

Attachment B

**Draft Auditor's Report on the 2021/22
Financial Statements**



Clover Moore
Lord Mayor
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: D2220343/1791

31 October 2022

Dear Lord Mayor

**Draft Report on the Conduct of the Audit
for the year ended 30 June 2022
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 2022 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 2022 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

	2022	2021	Variance
	\$m	\$m	%
Rates and annual charges revenue	376.7	369.4	2.0
Grants and contributions revenue	88.2	168.8	47.7
Operating result from continuing operations	65.0	195.6	66.8
Net operating result before capital grants and contributions	(4.0)	50.9	107.9

Rates and annual charges revenue (\$376.7 million) increased by \$7.3 million (2.0 per cent) in 2021–22 due to the annual rate peg increase applied to ordinary rates (2.0 per cent).

Grants and contributions revenue (\$88.2 million) decreased by \$80.6 million (47.7 per cent) in 2021–22 primarily due to one-off recognition of new assets arising from the Sydney Light Rail Project amounting to \$78.4 million in the prior year.

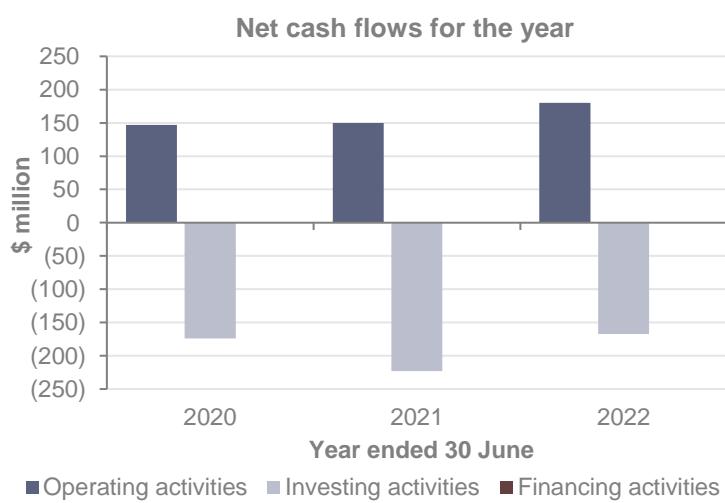
The Council's operating result from continuing operations (\$65.0 million) was \$130.6 million lower than the 2020–21 result. The decrease is primarily due to the following:

- decrease in grants and contributions revenue by \$80.6 million as described above
- decrease in other revenue by \$44.0 million due to first time recognition of heritage floor space rights awarded to the Council in the prior year, but none in 2021-22.
- decrease in other income by \$24.4 million largely due to the fair value increment recognised on the Council's investment properties reducing by \$25.0 million in 2021-22 from the prior year.
- decrease in depreciation expense by \$14.0 million mainly due to a reassessment to extend asset useful lives for open space/recreational assets and other assets.

The net operating result before capital grants and contributions (\$-4.0 million) was \$54.9 million lower than the 2020–21 result.

STATEMENT OF CASH FLOWS

- The Council reported an increase in cash and cash equivalents from \$51.1 million at 30 June 2021 to \$63.8 million at 30 June 2022.
- Cash inflows from operating activities increased by \$29.1 million primarily due to increase in cash receipts from grants and contributions
- Cash outflows from investing activities decreased by \$56.0 million due to decrease in the net acquisition of floating rate notes and term deposits by \$47.8 million and a *net* decrease in purchase and sale of property, plant, equipment and intangible assets by \$8.2 million.
- The Council has no significant financing activities.



FINANCIAL POSITION

Cash and investments

Cash and investments	2022 \$m	2021 \$m	Commentary
Total cash, cash equivalents and investments	715.0	655.3	
Restricted and allocated cash, cash equivalents and investments:			
• External restrictions	76.4	68.6	
• Internal allocations	348.9	313.4	<ul style="list-style-type: none"> Externally restricted cash and investments are restricted in their use by externally imposed requirements. The increase by \$7.8 million is primarily due to an increase in available cash balance relating to developer contributions. Internal allocations of cash and investments have been allocated in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. The main reason for the increase in internal allocations is due to additional receipts amounting to \$25.8 million from developers which were allocated into the Heritage conservation fund.

PERFORMANCE

Performance measures

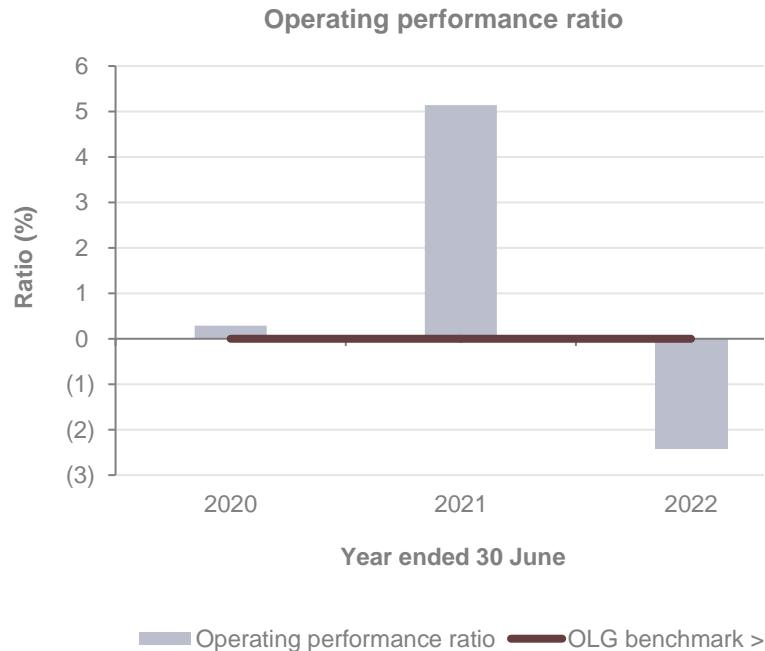
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning and Environment.

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 did not meet the OLG benchmark for the current reporting period.

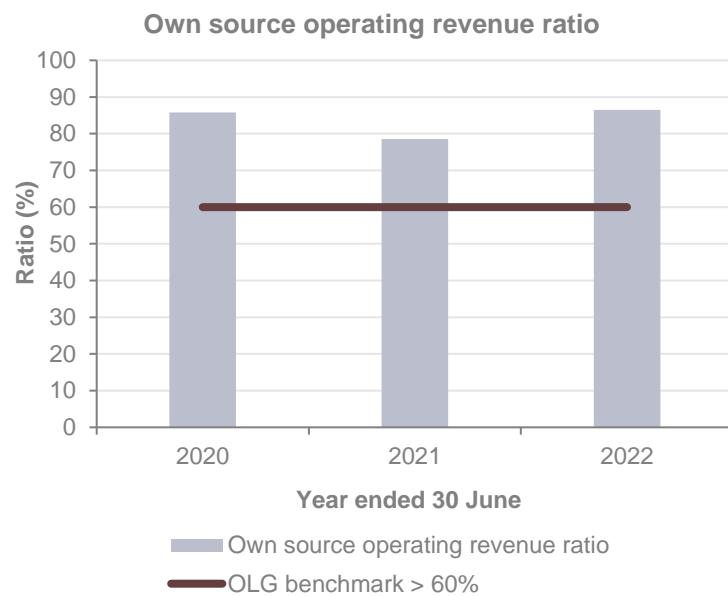
Operating performance continued to be impacted by the COVID-19 pandemic, with pressures on key income items (parking meters and fines). Revenue from Heritage floor space rights awarded to Council in the prior year but not this year also contributed to the reduced income in 2021-22.



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.

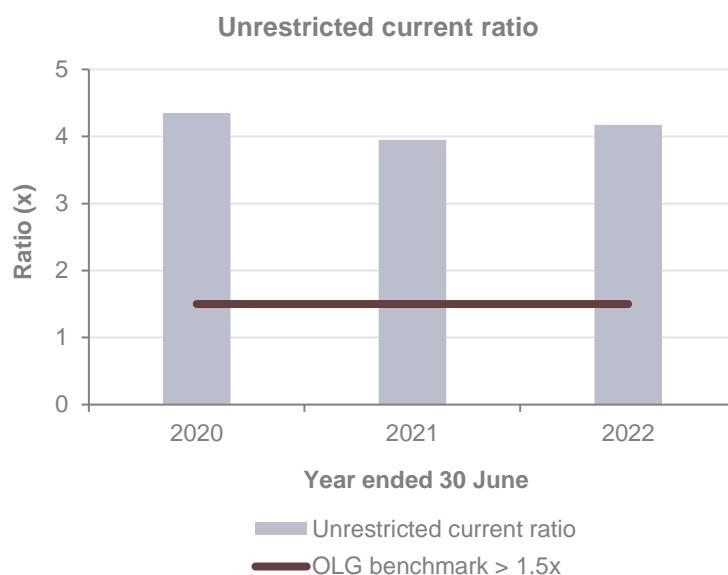
The Council continues to meet the OLG benchmark for the current reporting period. The ratio fluctuates with movements in grants and contributions.



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.

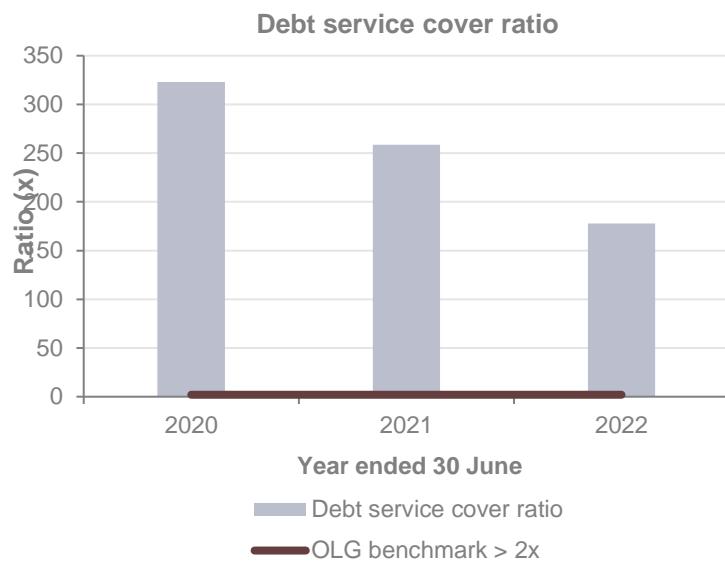


Debt service cover ratio

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.

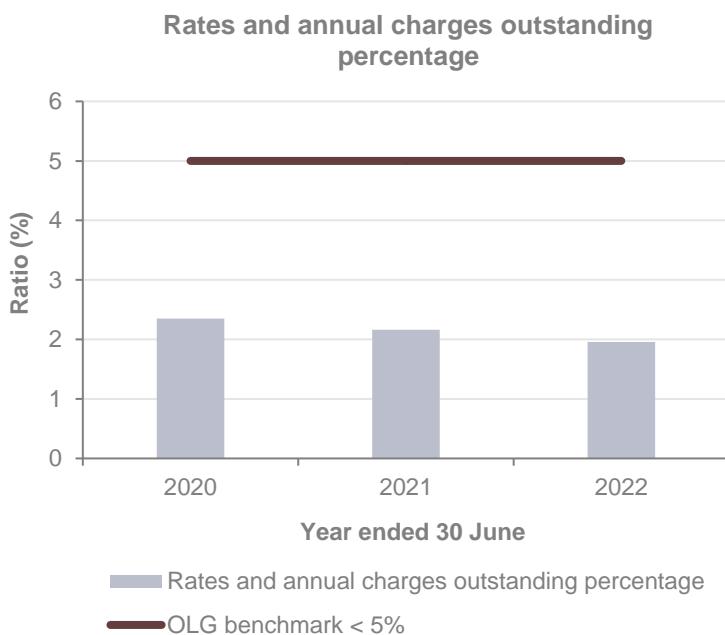
The ratio reflects the implicit interest recognised in relation to a property lease under the accounting standard AASB16 'Leases'.



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.

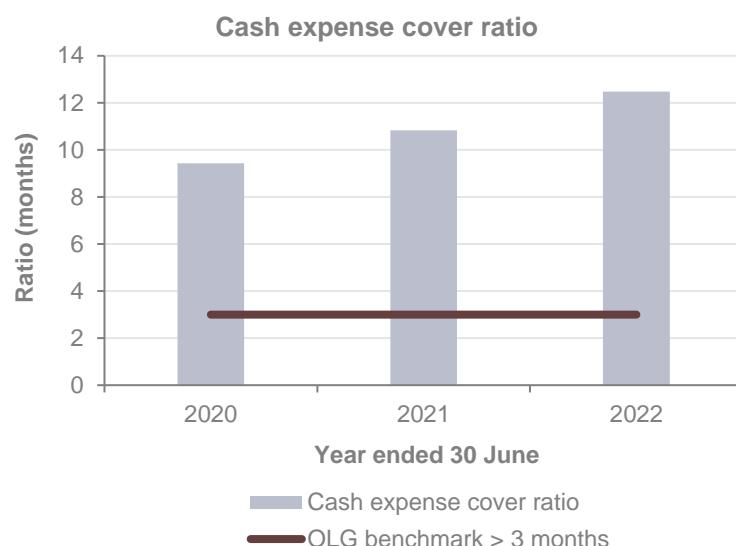
The Council met the OLG benchmark for the current reporting period.



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 OLG benchmark due to operating surpluses and managing cash and investment balances.



Infrastructure, property, plant and equipment renewals

Council's performance is as follows:

- asset renewals were \$61.0 million in 2021–22 compared to \$62.6 million the prior year.
- during 2021–22, \$114.4 million of new and upgraded assets were acquired, including \$16.2 million for the purchase of non-specialised building assets and \$83.6 for capital work in progress.

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 the Audit, Risk and Compliance Committee
Michael Cassel, Secretary of the Department of Planning and Environment