

Presentation of the 2021/22 Financial Statements and Audit Reports to Council

File No: X084202

Summary

This report presents the City's 2021/22 Financial Statements to Council and seeks authorisation to issue the public notice of the intention to present the audited statements to the public at the Council meeting of 21 November 2022.

The City of Sydney's Income Statement for the year ended 30 June 2022 reports a Net Operating Result for the year of \$65.0M, in accordance with relevant accounting standards and reporting requirements, against a budgeted surplus of \$27.3M.

In 2021/22, the City again 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 2022.

The favourable result against budget shown in the financial statements is mainly due to higher than anticipated capital contributions, gains on the disposal of assets and lower employee related expenditure.

In completing the 2021/22 Financial Statements, a number of final adjustments were made to the results reported to Council within the 2021/22 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 \$12.7B, an increase of \$0.3B over the year, reflecting a revaluation of the book value of a number of infrastructure 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.

The City of Sydney remains in a strong, stable financial position. Despite the financial impacts of the Covid-19 pandemic, the City remains well placed to fund its operations and programs on an ongoing basis, with sufficient financial resources to support the \$1.9B capital works program identified within the City's 2022/23 to 2031/32 Long Term Financial Plan.

The 2021/22 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.

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 2021/22 Financial Statements.

Recommendation

It is resolved that Council:

- (A) receive the Financial Statements for City of Sydney for the year ended 30 June 2022, 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 2021/22 Annual Financial Statements;
- (E) note that due to the timing of Council's meeting calendar for 2022, a short extension has been sought from the Office of Local Government for submission of the Annual Financial Statements to allow Council approval and receipt of signed Auditor's reports; and
- (F) authorise that notice be given, through Sydney Your Say, of public presentation of the audited 2021/22 Financial Statements for the City of Sydney at the Council meeting on 21 November 2022.

Attachments

Attachment A. Draft 2021/22 Financial Statements

Attachment B. Draft Auditor's Report on the 2021/22 Financial Statements

Background

1. 2021/22 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 January 2022 (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 2022
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. In the 2021/22 financial year, comprehensive revaluations of a number of the City's infrastructure assets were undertaken. Chief Finance Office staff revised the valuations for:
 - (a) Infrastructure – Roads, Bridges, Footways, Kerb/Gutter, Traffic Facilities, Street Furniture
 - (b) Infrastructure – Stormwater Drainage and
 - (c) Other Structures – Trees

7. An interim (index-based) revaluation was also undertaken for buildings assets (both specialised and non-specialised classes), due to material movements in identified cost indices.
8. In addition, again for the 2021/22 financial year, the City engaged an external valuer to re-assess the value of investment property assets. As a result of their valuation, investment properties increased in value.
9. A detailed explanation of the valuation methodologies for the asset classes mentioned above is set out in note E2-1 of the General Purpose Financial Statements.
10. The draft Financial Statements were reviewed by the Audit Risk and Compliance Committee on 6 October 2022 for endorsement to Council for authorisation.
11. The 2021/22 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.
12. 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.
13. 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.
14. 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.
15. 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 2021/22 Financial Statements.

Financial Implications

16. The Financial Statements reflect a Net Operating Result for the year of \$65.0M, in accordance with relevant accounting standards and reporting requirements, against a budgeted surplus of \$27.3M and a Net Operating Result excluding Capital Grants and Contributions of (\$4.0M) versus a budgeted loss (\$10.2M).
17. The favourable result against budget shown in the financial statements is mainly due to higher than anticipated capital contributions, gains on the disposal of assets and lower employee related expenditure.

18. The Quarter 4 Report to Council in August 2022 reflected a Net Operating Result of \$68.8M. There is a difference of \$3.9M between the Q4 Net Operating Result and the 2021/22 Financial Statements' Net Operating Result.
19. Adjustments made after the Q4 Report largely relate to the finalisation of accounting for completed capital projects, recognition of additional non-cash capital contributions income, asset disposals associated with capital renewal works and depreciation adjustments arising from year end asset accounting finalisation, and can be summarised as follows:

	\$M Fav/(Unfav)
Finalise expensing of complete capital works	(6.84)
Finalise capital contributions accounting - recognition of Works in Kind completed and land transferred	5.33
Finalisation of other asset disposals associated with capital renewal works	(1.12)
Finalise Depreciation (based on finalised capitalisation of new assets)	(0.97)
Adjustment - provision for historical employee benefits	(0.50)
Final Year End accrual adjustments	0.23

20. The significant variances to budget were detailed within the Q4 Report, as presented to Council on 22 August 2022.
21. The City of Sydney remains in a strong, stable financial position. Despite the financial impacts of the Covid-19 pandemic, it remains well placed to fund its operations and programs on an ongoing basis, with sufficient financial resources to support the \$1.9B capital works program identified within the City's 2022/23 to 2031/32 Long Term Financial Plan.

Relevant Legislation

22. 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)).
23. Section 416(2) of the Local Government Act 1993 allows council to apply to the Departmental Chief Executive for an extension of that period.
24. 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)).

Critical Dates / Time Frames

25. The 2021/22 Financial Statements must be prepared, audited and submitted to the Office of Local Government by 31 October 2022. As the reports are anticipated to be presented to Council at the meeting on the evening of 31 October 2022, the deadline will not be met and a short extension has been sought from the Office of Local Government (in accordance with section 416(2)), to accommodate the minor delay.
26. A public notice must be placed to advise that the 2021/22 Financial Statements and the Auditor's Report will be presented to the public at the Council meeting of 21 November 2022. The Financial Statements will be included in the Annual Report which will be lodged with the Office of Local Government by 30 November 2022.

Public Consultation

27. Following endorsement of the City's 2021/22 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 21 November 2022.

BILL CARTER

Chief Financial Officer