

Presentation of the 2023/24 Financial Statements and Audit Reports to Council

File No: X084202

Summary

This report presents the City's 2023/24 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 25 November 2024.

The City of Sydney's Income Statement for the year ended 30 June 2024 reports a Net Operating Result for the year of \$147.9M, in accordance with relevant accounting standards and reporting requirements, against a budgeted surplus of \$96.0M.

The favourable result against budget shown in the financial statements is mainly due to higher than anticipated capital contributions, additional interest income, additional commercial property income, an increased valuation of investment properties and a net gain on the disposal of assets. An analysis of the City of Sydney's operating revenues and expenditures variances against the budget was set out in detail in the Q4 report to Council in August 2024.

In completing the 2023/24 Financial Statements, a number of final adjustments were made to the results reported to Council within the 2023/24 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 \$15.0B, an increase of \$0.7B over the year, reflecting a revaluation of the book value of a number of infrastructure and land 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. The City remains well placed to fund its operations and programs on an ongoing basis, with sufficient financial resources to support the \$2.2B capital works program identified within the City's 2024/25 to 2033/34 Long Term Financial Plan.

The 2023/24 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 against 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 auditor, the Audit Office of NSW, have reviewed the Financial Statements and have issued an unmodified Audit Opinion, as detailed in the (draft) audit reports attached to this report.

Recommendation

It is resolved that Council:

- (A) receive the Financial Statements for City of Sydney for the year ended 30 June 2024, as shown at Attachment A to the subject report;
- (B) authorise the Lord Mayor - Councillor Clover Moore, Councillor _____ (member - Audit, Risk and Compliance Committee), Chief Executive Officer, and the Acting Chief Financial Officer to sign the General Purpose Financial Statements;
- (C) authorise the Lord Mayor - Councillor Clover Moore, Councillor _____ (member - Audit, Risk and Compliance Committee), Chief Executive Officer, and the Acting Chief Financial Officer to sign the Special Purpose Financial Statements;
- (D) receive the auditor's reports on the 2023/24 Annual Financial Statements as shown at Attachment B to the subject report; and
- (E) authorise that notice be given, through Sydney Your Say, of public presentation of the audited 2023/24 Financial Statements for the City of Sydney at the Council meeting on 25 November 2024.

Attachments

Attachment A. Draft 2023/24 Financial Statements

Attachment B. Draft Independent Auditor's Report and Report on the Conduct of the Audit

Background

1. 2023/24 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 December 2023 (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
 - (i) Special Schedule – Permissible Income for General Rates
 - (ii) Special Schedule – Report on Infrastructure Assets as at 30 June 2024 (note that this schedule is not subject to audit).
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 comprehensive 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. For the 2023/24 financial year, an interim (index-based) revaluation was undertaken for buildings assets (both specialised and non-specialised classes), infrastructure (roads, bridges, footways, kerb and gutter, and stormwater drainage), open space and land assets (operational land, community land and Crown/third-party land) due to material movements in identified cost indices. In 2023/24 financial year, no comprehensive revaluations of infrastructure assets were undertaken.

7. In addition, again for the 2023/24 financial year, the City engaged an external valuer to re-assess the value of investment property assets. The valuation resulted in an increase in investment properties value for the financial year.
8. 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.
9. The draft Financial Statements were reviewed by the Audit Risk and Compliance Committee on 3 October 2024 for endorsement to Council for authorisation.
10. The 2023/24 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.
11. 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.
12. 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.
13. 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.
14. The Audit Office of NSW, following their audit of the 2023/24 financial statements, have issued an unmodified Audit opinion.

Key Implications

Financial Implications

15. The Financial Statements reflect a Net Operating Result for the year of \$147.9M, in accordance with relevant accounting standards and reporting requirements, against a budgeted surplus of \$96.0M and a Net Operating Result excluding Capital Grants and Contributions of \$30.1M versus a budgeted surplus \$9.2M.
16. The favourable result against budget shown in the financial statements is mainly due to higher than anticipated capital contributions, higher commercial property income, additional interest income, an increased valuation of investment properties and a net gain on the disposal of assets.
17. The Quarter 4 Report to Council in August 2024 reflected a Net Operating Result of \$156.9M. There is a difference of \$9.0M between the Q4 Net Operating Result and the 2023/24 Financial Statements' Net Operating Result.
18. 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 are summarised as follows:

	Fav/(Unfav) \$M
Finalise capital contributions accounting - recognition of Works in Kind completed and land transferred	1.65
Finalise expensing of complete capital works	(25.63)
Finalise Depreciation (based on finalised capitalisation of new assets)	(0.86)
Additional Land Tax Accrual (Goulburn St Parking Station)	(2.10)
Recognise Gain on Sale of Assets	18.10
Year end accruals - updates and adjustments	(0.13)

19. The significant variances to budget were detailed within the Q4 Report, as presented to Council on 19 August 2024.
20. The City of Sydney remains in a strong, stable financial position. It is well placed to fund its operations and programs on an ongoing basis, with sufficient financial resources to support the \$2.2B capital works program identified within the City's 2024/25 to 2033/34 Long Term Financial Plan.

Relevant Legislation

21. 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)).
22. Section 416(2) of the Local Government Act 1993 allows council to apply to the Departmental Chief Executive for an extension of that period.
23. 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 it must give public notice of the date so fixed (section 419(1)).
 - (b) it must give public notice of the date so fixed (section 419(1)).

Critical Dates / Time Frames

24. The 2023/24 Financial Statements must be prepared, audited and submitted to the Office of Local Government by 31 October 2024.
25. A public notice must be placed to advise that the 2023/24 Financial Statements and the Auditor's Report will be presented to the public at the Council meeting of 25 November 2024. The Financial Statements will be included in the Annual Report which will be lodged with the Office of Local Government by 30 November 2024.

Public Consultation

26. Following endorsement of the City's 2023/24 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 25 November 2024.

SCOTT MCGILL

A/Chief Financial Officer