collection agency economically unviable; the debtor and/or their assets cannot be located; the debt is statute barred (the age of the claim is beyond legislatively stated time constraints); the debtor has been declared bankrupt (personal) or in liquidation (corporate) or the company is deregistered; or the debtor is deceased.

The write off of a debt does not preclude any action being taken in the future to collect the outstanding amount, should the prevailing circumstances change. None of the receivables that have been written off are subject to further enforcement activity.

Where the Council renegotiates the terms of receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Rates and annual charges outstanding are secured against the property.

C1-5 Inventories

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
(i) Inventories at cost				
Stores and materials	989	—	594	—
Total inventories at cost	989	—	594	—
Total inventories	989	—	594	—

Externally restricted assets

There are no restrictions applicable to the above assets.

Accounting policy

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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C1-6 Contract assets and Contract cost assets

\$ '000	Notes	2021	2020
Contract assets - accrued revenue	C1-6	17,195	16,326
Total contract assets and contract cost assets		17,195	16,326

Contract assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Accrued revenue	17,195	—	16,326	—
Total contract assets	17,195	—	16,326	—

(i) Externally restricted assets

There are no restrictions applicable to the above assets.

Accounting policy

Contract assets

Contract assets represent Council's right to payment in exchange for goods or services the Council has transferred to a customer when that right is conditional on something other than the passage of time.

Contract assets arise when the amounts billed to customers are based on the achievement of various milestones established in the contract and therefore the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer. Once an invoice or payment claim is raised or the relevant milestone is reached, Council recognises a receivable.

Impairment of contract assets is assessed using the simplified expected credit loss model where lifetime credit losses are recognised on initial recognition.

C1-7 Non-current assets classified as held for sale

\$ '000	Notes	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Details of non-current assets held for sale					
Land	11(a)	17,906	–	54,430	–
Buildings	11(a)	–	–	485	–
Transferable Rights - Heritage Floorspace	C1-9	17,693	–	–	–
Total non-current assets held for sale		35,599	–	54,915	–
Total non-current assets classified as held for sale		35,599	–	54,915	–

Details of assets

Council holds property assets previously designated as 'Land - Operational' and 'Intangible Assets', being transferable Heritage Floor Space rights, in Note 11 - as held for sale at 30 June 2021. Preferred purchasers have been determined, and the disposals have been endorsed by Council. Settlement is anticipated to occur during the 2020/21 financial year.

Accounting policy

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as assets arising from employee benefits; financial assets; and investment properties that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

C1-8 Infrastructure, property, plant and equipment

By aggregated asset class	At 1 July 2020			Asset movements during the reporting period										At 30 June 2021		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers ²	Adjustments and transfers	Tfrs from/(to) 'held for sale' category	Tfrs from/(to) investment properties	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000																
Capital work in progress (WIP) ³	232,723	—	232,723	55,535	109,167	—	—	(166,222)	—	—	(555)	—	—	230,648	—	230,648
Plant and equipment	100,013	(63,797)	36,216	4,474	1,057	(446)	(11,800)	11,688	—	—	—	—	—	114,973	(73,785)	41,188
Office equipment	19,567	(11,649)	7,918	1,711	305	—	(3,029)	—	889	—	—	—	—	22,472	(14,678)	7,794
Furniture and fittings	37,973	(23,213)	14,760	128	—	—	(3,416)	4,548	—	—	—	—	—	42,649	(26,629)	16,020
Land:																
– Operational land	1,519,421	—	1,519,421	—	76,512	—	—	11,426	25,587	(17,906)	—	—	192,500	1,807,539	—	1,807,539
– Community land ⁴	3,050,177	—	3,050,177	—	9,056	—	—	—	(30,150)	—	—	(535,100)	—	2,493,983	—	2,493,983
– Crown land ⁴	4,871,680	—	4,871,680	—	—	—	—	—	(1,962)	—	—	(1,855,827)	—	3,013,891	—	3,013,891
– Land under roads (post 30/6/08)	97,491	—	97,491	—	5,658	—	—	—	6,525	—	—	—	—	109,674	—	109,674
Other structures – trees	119,732	—	119,732	—	1,332	(785)	—	582	—	—	—	—	—	120,861	—	120,861
Other structures – poles and lights	125,235	(58,545)	66,690	—	20,639	(1,262)	(7,240)	3,069	—	—	—	—	—	146,589	(64,692)	81,897
Other structures – signs	24,123	—	24,123	—	20	—	—	806	—	—	—	—	—	24,949	—	24,949
Infrastructure:																
– Buildings – non-specialised	1,759,329	(368,613)	1,390,716	200	538	(866)	(32,552)	70,257	—	—	—	—	136,881	1,979,080	(413,907)	1,565,173
– Buildings – specialised	44,833	(13,538)	31,295	—	364	—	(504)	137	—	—	—	(4,231)	—	49,345	(22,284)	27,061
– Roads, Bridges, Footways, Kerbs	1,794,591	(532,584)	1,262,007	—	48,712	(21,694)	(23,671)	25,466	(394)	—	—	—	—	1,836,317	(545,891)	1,290,426
– Stormwater drainage	409,866	(126,112)	283,754	—	18,495	(1,816)	(4,242)	5,602	—	—	—	—	—	431,279	(129,485)	301,794
– Open space/recreational assets	611,802	(352,581)	259,221	—	5,192	(584)	(26,541)	31,423	—	—	—	—	9,075	661,553	(383,767)	277,786
Other assets:																
– Heritage collections	7,314	—	7,314	—	3	—	—	—	—	—	—	—	2,281	9,598	—	9,598
– Library books	8,069	(5,245)	2,824	573	—	—	(1,254)	—	—	—	—	—	—	8,642	(6,499)	2,143
– City art	48,543	(9,361)	39,182	—	11	(745)	(481)	1,218	—	—	—	—	9,256	58,943	(10,502)	48,441
Total infrastructure, property, plant and equipment	14,882,482	(1,565,238)	13,317,244	62,621	297,061	(28,198)	(114,730)	—	495	(17,906)	(555)	(2,395,158)	349,993	13,162,985	(1,692,119)	11,470,866

(1) Renewals are defined as the replacement or reinstatement of existing assets (significant upgrades and acquisition of additional assets are shown under Additions new assets).

(2) WIP Transfers consists of completed capital construction projects transferred from Work in Progress into the fixed asset register. Completed projects transferred include: \$38.1M in capital renewal, \$16.4M in capital upgrade, \$111.7M in new infrastructure and facilities

(3) Capital Work in Progress includes \$230.0M for capital construction projects and \$0.7M for Plant & Asset purchases

(4) The Community and Crown/Third Party Land classes were subject to comprehensive revaluation for 2020/21. The revaluation incorporated a change of accounting estimates, as detailed at note G4-3

C1-8 Infrastructure, property, plant and equipment (continued)

By aggregated asset class	At 1 July 2019			Asset movements during the reporting period										At 30 June 2020		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers ²	Adjustments and transfers	Tfrs from/(to) 'held for sale' category	Tfrs from/(to) investment properties	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000																
Capital work in progress ³	193,903	—	193,903	34,897	109,949	—	—	(105,908)	—	—	(118)	—	—	232,723	—	232,723
Plant and equipment	101,288	(62,390)	38,898	7,284	2,349	(389)	(11,954)	27	—	—	—	—	—	100,013	(63,797)	36,216
Office equipment	16,252	(9,810)	6,442	3,032	—	—	(2,661)	1,103	—	—	—	—	—	19,567	(11,649)	7,918
Furniture and fittings	45,594	(27,419)	18,175	127	—	—	(3,544)	—	—	—	—	—	—	37,973	(23,213)	14,760
Land:																
– Operational land	1,543,512	—	1,543,512	—	44,562	—	—	—	(5,278)	(54,430)	—	(8,945)	—	1,519,421	—	1,519,421
– Community land	2,635,675	—	2,635,675	—	3,619	—	—	—	(30,044)	—	—	—	440,926	3,050,177	—	3,050,177
– Crown land	3,592,804	—	3,592,804	—	—	—	—	—	30,149	—	—	—	1,248,726	4,871,680	—	4,871,680
– Land under roads (post 30/6/08)	75,326	—	75,326	—	16,993	—	—	—	5,173	—	—	—	—	97,491	—	97,491
Other structures – trees	118,719	—	118,719	—	562	—	—	452	—	—	—	—	—	119,732	—	119,732
Other structures – poles and lights	114,601	(55,264)	59,337	—	570	—	(5,901)	2,340	—	—	—	—	10,345	125,235	(58,545)	66,690
Other structures – signs	20,026	—	20,026	—	46	—	—	1,511	—	—	—	—	2,540	24,123	—	24,123
Infrastructure:																
– Buildings – non-specialised	1,741,983	(338,495)	1,403,488	206	18,823	(391)	(35,134)	4,209	—	(485)	—	—	—	1,759,329	(368,613)	1,390,716
– Buildings – specialised	44,422	(13,130)	31,292	—	—	(118)	(487)	609	—	—	—	—	—	44,833	(13,538)	31,295
– Roads	1,657,277	(754,542)	902,735	106	8,177	(1,785)	(22,108)	35,140	—	—	—	—	339,741	1,794,591	(532,584)	1,262,007
– Stormwater drainage	326,265	(113,240)	213,025	—	1,494	—	(3,681)	56,147	—	—	—	—	16,770	409,866	(126,112)	283,754
– Other open space/recreational assets	527,651	(279,288)	248,363	—	686	(1)	(22,207)	3,665	(8)	—	—	—	28,724	611,802	(352,581)	259,221
Other assets:																
– Heritage collections	7,227	—	7,227	—	88	—	—	—	—	—	—	—	—	7,314	—	7,314
– Library books	8,240	(5,181)	3,059	1,042	—	—	(1,277)	—	—	—	—	—	—	8,069	(5,245)	2,824
– City art	47,708	(8,860)	38,848	123	—	—	(501)	705	8	—	—	—	—	48,543	(9,361)	39,182
Total Infrastructure, property, plant and equipment - Prior year	12,818,473	(1,667,619)	11,150,854	46,817	207,918	(2,684)	(109,455)	—	—	(54,915)	(118)	(8,945)	2,087,772	14,882,482	(1,565,238)	13,317,244

(1) Renewals are defined as the replacement or reinstatement of existing assets (significant upgrades and acquisition of additional assets are shown under Additions new assets).

(2) WIP Transfers consists of completed capital construction projects transferred from Work in Progress into the fixed asset register. Completed projects transferred include: \$26.2M in capital renewal, \$37.8M in capital upgrade, \$41.9M in new infrastructure and facilities

(3) Capital Work in Progress includes \$231.2M for capital construction projects and \$1.5M for Plant & Asset purchases

C1-8 Infrastructure, property, plant and equipment (continued)

Accounting policy

Infrastructure, property, plant and equipment are held at fair value. Independent comprehensive valuations are performed at least every five years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value. When infrastructure, property, plant and equipment are acquired by Council for nil or nominal consideration, the assets are initially recognised at their fair value at acquisition date.

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Buildings (by component type):	Years	Infrastructure - Drainage	Years
Structure (Short Life)	26 to 148	Pipes and culverts	100
Structure (Long Life)	50 to 260	Drainage pits and junctions	100
Sub-Structure (Short Life)	28 to 126	Trunk drainage infrastructure	200
Sub-Structure (Long Life)	75 to 195	Water quality infrastructure	10 to 100
Roof (Short Life)	26 to 122		
Roof (Long Life)	50 to 195	Poles and Lighting	
Fit-Out (Short Life)	17 to 74	Council lighting	20
Fit-Out (Long Life)	50 to 130	Smartpoles	20
Services - Electrical (Short Life)	30 to 88		
Services - Electrical (Long Life)	75 to 195	Council Signage	Infinite
Services - Fire (Short Life)	10 to 25		
Services - Fire (Long Life)	40 to 52	Open space and recreational assets	
Services - Hydraulic (Short Life)	23 to 88	Park and open space improvements	8 to 50
Services - Hydraulic (Long Life)	75 to 195	Park equipment and structures	10 to 20
Services - Mechanical (Short Life)	10 to 63		
Services - Mechanical (Long Life)	80 to 104	Trees - street and park trees	Infinite
Services - Security (Short Life)	14 to 25		
Services - Lift/Transport (Short Life)	47 to 130	Plant & Equipment	
Services - Lift/Transport (Long Life)	75 to 195	Plant & equipment	3 to 20
Services - Floor Coverings (Short Life)	8 to 43	Vehicles and road-making equipment	5 to 7
		Computer equipment	3 to 5
Infrastructure - Roads		Parking Meters	5 to 7
Roads - upper strata	30 to 100	Office Equipment	3 to 5
Roads - lower strata	300	Furniture and Fittings	3 to 10
Roads - sub-structure earthworks	Infinite		
Footways	30 to 100	Other assets	
Kerb and gutter	80 to 150	Library resources	3 to 10
Bridges and structures	100	City art	20 to 100
Street furniture/fixtures	20 to 50		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

C1-8 Infrastructure, property, plant and equipment (continued)

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008. Land under roads acquired after 1 July 2008 is recognised in accordance with the IPPE accounting policy.

Crown reserves and third party owned land

The Crown Land class includes assets that are owned by government and/or 3rd party entities, however Council continues retains both operational control of the assets and responsibility for the maintenance of improvements thereon. Council includes these land assets in the Statement of Financial Position, as well as the cost of any Council funded related improvements, on the basis of its financial rights and responsibilities in controlling and maintaining the assets.

Revocation of such control by the State Government is regarded as extremely unlikely given the history of Crown Reserves, and Council's history of operational care and control over the assets.

In the case of Crown Reserve lands, Reserve Trusts were created for administrative purposes under section 92 of the Crown Lands Act 1989 ("the Act") for a large proportion of these Crown Reserves. Prior to the enactment of the Act, Council was Reserve Trustee of these assets and upon enactment, section 5A of the Schedule 8 (Savings, transitional and other provisions) of the Act has appointed Council Reserve Trust Manager of the related Reserve Trusts created under section 92.

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C1-9 Investment properties

\$ '000	2021	2020
Owned investment property		
Investment property on hand at fair value	384,259	344,700
Total owned investment property	384,259	344,700

Investment property movements

At fair value

Opening balance at 1 July	344,700	339,350
Capitalised subsequent expenditure	555	120
Net gain/(loss) from fair value adjustments	39,004	5,230
Closing balance at 30 June	384,259	344,700

Accounting policy

Investment property, comprising commercial, industrial and residential properties, is held for long-term rental yield and capital appreciation and is not occupied by the Council. Changes in fair values are recorded in the Income Statement as a separate line item.

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C1-10 Intangible assets

Intangible assets are as follows:

\$ '000	2021	2020
Software		
Opening values at 1 July		
Gross book value	34,451	30,043
Accumulated amortisation	(21,295)	(14,587)
Software work in progress (WIP) balance	15,006	5,424
Net book value – opening balance	28,162	20,880
Movements for the year		
– Development costs capitalised	10,304	4,407
– Transfer (to)/from I,P,P&E	(872)	–
– Amortisation charges	(6,832)	(6,707)
– WIP movement - net	3,427	9,582
Closing values at 30 June		
Gross book value	43,883	34,451
Accumulated amortisation	(28,127)	(21,295)
Software work in progress (WIP) balance	18,433	15,006
Total software – net book value	34,189	28,162
Transferable rights - heritage floor space		
Opening values at 1 July		
Gross book value	20,688	–
Net book value – opening balance	20,688	–
Movements for the year		
– Award of heritage floor space on City-owned property	44,064	20,688
– Carrying value of heritage floor space sold	(28,698)	–
– Transferred to assets held for sale at 30 June	(17,692)	–
Closing values at 30 June		
Gross book value	18,361	20,688
Total Transferable Rights - Heritage Floor Space – net book value	18,361	20,688
Total intangible assets – net book value	52,550	48,850

Accounting policy

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to five years.

Software development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset.

C1-10 Intangible assets (continued)

Transferable rights - heritage floor space

The heritage floor space scheme provides an incentive for the conservation and ongoing maintenance of heritage items in central Sydney. The scheme provides for owners of eligible heritage listed buildings to be awarded heritage floor space after preparing a conservation management plan and completing agreed conservation works to their building. The awarded heritage floor space can then be sold to a site that requires it as part of an approved development application.

There is currently an active market within central Sydney for heritage floor space, as it is often a requirement of large scale developments to acquire heritage floor space in order to maximise development capacity on a site.

Following an award of heritage floor space on a Council-owned property, an asset will be recognised at the point the award is registered on Council's heritage floor space register. At recognition, heritage floor space awarded to Council is valued with reference to the *Heritage Floor Space Update*, published biannually by the Council's Strategic Planning and Urban Design unit (at December and June). Heritage Floor Space rights will subsequently be carried using the Cost approach (i.e. at recognition value). As transferable rights, the assets have an infinite useful life, but may be subject to fluctuations market value.

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C1-11 Other

Other assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Prepayments	6,983	–	5,857	–
Future benefits – shared services relating to Sutherland animal shelter	14	112	14	126
Total other assets	6,997	112	5,871	126

Restricted assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Other assets - externally restricted	–	–	–	–
Other assets - internally restricted	–	–	–	–
Other assets - unrestricted	6,997	112	5,871	126
Total other assets	6,997	112	5,871	126

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C2 Leasing activities

C2-1 Council as a lessee

Buildings

Council entered a lease for two floors of a larger commercial building, commencing 28 June 2019, for use as a public library. The initial lease term is 15 years, with escalation of CPI plus 0.5% annually.

Extension options

The lease contains five extension options of 15 years each, plus a further option of 9 years (i.e. total potential extensions of 84 years, following the initial 15 year term). Council has assessed the first 30 year option as reasonably certain, and included this option term in lease liability calculations. The further options are currently not considered to be reasonably certain, and have therefore been excluded from lease liability calculations (the present value of future lease payments at 30 June 2021, including all future extension options, is estimated at \$52.9M).

(a) Right of use assets

\$ '000	Building	Total
2021		
Opening balance at 1 July	13,361	13,361
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	–	–
Depreciation charge	(448)	(448)
Lease liability remeasurement	(362)	(362)
Balance at 30 June	12,551	12,551
2020		
Opening balance at 1 July	–	–
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	13,822	13,822
Depreciation charge	(461)	(461)
Lease liability remeasurement	–	–
Balance at 30 June	13,361	13,361

(b) Lease liabilities

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Lease liabilities	203	12,960	183	13,530
Total lease liabilities	203	12,960	183	13,530

(i) Maturity analysis

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

\$ '000	< 1 year	1 – 5 years	> 5 years	Total	Total per Statement of Financial Position
2021					
Cash flows	453	1,919	15,210	17,582	13,163
2020					
Cash flows	443	1,887	16,224	18,554	13,713

C2-1 Council as a lessee (continued)

(ii) Lease liabilities relating to restricted assets

There are no restricted assets (external or internal) applicable to the above lease liabilities

(c) Income Statement

The amounts recognised in the Income Statement relating to leases where Council is a lessee are shown below:

\$ '000	2021	2020
Interest on lease liabilities	254	263
Depreciation of right of use assets	448	461
Variable lease payments based on usage not included in the measurement of lease liabilities	445	493
Expenses relating to low-value leases	69	64
Expenses relating to short-term leases	–	36
	1,216	1,317

(d) Statement of Cash Flows

Total cash outflow for leases	443	371
	443	371

(e) Leases at significantly below market value – concessionary / peppercorn leases

Council has a number of leases at significantly below market for land and buildings which are used for:

- Bridges - stratum
- Car park
- Child care centre
- Community room
- Bicycle/end-of-trip facilities
- Jetty/pontoon facilities
- Parks and open space

The leases are generally between 10 and 99 years for nominal rent. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

Council does not believe that any of the leases in place are individually material from a statement of financial position or performance perspective.

Accounting policy

At inception of a contract, Council assesses whether a lease exists – i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration?

Council has elected not to separate non-lease components from lease components for any class of asset and has accounted for payments as a single component.

At the lease commencement, Council recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where Council believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives received. The right-of-use asset is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Council's incremental borrowing rate for a similar term with similar security is used.

C2-1 Council as a lessee (continued)

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured when there is a lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

Exceptions to lease accounting

Council has applied the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. Council recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases at significantly below market value / Concessionary leases

Council has elected to measure the right of use asset arising from the concessionary leases at cost which is based on the associated lease liability at initial recognition.

C2-2 Council as a lessor

Operating leases

Council leases a number of properties to both commercial tenants and community groups. Those property assets that are held by Council for the purposes of generating rental income and/or capital appreciation are classified as investment property in the statement of financial position. Other property assets generating lease income are held for a range of community and strategic purposes, and income generated through lease arrangements is considered incidental to these longer term strategic aims.

The amounts recognised in the Income Statement relating to operating leases where Council is a lessor are shown below:

\$ '000	2021	2020
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(i) Assets held as investment property

Council classifies a number of properties as Investment Property under AASB 140, where the assets are primarily held for rental returns and/or capital appreciation over time.

The amounts recognised in the Income Statement relating to operating leases where Council is a lessor are shown below

Lease income (excluding variable lease payments not dependent on an index or rate)	18,865	16,723
Total income relating to operating leases for investment property assets	18,865	16,723

Operating lease expenses

Direct operating expenses that generated rental income	1,443	2,052
Total expenses relating to operating leases	1,443	2,052

Repairs and maintenance: investment property

Contractual obligations for future repairs and maintenance	1,212	854
Total repairs and maintenance: investment property	1,212	854

(ii) Assets held as property, plant and equipment

Council leases a range of property assets on both commercial and (partially) subsidised terms, including:

- Commercial, retail, industrial and residential property
- Footway and kiosk operator licences
- Stratum leases for airspace and tunnels in the public domain

Lease income (excluding variable lease payments not dependent on an index or rate)	33,429	38,012
Lease income relating to variable lease payments not dependent on an index or a rate	9,672	12,207
Total income relating to operating leases for Council assets	43,101	50,219

C2-2 Council as a lessor (continued)

\$ '000	2021	2020
Other leased assets expenses		
Direct operating expenses for other properties that generated rental income	15,338	20,728
Total expenses relating to other leases assets	15,338	20,728

(iii) Maturity analysis of undiscounted lease payments to be received after reporting date for all operating leases:

Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:

< 1 year	39,773	31,356
1–2 years	25,721	27,272
2–3 years	19,291	18,045
3–4 years	12,975	16,285
4–5 years	9,228	7,981
> 5 years	71,221	62,099
Total undiscounted lease payments to be received	178,209	163,038

Accounting policy

When Council is a lessor, the lease is classified as either an operating or finance lease at inception date, based on whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

When Council has a sub-lease over an asset and is the intermediate lessor then the head lease and sub-lease are accounted for separately. The classification of the sub-lease is based on the right-of-use asset which arises from the head lease rather than the useful life of the underlying asset.

If the lease contains lease and non-lease components then the non-lease components are accounted for in accordance with AASB 15 *Revenue from Contracts with Customers*.

The lease income is recognised on a straight-line basis over the lease term.

C3 Liabilities of Council

C3-1 Payables

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Payables				
Creditors – Goods and services	17,631	–	19,488	–
Accrued employee costs	6,750	–	6,625	–
Accrued interest expense - bonds and deposits	5	–	5	–
Accrued expenditure - other	44,864	–	40,385	–
Performance cash bonds, deposits and retentions	30,311	–	23,346	–
Prepaid rates	3,221	–	2,907	–
Other	1,265	–	806	–
Total payables	104,047	–	93,562	–
Total payables	104,047	–	93,562	–

Payables relating to restricted assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Externally restricted assets				
Domestic waste management	2,270	–	3,360	–
Payables relating to externally restricted assets	2,270	–	3,360	–
Internally restricted assets				
Performance cash bonds, deposits and retentions	30,311	–	23,346	–
Payables relating to internally restricted assets	30,311	–	23,346	–
Total payables relating to restricted assets	32,581	–	26,706	–
Total payables relating to unrestricted assets	71,466	–	66,856	–
Total payables	104,047	–	93,562	–

Current payables not anticipated to be settled within the next twelve months

\$ '000	2021	2020
The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Payables – security bonds, deposits and retentions	12,297	11,087
Total payables and borrowings	12,297	11,087

Accounting policy

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method. The financial liabilities of the Council comprise trade payables, bank and other loans and finance lease liabilities.

Payables

Payables represent liabilities for goods and services provided to Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

C3-2 Contract Liabilities

\$ '000	Notes	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Grants and contributions received in advance:					
Unexpended capital grants (to construct Council controlled assets)	(i)	898	—	—	—
Unexpended operating grants (received prior to performance obligation being satisfied)	(i)	2,384	—	153	—
Heritage conservation fund	(ii)	2,100	46,070	—	23,714
Total grants and contributions received in advance:		5,382	46,070	153	23,714
User fees and charges received in advance:					
Miscellaneous payments received in advance		22,085	—	9,116	—
Total user fees and charges received in advance		22,085	—	9,116	—
Total contract liabilities		27,467	46,070	9,269	23,714

Notes

(i) The contract liability relates to grants received prior to the revenue recognition criteria in AASB 15 being satisfied since the performance obligations are ongoing.

(ii) The liability relates to funds received via the Alternative Heritage Floor Space Allocation Scheme and held in the Heritage Conservation Fund. Strict eligibility criteria for projects, detailed in the scheme, must be met before funds are eligible to be recognised as income. This recognition occurs at the completion on eligible projects.

Contract liabilities relating to restricted assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Externally restricted assets				
Unspent grants held as contract liabilities	3,288	—	153	—
Contract liabilities relating to externally restricted assets	3,288	—	153	—
Internally restricted assets				
Heritage Conservation Fund	2,100	46,070	—	23,714
Contract liabilities relating to internally restricted assets	2,100	46,070	—	23,714
Total contract liabilities relating to restricted assets	5,388	46,070	153	23,714
Total contract liabilities relating to unrestricted assets	22,079	—	9,116	—
Total contract liabilities	27,467	46,070	9,269	23,714

Revenue recognised that was included in the contract liability balance at the beginning of the period

\$ '000	2021	2020
Grants and contributions received in advance:		
Operating grants (received prior to performance obligation being satisfied)	147	33
User fees and charges received in advance:		
Miscellaneous payments received in advance	9,122	14,545

C3-2 Contract Liabilities (continued)

\$ '000	2021	2020
Total revenue recognised that was included in the contract liability balance at the beginning of the period	9,269	14,578

Accounting policy

Where the amounts billed to customers are based on the achievement of various milestones established in the contract, the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer.

When a performance obligation is satisfied by transferring a promised good or service to the customer before the customer pays consideration or before the payment is due, Council presents the work in progress as a contract asset, unless the rights to that amount of consideration are unconditional, in which case Council recognises a receivable.

When an amount of consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

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C3-3 Borrowings

Financing arrangements

\$ '000	2021	2020
Total facilities		
Credit cards/purchase cards	1,306	1,500
Total financing arrangements	1,306	1,500
Drawn facilities		
– Credit cards/purchase cards	91	13
Total drawn financing arrangements	91	13
Undrawn facilities		
– Credit cards/purchase cards	1,215	1,487
Total undrawn financing arrangements	1,215	1,487

Accounting policy

Borrowings (where applicable) are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

C3-4 Employee benefit provisions

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Annual leave	12,684	–	13,933	–
Sick leave	2,772	2,517	3,006	2,738
Long service leave	47,971	2,587	46,044	3,241
Public holidays	290	–	235	–
Total employee benefit provisions	63,717	5,104	63,218	5,979

Employee benefit provisions relating to restricted assets

Total employee benefit provisions relating to restricted assets	–	–	–	–
Total employee benefit provisions relating to unrestricted assets	63,717	5,104	63,218	5,979
Total employee benefit provisions	63,717	5,104	63,218	5,979

Current employee benefit provisions not anticipated to be settled within the next twelve months

\$ '000	2021	2020
The following provisions, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	45,185	37,655
	45,185	37,655

Description of and movements in provisions

\$ '000	ELE provisions				Total
	Annual leave	Sick leave	Long service leave	Public holidays	
2021					
At beginning of year	13,933	5,744	49,285	235	69,196
Additional provisions	14,449	541	8,002	55	23,047
Amounts used (payments)	(15,402)	(681)	(4,482)	–	(20,565)
Remeasurement effects	–	(47)	(1,206)	–	(1,253)
Unused amounts reversed	(296)	(268)	(1,041)	–	(1,605)
Total ELE provisions at end of year	12,684	5,289	50,558	290	68,821
2020					
At beginning of year	14,473	6,493	46,210	329	67,505
Additional provisions	14,399	–	8,509	–	22,908
Amounts used (payments)	(14,939)	(693)	(5,891)	(95)	(21,618)
Remeasurement effects	–	74	1,071	–	1,145
Unused amounts reversed	–	(130)	(614)	–	(744)
Total ELE provisions at end of year	13,933	5,744	49,285	234	69,196

Accounting policy

Employee benefit provisions are presented as current liabilities in the Statement of Financial Position if Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur and therefore all annual leave and vested long service leave (or that which vests within 12 months) is presented as current.

Short-term obligations

Liabilities for wages and salaries (including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service) are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid

C3-4 Employee benefit provisions (continued)

when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

On-costs

The employee benefit provisions include the aggregate on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation, payroll tax and workers compensation expenses which will be payable upon the future payment of certain leave liabilities which employees are entitled to at the reporting period.

Defined Benefit Plans - additional disclosures

A) Multi-Employer Pooled Fund

Council participates in an employer sponsored Defined Benefit Superannuation Scheme that is a multi-employer plan.

a) Funding arrangements, including the method used to determine the rate of contributions and any minimum funding requirements.

Pooled Employers are required to pay future service employer contributions and past service employer contributions to the Fund.

The future service employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 times member contributions for non-180 Point Members; nil for 180 Point Members*
Division C	2.5% salaries
Division D	1.64 times member contributions

**For nil for 180 Point Members, Employers are required to contribute 7% of salaries for the year ended 30 June 2021 (increasing to 7.5% in line with the increase in the Superannuation Guarantee) to these members' accumulation accounts, which are paid in addition to members' defined benefits.*

The past service contribution for each Pooled Employer is a share of the total past service contributions of \$40.0 million per annum from 1 July 2019 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2019. These past service contributions are used to maintain the adequacy of the funding position for the accrued liabilities.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

b) Extent to which Council may be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

As stated above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding past service contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the entity.

c) Description of any agreed allocation of a deficit or surplus on:

(i) wind-up of the plan

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

(ii) entity's withdrawal from the plan

There is no provision for allocation of any surplus which may be present at the date of withdrawal of an employer.

C3-4 Employee benefit provisions (continued)

(d) Further information relating to Council accounting for the pooled employer fund as a defined contribution plan:

(i) the fact that the plan is a defined benefit plan.

Council confirms that the plan is a defined benefit plan.

(ii) why sufficient information is not available to enable Council to account for the plan as a defined benefit plan.

(1) Assets are not segregated within the sub-group according to the employees of each sponsoring employer;

(2) The contribution rates have been the same for all sponsoring employers and have not varied for each employer according to the experience relating to the employees of that employer;

(3) Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer; and

(4) The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors set out above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses (to the extent that they are not borne by the members). As such there is insufficient reliable information to allow each sponsoring employer to account for its proportionate share of the defined benefit obligation, sub-group assets and costs associated with the sub-group in the same way as it would be for a single employer sponsored defined benefit plan. Paragraph 34 of AASB 119 therefore applies, within the disclosures herein reflecting the requirements of paragraph 148.

(iii) the expected contribution to the plan for the next annual reporting period

The expected contributions by Council to the Fund for the next annual reporting period are \$2.999M.

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2021 is:

Defined Benefit reserves only (excluding other accumulation amounts in both assets and liabilities)	\$M	Asset Coverage
Assets	2,620.5	
Past Service Liabilities	2,445.6	107.2%
Vested Benefits	2,468.7	106.2%

The key economic long-term assumptions used to calculate the present value of accrued benefits are:

Investment return	5.75% p.a.
Salary inflation (plus promotional increases)	3.50% p.a.
Increase in CPI	2.50% p.a.

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group. Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all relevant information have been received by the Fund's Actuary, the final end of year review, which will be a triennial actuarial investigation will be completed by December 2021.

(v) an indication of the level of Council's participation in the plan compared with other participating entities.

Council's participation in the Scheme compared with other entities is about 4.70% based on the Council's current level of annual past service contributions of \$1.882M against total contributions of \$40.0M. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA as at 30 June 2020.

B) Defined Benefit Pooled Fund

Council participates in a Pooled Fund comprising closed NSW public sector superannuation schemes.

Nature of the benefits provided by the fund:

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)

C3-4 Employee benefit provisions (continued)

The schemes are all defined benefit schemes with a component of the final benefit being derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement or withdrawal. All the Schemes are closed to new members. While Council records its assets and liabilities in respect of this Pooled Fund in accordance with the requirements of AASB 119 Employee Entitlements (refer to Note C3-4 - Employee benefit provisions), they are not material in relation to Council's total assets and liabilities. As a consequence, the Defined Benefit disclosures of AASB 119 have not been included as the associated assets and liabilities are not material.

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C3-5 Provisions

\$ '000	2021 Current	2021 Non-Current	2020 Current	2020 Non-Current
Other provisions				
Self insurance – workers compensation	3,100	14,300	3,598	11,654
Self insurance – public liability	105	541	–	404
Superannuation	–	3,737	–	4,742
Other	6,722	–	3,297	–
Sub-total – other provisions	9,927	18,578	6,895	16,800
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	4,000	–	4,000
Sub-total – asset remediation/restoration	–	4,000	–	4,000
Total provisions	9,927	22,578	6,895	20,800

Provisions relating to restricted assets

Internally restricted assets

Self insurance – workers compensation	3,100	14,300	3,598	11,654
Self insurance – public liability	105	541	–	404
Provisions relating to internally restricted assets	3,205	14,841	3,598	12,058

Total provisions relating to restricted assets

3,205	14,841	3,598	12,058
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Total provisions relating to unrestricted assets

6,722	7,737	3,297	8,742
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Total provisions

9,927	22,578	6,895	20,800
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Current provisions not anticipated to be settled within the next twelve months

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

Description of and movements in provisions

\$ '000	Other provisions					Net carrying amount
	Asset remediation	Workers Compensation	Public liability	Super-annuation	Other	
2021						
At beginning of year	4,000	15,252	405	4,742	3,297	27,696
Additional provisions	–	10,360	240	–	3,425	14,025
Amounts used (payments)	–	(8,212)	–	–	–	(8,212)
Remeasurement effects	–	–	–	(1,004)	–	(1,004)
Total other provisions at end of year	4,000	17,400	645	3,738	6,722	32,505
2020						
At beginning of year	4,000	14,277	1,215	4,114	4,764	28,370
Additional provisions	–	6,990	–	–	3,297	10,287
Amounts used (payments)	–	(6,015)	(810)	–	–	(6,825)
Remeasurement effects	–	–	–	628	–	628
Unused amounts reversed	–	–	–	–	(4,764)	(4,764)
Total other provisions at end of year	4,000	15,252	405	4,742	3,297	27,696

C3-5 Provisions (continued)

Nature and purpose of provisions

Other

Other provisions incorporate a provision for rental waivers related to Covid-19 impacts on commercial property tenancies. Council applied the *the National Code of Conduct for commercial tenancies*, which was in effect until March 2021, and subsequently extended similar rental relief provisions beyond that time. As waiver eligibility is confirmed, property debts are adjusted, or in cases where tenants do not meet the requirements for rental waivers, the provision will be (partially) reversed to income.

Asset remediation

Asset remediation, reinstatement and restoration provisions represent the present value estimate of future costs Council will incur in order to remove, restore and remediate assets and/or activities as a result of past operations.

Superannuation

Council records its assets and liabilities in respect of a Pooled Fund comprising closed NSW public sector superannuation schemes. Council's liability (or asset) position at 30 June is advised by the Fund's actuary.

Public liability and Workers Compensation

Self insurance provisions represent both (i) claims incurred but not reported and (ii) claims reported and estimated as a result of Council's being a self insurer up to certain levels of excess.

Accounting policy

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as a borrowing cost.

Provisions for close-down and restoration, and environmental clean-up costs

Restoration

Close-down and restoration costs include the dismantling and demolition of infrastructure, and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Rehabilitation

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date, and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques, or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result, there could be significant adjustments to the provision for close down and restoration and environmental clean-up, which would affect future financial results.

Self-insurance

Council has decided to self-insure for various risks, including public liability, workers compensation and professional indemnity. A provision for self-insurance has been made to recognise outstanding claims. Council also maintains cash and investments to meet expected future claims; refer to Note C1-3.

C4 Reserves

C4-1 Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments and decrements in the revaluation of non-current assets.

Trust assets reserves

The Trust Assets Revaluation Reserve represents the total fair value of trust land assets (such as Crown Reserve Trusts) that have come under the management control of Council at no acquisition cost and which have subsequently been revalued to fair value. These assets are owned by external entities (including State and Federal Governments) and are effectively controlled by the City as custodians or Reserve Trust manager.

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D Council structure

D1 Results by fund

Council utilises only a general fund for its operations.

D2 Interests in other entities

Council has no interest in any controlled entities, joint arrangements or associates.

D3 Discontinued operations

D3-1 Discontinued operations

Council has not classified any of its operations as 'discontinued'.

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E Risks and accounting uncertainties

E1-1 Risks relating to financial instruments held

Council's activities expose it to a variety of financial risks including **(1)** price risk, **(2)** credit risk, **(3)** liquidity risk and **(4)** interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council. Financial risk management is carried out by Council's Chief Finance Office under policies approved by the Council.

Council does not engage in material transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

\$ '000	Carrying value 2021	Carrying value 2020	Fair value 2021	Fair value 2020
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	51,051	123,436	51,051	123,436
Receivables	89,106	85,313	89,106	85,313
Investments				
– Debt securities at amortised cost	604,204	509,357	605,539	510,702
Total financial assets	744,361	718,106	745,696	719,451
Financial liabilities				
Payables	104,047	93,562	104,045	93,562
Total financial liabilities	104,047	93,562	104,045	93,562

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – carrying value is estimated to approximate market value.
- **Held-to-maturity investments** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. Council's Chief Finance Office manages the cash and investments portfolio.

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees. Council also seeks advice from independent advisers from time to time, when considering certain investment opportunities.

(a) Market risk – interest rate and price risk

E1-1 Risks relating to financial instruments held (continued)

\$ '000	2021	2020
The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.		
Impact of a 1% movement in interest rates		
– Equity / Income Statement ¹	6,538	6,305
Impact of a 10% movement in price of investments		
– Equity / Income Statement ²	–	–

(1) Owing to prevailing market conditions in light of the Covid-19 pandemic, the weighted average annualised interest rate earned for investments held at 30 June 2021 was 0.64%. Annual returns for the investment portfolio in 2021-22 cannot decrease more than this current rate of return (except in the unlikely event of negative interest rate returns).

(2) For the financial years shown, all investments were classified as 'Held to Maturity', in accordance with AASB 9 and Council's deemed 'business model'. Accordingly, fluctuations in market value are not expected to have any impact on Net Surplus or Equity; all investments are due to mature at their face value.

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

The main risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

There are no significant concentrations of credit risk, other than Council has significant credit risk exposures in its local area given the nature of the business.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable in the financial statements.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

Credit risk profile

Receivables – rates and annual charges

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2021						
Gross carrying amount	–	7,849	137	93	87	8,166
2020						
Gross carrying amount	–	8,377	87	59	53	8,576

Receivables - non-rates and annual charges and contract assets

Council applies the simplified approach for non-rates and annual charges debtors to provide for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due. For the assessment of expected credit losses at 30 June 2021, consideration was given to the ongoing impact of the Covid-19

E1-1 Risks relating to financial instruments held (continued)

pandemic on default rates. Expected loss rates were escalated at 30 June 2020, to reflect the expected ongoing impacts of the pandemic, and debt recovery data showed that the estimate was reasonably accurate.

The loss allowance provision as at 30 June 2021 is determined as follows. The expected credit losses incorporate forward-looking information.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2021						
Gross carrying amount	70,699	7,707	244	865	5,004	84,519
Expected loss rate (%)	0.00%	4.45%	9.84%	35.39%	55.70%	4.09%
ECL provision	–	343	24	306	2,787	3,460
2020						
Gross carrying amount	57,273	15,200	52	1,388	6,280	80,193
Expected loss rate (%)	0.00%	0.70%	14.48%	34.92%	43.71%	4.17%
ECL provision	–	106	8	485	2,745	3,344

(c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates. The timing of expected outflows is not expected to be materially different from contracted cashflows.

The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2021							
Trade/other payables	0.00%	30,311	70,513	–	–	100,824	100,826
Total financial liabilities		30,311	70,513	–	–	100,824	100,826
2020							
Trade/other payables	0.00%	23,346	67,309	–	–	90,655	90,655
Total financial liabilities		23,346	67,309	–	–	90,655	90,655

E2-1 Fair value measurement

The Council measures the following asset and liability classes at fair value on a recurring basis:

- Infrastructure, property, plant and equipment
- Investment property
- Financial assets and liabilities

During the reporting period, Council has also fair value measured the following assets on a non-recurring basis:

- Non-current assets classified as 'held for sale'

Those assets classified as held for sale represent property sales where a financial offer has been accepted and/or settlement is expected within the next 12 months. The assets were transferred from the Operational Land and Intangible Assets classes, having been most recently revalued at the dates noted in Note E2-1.

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Details of the asset and liability classes measured and recognised by Council at fair value are shown on the following pages.

		Fair value measurement hierarchy					
\$ '000	Notes	Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		Total	
		2021	2020	2021	2020	2021	2020
Recurring fair value measurements							
Investment property	C1-9						
Investment property portfolio		384,259	344,700	—	—	384,259	344,700
Total investment property		384,259	344,700	—	—	384,259	344,700
Infrastructure, property, plant and equipment (I,P,P&E)							
	C1-8						
Plant and equipment		—	—	41,188	36,215	41,188	36,215
Office equipment		—	—	7,794	7,918	7,794	7,918
Furniture and fittings		—	—	16,020	14,760	16,020	14,760
Operational land		1,752,239	1,519,421	55,300	—	1,807,539	1,519,421
Community land		—	—	2,493,983	3,050,177	2,493,983	3,050,177
Crown and third party owned land		—	—	3,013,891	4,871,680	3,013,891	4,871,680
Land under roads (post 30/6/2008)		—	—	109,674	97,491	109,674	97,491
Open space		—	—	277,786	259,221	277,786	259,221
Buildings – non specialised		573,954	403,982	991,220	986,734	1,565,174	1,390,716
Buildings – specialised		186	—	26,875	31,295	27,061	31,295
Other structures – poles & lights		—	—	81,897	66,691	81,897	66,691
Other structures – signs		—	—	24,949	24,123	24,949	24,123
Other structures – trees		—	—	120,861	119,732	120,861	119,732
Roads, bridges, footpaths, kerbs		—	—	1,286,477	1,262,007	1,286,477	1,262,007
Stormwater drainage		—	—	306,440	283,755	306,440	283,755
Heritage collections		—	—	9,599	7,315	9,599	7,315
Library books		—	—	2,143	2,824	2,143	2,824
City art		—	—	48,441	39,182	48,441	39,182
Total I,P,P&E		2,326,379	1,923,403	8,914,538	11,161,120	11,240,917	13,084,523

Non-recurring fair value measurements

continued on next page ...

E2-1 Fair value measurement (continued)

\$ '000	Notes	Fair value measurement hierarchy					
		Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		Total	
		2021	2020	2021	2020	2021	2020
Non-current assets classified as held for sale	C1-7						
Land		17,906	54,430	–	–	17,906	54,430
Buildings		–	485	–	–	–	485
Intangible assets - transferable rights		17,693	–	–	–	17,693	–
Total NCA's classified as held for sale		35,599	54,915	–	–	35,599	54,915

Valuation techniques

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Financial assets

Commencing 1 July 2018, in accordance with AASB 9, Council holds all investments at amortised cost. The Council's business model for investing is to hold term deposits and securities to maturity, redeeming the face value at that time.

Investment property

Fair value of investment properties is estimated based on appraisals performed by an independent and professionally qualified property valuer. The appraisal adopted the capitalised income approach as the valuation methodology whereby a yield is applied to the property's income to assess its value. The yield applied to the rental return is based on analysis of sales and or leasing data and is calculated by dividing the rental return from comparable sales against sale price (initial yield). Where analysis indicated that income from a sale property was not at market levels at the time of sale, the income was adjusted to reflect market returns.

Infrastructure, property, plant and equipment (IPPE)

Plant & Equipment, Office Equipment, Furniture & Fittings, Library Resources

The Cost Approach is used for these asset classes, based on depreciated original cost representing fair value. The assets are primarily for operational purposes and are not of a nature where valuation increments are likely.

Fair value is adjusted by depreciation representing the wear and tear of the assets based on the estimated useful life of the asset. The valuation process is conducted by Council staff.

Buildings (Specialised and Non-Specialised)

Valuations of all building assets were undertaken by an external, qualified valuer (APV Valuers and Asset Management). In accordance with the brief provided to APV, valuations are compliant with AASB 13 - Fair Value.

Depending upon the unique circumstances of the building asset and other structure, each has been valued using a range of approaches:

- Market approach: favoured approach, applied where there is a principal market which provides observable evidence of the Fair Value of the asset.
- Income approach: utilised for assets where the income generating capability of the asset provides the best estimate of the assets' Fair Value.
- Cost approach: used for assets which are not income-generating and/or for which comparable sales evidence does not exist. These assets, largely within Specialised Buildings, have a particular use for delivery of services (e.g. grandstands, amenities blocks).
- In rare circumstances the valuation may also include a combination of approaches

The valuations are based on a range of inputs. Some inputs may be gathered at a high level prior to application of inputs at the Asset or Component Level.

Inputs to the valuation supported by observable evidence obtained via inspection and market evidence have been classified as Level 2 inputs. These include sales data, market and current rental income data, design and construction costs, average cost of construction, condition and consumption scores for each component as well as the dates of acquisition and decommissioning.

E2-1 Fair value measurement (continued)

The unobservable inputs (such the relationship between condition and the assessed level of remaining service potential of the depreciable amount required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using level 3 valuation inputs.

Operational Land

Fair value of this asset class is estimated based on appraisals performed by an independent and professionally qualified property valuer (APV). Land valuations take into consideration the characteristics of the land, such as size, zoning, topography, configuration etc. Depending upon the unique circumstances of each lot, land has been valued using one of the following approaches:

- Direct comparison to sales approach: The most widely used (and preferred) approach. Recent sales of similar properties are utilised as indicative of value, with site-specific characteristics allowed for.
- Hypothetical Development approach: in limited cases, where the highest value of land may be obtained through (notional) development, a realisable development value (less developer's margin) is taken as the fair value of the land parcel. The applicable planning controls for the site are taken into consideration.
- Value to an Adjoining Owner approach: in limited cases where there is no open market for a parcel, it may hold commercial value to an adjoining land owner. Value is considered to be the difference between the value of the adjacent land parcel with and without the subject parcel being included
- Nominal Value approach: sites with limited or no commercial utility (standalone or to adjacent owner) were valued at a nominal cost of acquisition (\$1,000)

The Hypothetical Development, Value to an Adjoining Owner and Nominal Value approaches all incorporate unobservable inputs, however the majority of valuations for the class reflect Level 2 (observable) inputs.

Community Land (Council-owned)

Fair value of this asset class is estimated based on appraisals performed by an independent and professionally qualified property valuer (Australian Pacific Valuers, APV). Land valuations take into consideration the characteristics of the land, such as size, zoning, topography, configuration etc. Land parcels were valued by APV in a manner consistent with Operational Land (as described above). Based on the unique circumstances of each lot, one of the following approaches was applied:

- Direct comparison to sales approach
- Hypothetical Development approach
- Value to an Adjoining Owner approach
- Nominal Value approach

The Hypothetical Development, Value to an Adjoining Owner and Nominal Value approaches all incorporate unobservable inputs.

A significant unobservable input is a discount (25% reduction) applied to the land values provided by APV, in recognition of the 'restrictions' associated with community land, in particular the lack of ability to sell the land or put it to an alternative purpose.

Crown and Third party owned Land (Council-controlled)

Consistent with the Office of Local Government Code of Accounting Practice and Financial Reporting, Crown Reserves under Council's care and control are recognised as assets of the Council. Fair value of this asset class is estimated based on appraisals performed by an independent and professionally qualified property valuer (APV), with a further adjustment made to 'discount' these valuations (50% reduction) in order to reflect implicit restrictions associated with the land type (specifically, Council's lack of ownership interest and ability to sell the land or put it to an alternative purpose). This discount is an unobservable input, applied to the observable inputs used by the external valuer (consistent with the Operational and Community Land classes).

Land Under Roads (post 30/06/2008)

Council utilises the 'englobo' valuation methodology for Land Under Roads, as allowable under the Office of Local Government Code of Accounting Practice and Financial Reporting. The approach utilises the average land valuation rate from the NSW Valuer-General for the Local Government Area, and applies a 90% 'discount' to reflect the restrictions inherent to land under roads (in particular, the difficulty associated with sale or transfer).

Infrastructure – Roads, Bridges, Footpaths, Signs, Poles & Lights, Stormwater Drainage

Fair value of these asset classes is determined on the depreciated replacement cost approach based on replacement costs determined with reference to current third party asset replacement contracts. The gross value is adjusted by depreciation, representing the wear and tear of the assets based on the estimated useful life of the asset. The valuation process is conducted by Council staff. Signs and Poles & Lights were revalued in 2019/20, using updated unit rates, and available condition assessment data. The remaining infrastructure asset classes were subject to an interim revaluation adjustment during 2019/20 (pending comprehensive revaluation in 2021/22). The interim adjustment relied upon % uplift in relevant contract works unit rates and Australian Bureau of Statistics indices since the previous comprehensive revaluation as a basis for a general uplift of asset values.

Open Space & Recreational Assets

Fair value of these asset classes is determined on the depreciated replacement cost approach substantially based on replacement costs determined with reference to current third party asset replacement contracts. These standard unit rates

E2-1 Fair value measurement (continued)

are a significant unobservable input and reflect an estimate determined by internal staff. An additional estimate relates to the assessed condition of assets, which is used to determine the expected remaining useful life (and accordingly the accumulated depreciation) of assets. Gross replacement cost less accumulated depreciation is considered to reflect fair value. The Open Space asset class was revalued on this basis at 30 June 2021.

Trees

Fair value of these asset classes is determined on the depreciated replacement cost approach based on replacement costs determined with reference to current third party asset replacement contracts. This incorporates the supply cost, cost of associated base/planting works and establishment costs associated with the initial period after planting. Valuations are undertaken by Council staff.

Heritage Collections and City Art

Fair value of these asset classes are estimated based on appraisals performed by independent and professionally qualified valuers. These assets are considered to be 'specialised' in nature, and accordingly depreciated replacement cost is utilised as the methodology to determine fair value, consistent with previous revaluations. Replacement cost estimates incorporate unobservable inputs, being an estimated amount that one would expect to pay for the same or similar item in a retail setting from a reputable merchant, or the cost to rebuild/replace with an equivalent asset at the date of valuation. Both asset classes were revalued at 30 June 2021.

Non-current assets classified as 'held for sale'

The assets classified as 'held for sale' at 30 June 2020 were transferred from the Buildings (non-specialised) and Operational Land classes. For 30 June 2021, only Operational Land and Intangible (transferable rights) assets were classified as held for sale, based on divestment status at balance date. Valuation techniques for Operational Land are consistent with those described above, while Transferable Heritage Floor Space rights are valued at the prevailing market rate at the time of the rights being awarded (i.e. at the time of recognition).

Highest and best use

The following non-financial assets of Council are being utilised in a manner that does not generate commercial revenue:

Community based assets

Council undertakes a number of services with the intention of providing community benefits to residents, workers and visitors. These services are based meeting essential community needs and are not of a nature that would be provided in a commercially competitive environment.

Land under the asset class includes Crown land (and other third-party owned land) under Council's care and control as well as Council-owned land that has been classified as community land under the provisions of the Local Government Act 1993. Furthermore, Council has a number of buildings that are applied in delivering community services. The restrictions on the land and the community use of the buildings in delivering community based services is considered to be the 'highest and best use' of those assets to Councils.

Land Under Roads

Land holdings under the Land Under Roads asset class comprise parcels of land acquired by (or dedicated to) Council after 30 June 2008. The englobo methodology applied to valuations is intended to reflect the inherent restriction on land that is used for the purpose of roads. The continued use of this land for the purposes of road, footpath, cycleway and stormwater drainage (as applicable) is considered to be 'highest and best use'.

E3-1 Contingencies

LIABILITIES NOT RECOGNISED

1. Potential benefits to Council

(i) Council is pursuing its legal rights to income in relation to the agreed placement of the operational assets of third parties on Council owned property. The amount was not quantifiable at balance date.

2. Contractual disputes/Potential claims

i) A contractor undertaking construction project entered liquidation in January 2020, and have failed to pay one of their subcontractors. Council is not liable to the subcontractor, however costs are likely to be associated with terminating the previous contractor and appointing a new contractor to complete the project.

3. Self insurance – Workers Compensation

Council has decided, on the basis of proper risk management practices, to carry its own insurance in regard to worker's compensation. A provision for self insurance has been made to recognise outstanding claims, based on actuarial recommendation, the amount of which is detailed in Note C3-5.

As a self-insurer, Council is required to lodge a bank guarantee with the State Insurance Regulatory Authority (SIRA). At 30 June 2020, bank guarantees of \$15.253M were held by the SIRA, and the Authority is currently reviewing whether any additional assurance is required.

All other insurance risks, including workers compensation claims above \$600,000, are covered by external companies.

4. Infringement Notices/Fines

Fines & Penalty Income, as a result of Council issuing Infringement Notices is followed up and collected by the State Debt Recovery Office. Council's Revenue Recognition policy for such income is to account for it as revenue when the penalty is applied to the extent of expected recovery rates (determined in accordance with past experience).

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid Infringement Notices that are in excess of the accrued revenue recognised in the accounts.

Due to the limited information available on the status and duration of outstanding Notices, Council is unable to reliably determine the full value of outstanding income.

6. Proposed Land Transfers between NSW Government Authorities and Council

Council has previously agreed to proceed with a transfer of public assets from NSW Government State Agencies. The completion of these transfers is subject to the fulfilment of specific conditions. The value of these assets cannot be quantified at this time, as they are subject to assessment of age and condition at the time of transfer.

7. Superannuation – Defined Benefits Schemes

Council makes employer contributions to the defined benefits categories of the Scheme at rates determined by the Scheme's Trustee. Employees also make member contributions to the Fund. As such, assets accumulate in the Fund to meet the member's benefit, as defined in the Trust Deed, as they accrue.

Council has an ongoing obligation to share in the future rights and liabilities of the Scheme. Favourable or unfavourable variations may arise should the financial requirements of the Scheme differ from the assumptions made by the Scheme's actuary in estimating the accrued benefits liability. Further disclosure relating to defined benefits schemes is shown at Note C3-4.

8. Developer Contributions Plans and Planning Agreements

Council levies infrastructure contributions upon various development across the Council area through the requisite Contributions Plans (Section 7.11 and 61) and through Voluntary Planning Agreements (VPAs, Section 7.4).

As part of these Plans and VPAs, Council has received funds which are required to be expended only for the purposes for which they were levied (per the respective plans and VPAs). These Plans also indicate proposed future expenditure to be undertaken by Council, which will be funded by making levies and receipting funds in future years or, where a shortfall exists, by the use of Council's General Funds.

These future expenses do not yet qualify as liabilities as of the Reporting Date but represent Council's intention to spend funds in the manner and timing set out in those Plans.

E3-1 Contingencies (continued)

Planning Agreements may also make provision for the future delivery of assets to Council for dedication as community assets. The delivery of these assets remains contingent upon the developers actioning consent and they are not raised as receivable assets until all contingencies expire.

9. Heritage Floor Space - Council Properties

Changes to the Sydney Development Control Plan (2012) made by Council may result in the award of Heritage Floor Space (HFS) to Council, subject to:

- a) Council, in its capacity as property owner, making application for the award of HFS on an eligible building
- b) That application being assessed by Council, in its capacity as statutory authority, as meeting the relevant criteria to allow award of HFS

During 2020/21 financial year, additional HFS awarded in respect of Council-owned property has been registered and is reflected in Note B2-3 and Note C1-10. Further awards on Council-owned properties are possible in future periods, subject to the assessment of the applications.

Valuation of any HFS awarded to/held by Council relies upon on available market evidence of recent sales by holders of HFS to developers.

10. Alternative Heritage Floor Space Allocation Scheme

Under Council's Alternative Heritage Floor Space Allocation Scheme, developers provide a bank guarantee for an agreed sum, to enable projects to proceed where the requisite Heritage Floor Space (HFS) allocation has yet to be secured. Should the heritage floor space allocation not be secured by the developer at a specific date, the guarantee will be claimed by Council, with the funds held as restricted assets, pending subsequent re-allocation to heritage works projects within the LGA.

At balance date, bank guarantees were held by Council for ten development sites (totalling \$49.6M). A partial or full claim on the guarantees may be made at a future date, should the respective developers fail to secure the required HFS. Should the HFS be secured, the guarantee/s will be returned and no monetary payment by the developer/s will be required. To date, the City has received payment for twelve developments where HFS was not secured within the requisite timeframe (\$48.2M claimed from bank guarantees). Amounts received via the Alternative Heritage Floor Space Allocation Scheme are held as restricted cash in the Heritage Conservation Fund (refer Note C1-3). A corresponding liability amount, reflecting unearned revenue, is held until suitable projects are identified to utilise the Heritage Conservation Fund in the delivery of heritage renewal projects within Central Sydney. A \$2.1M restoration project has been identified to date, due for completion in 2021/22.

F People and relationships

F1 Related party disclosures

F1-1 Key management personnel (KMP)

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

\$ '000	2021	2020
Compensation:		
Short-term benefits	3,969	3,945
Post-employment benefits	387	372
Total	4,356	4,317

Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. payment of rates, access to library or Council swimming pool by KMP) will not be disclosed.

F1-2 Councillor and Mayoral fees and associated expenses

\$ '000	2021	2020
The aggregate amount of Councillor and Mayoral fees and associated expenses included in materials and services expenses in the Income Statement are:		
Councillor expenses – Lord Mayoral fee	223	223
Councillors' fees	407	407
Other Councillors' expenses (including Mayor)	206	171
Total	836	801

F2 Other relationships

F2-1 Audit fees

\$ '000	2021	2020
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During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms.

Auditors of the Council - NSW Auditor-General:

(i) Audit and other assurance services

Audit and review of financial statements	217	212
Remuneration for audit and other assurance services	217	212
Total Auditor-General remuneration	217	212
Total audit fees	217	212

G Other matters

G1-1 Statement of Cash Flows information

(a) Reconciliation of net operating result to cash provided from operating activities

\$ '000	2021	2020
Net operating result from Income Statement	195,626	105,743
Adjust for non-cash items:		
Depreciation and amortisation	122,011	116,623
Net losses/(gains) on disposal of assets	(20,740)	(11,109)
Non-cash capital grants and contributions	(106,748)	(30,347)
Acquisition of heritage floor space rights (via award)	(44,064)	(20,688)
Adoption of AASB 15/1058	–	(91)
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investments classified as 'at fair value' or 'held for trading'	–	(1,260)
– Investment property	(39,004)	(5,230)
Amortisation of premiums, discounts and prior period fair valuations		
– Financial assets at amortised cost / held to maturity (2020)	3	(14)
+/- Movement in operating assets and liabilities and other cash items:		
Decrease/(increase) in receivables	2,979	3,860
Increase/(decrease) in provision for impairment of receivables	116	(269)
Decrease/(increase) in inventories	(1)	–
Decrease/(increase) in other current assets	(1,112)	173
Decrease/(increase) in contract assets	(913)	(16,282)
Increase/(decrease) in payables	(1,857)	3,831
Increase/(decrease) in other accrued expenses payable	(1,497)	(9,400)
Increase/(decrease) in other liabilities	8,056	(22,503)
Increase/(decrease) in contract liabilities	33,354	32,983
Increase/(decrease) in provision for employee benefits	(376)	1,692
Increase/(decrease) in other provisions	4,810	(674)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows	150,643	147,038

(b) Non-cash investing and financing activities

Developer contributions 'in kind'	18,735	4,406
Asset transfers arising from Sydney Light Rail project	78,396	3,950
Other dedications and non-cash contributions	9,617	21,991
Award of heritage floor space	44,064	20,688
Total non-cash investing and financing activities	150,812	51,035

G2-1 Commitments

Capital commitments (exclusive of GST)

\$ '000	2021	2020
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Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

Property, plant and equipment

Buildings	18,316	28,556
Infrastructure – Roads, Bridges, Footways, Kerb and Gutter	55,164	28,087
Open Space	18,977	23,113
Plant and equipment	4,956	7,757
Public Art	2,398	1,998
Stormwater Drainage	10,070	10,958
Other	2,950	2,527
Total commitments	112,831	102,996

These expenditures are payable as follows:

Within the next year	90,796	82,646
Later than one year and not later than 5 years	21,552	20,167
Later than 5 years	483	183
Total payable	112,831	102,996

Sources for funding of capital commitments:

Unrestricted general funds	112,831	102,996
Total sources of funding	112,831	102,996

Details of capital commitments

Capital commitments at balance date comprise purchase orders raised by Council to suppliers for goods/services yet to be delivered at balance date. Subject to fulfilment of contractual obligations by suppliers, Council expects that the committed sums will be paid in accordance with the above timelines and expenditure types

G3-1 Events occurring after the reporting date

Council is unaware of any material or significant 'non-adjusting events' that should be disclosed.

DRAFT

G4 Changes from prior year statements

G4-1 Changes in accounting policy

Council made no changes of accounting policy for the reporting periods shown.

G4-2 Correction of errors

Council made no correction of errors during the current reporting period.

G4-3 Changes in accounting estimates

Nature and effect of changes in accounting estimates on current year

As part of the revaluation of the Community Land and Crown & Third Party Owned Land classes, Council adopted a change in accounting estimates. The change related to an updated valuation methodology.

Previous revaluations of these classes were undertaken internally, utilising NSW Valuer-General (VG) unimproved land value of surrounding land parcels as a basis for calculating a unit rate, which was then applied to the subject park. Exceptions to this methodology were cases where significant parks had evidently provided a valuation benefit to neighbouring sites, (the values of sites within proximity but not affected by the park "premium", were instead used as reference sites), and in cases of physically restricted sites where nominal or historic values were carried. In addition, a substantial adjustment was made to the book value of Crown & Third Party Owned Land, to reflect a notional 50% discount on the underlying value of these lands, on the basis that while the City controls the assets it cannot control or influence the classification of lands owned by the Crown. In respect of (City-owned) Community Land, Council considered the use of Valuer-General valuations of surrounding land parcels (being the unimproved land value of parcels of substantially similar characteristics) to be appropriately conservative in reflecting any restrictions associated with the land.

Commencing with the revaluation of these asset classes in the 2020/21 financial reporting period, an updated methodology was employed. For the first time, an external valuation consultant was engaged to value these land classes. The valuers provided a fair value by individual parcel of land, incorporating the specific characteristics of each. The valuation methodology utilised by the valuers did not make a material allowance in respect of 'restrictions' related to the Crown or Community classifications of the land. Using the assessed market values as a basis, Council then applies a 'discount' to the land classes on the following basis:

- A 50% discount applied to valuer-supplied valuations of Crown and Third Party-owned Land
- A 25% discount applied to valuer-supplied valuations of Council-owned Community Land

The difference in applicable discounts between the two land types is intended to reflect the more onerous restrictions associated with Crown Land parcels which are controlled, but ultimately not owned, by the City.

The more site-specific valuation methodology employed by the valuer provides a more appropriate "base" valuation for individual assets, to which the discount factor was applied. This updated methodology resulted in a valuation decrement for a number of parcels, even prior to the application of a discount factor. This was anticipated, as the previous valuation approach was inherently general in scope, having been undertaken internally with reference to Valuer-General valuations of surrounding parcels. Certain characteristics of the land parcels (particularly physical characteristics) have been more consistently reflected through the use of an external, expert valuer. Given the extent of unobservable inputs associated with the valuations, the financial impact of the change in methodology is difficult to quantify. However, the revaluation decrements recognised in 2020/21 for these asset classes related to the discount factors detailed above were as follows:

Crown Land: \$3,013.9M decrement
Community Land: \$831.3M decrement

These adjustments were made against asset revaluation reserves and are reflected in the Statement of Comprehensive Income and the Statement of Changes in Equity. No further changes to methodology are anticipated in future periods, subject to any formal guidance from the OLG or AASB.

Nature and effect of changes in accounting estimates on future years

The updated methodology will remain in place for these asset classes until such time as additional guidance and/or changes to accounting standard are issued.

G5 Statement of developer contributions as at 30 June 2021

G5-1 Summary of developer contributions

	as at 30/6/20			as at 30/6/2021				
	Opening Balance	Cash	Non-cash	Interest earned in year	Expenditure/ asset received during year	Internal Borrowing to/(from)	Held as restricted asset ⁴	Cumulative internal borrowings (due)/payable
\$ '000								
Community facilities	-	517	-	-	(1,020)	536	32	23,092
Open space	42,715	1,850	1,718	-	(55,723)	9,660	221	(37,835)
Stormwater drainage	1,311	118	176	-	(1,685)	83	2	25,022
Traffic and transport	11,848	318	224	-	(2,060)	(10,279)	52	(10,279)
Total section 7.11 revenue under plans¹	55,874	2,803	2,119	-	(60,489)	-	307	-
Section 7.4 planning agreements - public benefits ²	65,625	1,361	16,616	241	(15,343)	-	68,499	
Section 61 contributions ³	-	18,044	-	-	(18,044)	-	-	
Total contributions	121,499	22,208	18,734	241	(93,876)	-	68,806	-
<i>Comprising:</i>								
Cash contribution movement	84,820	22,090		241	(76,249)	-	30,903	-
Section 7.11	52,362	2,803		-	(55,165)	-	-	-
Section 7.4	32,458	1,243		241	(3,040)	-	30,903	
Section 61	-	18,044		-	(18,044)	-	-	
Contribution receivable movement	36,678	118	18,734		(17,627)	-	37,903	
Section 7.11	3,512	-	2,119		(5,323)	-	307	
Section 7.4	33,166	118	16,616		(12,304)	-	37,596	
Total contributions	121,499	22,208	18,734	241	(93,876)	-	68,806	-

¹ Section 7.11 of the *Environmental Planning and Assessment Act 1979*. City of Sydney operates only one section 7.11 contributions plan (the City of Sydney Developer Contributions Plan 2015). Under the *Environmental Planning and Assessment Act 1979*, Council levies contributions towards provision or improvement of amenities or services infrastructure associated with development. It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

² Section 7.4 of the *Environmental Planning and Assessment Act 1979*.

³ Section 61 of the *City of Sydney Act 1988*.

⁴ Restricted assets comprise unspent cash contributions and works-in-kind/cash contributions receivable that have been secured by bank guarantee/security deposit

G5–1 Summary of developer contributions (continued)

Voluntary Planning Agreements

Planning agreements (also commonly referred to as VPAs) are voluntary agreements entered into by the City and a developer to deliver public benefits.

These may include the dedication of land to Council, monetary contributions, public infrastructure, community facilities, affordable housing, any other material public benefit or any combination of these.

In respect of monetary contributions, the VPA documents detail the particular purpose for which the contributions are to be utilised. Council monitors receipts and expenditure by purpose, and any funds yet to be expended on nominated works are held as restricted assets.

Summary of VPA monetary contribution expenditure

\$ '000	2021	2020
<i>Monetary contributions expended during year – by purpose</i>		
Alexandria precinct local area traffic management	524	780
New roads, stormwater drainage and facilities in the Green Square Town Centre and Urban Renewal area	1,200	5,500
New roads infrastructure in the Ashmore precinct, Erskineville	720	100
New greenway and public park works, Rosebery	596	1,450
New cycleway construction – Wilson and Burren Street and Green Square to Randwick	-	473
Total expenditure - VPA monetary contributions	3,040	8,303

Summary of Unspent VPA monetary contributions

\$ '000	2021	2020
<i>Unspent Monetary Contributions (held as restricted cash) – by purpose (as described in the VPA):</i>		
Alexandria precinct local area traffic management	-	524
New roads, stormwater drainage and facilities in the Green Square Town Centre and Urban Renewal area	4,278	4,995
New greenway and public park works, Rosebery	4,274	4,836
Rosebery area works	359	356
New roads infrastructure in the Ashmore precinct, Erskineville	1,181	1,892
CBD Laneways (Dalley & Underwood) and surrounding public domain	3,163	3,139
Public domain enhancement in Bridge/Loftus St vicinity (CBD)	6,424	6,373
Macquarie Place upgrade	1,476	1,465
Broadway Gateways	163	162
Stormwater works - Rushcutters Bay catchment	488	484
City East PCTC works	256	254
Ultimo Local Area Traffic Management	865	858
Chippendale community facility(s)	3,877	3,847
Public domain works - Sydney University to Redfern Station	2,690	2,669
Community infrastructure	200	605
Harbour Walk public art program	1,209	-
	30,903	32,458

G6 Statement of performance measures

G6-1 Statement of performance measures – consolidated results

\$ '000	Amounts 2021	Indicator 2021	Indicators 2020	Indicators 2019	Benchmark
1. Operating performance ratio (excluding non-recurrent capital expenditure from Operating Expenses)					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	33,079	5.14%	0.29%	6.01%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions	643,390				
1a. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ¹	(8,023)	(1.25)%	0.51%	(4.16)%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	643,390				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	619,319	78.58%	85.78%	89.08%	> 60.00%
Total continuing operating revenue ¹	788,091				
3. Unrestricted current ratio					
Current assets less all external restrictions ³	561,497				
Current liabilities less specific purpose liabilities	142,321	3.95x	4.35x	3.15x	> 1.50x
3a. Unrestricted current ratio (less internal and external restrictions)					
Current assets less all external and internal restrictions	354,497	3.32x	3.72x	2.64x	> 1.50x
Current liabilities less specific purpose liabilities	106,711				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation	114,242	258.47x	322.85x	0.00x	> 2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	442				
5. Rates and annual charges outstanding percentage					
Rates and annual charges outstanding	8,167	2.16%	2.35%	1.30%	< 5.00%
Rates and annual charges collectable	378,224				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	539,051	10.84	9.43	8.51	> 3.00
Monthly payments from cash flow of operating and financing activities	49,746	mths	mths	mths	mths

(1) Continuing operating revenue also excludes fair value adjustments and reversal of revaluation decrements, and net gain/(loss) on sale of assets.

(2) Operating Performance Ratio 1 above excludes the operating expenditure impact of Council's contribution to Transport for NSW for the CBD to South East Light Rail Project (refer Note B3-2). Ratio 1a. is prepared in accordance with the OLG Code of Accounting Practice.

(3) Refer Notes C1-1 - C1-7 and C1-11.

(4) Refer to Notes C3-2, C3-1 and C3-5.

(5) Refer to Notes C3-2, C3-1 and C3-5 – also excludes all payables and provisions not expected to be paid in the next 12 months (incl. Employee Leave Entitlements).

G6-1 Statement of performance measures – consolidated results (continued)

END OF AUDITED FINANCIAL STATEMENTS (Additional (non-audited) disclosure included at H1-1)

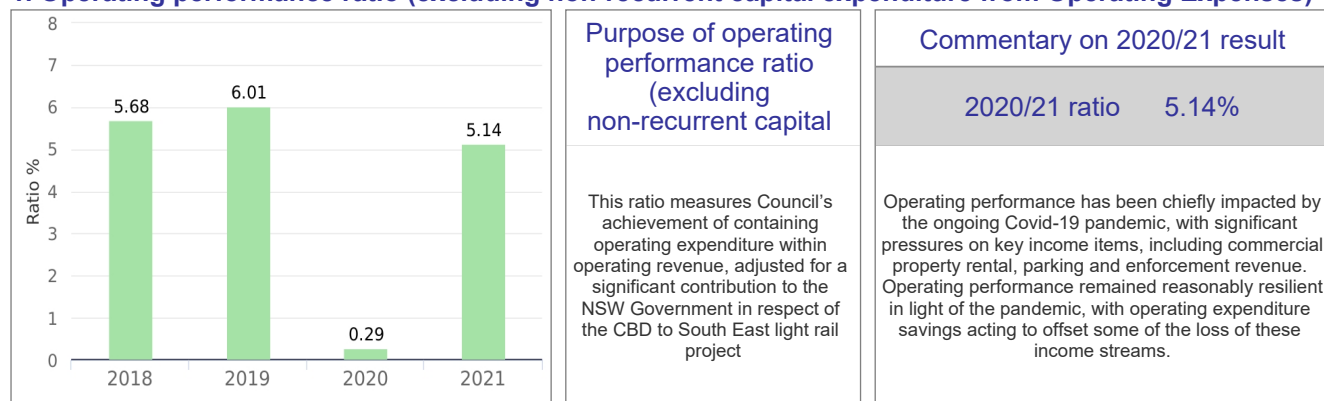
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H Additional Council disclosures (unaudited)

H1-1 Statement of performance measures – consolidated results (graphs)

The charts presented below graphically present Council's performance measure results over time. Whilst this additional disclosure is not subject to audit, the results presented reflect audited ratio calculations (refer Note 31a).

1. Operating performance ratio (excluding non-recurrent capital expenditure from Operating Expenses)



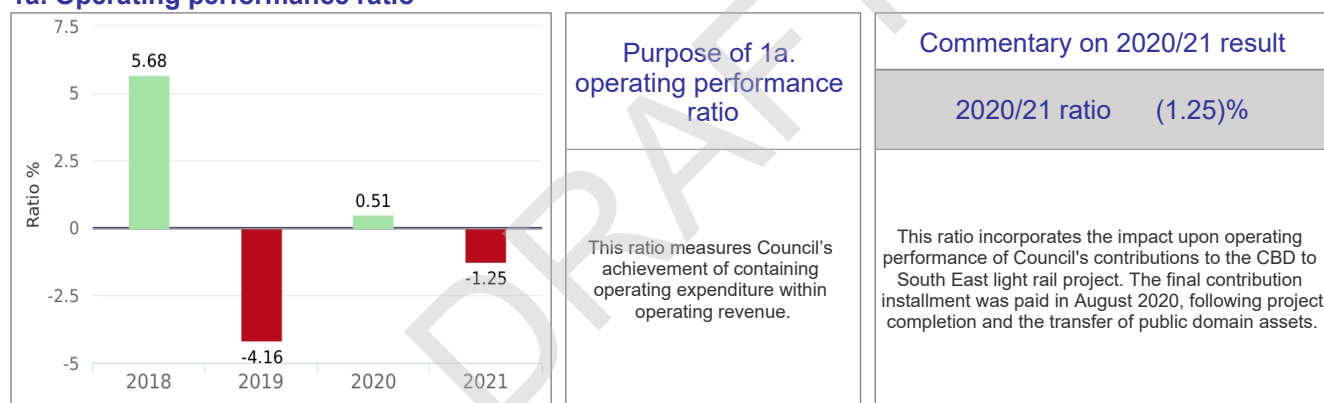
Benchmark: — > 0.00%

Source of benchmark:

Ratio achieves benchmark

Ratio is outside benchmark

1a. Operating performance ratio



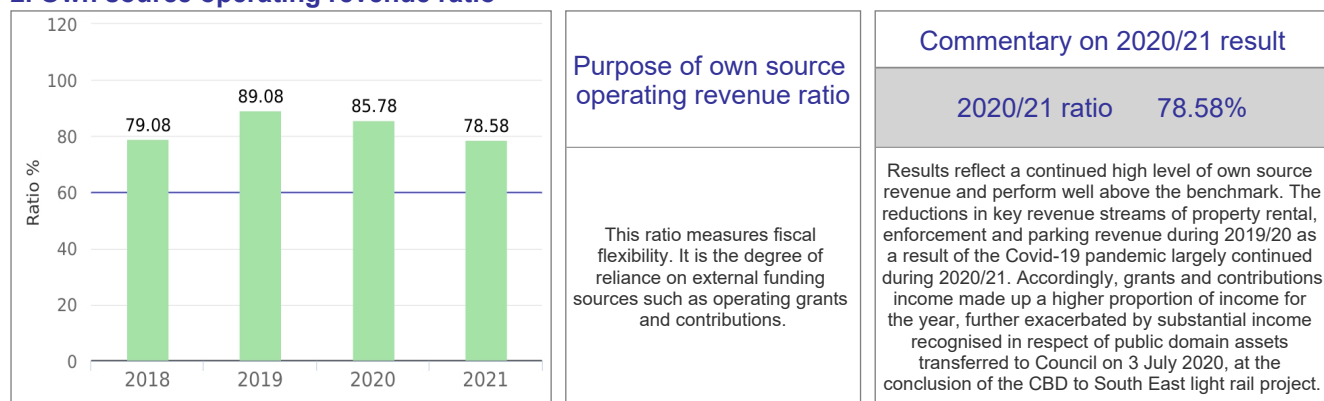
Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Benchmark: — > 60.00%

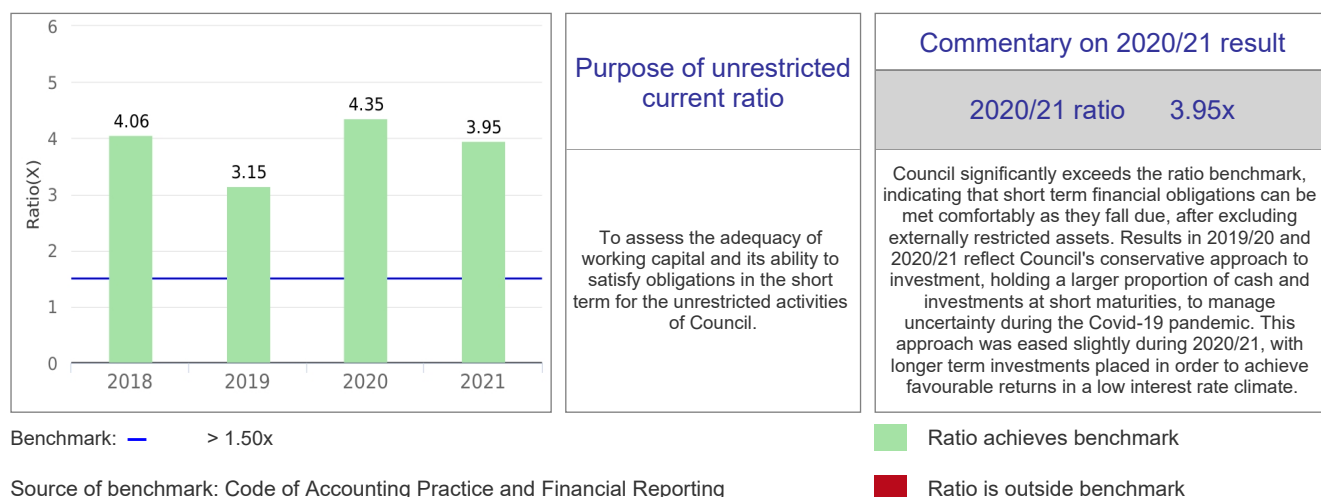
Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

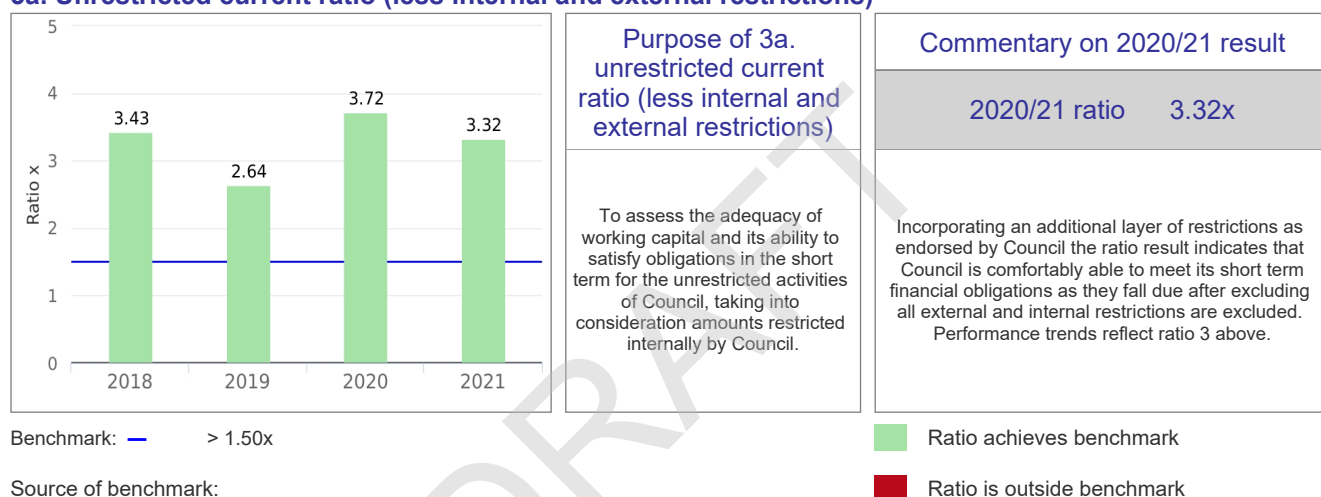
Ratio is outside benchmark

3. Unrestricted current ratio

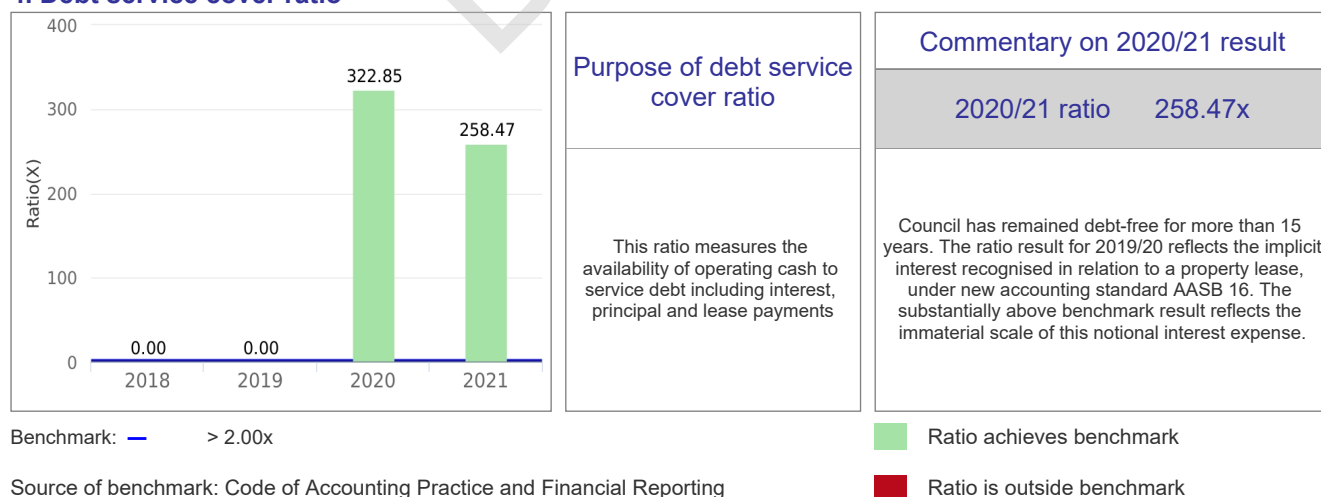
H1-1 Statement of performance measures – consolidated results (graphs) (continued)



3a. Unrestricted current ratio (less internal and external restrictions)

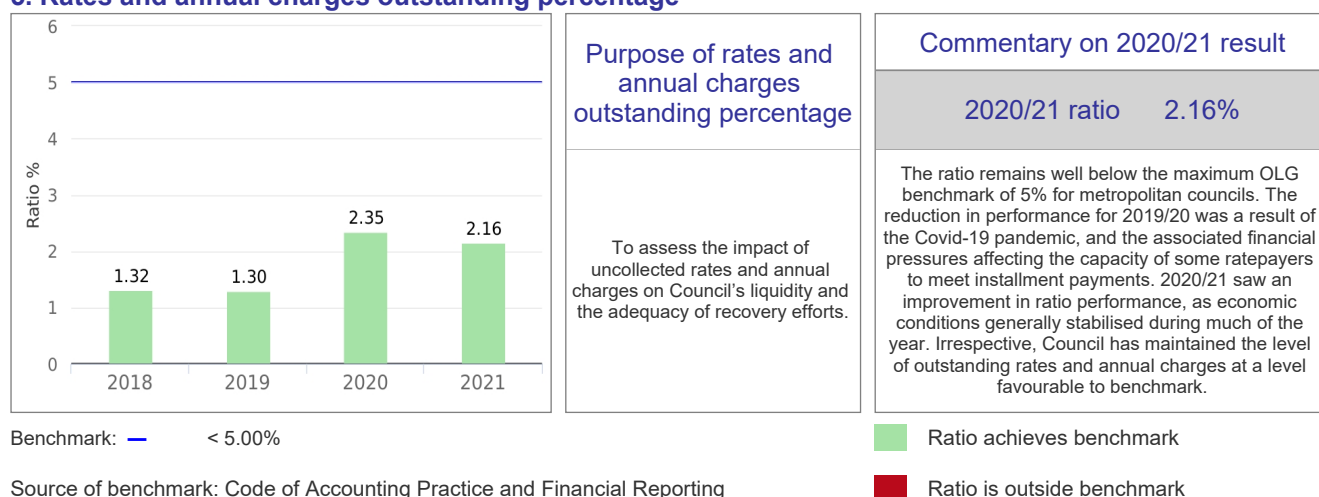


4. Debt service cover ratio

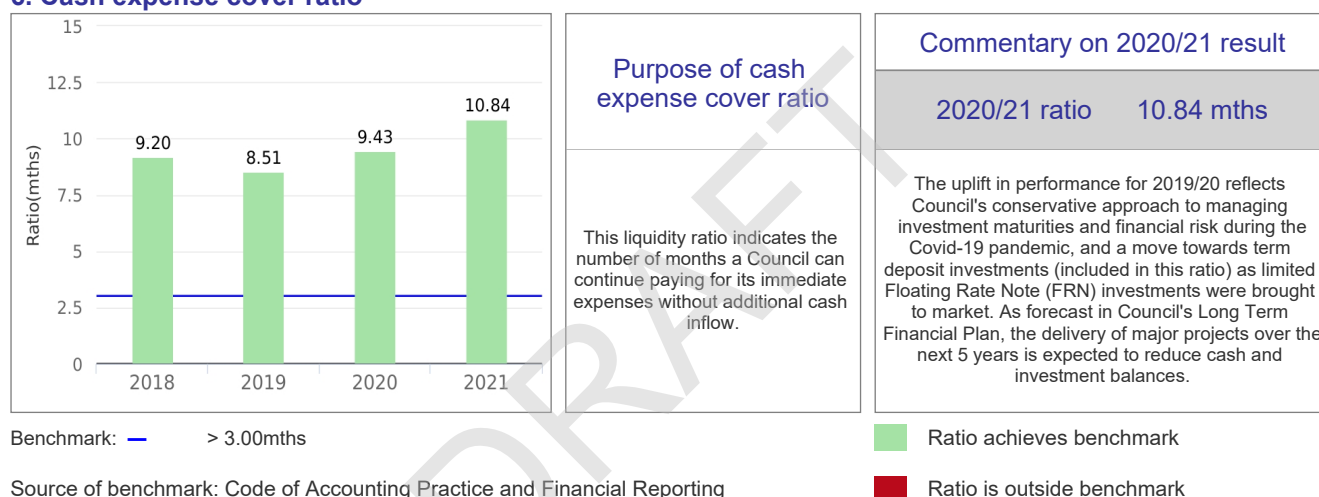


H1-1 Statement of performance measures – consolidated results (graphs) (continued)

5. Rates and annual charges outstanding percentage



6. Cash expense cover ratio





Special Purpose Financial Statements

Annual Report
2020/2021



Contents	Page
Statement by Councillors and Management	3
Special Purpose Financial Statements:	
Income Statement of Parking Stations	4
Statement of Financial Position of Parking Stations	5
Note – Significant Accounting Policies	6
Auditor's Report on Special Purpose Financial Statements	8

Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Council of the City of Sydney

Special Purpose Financial Statements

for the year ended 30 June 2021

Statement by Councillors and Management

made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*',
- the Local Government *Code of Accounting Practice and Financial Reporting*,

To the best of our knowledge and belief, these statements:

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 18 October 2021.

Clover Moore

Lord Mayor

18 October 2021

Jess Scully

Councillor

18 October 2021

Monica Barone

Chief Executive Officer

18 October 2021

Bill Carter

Responsible Accounting Officer

18 October 2021

Council of the City of Sydney

Income Statement of Parking Stations

for the year ended 30 June 2021

\$ '000	2021 Category 1	2020 Category 1
Income from continuing operations		
User charges	7,242	7,893
Total income from continuing operations	7,242	7,893
Expenses from continuing operations		
Employee benefits and on-costs	178	189
Materials and services	1,289	1,379
Depreciation, amortisation and impairment	886	878
Calculated taxation equivalents	109	110
Other expenses	1,577	1,679
Total expenses from continuing operations	4,039	4,235
Surplus (deficit) from continuing operations before capital amounts	3,203	3,658
Surplus (deficit) from continuing operations after capital amounts	3,203	3,658
Surplus (deficit) from all operations before tax	3,203	3,658
Less: corporate taxation equivalent [based on result before capital]	(833)	(1,006)
Surplus (deficit) after tax	2,370	2,652
Plus accumulated surplus	96,153	92,385
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	109	110
– Corporate taxation equivalent	833	1,006
Closing accumulated surplus	99,465	96,153
Return on capital %	3.1%	3.9%

Council of the City of Sydney

Statement of Financial Position of Parking Stations

as at 30 June 2021

\$ '000	2021 Category 1	2020 Category 1
ASSETS		
Current assets		
Receivables	105	81
Total current assets	105	81
Non-current assets		
Infrastructure, property, plant and equipment	102,080	94,165
Inter-Entity Debtor	89,264	85,542
Total non-current assets	191,344	179,707
Total assets	191,449	179,788
LIABILITIES		
Current liabilities		
Payables	549	1,000
Employee benefit provisions	59	60
Total current liabilities	608	1,060
Non-current liabilities		
Employee benefit provisions	20	19
Total non-current liabilities	20	19
Total liabilities	628	1,079
Net assets	190,821	178,709
EQUITY		
Accumulated surplus	99,465	96,154
Revaluation reserves	91,356	82,555
Total equity	190,821	178,709

Note – Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the special purpose financial statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these special purpose financial statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with the *Local Government Act 1993* (Act), the *Local Government (General) Regulation 2005* (Regulation) and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, fair value of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government. The framework for its application is set out in the June 1996 NSW Government Policy statement titled 'Application of National Competition Policy to Local Government'. *The Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, and returns on investments (rate of return and dividends paid).

Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1 - business activities with gross operating turnover more than \$2 million

Parking Stations - Operation of the Goulburn Street and Kings Cross Parking Stations

Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs. However, where Council does not pay some taxes, which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in special purpose financial statements. For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – **26%** (19/20 27.5%)

Land tax – the first \$755,000 of combined land values attracts **0%**. For the combined land values in excess of \$755,000 up to \$4,616,000 the rate is **\$100 + 1.6%**. For the remaining combined land value that exceeds \$4,616,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **4.85%** on the value of taxable salaries and wages in excess of \$1,200,000.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Note – Significant Accounting Policies (continued)

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 26%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 26% is the equivalent company tax rate prevalent at reporting date.

Local government rates and charges

A calculation of the equivalent rates and charges for all Category 1 businesses has been applied to all assets owned, or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that Council business activities face 'true' commercial borrowing costs in line with private sector competitors. In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

(i) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed. Subsidies occur where Council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations. The overall effect of subsidies is contained within the Income Statements of business activities.

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council's business activities on the Income Statement.

The rate of return is calculated as follows:

Operating result before capital income + interest expense

Written down value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.49% at 30/6/21.

(iii) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

END OF AUDITED FINANCIAL STATEMENTS

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Special Schedules

Annual Report
2020/2021



Council of the City of Sydney

Special Schedules

for the year ended 30 June 2021

Contents	Page
Special Schedules:	
Permissible income for general rates	3
Report on infrastructure assets as at 30 June 2021	4

DRAFT

Council of the City of Sydney

Permissible income for general rates

\$'000		Calculation 2021/22	Calculation 2020/21
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	315,286	305,065
Plus or minus adjustments ⁽²⁾	b	(931)	1,471
Notional general income for the previous year	c = (a + b)	314,354	306,536
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
or Rate peg percentage	e	2.00%	2.60%
or Crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less Expiring special variation amount		—	—
Plus Special variation amount		—	—
or Plus Rate peg amount		6,287	7,970
or Plus Crown land adjustment and rate peg amount		—	—
Sub-total	k = (c + g + h + i + j)	320,641	314,506
Plus (or minus) last year's result	l	—	—
Less one-off shortfall catch-up claimed in the previous year	m	—	—
Less unrecovered amounts claimed in the previous year	n	(1,794)	(1,013)
Sub-total	o = k + l + m + n	318,847	313,493
Plus one-off catch-up of previous years' shortfall ⁽⁴⁾	p	—	—
Plus catch-up of unrecovered amounts ⁽⁵⁾	q	415	1,794
Less unused catch-up ⁽⁶⁾	r	—	—
Maximum General Income Permissible	s = o + p + q + r	319,261	315,286
Less notional general income yield	t	319,261	315,286
Catch-up or (excess) result ⁽⁷⁾	u = s - t	—	—

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. Adjustments include 'supplementary valuations' as defined in the *Valuation of Land Act 1916* and estimate valuation changes, as allowed under s509(2)(b) and s509(2)(c) of the *Local Government Act 1993*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) The catch-up of a previous year shortfall in general income is allowed under section 511 of the *Local Government Act, 1993*.
- (5) Councils can claim the value of the permissible income unable to be recovered or retained due to reductions in valuations issued by the Valuer-General, as allowed under section 511A of the *Local Government Act 1993*.
- (6) Unused catch-up amounts will be deducted if they are not caught up within 10 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (7) Excess results require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 2 in the financial data return (FDR) to administer this process.

Council of the City of Sydney

Report on infrastructure assets as at 30 June 2021

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard ^a	Estimated cost to bring to the agreed level of service set by Council ^b	2020/21 Required maintenance ^c	2020/21 Actual maintenance ^c	Net carrying amount ^d	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	1	2	3	4	5
Buildings	Buildings – non-specialised	10,333	33,028	34,939	34,360	1,565,174	1,979,081	8.3%	78.4%	13.2%	0.1%	0.0%
	Buildings – specialised ^e	5,078	2,284	1,908	1,836	27,060	49,345	28.5%	21.1%	20.7%	28.7%	1.0%
	Sub-total	15,411	35,312	36,847	36,196	1,592,234	2,028,426	8.8%	77.0%	13.4%	0.8%	0.0%
Roads	Sealed roads – surface	508	1,189	3,088	3,366	158,558	238,207	5.3%	34.7%	56.8%	3.0%	0.2%
	Sealed roads – structure	4,519	5,649	174	165	476,803	537,895	37.8%	43.1%	15.8%	2.4%	0.9%
	Bridges	–	–	145	138	57,869	106,442	23.8%	38.1%	35.7%	2.4%	0.0%
	Footpaths	2,038	4,725	5,010	5,256	377,057	575,945	8.7%	23.3%	64.6%	3.1%	0.3%
	Kerb and gutter	3,145	6,336	1,234	1,171	205,601	329,172	4.5%	35.0%	50.6%	8.9%	1.0%
	Other road infrastructure assets ^f	700	700	112	107	14,538	48,656	5.9%	29.0%	57.9%	7.2%	0.0%
	Sub-total	10,910	18,599	9,763	10,203	1,290,426	1,836,317	16.8%	33.7%	44.9%	4.0%	0.6%
Stormwater drainage	Stormwater drainage	9,650	9,650	2,854	1,938	301,794	436,117	18.5%	58.8%	15.9%	4.4%	2.4%
	Sub-total	9,650	9,650	2,854	1,938	301,794	436,117	18.5%	58.8%	15.9%	4.4%	2.4%
Open space / recreational assets	Open Space Assets	11,044	11,071	17,029	19,326	277,786	661,553	8.5%	15.9%	61.5%	12.8%	1.3%
	Sub-total	11,044	11,071	17,029	19,326	277,786	661,553	8.5%	15.9%	61.5%	12.8%	1.3%
	Total – all assets	47,015	74,632	66,493	67,663	3,462,240	4,962,413	12.6%	51.2%	31.7%	3.9%	0.6%

Council of the City of Sydney

Report on infrastructure assets as at 30 June 2021 (continued)

Notes:

a **Estimated Cost to Bring To Satisfactory Standard** per Office of Local Government Requirements, reflects the estimated cost to restore all Council assets to condition '3' or better. These cost (and asset condition) assessments remain highly subjective, as in previous years

b **Estimated Cost to Bring to the Agreed Level of Service Set by Council** reflects the estimated cost to restore all assets assessed to be at a condition beneath Council's minimum service levels. These standards (i.e. target conditions) are detailed in Council's Asset Management Strategy, and reflect the strategy of maximising the consumption of assets' service potential before renewal works are undertaken.

c Maintenance costs, per Office of Local Government Requirements, include both maintenance and (appropriate) operational costs
Required maintenance reflects amounts identified within Asset Management Plans for the respective classes, and equivalent expenditure types are included within the 'Actual' column.

d Carrying Value reflects the asset value by class, per Note C1-8 of the General Purpose Financial Statements.

e The proportion of Specialised Buildings assessed as condition 4 is distorted by the inclusion of the Sydney Park Brick Kilns, assessed to be in a "poor" condition. This asset represents a disproportionate share of the small 'Specialised Buildings' class.

f 'Other' infrastructure includes street furniture and street fixtures (e.g. traffic islands)

Infrastructure asset condition assessment 'key'

1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Council of the City of Sydney

Report on infrastructure assets as at 30 June 2021

Infrastructure asset performance indicators (consolidated) *

\$ '000	Amounts 2021	Indicator 2021	Indicators 2020	Indicators 2019	Benchmark
1. Buildings and infrastructure renewals ratio					
Asset renewals ¹	53,853	61.54%	51.17%	57.28%	>= 100.00%
Depreciation, amortisation and impairment	87,510				
1a. Buildings and infrastructure renewals ratio (alternate) ¹					
Asset renewals ²	53,853	75.98%	63.52%	64.46%	> 100.00%
Required asset renewal (per adopted asset management strategy)	70,875				
2. Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	47,015	1.36%	1.69%	1.98%	< 2.00%
Net carrying amount of infrastructure assets	3,462,240				
3. Asset maintenance ratio					
Actual asset maintenance	67,663	101.76%	99.07%	99.93%	> 100.00%
Required asset maintenance	66,493				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	74,632	1.50%	1.86%	1.31%	
Gross replacement cost	4,962,413				

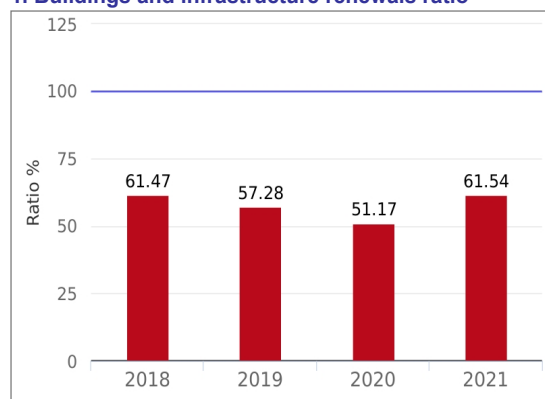
(*) All asset performance indicators are calculated using classes identified in the previous table.

(1) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Council of the City of Sydney

Report on infrastructure assets as at 30 June 2021

1. Buildings and infrastructure renewals ratio



Purpose of buildings and infrastructure renewals ratio

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2020/21 result

2020/21 ratio 61.54%

Delivery of renewal projects progressed more quickly in 2020/21 than prior years. Measures were implemented in late 2019/20 to 'fast-track' certain renewal works in order to provide economic stimulus, which had a positive effect on ratio performance. Depreciation expense also increased for 2020/21, as a result of asset value indexation of infrastructure and open space assets at 30 June 2020.

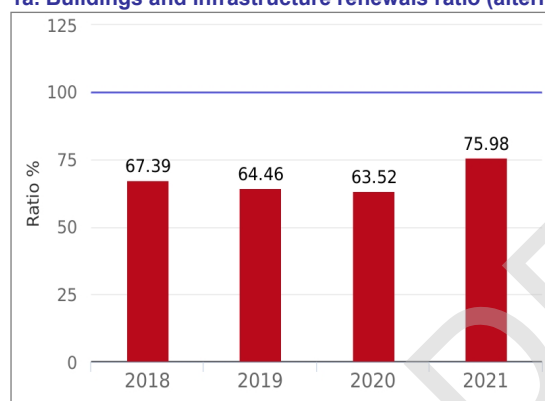
Benchmark: — $\geq 100.00\%$

Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

Ratio is outside benchmark

1a. Buildings and infrastructure renewals ratio (alternate)



Purpose of 1a. buildings and infrastructure renewals ratio (alternate)

To assess the rate at which these assets are being renewed relative to the required level of renewal identified in Council's Asset Management Plan.

Commentary on 2020/21 result

2020/21 ratio 75.98%

Required renewal reflects projections included in the Asset Management Plan (part of the Resourcing Strategy). As noted for ratio 1 above, delivery of renewal projects progressed more quickly in 2020/21 than prior years. Measures were implemented in late 2019/20 to 'fast-track' certain renewal works in order to provide economic stimulus, which had a positive effect on ratio performance.

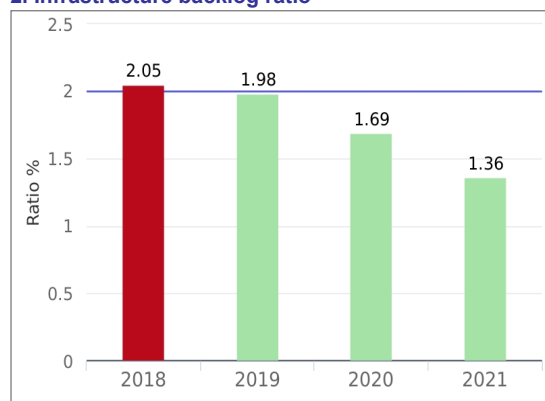
Benchmark: — $> 100.00\%$

Source of benchmark:

Ratio achieves benchmark

Ratio is outside benchmark

2. Infrastructure backlog ratio



Purpose of infrastructure backlog ratio

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2020/21 result

2020/21 ratio 1.36%

The improvement in this ratio result for 2020/21 is largely due to the uplift of asset values as a result of revaluations. Condition assessment data was updated for the Buildings and Open Space classes, as part of asset revaluations. Improvements to asset condition data are ongoing. Effective utilisation of asset service potential remains a priority and renewal works are targeted to maximise asset life.

Benchmark: — $< 2.00\%$

Source of benchmark: Code of Accounting Practice and Financial Reporting

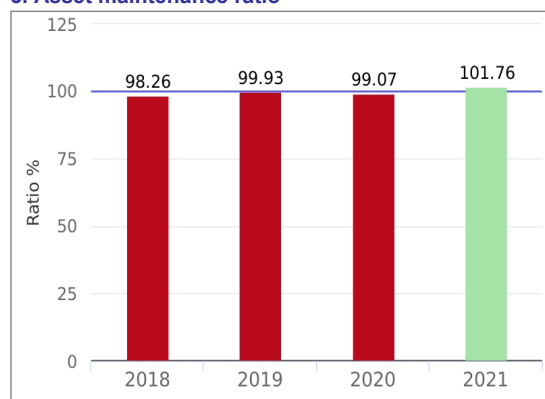
Ratio achieves benchmark

Ratio is outside benchmark

Council of the City of Sydney

Report on infrastructure assets as at 30 June 2021 (continued)

3. Asset maintenance ratio



Purpose of asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2020/21 result

2020/21 ratio 101.76%

Council's performance ratio result exceeds benchmark, within an acceptable range. A ratio significantly in excess of 100% would represent potential overservicing of assets. "Required" maintenance totals are subject to ongoing refinement as part of asset management planning. Maintenance cycles vary, from time to time, as asset condition assessments are undertaken.

Benchmark: — > 100.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

Ratio is outside benchmark

4. Cost to bring assets to agreed service level



Purpose of cost to bring assets to agreed service level

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

Commentary on 2020/21 result

2020/21 ratio 1.50%

Council has continued to meet the benchmark for this ratio, which was introduced from 2015-16. This ratio is considered to be more reflective of Council's infrastructure 'backlog', particularly due to the use of gross replacement cost in calculation. Improvement in the ratio result in 2020/21 reflects asset renewal expenditure, and asset valuation uplift as a result of the revaluation of buildings and open space assets.

Attachment B

**Draft Report on the Conduct of the Audit
2020/21**



Clover Moore
Lord Mayor
Council of the City of Sydney
Town Hall House
Level 2, 456 Kent Street
SYDNEY NSW 2000

Contact: Margaret Crawford
Phone no: 02 9275 7101
Our ref: D2120640/1791

6 October 2021

Dear Lord Mayor

**Draft Report on the Conduct of the Audit
for the year ended 30 June 2021
Council of the City of Sydney**

I have audited the general purpose financial statements (GPFS) of the Council of the City of Sydney (the Council) for the year ended 30 June 2021 as required by section 415 of the *Local Government Act 1993* (the Act).

I will express an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2021 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS to be issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2021	2020	Variance
	\$m	\$m	%
Rates and annual charges revenue	369.4	360.5	↑ 2.5
Grants and contributions revenue	168.8	101.6	↑ 66.1
Operating result from continuing operations	195.6	105.7	↑ 85.1
Net operating result before capital grants and contributions	50.9	19.4	↑ 162.4

Rates and annual charges revenue (\$369.4 million) increased by \$8.8 million (2.5 per cent) in 2020–21 due to the annual rate peg increase applied to ordinary rates (2.6 per cent) and increased charges from the domestic waste service review.

Grants and contributions revenue (\$168.8 million) increased by \$67.2 million (66.1 per cent) in 2020–21 mainly due to:

- the recognition of new assets arising from the Sydney Light Rail Project amounting to \$78.4 million, and
- decrease in section 7.11 of the Environmental Planning and Assessment Act 1979 (EP&A Act) cash developer contributions towards amenities/services by \$15.2 million.

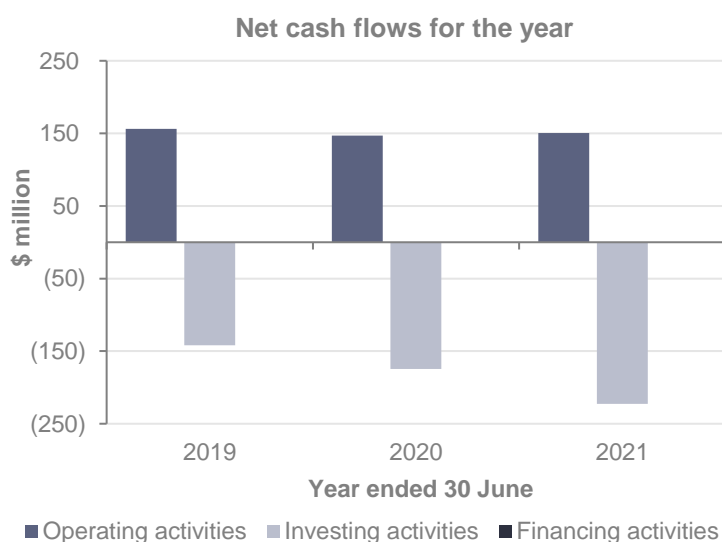
The Council's operating result from continuing operations (\$195.6 million) was \$89.9 million higher than the 2019–20 result. This increase was mainly attributable to the following:

- increase in grants and contributions revenue by \$67.2 million as described above
- increase in other revenue by \$15.2 million as a result of the Council being awarded with heritage floor space rights for the QVB and Haymarket Library during the year
- increase in other income by \$28.8 million largely due to the fair value increment recognised on the Council's investment properties
- decrease in employee benefits and on-costs by \$18.8 million due to permanent vacancies and slowdown in recruitment caused by the COVID-19 pandemic
- increase in materials and services expenses by \$33.5 million caused by the final milestone payment to Transport for New South Wales for the delivery of the CBD and South East Sydney Light Rail project.

The net operating result before capital grants and contributions (\$50.9 million) was \$31.5 million higher than the 2019–20 result.

STATEMENT OF CASH FLOWS

- The Council reported a decrease in cash and cash equivalents from \$123.4 million at 30 June 2020 to \$51.1 million at 30 June 2021.
- Cash outflows from investing activities increased by \$48.5 million due to an increase in the acquisition of term deposits by \$59.3 million, increase in net purchase of infrastructure, property, plant and equipment by \$19.9 million, offset by cash receipts of \$31.7 million from the sale of Heritage floor space rights.
- Operating cash inflows have remained stable over the past three years.
- The Council has no significant financing activities.



FINANCIAL POSITION

Cash and investments

Cash and investments	2021	2020	Commentary
	\$m	\$m	
Total cash, cash equivalents and investments	655.3	632.8	<ul style="list-style-type: none"> Externally restricted cash and investments are restricted in their use by externally imposed requirements. The decrease by \$29.2 million is primarily due to a decrease in available cash balance relating to developer contributions.
Restricted cash and investments:			
• External restrictions	87.4	116.6	<ul style="list-style-type: none"> Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. The decrease is mainly due to payments made from the City centre transformation reserve.
• Internal restrictions	313.4	328.7	

PERFORMANCE

Performance measures

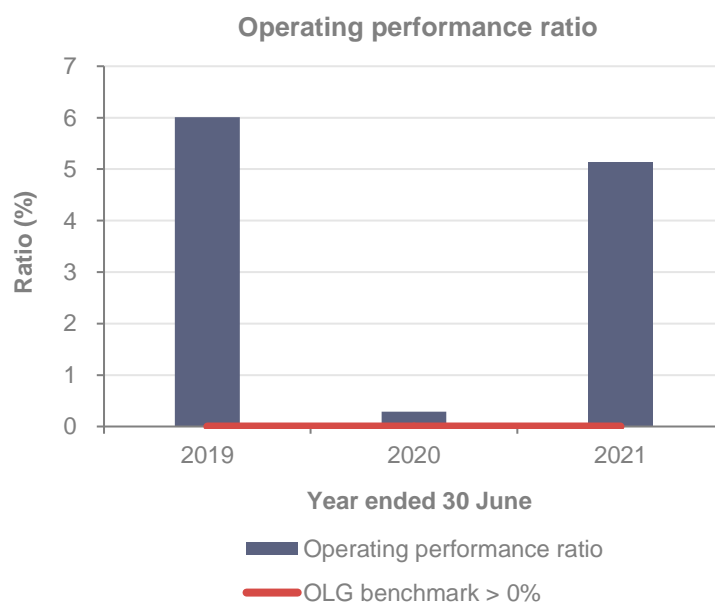
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

Operating performance ratio

The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by OLG is greater than zero per cent.

The Council met the OLG benchmark for the current reporting period.

Positive operating performance was due to operating expenditure savings and increased operating grants received for community and recreation in light of COVID-19 pandemic.

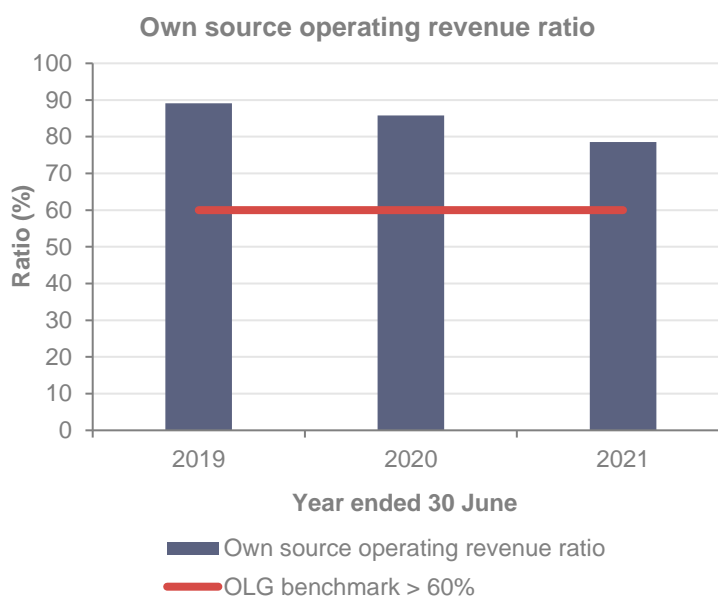


Own source operating revenue ratio

The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.

The Council continues to exceed the OLG benchmark. The ratio fluctuates with movements in grants and contributions.

The ratio continued to decrease in 2020–21 due to reductions in key revenue streams including property rental and income from the COVID-19 pandemic. The increased contributions from the Sydney Light Rail project also impacted this ratio.

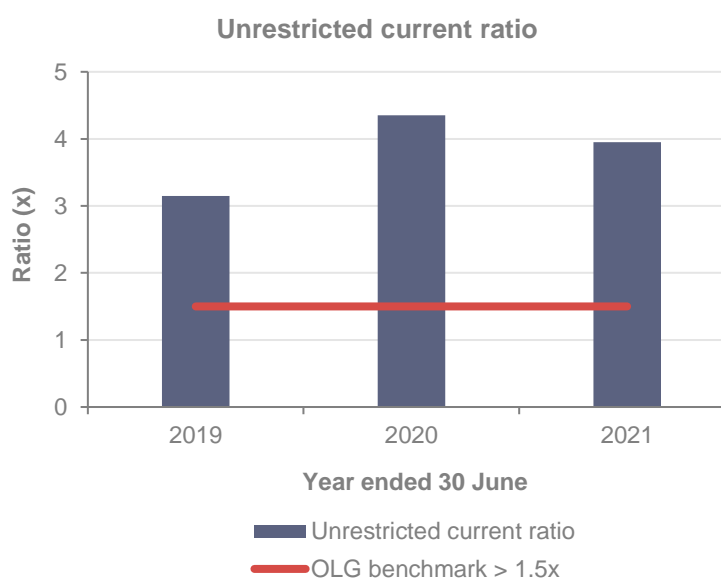


Unrestricted current ratio

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.

The Council *met* the OLG benchmark for the current reporting period.

Ratios in 2020 and 2021 reflect Council's approach to investment activity, by holding a larger proportion of cash and investments with short-term maturities to manage uncertainty during the COVID-19 pandemic. This approach was slightly eased during 2021, with the acquisition of longer-term investments.



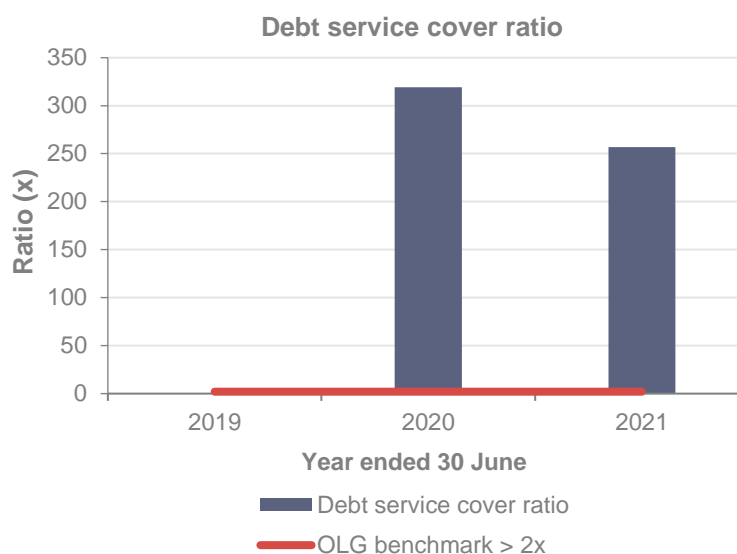
Debt service cover ratio

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.

The Council *met* the OLG benchmark for the current reporting period.

The Council continues to have no debt and holds adequate operating surpluses and cash reserves to meet its delivery program.

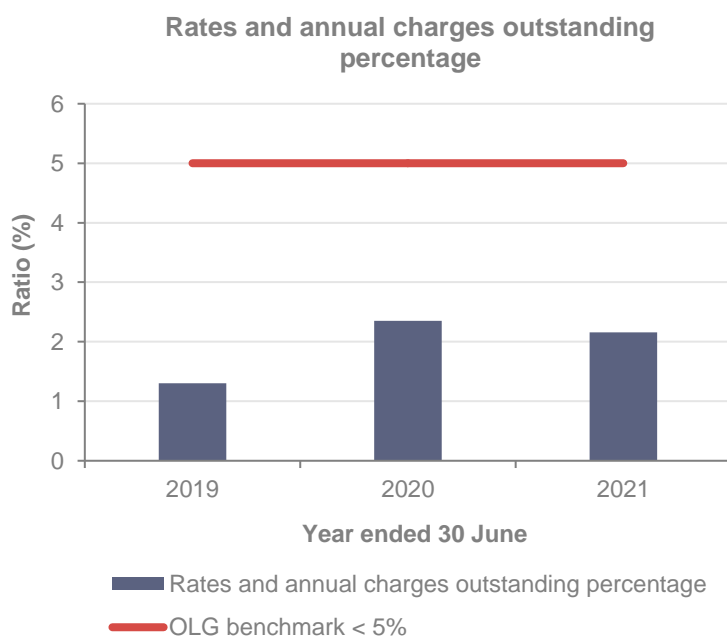
The ratio reflects the implicit interest recognised in relation to a property lease under the accounting standard AASB16 'Leases'.



Rates and annual charges outstanding percentage

The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 5 per cent for metropolitan councils.

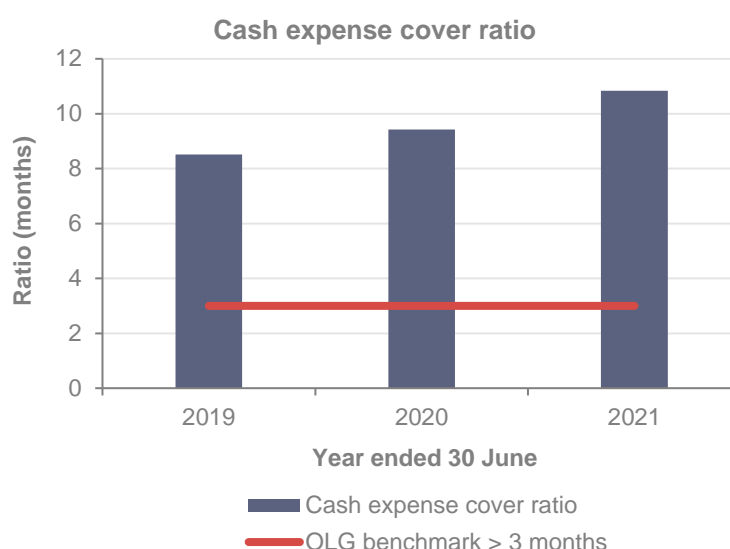
The Council's rate and annual charges outstanding ratio has remained below the OLG benchmark level of 'less than 5 per cent' over the last three years.



Cash expense cover ratio

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

The Council continues to *meet* the benchmark due to operating surpluses and cash reserves.



Infrastructure, property, plant and equipment renewals

Council's performance is as follows:

- asset renewals were \$62.6 million in 2020–21 compared to \$46.8 million the prior year. The increase is primarily due to capital renewal programs for road, property assets, and open space and parks.
- during 2020–21, \$297.1 million of new and upgraded assets were acquired, including \$76.5 million for the purchase of operational land. \$20.6 million of poles/lighting assets, \$18.5 million of stormwater drainage assets and \$48.7 million of roads infrastructure assets were also acquired, substantially through the transfer of assets from Transport for NSW at the conclusion of the Sydney Light Rail Project.

OTHER MATTERS

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.

Margaret Crawford
Auditor-General for New South Wales

cc: Monica Barone, Chief Executive Officer
Carolyn Walsh, Chair of Audit, Risk and Compliance Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment