

# **Attachment B**

**Draft Auditor's Report on the 2019/20  
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  
 Phone no: 02 9275 7101  
 Our ref: D2019113/1791

October 2020

Dear Lord Mayor

**Draft Report on the Conduct of the Audit  
 for the year ended 30 June 2020  
 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 2020 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 2020 will be 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**

	2020 \$m	2019* \$m	Variance %
Rates and annual charges revenue	360.5	354.8	↑ 1.6
Grants and contributions revenue	101.6	74.5	↑ 36.3
Operating result from continuing operations	105.7	94.5	↑ 11.9
Net operating result before capital grants and contributions	19.4	34.4	↓ 43.6

Rates and annual charges revenue increased by \$5.7 million (1.6 per cent) to \$360.5 million in 2019–20.

Grants and contributions revenue (\$101.6 million) increased by \$27.1 million (36.4 per cent) in 2019–20 mainly due to an increase in developer and other non-cash contributions revenue.

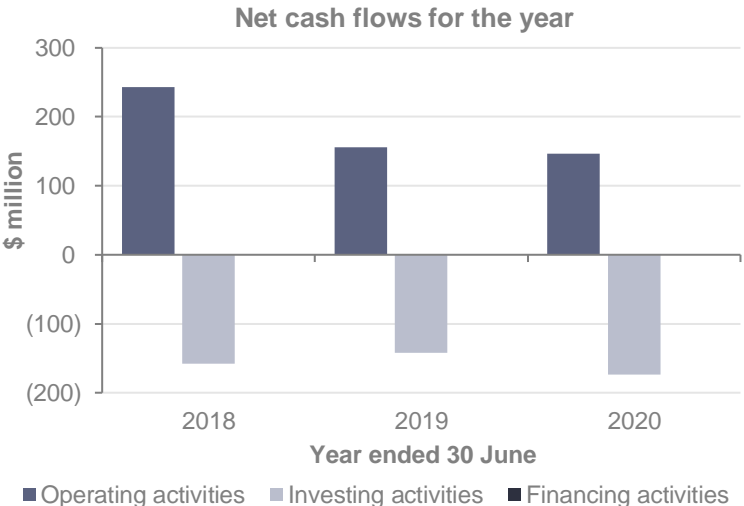
The Council's operating result from continuing operations of \$105.7 million (including depreciation and amortisation expense of \$116.6 million) was \$11.2 million higher than the 2018–19 result. This increase resulted from the net impact of the following:

- first time recognition of Heritage Floor Space rights awarded for the Capitol Theatre, Haymarket valued at \$20.7 million
- final milestone payment of \$41.1 million to Transport for New South Wales towards the light rail contribution did not occur in 2019–20 due to delays in the achievement of project milestones and was not paid until August 2020. This contributed to the decrease in other expenses by \$64.3 million from 2018–19 that included the Council's light rail contribution payment of \$63.6 million
- increase in grants and contributions revenue by \$27.1 million
- decreases in rental income by \$13.3 million reflecting impacts of COVID-19 and rental relief for eligible tenants by applying the *National Code of Conduct for commercial tenancies*
- fair value increment on investment properties of \$5.2 million compared to \$58.4 million in the prior year.
- decrease in parking income and fines by \$15.3 million as a result of reduced demand for parking and lower traffic volumes in the city as more people worked from home due to COVID-19
- increase in employee benefits and on-costs by \$12.15 million
- increase in depreciation and amortisation expenses by \$9.7 million due to newly completed capital works and adjustments as a result of componentisation of buildings.

The net operating result before capital grants and contributions (\$19.4 million) was \$14.9 million lower than the 2018–19 result.

## STATEMENT OF CASH FLOWS

Operating cash inflows are slightly lower than last year mainly due to COVID-19 impact on operations. Cash outflows from investing activities increased due to higher spend on capital projects during 2019–20. The Statement of cash flows illustrates the flow of cash and cash equivalents moving in and out of Council during the year.



## FINANCIAL POSITION

### Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	116.6	118.3	• Externally restricted balances include cash reserves earmarked for specific purposes such as developer contributions and domestic waste management changes.
Internal restrictions	328.7	252.4	
Unrestricted	187.6	252.8	
<b>Cash and investments</b>	<b>632.9</b>	<b>623.5</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Unrestricted balances provide liquidity for day-to-day operations.</li> </ul>

## PERFORMANCE

### Performance measures

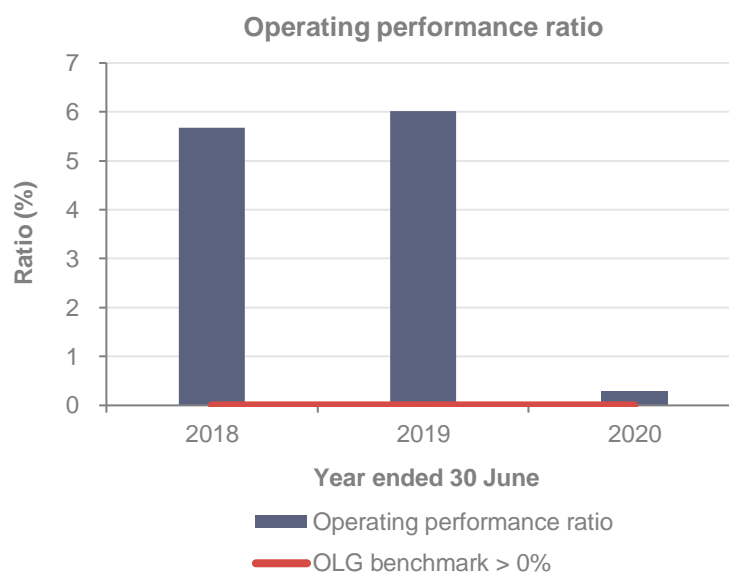
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

#### Operating performance ratio

Council has met this OLG benchmark for 2019–20.

The decrease in the operating performance ratio is mainly due to the COVID-19 pandemic leading to lower revenues from user charges. Commercial property, enforcement and parking revenue were significantly impacted.

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

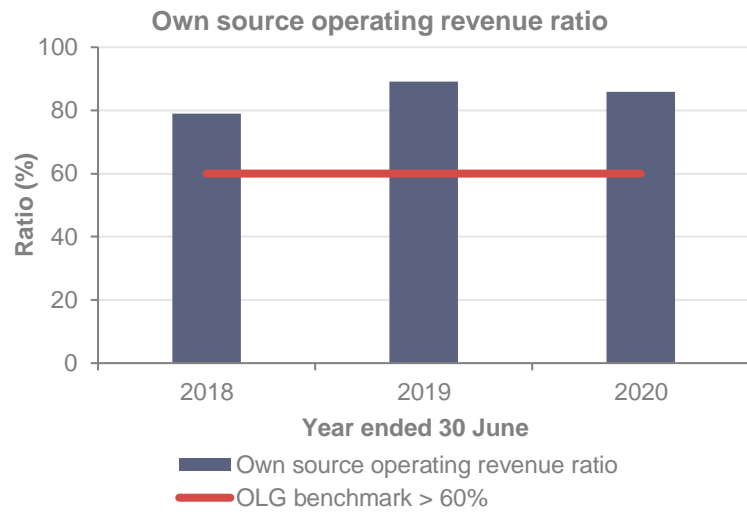


### Own source operating revenue ratio

Council's own source operating ratio continues to exceed the benchmark over the past three years. The ratio fluctuates with movements in grants and contributions.

The ratio slightly decreased in 2019–20 due to reductions in key revenue streams of property rental, enforcement and parking revenue.

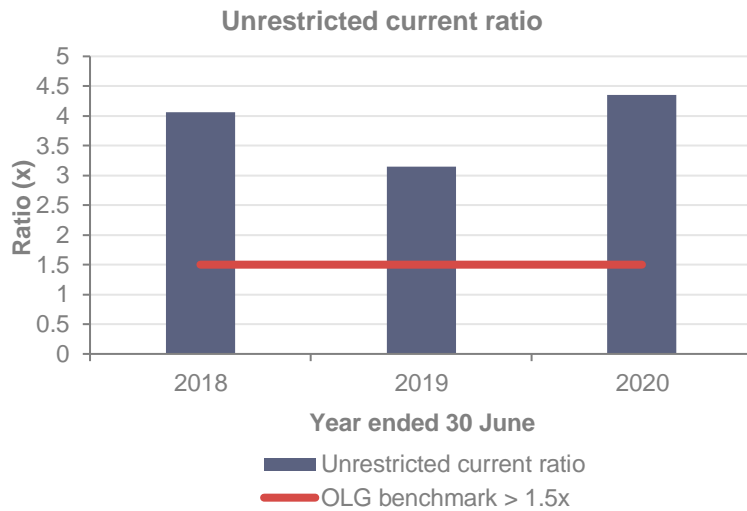
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



### Unrestricted current ratio

Council continues to exceed the benchmark. The uplift in the ratio for 2019-20 reflects the Council's approach to investment activity by holding a larger proportion of cash and investment at short maturities, in order to manage uncertainty during the COVID-19 pandemic.

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.

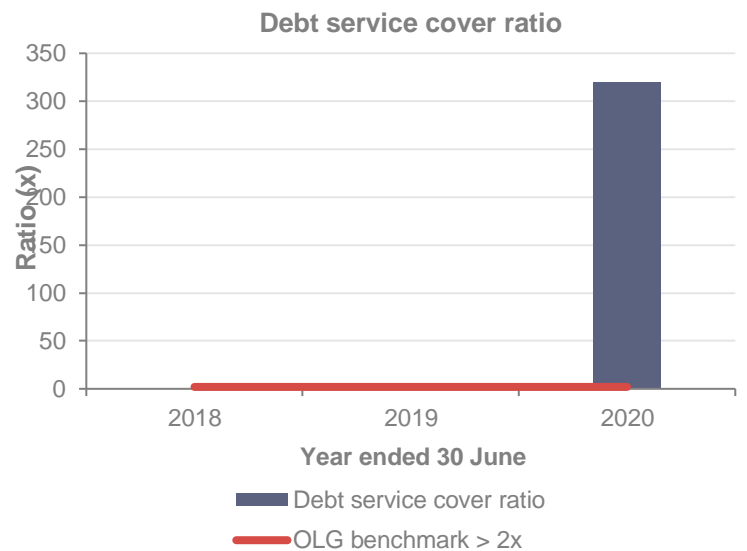


### Debt service cover ratio

Council, to date, has remained debt-free and can meet its delivery program due to adequate operating surpluses and cash reserves.

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

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments.

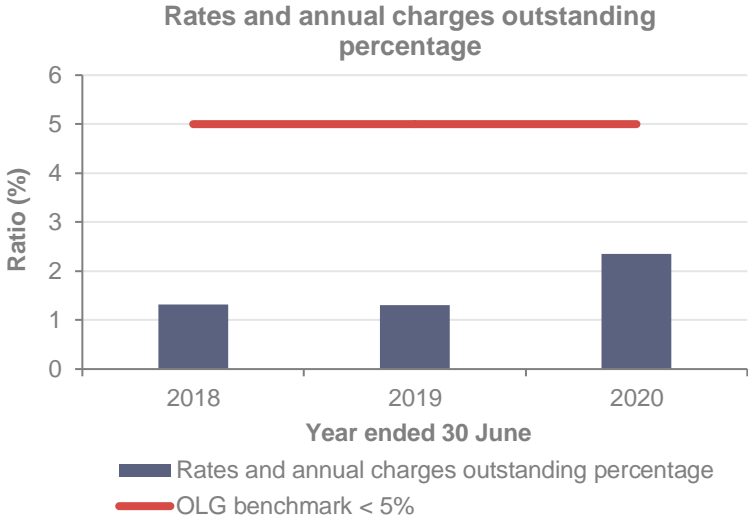


**Rates and annual charges outstanding per centage**

Council rates and annual charges outstanding ratio has remained below 2.5 per cent over the last three years, below the benchmark of 'less than 5 per cent'.

The increase in 2019–20 is due to the COVID-19 pandemic, which has affected the capacity of some ratepayers to meet instalment payments.

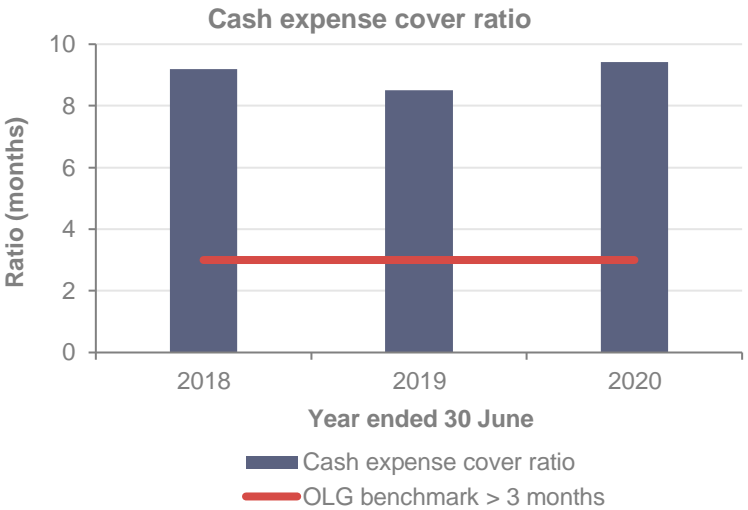
The 'rates and annual charges outstanding per centage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 5 per cent for metropolitan councils.



**Cash expense cover ratio**

Council continues to exceed the benchmark due to operating surpluses and cash reserves.

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.



**Infrastructure, property, plant and equipment renewals**

Council's performance is as follows:

- asset renewals were \$46.8 million in 2019–20 compared to \$39.9 million the prior year. The increase is primarily due to road and office equipment renewals
- during 2019–20, \$207.9 million was spent on new assets (\$128.7 million in 2018–19) including \$44.5 million for the purchase of operational land and \$18.8 million on buildings, \$57.6 million on stormwater drainage and \$43.3 million on roads infrastructure.

## OTHER MATTERS

### Impact of new accounting standards

#### **AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income for Not-for-Profit Entities'**

The Council adopted the new accounting standards AASB 15 'Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' (collectively referred to as the Revenue Standards) for the first time in their 2019–20 financial statements.

AASB 15 introduces a new approach to recognising revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer. AASB 15 impacts the timing and amount of revenue recorded in a councils' financial statements, particularly for grant revenue. AASB 15 also increases the amount of disclosures required.

AASB 1058 prescribes how not-for-profit entities account for transactions conducted on non-commercial terms and the receipt of volunteer services. AASB 1058 significantly impacts the timing and amount of income recorded in a councils' financial statements, particularly for grant income and rates which are paid before the commencement of the rating period.

The Council recognised a \$0.09 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

The Council disclosed the impact of adopting the new Revenue Standards in Note 18.

#### **AASB 16 'Leases'**

The Council adopted the new accounting standard AASB 16 'Leases' for the first time in their 2019–20 financial statements.

AASB 16 changes the way lessees treat operating leases for financial reporting. With a few exceptions, operating leases will now be recorded in the Statement of Financial Position as a right-of-use asset, with a corresponding lease liability.

AASB 16 results in lessees recording more assets and liabilities in the Statement of Financial Position and changes the timing and pattern of expenses recorded in the Income Statement.

The Council recognised right-of-use assets and corresponding lease liabilities of \$13.8 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 18.

### 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