

Item 2.

Presentation of the 2019/20 Financial Statements and Audit Reports to Council

File No: X025180

Summary

This report presents the City's 2019/20 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 16 November 2020.

The City of Sydney's Income Statement for the year ended 30 June 2020 reports a Net Operating Result for the year of \$105.7M, in accordance with relevant accounting standards and reporting requirements, against a budgeted loss of \$36.5M. The favourable result against budget is mainly due to a substantial revaluation of the City's Investment Properties, the recognition of a significant Heritage Floor Space award in respect of a City-owned property, a gain on disposal of assets and a deferred payment of the City's final large contribution to Transport NSW for the Light Rail Project.

In completing the 2019/20 Financial Statements, a number of final adjustments were made to the results reported to Council within the 2019/20 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 \$14.3B, an increase of \$2.3B over the year, due in large part to an upward revaluation of community land and crown land (under the care and control of the City).

The City of Sydney remains in a strong, stable financial position. The City is well placed to fund its operations on an ongoing basis, with sufficient financial resources to support its ongoing operations and programs, and the \$1.6B capital works program identified within the City's 2020/21 to 2029/30 Long Term Financial Plan.

The 2019/20 financial statements incorporate mandatory disclosures of financial performance ratios within the Statement of Performance Measurement (Note 31 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 each 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 consistently and predicably applied 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 2019/20 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 2019/20 Financial Statements.

Recommendation

It is resolved that Council:

- (A) receive the Financial Statements for City of Sydney for the year ended 30 June 2020, 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 2019/20 Annual Financial Statements; and
- (E) authorise that notice be given, through Sydney Your Say, of public presentation of the audited 2019/20 Financial Statements for the City of Sydney at the Council meeting on 16 November 2020.

Attachments

Attachment A. 2019/20 Financial Statements

Attachment B. Draft Auditor's Report on the 2019/20 Financial Statements

Background

1. The 2019/20 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 Update 28 (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 2020.
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. The draft Financial Statements were reviewed by the Audit Risk and Compliance Committee on 1 October 2020 for endorsement to Council for authorisation.
7. The 2019/20 financial statements incorporate mandatory disclosures of financial performance ratios within the Statement of Performance Measurement (Note 31 in the General Purpose Financial Statements) and the Report on Infrastructure Assets.
8. 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.

9. In cases where the mandatory ratios provide an inadequate or misrepresentative measure of the City's underlying financial performance and/or position, the City has provided supplementary indicators that eliminate some or all of these inadequacies to present a more realistic and balanced view. The importance of providing this additional disclosure to the readers of the financial statements was brought into focus by the NSW Government's 'Fit for the Future' program for local government reform. The City's submission to IPART in 2015 in respect of Fit for the Future articulated the inherent shortcomings of the key ratios and benchmarks, including Operating Performance, Debt Service (benchmark) and Asset Renewal.
10. 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 2019/20 Financial Statements.

Financial Implications

11. The Financial Statements reflect a Net Operating Result for the year of \$105.7M, in accordance with relevant accounting standards and reporting requirements, against a budgeted loss of \$36.5M and a Net Operating Result excluding Capital Grants and Contributions and Contribution to Light Rail of \$19.4M versus a budgeted loss \$31.5M. The favourable result against budget is mainly due to a substantial revaluation of the City's Investment Properties, the recognition of Heritage Floor Space award, a gain on disposal of assets, and deferred payment of the City's final large contribution to Transport NSW for the Light Rail Project pending achievement of project milestones.
12. The Quarter 4 Report to Council on 24 August 2020 reflected a Net Operating Result of \$85.0M. There is a difference of \$20.7M between the Q4 Net Operating Result and the 2019/20 Financial Statements' Net Operating Result.

13. Movements from the Quarter 4 Report to the Financial Statements comprised:

| | \$M Fav/(Unfav) |
|---|--------------------|
| Recognition of Heritage Floor Space award | 20.69 |
| Finalise accounting treatment for expensing of non-capital items from the capital works program | (6.70) |
| Finalise accounting for asset disposals | 5.24 |
| Finalise capital contributions accounting - recognition of Works in Kind completed and land transferred | 2.53 |
| Depreciation expense adjustments resulting from fixed asset finalisation | (1.17) |
| Public Liability - adjustment to self-insurance provision | 0.81 |
| Revenue recognition - adoption of AASB 15 & 1058 | (0.47) |
| Lease accounting - adoption of AASB 16 | (0.35) |
| Final YE accrual adjustments | 0.19 |

14. The significant variances to budget were detailed within the Q4 Report, as presented to Council on 24 August 2020.

15. The City of Sydney remains in a strong, stable financial position. The City is well placed to fund its operations on an ongoing basis, with sufficient financial resources to support the \$1.6B capital works program identified within the City's 2020/21 to 2029/30 Long Term Financial Plan.

Relevant Legislation

16. 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)).

17. 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)).

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

Critical Dates / Time Frames

19. The 2019/20 Financial Statements must be prepared, audited and submitted to the Office of Local Government by 30 November 2020. Note that this deadline has been extended by one month for the 2019/20 Financial Statements in response to the impact of the Covid-19 Pandemic.
20. A public notice must be placed to advise that the 2019/20 Financial Statements and the Auditor's Report will be presented to the public at the Council meeting of 16 November 2019. The Financial Statements will be included in the Annual Report which will be lodged with the Office of Local Government by 31 December 2020. Note that this deadline was also extended by one month for the 2019/20 Annual Report in response to the impact of the Covid-19 Pandemic.

Public Consultation

21. Following endorsement of the City's 2019/20 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 16 November 2020.

BILL CARTER

Chief Financial Officer