

Attachment B

**Draft Auditor's Report on the 2018/19
Financial Statements**

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

Contact: Margaret Crawford
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Our ref: D1922208/1791

October 2019

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2019
The 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 2019 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 2019 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	2019 \$m	2018 \$m	Variance %
Rates and annual charges revenue	354.8	311.9	↑ 13.8
Grants and contributions revenue	74.5	147.4	↓ 49.5
Operating result for the year	94.5	217.1	↓ 56.5
Net operating result before Capital Grants and Contributions income	34.3	84.0	↓ 59.2

Rates and annual charges revenue (\$354.8 million) increased by \$42.9 million (13.8 per cent) in 2018–2019. Council applied the annual rate peg increase of 2.3 per cent from 1 July 2018. A one-off catch up of \$11.7 million in rates revenue was recovered in 2018–19 following a rates claim matter where the NSW Court of Appeal allowed land to be categorised as commercial for rating purposes, as opposed to residential.

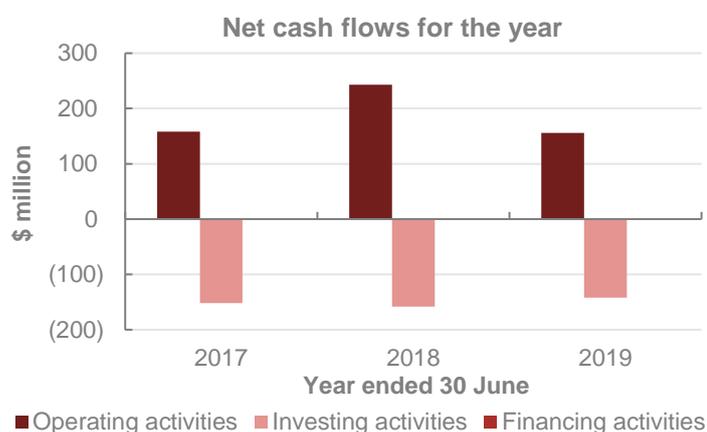
Grants and contributions revenue (\$74.5 million) decreased by \$72.9 million (49.5 per cent) in 2018–19 due to lower development activities in 2018–19 as compared to 2017–18 where a number of significant developments occurred. A reduction in contributions received from Green Square Town Development also contributed to the decrease in grants and contributions revenue.

Council’s operating result (\$94.5 million including the effect of depreciation and amortisation expense of \$106.9 million) was \$122.6 million lower than 2017–18 result. The decline in operating result was mainly due to a \$63.6 million payment to Transport for NSW towards the light rail contribution that was budgeted for in the prior year and did not occur. There was also a reduction of capital grants and contributions in 2018–19.

The net operating result before capital grants and contributions (\$34.3 million) was \$49.7 million lower than the 2017–18 result.

STATEMENT OF CASH FLOWS

Operating cashflows are significantly lower due to payment of \$63.6 million light rail contribution in 2018–19. Cashflows from investing activities slightly decreased due to lower purchase of infrastructure property plant in 2018–19.



FINANCIAL POSITION

Cash and investments

Cash assets, cash equivalents and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	118.3	126.7	<ul style="list-style-type: none"> Externally restricted balances include cash reserves earmarked for specific purposes such as developer contributions and domestic waste management charges. Balances are internally restricted due to Council policy or decisions for forward plans including works program. This includes cash and investments held for the city centre transformation set aside to meet future contributions to the State Government in respect of the George Street transformation. Decrease in internal restrictions of \$57.3 million primarily due to the Transport for NSW payment of \$63.6 million. Unrestricted balances provide liquidity for day -to -day operations.
Internal restrictions	252.3	309.6	
Unrestricted	252.8	16.9	
Cash and investments	623.4	603.2	

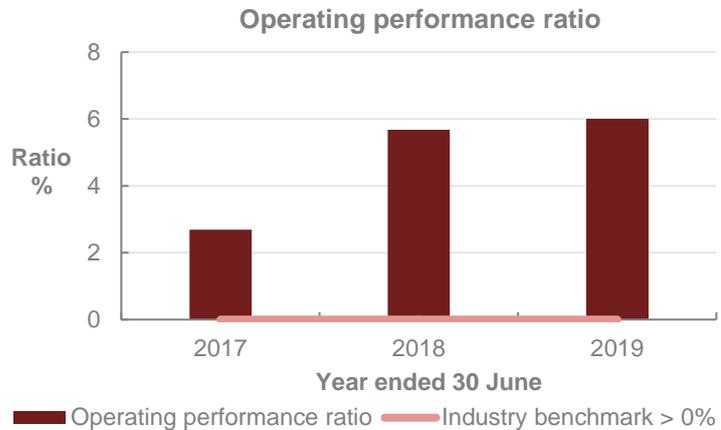
PERFORMANCE

Operating performance ratio

The Council's operating performance ratio, after adjusting for capital related contribution to the light rail project, has continued to strengthen against the benchmark.

A key reason for the 2018 – 19 result is the one-off recovery of rates income (reduced rates revenue by \$11.7 million in 2017 – 18).

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 the former Office of Local Government (OLG) is greater than zero per cent.

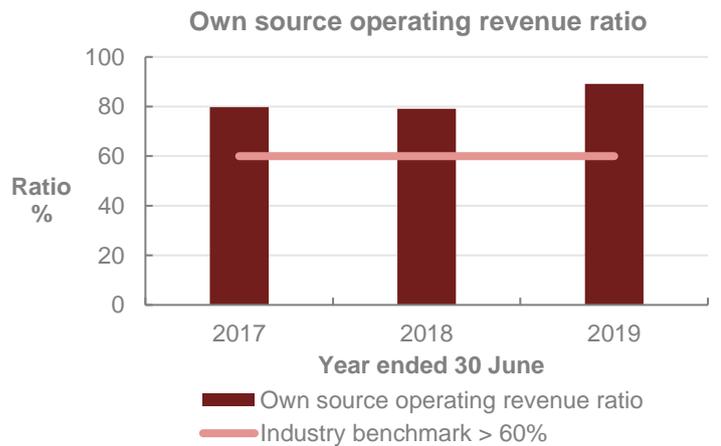


Own source operating revenue ratio

Council's own source operating ratio continues to exceed the benchmark over the past three years and increased to 89.1 per cent in 2018–19.

The ratio fluctuates with movements in grants and contributions.

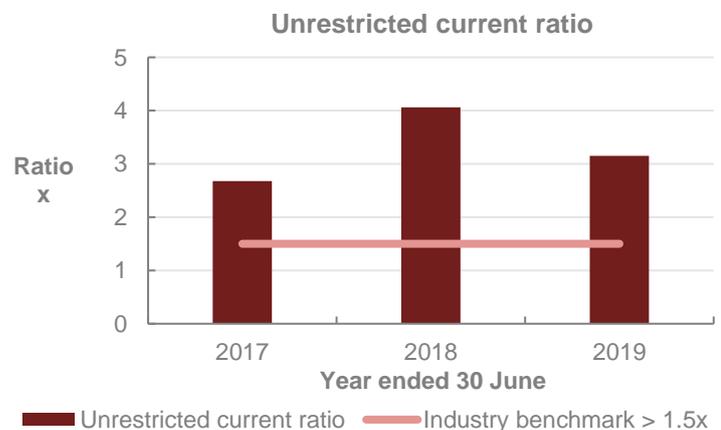
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.



Unrestricted current ratio

Council continues to exceed the benchmark. However, the unrestricted current ratio declined in 2018–19 mainly due to an increase in payables during the year.

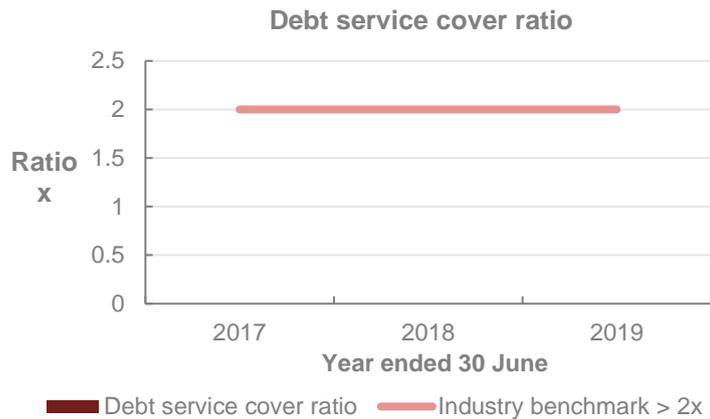
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.



Debt service cover ratio

Council, to date, does not have any debt and can meet its delivery program due to adequate operating surpluses and cash reserves.

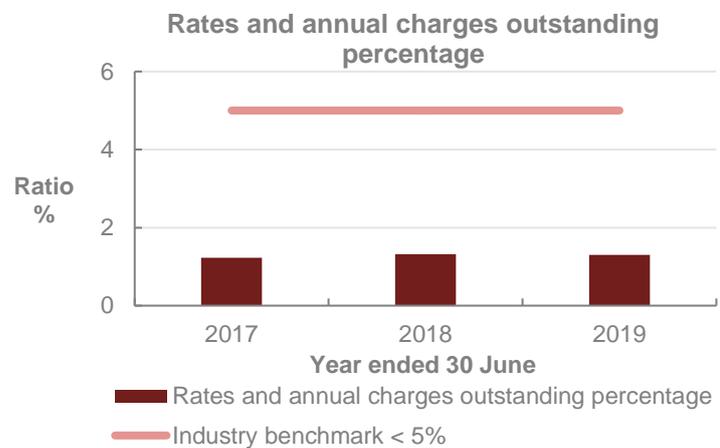
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.



Rates and annual charges outstanding percentage

Councils rates and annual charges outstanding ratio has remained stable and been below 2 per cent over the last three years, well below the benchmark level of 'less than 5 per cent'.

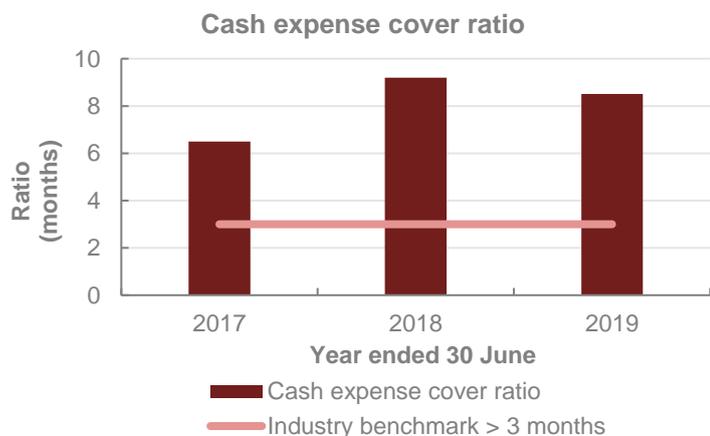
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 5 per cent for metro councils.



Cash expense cover ratio

Council exceed the benchmark as they have strong operating surpluses and cash reserves. The delayed light rail contribution payments to Transport for NSW and lower than expected capital works expenditure, has resulted in higher cash balances over the past two years.

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 the former OLG is greater than three months.



Infrastructure, property, plant and equipment renewals

Councils performance is as follows:

- the unaudited 'buildings and infrastructure renewals ratio' was 57.3 per cent compared to 61.5 per cent in the prior year (benchmark set by OLG is 100 per cent). Council's rate of asset renewal is lower than the relative rate at which assets are depreciated.
- during 2018–19, \$131.7 million was spent on new assets (\$155.1 million in 2017–18) including \$31.5 million on land and \$7.9 million on roads infrastructure.

OTHER MATTERS

New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none">• a simplified model for classifying and measuring financial assets• a new method for calculating impairment• a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 15.</p>

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
Elizabeth Crouch, Chair of Audit Risk and Compliance Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment