



City of Sydney

General Purpose Financial Statements

for the year ended 30 June 2018

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Overview

City of Sydney is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

456 Kent Street
Sydney NSW 2001

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.cityofsydney.nsw.gov.au.

City of Sydney

General Purpose Financial Statements

for the year ended 30 June 2018

Understanding Council's financial statements

Introduction

Each year, individual local governments across New South Wales are required to present a set of audited financial statements to their council and community.

What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2018, and a comparative prior year.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses.

This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, Property, Plant and Equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and equity (or "net wealth").

4. The Statement of Changes in Equity

The overall movement for the year (in dollars) of Council's "net wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's annual financial statements are required to be audited by the NSW Audit Office. In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

Who uses the financial statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the Audit Report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government by 31 October 2018.

City of Sydney

General Purpose Financial Statements for the year ended 30 June 2018

Statement by Councillors and Management made pursuant to Section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

The attached General Purpose Financial Statements have been prepared in accordance with:

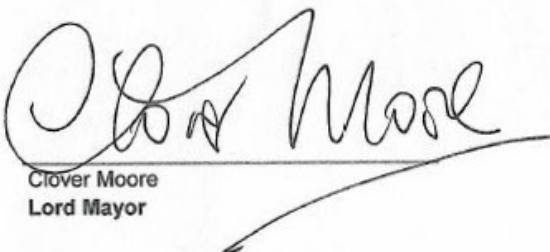
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the Local Government Code of Accounting Practice and Financial Reporting.

To the best of our knowledge and belief, these financial statements:

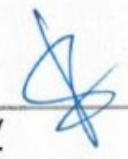
- present fairly the Council's operating result and financial position for the year,
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.


Signed in accordance with a resolution of Council made on 29 October 2018.




Clover Moore
Lord Mayor



Jess Scully
Councillor
(Member - Audit, Risk and Compliance
Committee)



Monica Barone
Chief Executive Officer



Bill Carter
Responsible Accounting Officer

City of Sydney

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Restated ¹ Actual 2017
Income from continuing operations				
Revenue:				
324,489	Rates and annual charges	3a	311,580	312,730
105,982	User charges and fees	3b	115,311	106,368
13,510	Interest and investment revenue	3c	15,293	17,280
109,861	Other revenues	3d	115,722	103,376
12,664	Grants and contributions provided for operating purposes	3e,f	14,718	18,280
83,296	Grants and contributions provided for capital purposes	3e,f	133,040	119,095
Other income:				
–	Net gains from the disposal of assets	5	3,876	–
–	Fair value increment on investment property	11	48,091	44,721
649,803	Total income from continuing operations		757,632	721,848
Expenses from continuing operations				
227,141	Employee benefits and on-costs	4a	221,899	219,314
–	Borrowing costs	4b	–	–
104,124	Materials and contracts	4c	125,616	124,235
112,958	Depreciation and amortisation	4d	100,605	112,572
114,140	Other expenses	4e	92,436	86,718
63,600	Contribution to Transport for NSW - Light Rail CBD to South East	4e	–	47,100
–	Net losses from the disposal of assets	5	–	158
621,963	Total expenses from continuing operations		540,554	590,097
27,839	Net operating result for the year		217,077	131,751
(55,456)	Net operating result for the year before grants and contributions provided for capital purposes		84,037	12,657
8,144	Net operating result for the year excluding Capital grants and Contributions Income and Contribution to Light Rail		84,037	59,757

¹ Further information regarding the restatement of prior period results can be found at Note 15b

City of Sydney

Statement of Comprehensive Income
for the year ended 30 June 2018

\$ '000	Notes	2018	2017
Net operating result for the year (as per Income Statement)		217,077	131,751
Other comprehensive income:			
Amounts that will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E		(4,380)	1,463,958
Total items which will not be reclassified subsequently to the operating result		(4,380)	1,463,958
Amounts that will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		(4,380)	1,463,958
Total comprehensive income for the year		212,697	1,595,710

City of Sydney

Statement of Financial Position
as at 30 June 2018

\$ '000	Notes	2018	Restated ¹ 2017	Restated ¹ 1 July 2016
ASSETS				
Current assets				
Cash and cash equivalents	6a	136,374	51,858	45,726
Investments	6b	258,479	240,990	288,145
Receivables	7	52,446	76,424	57,593
Inventories	8	549	822	1,009
Other	8	4,000	3,234	3,829
Non-current assets classified as 'held for sale'	9	65,958	–	–
Total current assets		517,807	373,328	396,302
Non-current assets				
Investments	6b	208,370	222,885	236,043
Receivables	7	53,998	44,367	36,250
Infrastructure, property, plant and equipment	10	11,052,101	11,085,895	9,498,912
Investment property	11	344,000	268,165	223,275
Intangible assets	12	13,698	–	–
Other	8	154	168	182
Total non-current assets		11,672,322	11,621,480	9,994,662
TOTAL ASSETS		12,190,128	11,994,808	10,390,964
LIABILITIES				
Current liabilities				
Payables	13	77,774	83,612	81,517
Income received in advance	13	16,322	9,444	8,369
Provisions	14	68,942	69,264	61,353
Total current liabilities		163,039	162,320	151,239
Non-current liabilities				
Provisions	14	22,108	21,745	24,691
Total non-current liabilities		22,108	21,745	24,691
TOTAL LIABILITIES		185,147	184,065	175,930
Net assets		12,004,981	11,810,743	10,215,033
EQUITY				
Accumulated surplus	15	3,815,951	3,604,252	3,472,501
Revaluation reserves	15	4,596,226	4,649,460	3,185,501
Trust Assets Reserve	15	3,592,804	3,557,032	3,557,032
Total equity		12,004,981	11,810,743	10,215,033

¹ Further information regarding the restatement of prior period results can be found at Note 15b

City of Sydney

Statement of Changes in Equity

for the year ended 30 June 2018

\$ '000	Notes	2018				2017				Restated ¹ Total equity
		Accumulated surplus	IPP&E revaluation reserve	Trust assets reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Trust assets reserve		
Opening balance		3,604,252	4,649,460	3,557,032	11,810,743	3,524,402	3,213,507	3,557,032	10,294,940	
Correction of prior period errors	15 (b)	–	–	–	–	(51,901)	(28,005)	–	(79,907)	
Restated opening balance		3,604,252	4,649,460	3,557,032	11,810,743	3,472,501	3,185,501	3,557,032	10,215,033	
Net operating result for the year		217,077	–	–	217,077	131,751	–	–	131,751	
Other comprehensive income										
– Gain (loss) on revaluation of IPP&E	10a	–	(4,380)	–	(4,380)	–	1,463,958	–	1,463,958	
Other comprehensive income		–	(4,380)	–	(4,380)	–	1,463,958	–	1,463,958	
Total comprehensive income (c&d)		217,077	(4,380)	–	212,697	131,751	1,463,958	–	1,595,710	
Equity adjustments related to land ²		(5,378)	(48,853)	35,772	(18,459)	–	–	–	–	
Equity – balance at end of the reporting period		3,815,951	4,596,226	3,592,804	12,004,981	3,604,252	4,649,460	3,557,032	11,810,743	

¹ Further information regarding the restatement of prior period results can be found at Note 15b

² A reconciliation of land records was undertaken by Council officers during the year. As a result, the classification details of some assets were updated. The updated records reflected that some land parcels previously recognised as Community Land in fact retained their historical designation as "Land Under Roads". Despite being utilised as small parks and reserves, the land parcels (and prior years' revaluation increments) were de-recognised, as the parcels had been acquired by Council prior to 30/6/2008.

City of Sydney

Statement of Cash Flows
for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 2017
Cash flows from operating activities				
Receipts:				
324,489	Rates and annual charges		310,110	318,075
103,533	User charges and fees		132,656	125,318
13,510	Investment and interest revenue received		15,874	18,540
92,960	Grants and contributions		105,269	85,245
–	Bonds, deposits and retention amounts received		13,818	17,005
109,412	Other receipts from Operating Activities		149,502	117,965
Payments:				
(227,141)	Employee benefits and on-costs		(221,135)	(217,991)
(101,319)	Materials and contracts		(144,718)	(130,562)
–	Bonds, deposits and retention amounts refunded		(10,562)	(8,951)
(168,082)	Other payments for Operating Activities		(107,891)	(166,876)
147,362	Net cash provided (or used in) operating activities	16b	242,923	157,768
Cash flows from investing activities				
Receipts:				
9,064	Sale/Redemption of investment securities		381,000	652,500
156,257	Sale of infrastructure, property, plant and equipment		28,368	1,982
Payments:				
–	Purchase of investment securities		(384,483)	(591,996)
(2,517)	Purchase of investment property		(2,500)	(169)
(311,179)	Purchase of infrastructure, property, plant and equipment		(180,792)	(213,953)
(148,376)	Net cash provided (or used in) investing activities		(158,407)	(151,636)
Cash flows from financing activities				
Receipts:				
Nil				
Payments:				
Nil				
–	Net cash flow provided (used in) financing activities		–	–
(1,013)	Net increase/(decrease) in cash and cash equivalents		84,516	6,132
46,646	Plus: cash and cash equivalents – beginning of year	16a	51,858	45,726
45,633	Cash and cash equivalents – end of the year	16a	136,374	51,858
408,220	plus: Investments on hand – end of year	6b	466,849	463,876
453,852	Total cash, cash equivalents and investments		603,224	515,734

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Notes to the Financial Statements

for the year ended 30 June 2018

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Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 29/10/2018.

Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity for the purpose of preparing these financial statements.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Full dollars have been used in Note 24 Related party disclosures in relation to the disclosure of specific related party transactions.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts.

Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 21 – Material budget variations

and are clearly marked .

(a) New and amended standards adopted by Council

There have been no new (or amended) accounting standards adopted by Council in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

(b) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment and investment property.

(c) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk

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Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of investment properties – refer Note 11,
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 10,
- (iii) estimated former depot remediation provisions – refer Note 14,
- (iv) employee benefit provisions – refer Note 14.

Significant judgements in applying the Council's accounting policies

- (v) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables in Note 7.

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993 (NSW)*, all money and other assets received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General purpose operations

(b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and other assets received by the Council in trust which must be applied only for the purposes of, or in accordance with the trusts relating to those monies. Trust monies and other assets subject to Council's control have been included in these reports.

Trust monies and other assets held by Council but not considered to be under the control of Council are excluded from these financial statements. A separate statement of monies held in the Trust Fund is available for inspection at the Council office by any person free of charge.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which that are recoverable from, or payable to the taxation authority are presented as operating cash flows.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published are not mandatory for the current reporting period and have not been applied.

As at the date of authorisation of these financial statements, Council considers that the standards and interpretations listed below may have an impact upon future published financial statements ranging from additional and / or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

Effective for annual reporting periods beginning on or after 1 July 2018

- *AASB 9 Financial Instruments*

This replaces AASB 139 Financial Instruments: Recognition and Measurement, and addresses the classification, measurement and disclosure of financial assets and liabilities.

The standard introduces a new impairment model that requires impairment provisions to be based on expected credit losses, rather than incurred credit losses.

Based on assessments to date, Council expects a small increase to impairment losses however the standard is not expected to have a material impact overall.

Effective for annual reporting periods beginning on or after 1 July 2019

- *AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 Contributions.

Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.

While Council is still reviewing the way that income is measured and recognised to identify whether there will be any material impact arising from these standards, these standards may affect the timing of the recognition of some grants and donations.

- *AASB 16 Leases*

Council is currently a party to leases that are not recognised in the Statement of Financial Position.

It is likely that some of these leases will need to be included in the Statement of Financial Position when this standard comes into effect.

A lease liability will initially be measured at the present value of the lease payments to be made over the lease term. A corresponding right-of-use asset will also be recognised over the lease term.

Council has not elected to apply any pronouncements before their operative date in these financial statements.

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Notes to the Financial Statements
for the year ended 30 June 2018

Note 2(a). Council functions/activities – financial information

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).									
	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Globally competitive and innovative city	42,326	36,311	51,202	48,637	(8,876)	(12,325)	45	–	3,107	2,635
Leading environmental performer	2,019	1,580	80,282	80,544	(78,263)	(78,964)	292	485	223,523	225,079
Integrated transport for a connected city	83,807	77,060	73,851	78,356	9,957	(1,296)	3,990	3,114	997,138	967,096
City for walking and cycling	1,072	958	1,482	1,397	(410)	(439)	1,072	958	72,089	66,800
Lively and engaging city centre	0	19	612	616	(612)	(596)	–	–	93	117
Resilient and inclusive local communities	15,662	15,999	106,579	101,733	(90,918)	(85,734)	3,363	3,298	6,811,163	6,855,187
Cultural and creative city	2,795	2,764	6,843	6,513	(4,048)	(3,749)	–	2	42,501	454
Housing for a diverse community	–	–	4,176	2,453	(4,176)	(2,453)	–	–	–	–
Sustainable development, renewal and design	148,815	132,992	39,999	38,714	108,816	94,278	–	–	14,619	12,556
Implementation through effective governance and partnerships	180,084	163,179	175,527	231,134	4,556	(67,956)	144	134	4,025,895	3,864,884
General purpose income	281,052	290,985	–	–	281,052	290,985	6,041	8,446	–	–
Total functions and activities	757,632	721,848	540,554	590,097	217,078	131,751	14,946	16,438	12,190,128	11,994,808

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 2(b). Council functions/activities – component descriptions

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Globally competitive and innovative city

Activities include economic development, cultural events, tourism as well as other factors contributing to a global city that are not included under other activities, such as lifestyle, cultural diversity, adequate transport and affordable housing.

Leading environmental performer

Activities comprise ecologically sustainable development including environmental projects and program development, cleansing and waste services, drainage and recycling.

Integrated transport for a connected city

Activities comprise advocacy for the State and Federal Governments to invest in a high quality world-class transport system that is well planned, efficient and integrated as an essential cornerstone of sustainable development. Additional services include planning and transport management, road and streetscape maintenance, inspection and parking.

City for walking and cycling

Activities include providing alternative, active and sustainable means of transport to provide a bicycle-friendly environment and a pedestrian plan based on public space life studies. Activities are aimed at improving health and reducing greenhouse emissions and road congestion for the City.

Lively and engaging city centre

Activities include the provision of more safe and attractive public spaces for people to enjoy themselves and to create more activities that enliven the City's streets and public spaces.

Resilient and inclusive local communities

Activities comprise planning activities, economic development, and the provision of parks and recreation areas for both local residents and daily visitors. Responsibilities include community development interaction, building strong and positive relationships and partnerships with community organisations and the provision of community facilities.

Cultural and creative city

Activities comprise the provision of spaces for artists to work and show their wares, the use of public domain to make art more accessible to the public and the recognition and celebration of the traditional and living Aboriginal and Torres Strait Island culture.

Housing for a diverse community

Activities include planning and facilitating partnerships and using planning controls to identify the character of the villages and provide guidance on what developments should look like. Planning controls are also used to guarantee a percentage of affordable housing units in large developments where relevant. Support is also given to State and Federal Government initiatives to expand affordable housing opportunities.

Sustainable development, renewal and design

Activities comprise the use of planning and regulatory powers to set controls and targets for renewal and ensure that residential and commercial development is appropriate to its broader setting.

Implementation through effective governance and partnerships

Activities comprise a commitment to work in partnership with government, business and community and to be open and accountable to the community that is served. The process includes aligning corporate planning and organisational structure through effective governance procedures in support of all activities.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 3. Income from continuing operations

\$ '000	2018	2017
(a) Rates and annual charges		
Ordinary rates		
Residential	66,687	63,490
Business	197,163	204,722
Total ordinary rates	263,850	268,212
Special rates		
Nil		
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	45,787	42,573
Stormwater management services	1,943	1,945
Total annual charges	47,730	44,518
TOTAL RATES AND ANNUAL CHARGES	311,580	312,730

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and annual charges

The rating period and reporting period for the Council coincide. Accordingly, all rates levied for the year are recognised as revenues. Uncollected rates are recognised as receivables after providing for amounts due from unknown owners, postponed rates and doubtful rates for properties on leased Crown Land in accordance with the requirements of the Local Government Act 1993. A provision for impairment on rates receivables for all other rates has not been established, as unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold.

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Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(b) User charges and fees		
Specific user charges (per s.502 – specific 'actual use' charges)		
Nil		
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Planning and building regulation	17,542	16,881
Private works – section 67	6,062	7,313
Health inspections	1,522	1,780
Total fees and charges – statutory/regulatory	25,126	25,974
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Child care	1,927	2,042
Advertising space income	11,846	7,364
Parking meter income	38,448	36,761
Parking station income	10,025	10,009
Recreation facilities hire	4,018	3,646
Venue hire	5,261	4,742
Workzone and filming fees	11,925	9,636
Other	6,735	6,193
Total fees and charges – other	90,185	80,393
TOTAL USER CHARGES AND FEES	115,311	106,368

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided, when the payment is received, or when the penalty has been applied, whichever first occurs.

A provision for the impairment of these receivables is recognised when collection in full is no longer probable.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018	2017
(c) Interest and investment revenue (including losses)			
Interest			
– Overdue rates and annual charges (incl. special purpose rates)		227	336
– Cash and investments		15,575	16,751
Fair value adjustments			
– Fair valuation movements in investments (at fair value or held for trading)		(777)	148
– Recovery of prior year losses - Collateralised Debt Obligations (CDOs)		267	45
TOTAL INTEREST AND INVESTMENT REVENUE		15,293	17,280
Interest revenue is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		227	336
General Council cash and investments		1,888	4,093
Restricted investments/funds – external:			
Development contributions			
– Section 7.11		3,181	2,571
– Planning agreements/bonus floorspace levy		903	478
Domestic waste management operations		683	576
Stormwater Management Service Charge		11	11
Specific Purpose Unexpended Grants		14	2
Restricted investments/funds – internal:			
Internally restricted assets		8,386	9,213
Total interest and investment revenue recognised		15,293	17,280

Accounting policy for interest and investment revenue

Interest income is recognised using the effective interest rate at the date that interest is earned.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000		2018	2017
(d) Other revenues			
Rental income – investment property	11	19,530	17,809
Rental income – other council properties		54,657	49,662
Ex gratia rates		661	685
Fines – enforcement of regulations		39,446	33,205
Sponsorship and donations		444	1,114
Other		985	901
<u>TOTAL OTHER REVENUE</u>		<u>115,722</u>	<u>103,376</u>

¹ "Other" properties include commercial properties held for strategic rather than investment purposes, and some community facilities that earn income that is incidental to their community function

Accounting policy for other revenue

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Council and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Rental income is accounted for on a straight-line basis over the lease term.

Infringement charges are recognised as revenue when the penalty has been applied to the extent of expected recovery determined in accordance with past experience.

Other income is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

Payments received in respect of principal and interest repayments under agreements made in accordance with Local Government Amendment (Environmental Upgrade Agreements) Act 2010 are not recognised as revenue.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	4,395	6,233	–	–
Financial assistance – local roads component	1,291	1,831	–	–
Other				
Pensioners' rates subsidies – general component	355	382	–	–
Total general purpose	6,041	8,446	–	–
Specific purpose				
Child care	1,713	993	–	–
Community and recreation	1,192	1,814	–	–
Environmental protection	292	545	–	–
Library	530	516	–	–
Transport (roads to recovery)	1,421	1,556	–	–
Transport (other roads and bridges funding)	1,115	1,487	2,644	1,082
Total specific purpose	6,262	6,910	2,644	1,082
Total grants	12,303	15,356	2,644	1,082
Grant revenue is attributable to:				
– Commonwealth funding	9,096	11,398	–	–
– State funding	3,207	3,958	2,644	1,082
	12,303	15,356	2,644	1,082
(f) Contributions				
Developer contributions:				
(s7.4 & s7.11 – EP&A Act, s61 of the City of Sydney Act):				
Cash contributions				
S 7.4 – contributions using planning agreements	–	–	34,643	18,694
S 7.11 – contributions towards amenities/services	–	–	39,745	42,323
S 61 – fixed development consent levies	–	–	24,487	18,992
Total developer contributions – cash	–	–	98,875	80,009
Non-cash contributions				
S 7.4 – contributions using planning agreements	–	–	17,164	19,363
S 7.11 – contributions towards amenities/services	–	–	7,032	3,752
Total developer contributions – non-cash	–	–	24,196	23,115
Total developer contributions	–	–	123,071	103,124

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(f) Contributions (continued)					
Other contributions:					
Cash contributions					
External contributions to capital projects		–	–	12	3,249
Other		2,415	2,923	–	–
Total other contributions – cash		2,415	2,923	12	3,249
Non-cash contributions					
Dedications		–	–	7,314	11,640
Total other contributions – non-cash		–	–	7,314	11,640
Total other contributions		2,415	2,923	7,326	14,889
Total contributions		2,415	2,923	130,397	118,013
TOTAL GRANTS AND CONTRIBUTIONS		14,718	18,280	133,040	119,095

Accounting policy for contributions

Grants, contributions and donations (in cash or in kind) are recognised as revenues when Council obtains control over the assets comprising the contributions. Control over grants and contributions is normally obtained upon their receipt. When notification has been received that a grant has been secured and Council acts in reliance of that notification, control is deemed at that time.

Revenue from contributions (including developer contributions under Voluntary Planning Agreements) is recognised when the Council either obtains control of the contribution or the right to receive it, (i) it is probable that the economic benefits comprising the contribution will flow to the Council and (ii) the amount of the contribution can be measured reliably. Yet to be received contributions over which Council has control are recognised as receivables. Contributed assets are valued at the asset's fair value at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed in Note 3(g).

Contributions under Section 7.11 of the Environmental Planning and Assessment (EPA) Act 1979

Council has obligations to provide facilities from contributions required from developers under the provisions of s.7.11 of the EPA Act 1979.

Whilst Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon their physical receipt by Council (or when secured via cash deposit or bank guarantee), due to the possibility that individual development consents may not be acted upon by the applicant and accordingly would not be payable to Council.

These contributions may be expended only for the purposes for which the contributions were required, but Council may, within each area of contributions plan category, apply contributions according to the priorities established in the relevant contributions plans and accompanying works schedules.

Contributions plans adopted by Council are available for public inspection free of cost.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	–	17
Less: operating grants recognised in a previous reporting period now spent		(17)
Unexpended and held as restricted assets (operating grants)	<u>–</u>	<u>–</u>
Capital grants		
Unexpended at the close of the previous reporting period	–	–
Add: capital grants recognised in the current period but not yet spent	1,028	–
Unexpended and held as restricted assets (capital grants)	<u>1,028</u>	<u>–</u>
Contributions		
Unexpended at the close of the previous reporting period	136,743	164,691
Add: contributions recognised in the current period but not yet spent	79,699	82,072
Less: contributions recognised in a previous reporting period now spent	(46,963)	(110,020)
Unexpended and held as restricted assets (contributions)	<u>169,480</u>	<u>136,743</u>

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	2018	2017
(a) Employee benefits and on-costs		
Salaries and wages	180,474	179,187
Travel expenses	229	269
Employee leave entitlements (ELE)	20,359	19,689
Superannuation – defined contribution plans	13,416	11,851
Superannuation – defined benefit plans	5,944	6,472
Workers' compensation insurance	3,708	3,980
Fringe benefit tax (FBT)	903	1,025
Training costs (other than salaries and wages)	1,756	1,704
Other	1,548	1,717
Total employee costs	228,337	225,893
Less: capitalised costs	(6,439)	(6,580)
TOTAL EMPLOYEE COSTS EXPENSED	221,899	219,314
Number of 'full-time equivalent' employees (FTE) at year end	1,794	1,763

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Council participates in a Defined Benefit Plan under the Local Government Superannuation Scheme, however, when sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 19 for more information.

(b) Borrowing costs

(i) Interest bearing liability costs

Nil

(ii) Other borrowing costs

Nil

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(c) Materials and contracts		
Raw materials and consumables	4,987	5,207
Contractor and consultancy costs		
– Building and facilities management	24,777	23,575
– City infrastructure management	9,058	8,328
– Parks management	16,393	15,631
– Waste disposal, recycling and graffiti removal**	28,373	25,931
– Project costs and minor contracts	26,346	29,665
– Consultancies	3,218	4,003
– Legal expenses: planning and development	477	1,141
– Legal expenses: other	1,010	873
– Operating lease rentals: minimum lease payments ¹	815	851
Asset maintenance and minor purchases	7,656	7,368
Auditors remuneration ²	202	198
Other	2,740	2,720
Total materials and contracts	126,050	125,491
Less: capitalised costs	(434)	(1,256)
TOTAL MATERIALS AND CONTRACTS	125,616	124,235

** Waste collection contract payments include amounts related to the NSW Government s88 Waste Levy. The levy paid by the collection contractor on Council's behalf has been calculated by Council officers, based on quantities of waste sent to landfill. The levy amount is shown as part of "Contributions/levies to other levels of government" at Note 4(e).

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

1. Operating lease payments are attributable to:

Buildings	799	834
Other	15	17
	815	851

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(c) Materials and contracts (continued)		
2. Auditor remuneration		
During the year the following fees were paid or payable for services provided by the auditor of Council.		
Auditors of the Council – NSW Auditor-General:		
(i) Audit and other assurance services		
Audit and review of financial statements	202	198
Total Auditor-General remuneration	202	198
Total Auditor remuneration	202	198

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(d) Depreciation, amortisation and impairment			
Depreciation and amortisation			
Plant and equipment		11,753	11,375
Office equipment		2,282	4,909
Furniture and fittings		4,398	4,301
Infrastructure:			
– Buildings – non-specialised		27,317	37,433
– Buildings – specialised		475	766
– Roads		21,514	26,675
– Stormwater drainage		3,168	2,798
– Open space/recreational assets		18,703	17,588
Other assets:			
– Library books		1,266	1,332
– Poles and lighting		5,267	4,940
– Public art / open museum		448	457
Intangible assets - software (amortisation)	12	4,013	–
Total depreciation and amortisation costs		<u>100,605</u>	<u>112,572</u>
Impairment / revaluation decrement of IPP&E			
Nil			
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED</u>		<u>100,605</u>	<u>112,572</u>

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

(d) Depreciation, amortisation and impairment (continued)

Accounting policy for depreciation, amortisation and impairment expenses

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate the gross value of assets, net of any residual value, over their estimated useful lives. Useful lives are detailed in Note 10 for IPPE assets and Note 12 for intangible assets.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

Impairment of financial assets

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	2017
(e) Other expenses			
Advertising		2,367	2,361
Bad and doubtful debts		290	140
Bank charges		1,571	1,499
Books and periodicals		145	139
Computing costs		9,263	6,943
Contributions/levies to other levels of government ¹		14,563	13,763
Councillor expenses – Lord Mayoral fee		213	206
Councillor expenses – councillors' fees		390	366
Councillors' expenses (incl. mayor) – other (excluding fees above)		127	159
Donations, contributions and assistance to other organisations (Section 356)		16,967	15,763
Election expenses ²		–	1,086
Event and project costs		13,668	15,684
Insurance		2,747	1,908
Land tax and water rates		1,974	1,863
Management fees		15	41
Other property related expenditure		669	447
Parking enforcement – payment to NSW government		3,121	2,999
Postage and couriers		1,381	1,248
Printing and stationery		1,676	1,751
Public domain enhancement contributions		2,277	54
Research and development		403	558
Security		2,695	1,768
Storage		531	557
Street lighting		4,509	4,394
Telephone and communications		2,440	2,555
Utilities		4,738	4,497
Other		3,693	3,971
OTHER EXPENSES		92,436	86,718
Contribution to Transport for NSW – Light Rail CBD to South East ³		–	47,100
TOTAL OTHER EXPENSES		92,436	133,818

¹ The calculation of the s88 Waste Levy paid to the State Government as part of Council's waste disposal calculations has been revised in 2017/18 to reflect waste diverted from landfill. The balance of waste disposal charges is shown at Note 4c; s88 levy amounts included above: \$2.94M (2017/18) and \$2.89M (2016/17)

² Council's Election was held on Saturday 10 September 2016

³ Under the terms of the Light Rail Development Agreement (the Agreement) between the City of Sydney and the NSW Government, the City will provide a \$220M contribution towards the delivery of the CBD and South East Sydney light rail project. Progress payments are to be made and expenses recognised over a number of financial years, commensurate with agreed project milestones. At 30 June 2018, the required milestones for the 2017/18 installment had not yet been met.

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	2018	2017
Property (excl. investment property)	10		
Proceeds from disposal – property		9,213	–
Less: carrying amount of property assets sold/written off		<u>(3,227)</u>	<u>(187)</u>
Net gain/(loss) on disposal		<u>5,986</u>	<u>(187)</u>
Infrastructure, Plant and equipment	10		
Proceeds from disposal – plant and equipment		455	1,982
Less: carrying amount of plant and equipment assets sold/written off		<u>(2,565)</u>	<u>(1,954)</u>
Net gain/(loss) on disposal		<u>(2,110)</u>	<u>29</u>
Financial assets ⁽¹⁾	6		
Proceeds from disposal/redemptions/maturities – financial assets		381,000	652,500
Less: carrying amount of financial assets sold/redeemed/matured		<u>(381,000)</u>	<u>(652,500)</u>
Net gain/(loss) on disposal		<u>–</u>	<u>–</u>
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>3,876</u>	<u>(158)</u>

Accounting policy for disposal of assets

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is derecognised.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	20,650	4,895
Cash-equivalent assets		
– Deposits at call	35,725	46,963
– Short-term deposits	80,000	–
Total cash and cash equivalents	136,374	51,858

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in current liabilities on the Statement of Financial Position.

Note 6(b). Investments

\$ '000	2018 Current	2018 Non-current	2017 Current	2017 Non-current
Investments				
a. 'At fair value through the profit and loss'				
– 'Designated at fair value on initial recognition'	58,479	173,370	31,990	197,885
b. 'Held to maturity'	200,000	35,000	209,000	25,000
Total investments	258,479	208,370	240,990	222,885
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	394,854	208,370	292,849	222,885
Financial assets at fair value through the profit and loss				
NCD's, FRN's (with maturities > 3 months)	58,479	173,370	31,990	197,885
Total	58,479	173,370	31,990	197,885
Held to maturity investments				
Long term deposits	200,000	35,000	209,000	25,000
Total	200,000	35,000	209,000	25,000

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(b). Investments (continued)

Accounting policy for investments

Classification

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

(b) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounting policy details relating to recognition of loans and receivables are shown at Note 7.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(d) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Assets in this category are held at fair value with changes in fair value taken to other comprehensive income.

Council did not at any time for the years presented hold any available-for-sale financial assets.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 6(c). Restricted cash, cash equivalents and investments – details

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	<u>394,854</u>	<u>208,370</u>	<u>292,849</u>	<u>222,885</u>
attributable to:				
External restrictions (refer below)	61,459	65,240	50,000	50,683
Internal restrictions (refer below)	166,497	143,130	129,155	172,203
Unrestricted	<u>166,898</u>	<u>–</u>	<u>113,693</u>	<u>–</u>
	<u>394,854</u>	<u>208,370</u>	<u>292,849</u>	<u>222,885</u>

\$ '000	2018	2017
Details of restrictions		
External restrictions – other		
Developer contributions – general	99,667	78,068
Specific purpose unexpended grants	1,028	–
Domestic waste management	25,574	22,121
Stormwater management	431	494
Total external restrictions	<u>126,699</u>	<u>100,683</u>
Internal restrictions		
Affordable and diverse housing fund	8,858	10,358
City centre transformation reserve	104,700	104,700
Commercial property reserve	9,213	–
Community facilities reserve	15,456	15,456
Employees leave entitlement	6,595	6,516
Green infrastructure	23,133	24,584
Green square reserve	86,325	86,325
Infrastructure contingency	2,540	2,801
Performance cash bonds and retentions	25,695	22,430
Public liability insurance	658	457
Renewable energy reserve	9,404	10,495
Workers compensation	17,050	17,237
Total internal restrictions	<u>309,626</u>	<u>301,358</u>
TOTAL RESTRICTIONS	<u>436,326</u>	<u>402,041</u>

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(c). Restricted cash, cash equivalents and investments – details (continued)

Policy on internal and external restrictions on cash, cash equivalents and investments

Cash, cash equivalents and investments are restricted for prudent financial management purposes as follows:

Employee Leave Entitlements - 10% of the employee leave entitlement provision is set aside to fund extraordinary movements of staff. Normal annual payments of leave entitlements are funded from operating income.

Public Liability Insurance - Cash has been restricted for 100% of the provision.

Workers Compensation Insurance - In accordance with actuarial advice, Council restricts funds for 100% of the provision, plus an additional 'prudent margin' (in order to meet the requirements of the State Insurance Regulatory Authority, SIRI).

Domestic Waste - Any cash surplus from operations is held as a restricted asset to fund future capital expenditure or process improvements to the Domestic Waste collection business.

Performance Bond Deposits - All security deposits are held as restricted funds.

Commercial Properties - Funds that are surplus to requirements, set aside to reinvest and continue the revenue stream from and maintain diversification of Council's large commercial and investment property portfolio.

Unexpended Grants - 100% of cash grants received not spent during the year are treated as restricted funds.

Developer Contributions - 100% of cash Developer Contributions levied under Section 7.11, Section 61, Bonus Floor Space scheme and Voluntary Planning Agreements (including the Developer Rights Scheme for Green Square Town Centre) received but not yet expended in accordance with the applicable deed or contributions plan.

Contributions - Capital Works - 100% of cash contributions provided to Council by third parties that are yet to be expended on the project/s for which they were provided.

Stormwater Management - Funds received through the stormwater levy are set aside for various structural and non-structural programs used to reduce urban stormwater pollution. Unspent funds are held as restricted assets.

City Centre Transformation - Monies set aside to meet future contributions to the State Government in respect of the future transformation of George Street into a shared pedestrian zone incorporating light rail.

Green Infrastructure - Monies set aside for implementing green infrastructure projects including co/trigeneration plants, water recycling and evacuated waste systems to deliver enhanced environmental benefits to the organisation and community.

Green Square - Monies set aside in anticipation of Green Square infrastructure not funded by developer contributions or grant funding.

Renewable Energy - Monies set aside to develop renewable energy for the organisation that can be derived from wind, solar or geo-thermal sources.

Community Facilities - Cash set aside for the future acquisition or development of property to improve community spaces or replacement facilities that meet community needs at that time.

Operational Facilities - Cash set aside for the future acquisition or development of properties to supplement or replace buildings within the current operational building assets portfolio that provide infrastructure for the operation of Council's services.

Infrastructure Contingency - 100% of monies are set aside for the funding of urgent and expensive rectification of historic buildings and ageing infrastructure (e.g. stormwater).

Public Roads - In accordance with Section 43 (4) of the Roads Act (NSW) 1993, proceeds from the sale of (former) public road are set aside for the acquisition of land for public roads, and/or carrying out works on public roads.

Affordable and Diverse Housing - Income receipts dedicated by Council for the purposes of contributing towards the delivery of affordable and/or diverse housing are set aside for future projects and initiatives as endorsed by Council.

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Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables

\$ '000	Notes	2018		2017	
		Current	Non-current	Current	Non-current
Purpose					
Rates and annual charges		4,072	–	3,729	–
Interest and extra charges		109	–	176	–
User charges and fees		4,198	–	5,831	–
Accrued revenues					
– Interest on investments		3,177	–	3,181	–
– Other income accruals		17,410	–	34,445	–
Net GST receivable		2,565	–	8,579	–
Rental debtors		6,530	–	7,327	–
Outstanding works in kind contributions		15,814	53,998	14,309	44,367
Total		53,876	53,998	77,577	44,367
Less: provision for impairment					
Rental debtors and User charges & fees		(1,430)	–	(1,153)	–
Total provision for impairment – receivables		(1,430)	–	(1,153)	–
<u>TOTAL NET RECEIVABLES</u>		<u>52,446</u>	<u>53,998</u>	<u>76,424</u>	<u>44,367</u>
Externally restricted receivables					
Domestic waste management		625	–	625	–
Domestic waste management - extra charges		21	–	25	–
Other					
– Works receivable (developer contributions)		15,814	53,998	14,309	44,367
Total external restrictions		16,460	53,998	14,959	44,367
Internally restricted receivables		–	–	–	–
Unrestricted receivables		35,986	–	61,464	–
TOTAL NET RECEIVABLES		52,446	53,998	76,424	44,367
Movement in provision for impairment of receivables					
Balance at the beginning of the year				2018	2017
				1,153	1,224
+ new provisions recognised during the year				638	761
– amounts already provided for and written off this year				(4)	(210)
– amounts provided for but recovered during the year				(191)	(90)
– previous impairment losses reversed				(167)	(533)
Balance at the end of the year				1,430	1,153

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables

Accounting policy for receivables

Recognition and measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in and receivables (Note 7) in the Statement of Financial Position. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Non-current receivables represent unconditional future entitlements to works in kind contributions related to developments for which construction certificates have been issued and are only recognised once secured by bank guarantees, security deposits or other similar forms of security.

Impairment

For loans and receivables the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Collectability of receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income statement.

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Notes to the Financial Statements
for the year ended 30 June 2018

Note 8. Inventories and other assets

\$ '000	Notes	2018		2017	
		Current	Non-current	Current	Non-current
(a) Inventories					
(i) Inventories at cost					
Stores and materials		549	–	822	–
<u>TOTAL INVENTORIES</u>		<u>549</u>	<u>–</u>	<u>822</u>	<u>–</u>
(b) Other assets					
Prepayments		3,986	–	3,219	–
Future benefits – shared services relating to Sutherland animal shelter		14	154	14	168
<u>TOTAL OTHER ASSETS</u>		<u>4,000</u>	<u>154</u>	<u>3,234</u>	<u>168</u>

Externally restricted assets

There are no restrictions applicable to the above assets.

Accounting policy**Raw materials and stores, work in progress and finished goods**

Council holds inventories for consumption for the purpose of providing works and services. There is no objective of sale for such items. Council values these items at cost, assessed for loss of service potential. Where appropriate, Council writes the value down accordingly.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 9. Non-current assets classified as held for sale (and disposal groups)

\$ '000	2018 Current	2018 Non-current	2017 Current	2017 Non-current
(i) Non-current assets				
Non-current assets 'held for sale'				
Land	65,046	–	–	–
Buildings	912	–	–	–
Total non-current assets 'held for sale'	65,958	–	–	–

(ii) Details of assets

The assets held for sale at 30 June 2018 comprise four surplus properties that have been endorsed for sale by Council. Three of these sites have received Council endorsement to accept the sale price offered, and are awaiting final settlement (during the 2018/19 financial year) and the remaining sale is expected to be endorsed and settled within the 2018/19 financial year.

Accounting policy for non-current assets classified as held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value (less costs to sell), except for assets such as assets arising from employee benefits; financial assets; and investment property that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 10(a). Infrastructure, property, plant and equipment

Asset class	as at 30/6/2017			Asset movements during the reporting period									as at 30/6/2018				
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers ²	Tfrs from/(to) 'held for sale' category ³	Tfrs from/(to) investment property ⁴	Revaluation reserve adjustments (to Asset Reval Rsve) ⁵	At cost	Gross carrying amount	Accumulated depreciation	Net carrying amount	
\$ '000																	
Capital work in progress (WIP) ¹	321,945	–	321,945	38,805	104,291	–	–	(117,067)	(15,020)	–	(2,500)	–	–	330,454	–	330,454	
Plant and equipment	85,109	46,456	38,653	5,353	28	(190)	(11,753)	2,814	–	–	–	–	–	87,490	52,586	34,904	
Office equipment	28,433	21,188	7,245	2,099	–	–	(2,282)	230	(2,691)	–	–	–	–	22,223	17,622	4,601	
Furniture and fittings	63,806	42,076	21,730	776	–	–	(4,398)	9	–	–	–	–	–	41,338	23,221	18,117	
Land:																	
– Operational land	1,512,282	–	1,512,282	–	28,362	(275)	–	4,185	(2,254)	(65,046)	(20,309)	(4,380)	–	1,452,565	–	1,452,565	
– Community land	6,240,994	–	6,240,994	–	3,314	(1,021)	–	–	(16,205)	–	–	–	–	6,227,081	–	6,227,081	
– Land under roads (post 30/6/08)	62,052	–	62,052	–	3,893	–	–	–	–	–	–	–	–	65,944	–	65,944	
Other structures – trees	115,505	–	115,505	–	134	–	–	723	–	–	–	–	–	116,362	–	116,362	
Other structures – poles and lights	102,472	44,499	57,973	–	566	–	(5,267)	3,388	–	–	–	–	–	106,426	49,766	56,659	
Other structures – signs	14,501	–	14,501	–	151	–	–	2,411	–	–	–	–	–	17,064	–	17,064	
Infrastructure:																	
– Buildings – non-specialised	1,631,467	297,378	1,334,089	394	5,829	(3,227)	(27,317)	57,575	(18)	(912)	(4,935)	–	–	1,671,941	310,461	1,361,480	
– Buildings – specialised	43,224	12,176	31,048	10	–	–	(475)	95	–	–	–	–	–	43,329	12,651	30,679	
– Roads, Bridges, Footways, Kerbs	1,595,293	718,677	876,616	269	3,023	(1,079)	(21,514)	17,525	–	–	–	–	–	1,611,532	736,692	874,840	
– Stormwater drainage	304,776	106,593	198,184	–	2,288	–	(3,168)	7,954	–	–	–	–	–	315,019	109,761	205,258	
– Open space/recreational assets	448,097	238,963	209,134	1	1,248	–	(18,703)	19,167	18	–	–	–	–	468,548	257,683	210,864	
Other assets:																	
– Heritage collections	7,031	–	7,031	–	75	–	–	–	–	–	–	–	–	7,105	–	7,105	
– Library books	9,442	6,988	2,454	–	1,870	–	(1,266)	–	–	–	–	–	–	10,301	7,243	3,058	
– City art	42,377	7,918	34,458	63	–	–	(448)	991	–	–	–	–	–	43,430	8,367	35,063	
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	12,628,806	1,542,911	11,085,895	47,768	155,073	(5,792)	(96,592)	–	(36,170)	(65,958)	(27,744)	(4,380)	–	12,638,154	1,586,053	11,052,101	

Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

¹ Additions to Capital WIP included renewal works (\$38.8M), upgrade works (\$26.6M) and new/expansion works (\$77.7M). Upgrade and new/expansion works have been combined in the above. Transfers of completed Capital WIP to Council's asset register included renewal works (\$51.8M), upgrade works (\$30.8M) and new/expansion works (\$52.0M)

² Amounts were transferred from Capital WIP and the Office Equipment to the Intangible Assets class (refer note 12). Recognition of Council-developed software as Intangible Assets represents a change in accounting policy, effective 1 July 2017. Asset records were updated in respect of Council owned and controlled land holdings. As a result, certain parcels of land were transferred between classes to reflect the correct land classification. Accordingly, historical revaluation entries were adjusted to reflect the corrected classification (and methodology). These adjustments are considered to be corrections of prior period errors, but were not considered sufficiently material to re-state prior years' financial statements

³ Refer to Note 9 for further information related to assets held for sale

⁴ Two property holdings were reclassified to Investment Properties, reflecting future strategic intention to realise a commercial gain from the assets

⁵ An amount related to a prior year revaluation was reversed in 2017/18. The amount was not considered sufficiently material to restate the prior year statements

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 10(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Updated valuations are performed at least 5 yearly, however the carrying amount of assets is assessed at each reporting date to confirm that it is not materially different from current fair value. Information related to fair valuation of assets is shown at Note 23.

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Buildings (by component type):	Years	Infrastructure - Roads	Years
Structure (Short Life)	26 to 148	Roads - upper strata	25 to 100
Structure (Long Life)	50 to 260	Roads - lower strata	300
Sub-Structure (Short Life)	28 to 126	Roads - sub-structure earthworks	Infinite
Sub-Structure (Long Life)	75 to 195	Footways	30 to 100
Roof (Short Life)	26 to 122	Kerb and gutter	80 to 150
Roof (Long Life)	50 to 195	Bridges	100
Fit-Out (Short Life)	17 to 74	Street furniture/fixtures	20 to 50
Fit-Out (Long Life)	50 to 130		
Services - Electrical (Short Life)	30 to 88	Infrastructure - Drainage	
Services - Electrical (Long Life)	75 to 195	Pipes and culverts	100
Services - Fire (Short Life)	10 to 25	Drainage pits and junctions	100
Services - Fire (Long Life)	40 to 52	Water quality infrastructure	10 to 100
Services - Hydraulic (Short Life)	23 to 88		
Services - Hydraulic (Long Life)	75 to 195	Plant & equipment	
Services - Mechanical (Short Life)	10 to 63	Plant & Equipment	3 to 20
Services - Mechanical (Long Life)	80 to 104	Vehicles and road-making equipment	5 to 7
Services - Security (Short Life)	14 to 25	Computer equipment	3 to 5
Services - Lift/Transport (Short Life)	47 to 130	Parking Meters	5 to 7
Services - Lift/Transport (Long Life)	75 to 195	Office Equipment	3 to 5
Services - Floor Coverings (Short Life)	8 to 43	Furniture and Fittings	3 to 10
		Other assets	
Open space and recreational assets		Library resources	3 to 10
Park and open space improvements	8 to 50	City art	20 to 100
Park equipment and structures	10 to 20		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income statement.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 10(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment - continued

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

Crown reserves and third party owned land

The Community Land Class includes a number of assets not under the legal ownership of Council (current value \$4,847M). Ownership of these assets remains with the government and/or 3rd party entities, while Council continues to retain both operational control of the assets and responsibility for the maintenance of improvements thereon. Council includes these land assets in the Statement of Financial Position, as well as the cost of any Council funded related improvements, on the basis of its financial rights and responsibilities in controlling and maintaining the assets. Revocation of such control by the State Government is regarded as extremely unlikely given the history of Crown Reserves, and Council's history of operational care and control over the assets. Commonwealth Government owned assets are subject to return at the end of long-term lease periods.

In the case of Crown Reserve lands, Reserve Trusts were created for administrative purposes under section 92 of the Crown Lands Act 1989 ("the Act") for a large proportion of these Crown Reserves. Prior to the enactment of the Act, Council was Reserve Trustee of these assets and upon enactment, section 5A of the Schedule 8 (Savings, transitional and other provisions) of the Act has appointed Council Reserve Trust Manager of the related Reserve Trusts created under section 92.

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 11. Investment property

\$ '000	2018	2017
(a) Investment property at fair value		
<u>Investment property on hand</u>	<u>344,000</u>	<u>268,165</u>
Reconciliation of annual movement:		
Opening balance	268,165	223,275
– Capitalised expenditure – this year (Note 10)	2,500	169
– Transfers from/(to) owner occupied (Note 10)	25,244	–
– Net gain/(loss) from fair value adjustments	48,091	44,721
CLOSING BALANCE – INVESTMENT PROPERTY	<u>344,000</u>	<u>268,165</u>
(b) Valuation basis		
The basis of valuation of investment property is fair value, being the amounts for which the properties could be exchanged between willing parties in arms length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.		
The 2018 revaluations were based on independent assessments made by: AON Valuation Services (A division of AON Risk Services Australia Limited) Certifying Valuer : Jeffrey Millar, AAPI		
(c) Contractual obligations at reporting date		
Refer to Note 18 for disclosures relating to any capital and service obligations that have been contracted.		
(d) Leasing arrangements – Council as lessor		
The investment property are leased to tenants under long-term operating leases with rentals payable monthly.		
Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:		
Within 1 year	20,129	12,319
Later than 1 year but less than 5 years	27,594	27,434
Later than 5 years	–	7,511
Total minimum lease payments receivable	<u>47,723</u>	<u>47,264</u>
(e) Investment property income and expenditure – summary		
Rental income from investment property:		
– Minimum lease payments	19,530	17,809
Direct operating expenses on investment property	(3,806)	(3,281)
Net revenue contribution from investment property	<u>15,724</u>	<u>14,528</u>
plus:		
Fair value movement for year	<u>48,091</u>	<u>44,721</u>
Total income attributable to investment property	<u>63,815</u>	<u>59,249</u>

Accounting policy for investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the income statement as part of other income.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Intangible assets

\$ '000	2018	2017
Intangible assets represent identifiable non-monetary assets without physical substance.		
Intangible assets are as follows:		
Opening values¹:		
Gross book value (1/7)	7,700	–
Accumulated amortisation (1/7)	(5,009)	–
Net book value – opening balance	2,691	–
Movements for the year		
– Development costs	15,020	–
– Amortisation charges	(4,013)	–
Closing values:		
Gross book value (30/6)	22,720	–
Accumulated amortisation (30/6)	(9,022)	–
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u> ²	<u>13,698</u>	<u>–</u>

¹ Refer Note 10a: software assets held at 1 July 2017 transferred to Intangible Assets class from "Office Equipment"
The carrying value of these assets at 30 June 2017 was as shown in the Opening Balance above (i.e. \$2.69M)

² The net book value of intangible assets represent:

– Software	13,698	–
	13,698	–

Accounting policy for intangible assets**IT development and software**

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to five years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset.

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 13. Payables and borrowings

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Payables				
Creditors - Goods and services	15,258	–	16,382	–
Accrued expenses:				
– Interest on bonds and deposits	5	–	5	–
– Other expenditure accruals	28,836	–	38,269	–
Performance cash bonds, deposits and retentions	25,695	–	22,425	–
Accrued employee costs	6,231	–	6,083	–
Other	1,748	–	449	–
Total payables	77,774	–	83,612	–
Income received in advance				
Payments received in advance	16,322	–	9,444	–
Total income received in advance	16,322	–	9,444	–
Borrowings				
Nil				
TOTAL PAYABLES AND BORROWINGS	94,097	–	93,056	–
(a) Payables and borrowings relating to restricted assets				
	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Domestic waste management	2,399	–	2,002	–
Payables and borrowings relating to externally restricted assets	2,399	–	2,002	–
Internally restricted assets				
Performance cash bonds, deposits and retentions	25,695	–	22,425	–
Payables and borrowings relating to internally restricted assets	25,695	–	22,425	–
Total payables and borrowings relating to restricted assets	28,094	–	24,427	–
Total payables and borrowings relating to unrestricted assets	66,002	–	68,630	–
TOTAL PAYABLES AND BORROWINGS	94,097	–	93,056	–

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Payables and borrowings (continued)

\$ '000	2018	2017
(b) Current payables and borrowings not anticipated to be settled within the next twelve months		
The following payables and borrowings, even though classified as current, are not expected to be settled in the next 12 months.		
Payables – security bonds, deposits and retentions	13,216	7,706
	13,216	7,706
(c) Financing arrangements		
(i) Unrestricted access was available at balance date to the following lines of credit:		
Credit cards/purchase cards	1,500	1,500
Total financing arrangements	1,500	1,500

Accounting policy for payables and borrowings**Payables**

These amounts represent liabilities for goods and services provided to the Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Borrowings (where applicable) are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Finance leases

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 14. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	14,043	–	13,678	–
Sick leave	4,311	3,453	4,534	4,016
Long service leave	41,068	2,980	39,741	3,029
Gratuities	93	4	101	56
Public holidays	329	–	321	–
Sub-total – aggregate employee benefits	59,843	6,437	58,375	7,102
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	4,000	–	4,000
Sub-total – asset remediation/restoration	–	4,000	–	4,000
Other provisions:				
Self insurance – workers compensation	2,527	8,839	3,547	7,944
Self insurance – public liability	433	225	318	139
Superannuation	–	2,607	–	2,561
Other	6,139	–	7,024	–
Sub-total – other provisions	9,099	11,671	10,889	10,643
<u>TOTAL PROVISIONS</u>	<u>68,942</u>	<u>22,108</u>	<u>69,264</u>	<u>21,745</u>

(a) Provisions relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Internally restricted assets				
Self insurance – workers compensation	2,527	8,839	3,547	7,944
Self insurance – public liability	433	225	318	139
Provisions relating to internally restricted assets	2,960	9,064	3,865	8,083
Total provisions relating to restricted assets	2,960	9,064	3,865	8,083
Total provisions relating to unrestricted assets	65,982	13,045	65,399	13,663
<u>TOTAL PROVISIONS</u>	<u>68,942</u>	<u>22,108</u>	<u>69,264</u>	<u>21,745</u>

\$ '000

2018

2017

(b) Current provisions not anticipated to be settled within the next twelve months

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	39,053	37,566
	39,053	37,566

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Provisions (continued)

\$ '000

(c) Description of and movements in provisions

2018	Employee Leave Entitlement provisions					Total
	Annual leave	Sick leave	Long service leave	Gratuities	Public Holidays	
At beginning of year	13,678	8,551	42,771	157	321	65,477
Additional provisions	13,070	1,135	7,547	–	8	21,760
Amounts used (payments)	(12,706)	(1,899)	(6,057)	(59)	–	(20,721)
Remeasurement effects	–	(23)	(212)	–	–	(235)
Total Employee Leave Entitlement provisions at end of year	14,043	7,764	44,048	98	329	66,281

2017	Employee Leave Entitlement provisions					Total
	Annual leave	Sick leave	Long service leave	Gratuities	Public Holidays	
At beginning of year	13,177	9,262	42,338	405	266	65,448
Additional provisions	13,056	1,168	8,216	–	54	22,493
Amounts used (payments)	(12,555)	(1,751)	(6,585)	(248)	–	(21,139)
Remeasurement effects	–	(128)	(1,198)	–	–	(1,326)
Total Employee Leave Entitlement provisions at end of year	13,678	8,551	42,771	157	321	65,477

2018	Other provisions					Total
	Workers Compensation	Public liability	Super-annuation	Asset remediation	Other	
At beginning of year	11,491	457	2,561	4,000	7,024	25,532
Additional provisions	3,769	201	47	–	241	4,259
Amounts used (payments)	(3,894)	–	–	–	(1,126)	(5,021)
Total other provisions at end of year	11,366	658	2,607	4,000	6,139	24,770

2017	Other provisions					Total
	Workers Compensation	Public liability	Super-annuation	Asset remediation	Other	
At beginning of year	11,590	810	2,958	4,000	1,238	20,596
Additional provisions	3,885	–	–	–	5,786	9,671
Amounts used (payments)	(3,984)	(353)	(398)	–	–	(4,735)
Total other provisions at end of year	11,491	457	2,561	4,000	7,024	25,532

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 14. Provisions (continued)

Nature and purpose of non-employee benefit provisions

Other

Other provisions represent amounts accrued and payable in respect of State taxes on commercial leases on Crown lands controlled by the City, and for 30 June 2017 include a provision relating to the judgement in a legal case relating to the classification (for rating purposes) of land under development.

Asset remediation

Asset remediation, reinstatement and restoration provisions represent the present value estimate of future costs Council will incur in order to remove, restore and remediate assets and/or activities as a result of past operations.

Superannuation

Council records its assets and liabilities in respect of a Pooled Fund comprising closed NSW public sector superannuation schemes. Council's liability (or asset) position at 30 June is advised y

Public liability and Workers Compensation

Self insurance provisions represent both (i) claims incurred but not reported and (ii) claims reported and estimated as a result of Council's being a self insurer up to certain levels of excess.

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 14. Provisions (continued)

Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Provisions for close-down and restoration, and environmental clean-up costs – former depot

Restoration

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals

Rehabilitation

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

Self-insurance

Council has decided to self-insure for various risks, including public liability and professional indemnity.

A provision for self-insurance has been made to recognise outstanding claims. Council also maintains cash and investments to meet expected future claims; refer to Note 6(c).

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Provisions (continued)

Defined Benefit Plans - additional disclosures

A) Multi-Employer Pooled Fund

Council participates in an employer sponsored Defined Benefit Superannuation Scheme that is a multi-employer plan.

(a) *Funding arrangements, including methodology to determine rate of contributions and any minimum funding requirements.*

Pooled Employers are required to pay standard employer contributions and additional lump sum contributions to the Fund.

The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 times employee contributions
Division C	2.5% of salary
Division D	1.64 times employee contributions

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2017 for 4 years to 30 June 2021, apportioned according to each employer's share of the accumulated liabilities as at 30 June 2017. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2017.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

(b) *Extent to which Council may be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.*

As stated above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the entity.

(c) *Description of any agreed allocation of a deficit or surplus on:*

(i) *wind-up of the plan*

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

(ii) *entity's withdrawal from the plan*

There is no provision for allocation of any surplus which may be present at the date of withdrawal of an employer.

(d) *Further information relating to reasons for accounting for the pooled employer fund as a defined contribution plan:*

(i) *the fact that the plan is a defined benefit plan.*

Council confirms that the plan is a defined benefit plan.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 14. Provisions (continued)

Defined Benefit Plans - additional disclosures (continued)

(d) Further information relating to reasons for accounting for the pooled employer fund as a defined contribution plan (continued):

(ii) why sufficient information is not available to enable Council to account for the plan as a defined benefit plan.

- 1 Assets are not segregated within the sub-group according to the employees of each sponsoring employer;
- 2 The contribution rates have been the same for all sponsoring employers and have not varied for each employer according to the experience relating to the employees of that employer;
- 3 Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer; and
- 4 The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors set out above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses (to the extent that they are not borne by the members). As such there is insufficient reliable information to allow each sponsoring employer to account for its proportionate share of the defined benefit obligation, sub-group assets and costs associated with the sub-group in the same way as it would be for a single employer sponsored defined benefit plan.

(iii) the expected contribution to the plan for the next annual reporting period

The expected contributions by Council to the Fund for the next annual reporting period are \$3.755M.

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2017 is:

<i>Employer reserves only (excluding member accounts and reserves in both assets and liabilities)</i>	<i>\$M</i>	<i>Asset Coverage</i>
Assets	1,817.8	
Past Service Liabilities	1,787.5	101.7%
Vested Benefits	1,778.0	102.2%

The key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment return	6.0% p.a.
Salary inflation (plus promotional increases)	3.5% p.a.
Increase in CPI	2.5% p.a.

Council's additional contribution requirements are estimated to remain in place to 30 June 2021. However, the Trustee is considering extending the additional contribution period in order to build up a satisfactory surplus, allow the Fund to transition to a less risky investment portfolio resulting in a lower assumed long-term investment return.

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 14. Provisions (continued)

Defined Benefit Plans - additional disclosures (continued)

(d) *Further information relating to reasons for accounting for the pooled employer fund as a defined contribution plan (continued):*

(v) *an indication of the level of Council's participation in the plan compared with other participating entities.*

Council's participation in the Scheme compared with other entities is about 4.71% based on the Council's current level of annual additional contributions of \$3.755M against total contributions of \$40.0M. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on 12 December 2017, relating to the period ending 30 June 2017.

B) Defined Benefit Pooled Fund

Council participates in a Pooled Fund comprising closed NSW public sector superannuation schemes.

Nature of the benefits provided by the fund.

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)

The schemes are all defined benefit schemes with a component of the final benefit being derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement or withdrawal. All the Schemes are closed to new members.

While Council records its assets and liabilities in respect of this Pooled Fund in accordance with the requirements of *AASB 119 Employee Entitlements (refer to Note 10a - Provisions)*, they are not material in relation to Council's total assets and liabilities. As a consequence the Defined Benefit disclosures of AASB 119 have not been included as the associated assets and liabilities are not material.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments (and/or decrements) of non-current asset values due to their revaluation.

Other reserves

The Trust Assets Revaluation Reserve represents the total fair value of trust land assets (such as Crown Reserve Trusts) that have come under the management control of Council at no acquisition cost and which have subsequently been revalued to fair value. These assets are owned by external entities (including State and Federal Governments) and are effectively controlled by the City as custodians or Reserve Trust manager.

(b) Correction of errors relating to a previous reporting period

Nature of prior-period error

Council has corrected the valuation basis of Land Under Roads in 2018 to reflect the requirements of AASB 13 in respect of *restrictions* relating to the land. The valuation basis was changed from an adjacent land calculation in prior years to an *englobo* methodology that applies a 90% discount to the average value of unimproved land in the Local Government Area (based on Valuer-General valuations). The Land Under Roads subject to recognition were acquired post 30 June 2008.

A discount of 90% was applied to reflect the restriction placed on land under roads to comply with AASB13: Fair Value Measurement. The updated valuation has resulted in a material adjustment to the carrying value of the Land Under Roads asset class, and a decrease to Council's revaluation reserves and accumulated surplus. The Land Under Roads asset class was adjusted downwards by \$92.2M (previously \$158.1M at 30 June 2018, now \$65.9M). The adjustment represented less than 1% of the carrying value of Council's Infrastructure, Property, Plant & Equipment.

The error has been corrected by restating the balances at the beginning of the earliest period presented (1 July 2016) and taking the adjustment through to accumulated surplus at that date.

Comparatives have been changed to reflect the correction of errors. The impact on each line item is shown in the tables that follow.

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000

(b) Correction of errors relating to a previous reporting period (continued)

Changes to the opening Statement of Financial Position at 1 July 2016

	Original Balance 1 July, 2016	Impact Increase/ (decrease)	Restated Balance 1 July, 2016
Statement of Financial Position			
Infrastructure, property, plant and equipment	9,578,819	(79,907)	9,498,912
- Land Under Roads (post 30/06/2008)	140,973	(81,491)	59,482
- Community Land	6,230,339	1,585	6,231,923
Total Assets	10,470,871	(79,907)	10,390,964
Total Liabilities	175,930	-	175,930
Accumulated surplus	3,524,402	(51,901)	3,472,501
Revaluation reserves	3,213,506	(28,005)	3,185,501
Total equity	10,294,941	(79,907)	10,215,033

Adjustments to the comparative figures for the year ended 30 June 2017

	Original Balance 30 June, 2017	Impact Increase/ (decrease)	Restated Balance 30 June, 2017
Statement of Financial Position			
Infrastructure, property, plant and equipment	11,178,049	(92,154)	11,085,895
- Land Under Roads (post 30/06/2008)	155,790	(93,739)	62,052
- Community Land	6,239,409	1,585	6,240,994
Total assets	12,086,962	(92,154)	11,994,808
Total liabilities	184,065	-	184,065
Accumulated surplus	3,668,400	(64,148)	3,604,252
Revaluation reserves	4,677,465	(28,005)	4,649,460
Total equity	11,902,897	(92,154)	11,810,743
Income Statement			
Grants and contributions provided for capital purposes	119,144	(49)	119,095
Total income from continuing operations	721,897	(49)	721,848
Materials and contracts	112,036	12,198	124,235
Total expenses from continuing operations	577,898	12,198	590,097
Net operating result for the year	143,999	(12,247)	131,751
Statement of Comprehensive Income			
Net operating result for the year	143,999	(12,247)	131,751
Total comprehensive income for the year	1,607,957	(12,247)	1,595,710

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

(c) Voluntary changes in accounting policies

Council made no voluntary changes in any accounting policies during the year.

(d) Changes in accounting estimates

Council made no changes in accounting estimates during the year.

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 16. Statement of cash flows – additional information

\$ '000	Notes	2018	2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	136,374	51,858
Balance as per the Statement of Cash Flows		136,374	51,858
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		217,077	131,751
Depreciation and amortisation		100,605	112,572
Net losses/(gains) on disposal of assets		(3,876)	158
Non-cash capital grants and contributions		(31,510)	(34,804)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		509	(193)
– investment property		(48,091)	(44,721)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(4,875)	(26,562)
Increase/(decrease) in provision for doubtful debts		277	(79)
Decrease/(increase) in inventories		273	187
Decrease/(increase) in other assets		(753)	609
Increase/(decrease) in payables		(1,124)	(6,938)
Increase/(decrease) in other accrued expenses payable		2,773	(1,762)
Increase/(decrease) in other liabilities		11,596	10,337
Increase/(decrease) in employee leave entitlements		804	(25)
Increase/(decrease) in other provisions		(762)	4,990
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		242,923	145,520
(c) Non-cash investing and financing activities			
Developer contributions 'in kind'		31,510	34,804
Total non-cash investing and financing activities		31,510	34,804

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 17. Interests in other entities

Council has no interest in any controlled entities, joint arrangements or associates.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Commitments for expenditure

\$ '000	2018	2017
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	96,832	60,989
Infrastructure - Roads, Bridges, Footways, Kerb and Gutter	34,836	32,665
Open Space	11,583	18,612
Plant and equipment	3,239	5,422
Public Art	5,142	5,406
Stormwater Drainage	17,168	721
Other	12,294	4,234
Total commitments	181,093	128,048
These expenditures are payable as follows:		
Within the next year	128,590	101,027
Later than one year and not later than 5 years	51,026	25,985
Later than 5 years	1,477	1,036
Total payable	181,093	128,048
Sources for funding of capital commitments:		
Unrestricted general funds	181,093	128,048
Total sources of funding	181,093	128,048

Details of capital commitments

Capital commitments at balance date comprise purchase orders raised by Council to suppliers for goods/services yet to be delivered at balance date. Subject to fulfilment of contractual obligations by suppliers, Council expects that the committed sums will be paid in accordance with the above timelines and expenditure types.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Commitments for expenditure (continued)

\$ '000	2018	2017
(b) Finance lease commitments		
Nil		
(c) Operating lease commitments (non-cancellable)		
i. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:		
Within the next year	1,298	1,121
Later than one year and not later than 5 years	4,295	4,148
Later than 5 years	27,255	28,004
Total non-cancellable operating lease commitments	32,848	33,273

ii. Non-cancellable operating leases include the following assets:

Operating lease commitments arise as a result of Council's commitment under a non-cancellable operating lease, being in relation to Goulburn Street Parking Station. Council has a 99 year lease arrangement to rent the airspace that the parking station exists in from the RailCorp Property who control that asset. The commitment recognises the 42 years remaining on the lease, which is estimated at \$26.9M.

The lease commitments also include duct rental payable to Energy Australia in respect of Smartpoles (currently at \$380K per year) for 30 years. The amount is generally not indexed, but occasionally adjusted. The agreement to 2032 results in an estimated total remaining commitment of \$5.3M.

Conditions relating to operating leases:

- All operating lease agreements are secured only against the leased asset.
- No lease agreements impose any financial restrictions on Council regarding future debt etc.

(d) Investment property commitments

Non-capital expenditure on investment property committed for at the reporting date but not recognised in the financial statements as liabilities:

Contractual obligations – repairs and maintenance	1,233	1,095
Total commitments	1,233	1,095
These expenditures are payable as follows:		
Within the next year	1,233	1,095
Total payable	1,233	1,095

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 19. Contingencies and other liabilities/assets not recognised

1. Potential benefits to Council

(i) In accordance with the Light Rail Development Agreement between Transport for NSW and Council, completed public domain assets, delivered as part of the CBD to South East Sydney light rail project, will be transferred to Council at a future date. The quantity, nature and value of these assets remain uncertain, as does the expected transfer date/s. Assets will be recognised at fair value at the time of transfer in future accounting period/s.

(ii) Council is pursuing its legal rights to income in relation to the agreed placement of the operational assets of third parties on Council owned property. The amount was not quantifiable at balance date.

2. Potential claims

(i) A small number of contract disputes are currently underway between Council and construction contractors. The matters have not progressed to formal legal proceedings at balance date, and it is anticipated that the matters will be resolved with the respective contractors without formal proceedings.

3. Self insurance – Workers Compensation

Council has decided, on the basis of proper risk management practices, to carry its own insurance in regard to worker's compensation. A provision for self insurance has been made to recognise outstanding claims, the amount of which is detailed in Note 14.

As a self-insurer, Council is required to lodge a bank guarantee with the State Insurance Regulatory Authority (SIRA). At 30 June 2018, bank guarantees of \$12.849M were held by the SIRA, and the Authority is currently reviewing whether any additional assurance is required.

All other insurance risks, including workers compensation claims above \$600,000, are covered by external companies.

4. Infringement Notices/Fines

Fines & Penalty Income, as a result of Council issuing Infringement Notices is followed up and collected by the State Debt Recovery Office. Council's Revenue Recognition policy for such income is to account for it as revenue when the penalty is applied to the extent of expected recovery rates (determined in accordance with past experience).

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid Infringement Notices that are in excess of the accrued revenue recognised in the accounts.

Due to the limited information available on the status and duration of outstanding Notices, Council is unable to reliably determine the full value of outstanding income.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 19. Contingencies and other liabilities/assets not recognised (continued)

5. Recovery Claim - Investment Losses

Council is party to a class action against a ratings agency, for losses suffered as a result of reliance upon that agency's credit rating for a structured investment product. The matter is awaiting mediation at 30 June 2018.

6. Proposed Land Transfers between NSW Government Authorities and Council

Council has previously agreed to proceed with a transfer of public assets from NSW Government State Agencies. The completion of these transfers is subject to the fulfilment of specific conditions. The value of these assets cannot be quantified at this time, as they are subject to assessment of age and condition at the time of transfer.

7. Superannuation – Defined Benefits Schemes

Council makes employer contributions to the defined benefits categories of the Scheme at rates determined by the Scheme's Trustee. Employees also make member contributions to the Fund. As such, assets accumulate in the Fund to meet the member's benefit, as defined in the Trust Deed, as they accrue.

Council has an ongoing obligation to share in the future rights and liabilities of the Scheme. Favourable or unfavourable variations may arise should the financial requirements of the Scheme differ from the assumptions made by the Scheme's actuary in estimating the accrued benefits liability.

8. Developer Contributions Plans and Planning Agreements

Council levies infrastructure contributions upon various development across the Council area through the requisite Contributions Plans (Section 7.11 and 61) and through Voluntary Planning Agreements (VPAs, Section 7.4).

As part of these Plans and VPAs, Council has received funds which are required to be expended only for the purposes for which they were levied (per the respective plans and VPAs). These Plans also indicate proposed future expenditure to be undertaken by Council, which will be funded by making levies and receipting funds in future years or, where a shortfall exists, by the use of Council's General Funds.

These future expenses do not yet qualify as liabilities as of the Reporting Date, but represent Council's intention to spend funds in the manner and timing set out in those Plans.

Planning Agreements may also make provision for the future delivery of assets to Council for dedication as community assets. The delivery of these assets remains contingent upon the developers actioning consent and they are not raised as receivable assets until all contingencies expire.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 19. Contingencies and other liabilities/assets not recognised (continued)

9. Heritage Floor Space - Council Properties

Changes to the Sydney Development Control Plan (2012) made by Council may result in the award of Heritage Floor Space (HFS) to Council, subject to:

- a) Council, in its capacity as property owner, making application for the award of HFS on an eligible building
- b) That application being assessed by Council, in its capacity as statutory authority, as meeting the relevant criteria to allow award of HFS

A reliable valuation of any HFS awarded to/held by Council in the future is expected to prove difficult, as valuation will be contingent upon numerous volatile market conditions.

10. Alternative Heritage Floor Space Allocation Scheme

Under Council's Alternative Heritage Floor Space Allocation Scheme, developers provide a bank guarantee for an agreed sum, to enable projects to proceed where the requisite Heritage Floor Space (HFS) allocation has yet to be secured. Should the heritage floor space allocation not be secured by the developer at a specific date, the guarantee will be claimed by Council, with the funds held as restricted assets, pending subsequent re-allocation to heritage works projects within the LGA.

At balance date, bank guarantees were held by Council for 11 development sites (totalling \$51.2M). A partial or full claim on the guarantees may be made at a future date, should the respective developers fail to secure the required HFS. Should the HFS be secured, the guarantee/s will be returned and no monetary payment by the developer/s will be required. The City has received payment for one development where HFS was not secured (\$4.6M)

11. Potential Rates Claims

A recent judgement in favour of a developer allowed land to be categorised as residential (for rating purposes) from the time demolition of existing buildings and construction of residential flat buildings commenced, rather than as commercial. Prior to this ruling, land remained categorised as commercial until an occupation certificate was issued for a development. The rate in the dollar (or ad valorem rate) - which is the basis of a rates charge - is substantially lower for land categorised as residential.

Based on this ruling, Council has been required to refund rates levied at the higher rate on a number of developments. Council has examined the ruling, considering the wider ramifications for rating and has appealed the decision to the Court of Appeal.

12. Litigation - Compulsory Acquisition of Council-owned land

Council has commenced proceedings in the Land and Environment Court, disputing the amount of compensation offered in relation to one parcel of land compulsorily acquired. The loss of the lands has direct financial implications, as does the disruption to future works and service provision caused by their loss.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 20. Financial risk management

\$ '000

Risk management

Council's activities expose it to a variety of financial risks including **(1)** price risk, **(2)** credit risk, **(3)** liquidity risk and **(4)** interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by the Council.

Fair value is determined as follows:

- **Cash** and **cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings** and **held-to-maturity** investments – are based upon estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) '**at fair value through profit and loss**' or (ii) '**available-for-sale**' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Financial risk management (continued)

\$ '000

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council's Chief Finance Office manages the cash and Investments portfolio with the assistance of independent advisors.

Council has an investment policy which complies with the *Local Government Act 1993* and Ministerial Investment Order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

(a) Market risk – price risk and interest rate risk

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity *	Profit	Equity *
2018				
Possible impact of a 10% movement in market values	23,085	23,085	(23,085)	(23,085)
Possible impact of a 1% movement in interest rates	6,004	6,004	(6,004)	(6,004)
2017				
Possible impact of a 10% movement in market values	22,988	22,988	(22,988)	(22,988)
Possible impact of a 1% movement in interest rates	5,091	5,091	(5,091)	(5,091)

* Note: as Council did not hold any financial instruments as "Available for Sale" for the years shown, the impact on equity for any market value or interest rate fluctuations is limited to that recognised through profit and loss

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Financial risk management (continued)

\$ '000

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures.

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

A profile of Council's receivables credit risk at balance date follows:

(i) Ageing of receivables – %

	2018	2017		2018	2017
Rates and annual charges			Other Receivables		
Current (not yet overdue)	0%	0%	Current (not yet overdue)	97%	98%
Overdue	100%	100%	Overdue	3%	2%
	<u>100%</u>	<u>100%</u>		<u>100%</u>	<u>100%</u>

(ii) Ageing of receivables – value

	2018	2017		2018	2017
Rates and annual charges			Other Receivables		
Current	-	-	Current	100,284	115,129
< 1 year overdue	3,968	3,359	0 – 30 days overdue	268	588
1 – 2 years overdue	76	163	31 – 60 days overdue	387	980
2 – 5 years overdue	66	163	61 – 90 days overdue	-	-
> 5 years overdue	71	219	> 91 days overdue	2,754	1,342
	<u>4,181</u>	<u>3,904</u>		<u>103,693</u>	<u>118,039</u>

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Financial risk management (continued)

\$ '000

(c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and borrowings are set out in the maturity table below:

\$ '000	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
		≤ 1 Year	1 – 5 Years	> 5 Years		
2018						
Trade/other payables	25,700	52,074	-	-	77,774	77,774
Total financial liabilities	25,700	52,074	-	-	77,774	77,774
2017						
Trade/other payables	22,430	61,183	-	-	83,612	83,612
Total financial liabilities	22,430	61,183	-	-	83,612	83,612

The above payables are not subject to interest rates

Council had no borrowings at either balance date, nor at any time for the reporting periods shown

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 26 June 2017 and is not required to be audited.

While the Income Statement included in this General Purpose Financial Report must disclose the original budget adopted by Council, the *Local Government Act 1993* requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Note that for variations of budget to actual :

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

F = Favourable budget variation, **U** = Unfavourable budget variation

\$ '000	2018 Budget	2018 Actual	2018 Variance	-----	-----
REVENUES					
Interest and investment revenue	13,510	15,293	1,783	13%	F
Cash balances, whilst declining due to increased capital expenditure, were higher than anticipated over the year which has had a positive effect on the interest earned. In addition, Council was scheduled to make \$63.6M payment to the NSW Government's Light Rail Project. This payment was delayed until August 2018 following confirmation by an independent certifier that agreed milestones set out in a deed of agreement between the City of Sydney and State Government were met. Interest was earned on the \$63.6M over that 6 month period. Council also continued to out perform both the industry and its enhanced investment performance benchmarks. This was in part due to the acquisition of investments with locked in higher yields, over the last two or three years. This situation is expected to gradually decline over the next 2 to 3 years as these investments steadily mature.					
Operating grants and contributions	12,664	14,718	2,054	16%	F
The City receives a grant from the Federal Government for road improvement and maintenance programs. Following a review of projects funded by this grant there was a change in accounting treatment of Federal grants for roads to recovery from capital revenue to operating to reflect the ongoing maintenance nature of the works delivered.					
Capital grants and contributions	83,296	133,040	49,745	60%	F
Developer and Planning Agreement contributions are driven by economic conditions. Council budgets conservatively for developer contributions, in order to avoid over-reliance on anticipated capital income. During the financial year, development activity in the LGA continued to be significantly higher than anticipated. The major development sites were in the Green Square urban renewal, Rosebery, South Sydney and CBD areas.					
Net gains from disposal of assets	–	3,876	3,876	0%	F
Council takes the conservative position to not budget for a gain or loss on sale of assets.					
Fair value increment on investment property	–	48,091	48,091	0%	F
Due to the unpredictability of this adjustment, and its non-cash impact, Council does not budget for a gain on fair valuation.					

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Material budget variations (continued)

F = Favourable budget variation, U = Unfavourable budget variation

\$ '000	2018 Budget	2018 Actual	2018 ----- Variance -----	
EXPENSES				
Materials and contracts	104,124	125,616	(21,491)	(21%) U
Council's adopted budget included approximately \$18.6M for waste collection within Other Expenses. Subsequent to the adoption of the budget, the waste collection portion of contract cost was separated from the s88 Waste Levy paid to the NSW Government. This allowed the re-classification of the collection costs to Material and Contracts with the balance (approx \$2.9M) retained in Other Expenses - Contributions/levies to other levels of Government. Prior year comparatives were also reclassified. In addition the variance was impacted by projects costs associated with the delivery of the City's significant capital works program but not adding to the enduring benefit of the asset being costed to operating expenses. This expenditure which is often related to initial options reviews and/or the demolition and removal of superseded assets was significantly higher than anticipated in the budget. Expenditure was incurred against projects including public domain, green infrastructure and information technology projects				
Depreciation and amortisation	112,958	100,605	12,354	11% F
Changes to the componentisation of buildings and roads infrastructure to better reflect the life of the assets has reduced depreciation expense				
Other expenses	114,140	92,436	21,704	19% F
Refer to Materials and Contracts commentary above; approximately \$15.9M relating to waste collection services was reclassified from Other Expenses to Materials and Contracts, subsequent to the adoption of Council's budget in 2017. This resulted in a favourable budget variance. Comparative figures were also reclassified. The Council include \$4.5M in the budget to cover for unforeseen new initiatives and costs. Only \$0.5M was required in 2017/18.				
Budget variations relating to Council's Cash Flow Statement include:				
Cash flows from operating activities	147,362	242,923	95,560	64.8% F
The main sources of variation to budget were lower than anticipated cash receipts related to Rates and Annual Charges (approx \$14M unfavourable), additional User Fees and Charges (approx \$21M favourable), additional Capital Grants and Contributions (approx \$40M favourable), additional Material and Contract expenses (\$32M unfavourable), and significantly lower Other Payments for Operating Activities (favourable by \$97M) primarily driven by the delayed contribution by the City to the NSW Government's Light Rail project				

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 22. Discontinued operations

Council has not classified any of its operations as 'discontinued'.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 23. Fair value measurement

\$ '000

The Council measures the following asset and liability classes at fair value on a recurring basis:

- Infrastructure, property, plant and equipment
- Investment property
- Financial assets and liabilities

During the reporting period, Council has also fair value measured the following assets on a non-recurring basis:

- Non-current assets classified as 'held for sale'

Those assets classified as held for sale at 30 June 2018 represent property sales where a financial offer has been accepted, and is awaiting settlement in the next 12 months. The assets were transferred from the Operational Land and Buildings classes, having been revalued at 30 June 2017 (Level 2 Fair Value)

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23. Fair value measurement (continued)

\$ '000

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values:

2018	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkt	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Designated at fair value on initial recognition’	30/06/18	–	–	231,849	231,849
Total financial assets		–	–	231,849	231,849
Investment property					
Investment property portfolio	30/06/18	–	344,000	–	344,000
Total investment property		–	344,000	–	344,000
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/18	–	–	34,904	34,904
Office equipment	30/06/18	–	–	4,601	4,601
Furniture and fittings	30/06/18	–	–	18,117	18,117
Operational land	30/06/17	–	1,452,565	–	1,452,565
Community land	30/06/16	–	–	6,227,081	6,227,081
Land under roads (post 30/6/2008)	30/06/17	–	–	65,944	65,944
Open space/Recreational assets	30/06/16	–	–	210,864	210,864
Buildings - non specialised	30/06/17	–	417,571	943,909	1,361,480
Buildings - specialised	30/06/17	–	–	30,679	30,679
Other Structures - trees	30/06/17	–	–	116,362	116,362
Other Structures - signs	30/06/17	–	–	17,064	17,064
Other Structures - poles & lights	30/06/17	–	–	56,659	56,659
Roads, bridges, footpaths, kerbs	30/06/17	–	–	874,840	874,840
Stormwater drainage	30/06/17	–	–	205,258	205,258
Heritage collections	30/06/16	–	–	7,105	7,105
Library books	30/06/16	–	–	3,058	3,058
City art	30/06/16	–	–	35,063	35,063
Total infrastructure, property, plant and equipment		–	1,870,136	8,851,511	10,721,647
Non-current assets classified as ‘held for sale’					
Land	30/06/17	–	65,046	–	65,046
Buildings	30/06/17	–	868	44	912
Total NCA’s classified as ‘held for sale’		–	65,914	44	65,958

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23. Fair value measurement (continued)

\$ '000

2017	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments					
– 'Designated at fair value on initial recognition'	30/06/17	–	–	229,876	229,876
Total financial assets		–	–	229,876	229,876
Investment property					
Investment property portfolio	30/06/17	–	268,165	–	268,165
Total investment property		–	268,165	–	268,165
Infrastructure, property, plant and equipment					
Plant and equipment	30/06/13	–	–	38,653	38,653
Office equipment	30/06/13	–	–	7,245	7,245
Furniture and fittings	30/06/13	–	–	21,730	21,730
Operational land	30/06/17	–	1,512,282	–	1,512,282
Community land	30/06/16	–	–	6,240,994	6,240,994
Land under roads (post 30/6/2008)	30/06/17	–	–	62,052	62,052
Open space/Recreational assets	30/06/16	–	–	209,134	209,134
Buildings - non specialised	30/06/17	–	427,698	906,391	1,334,089
Buildings - specialised	30/06/17	–	–	31,048	31,048
Other Structures - trees	30/06/17	–	–	115,505	115,505
Other Structures - signs	30/06/17	–	–	14,501	14,501
Other Structures - poles & lights	30/06/17	–	–	57,973	57,973
Roads, bridges, footpaths, kerbs	30/06/17	–	–	876,616	876,616
Stormwater drainage	30/06/17	–	–	198,184	198,184
Heritage collections	30/06/16	–	–	7,031	7,031
Library books	30/06/16	–	–	2,454	2,454
City art	30/06/16	–	–	34,458	34,458
Total infrastructure, property, plant and equipment		–	1,939,980	8,823,970	10,763,950

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Fair value measurement (continued)

(2) Transfers between level 1 and level 2 fair value hierarchies

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

(3) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Financial assets

Council receives indicative market valuation advice from an independent external investment advisor. These indicative valuations are based upon recent, comparable, market-based evidence.

Investment property

Fair value of investment properties is estimated based on appraisals performed by an independent and professionally qualified property valuer. The appraisal adopted the capitalised income approach as the valuation methodology whereby a yield is applied to the property's income to assess its value. The yield applied to the rental return is based on analysis of sales and or leasing data and is calculated by dividing the rental return from comparable sales against sale price (initial yield). Where analysis indicated that income from a sale property was not at market levels at the time of sale, the income was adjusted to reflect market returns.

Infrastructure, property, plant and equipment (IPP&E)

Asset classes : Plant & Equipment, Office Equipment, Furniture & Fittings, Signs, Poles & Lights and Library Resources

The Cost Approach is used for these asset classes, based on depreciated original cost representing fair value. The assets are primarily for operational purposes and are not of a nature where valuation increments are likely. Fair value is adjusted by depreciation representing the wear and tear of the assets based on the estimated useful life of the asset. The valuation process is conducted by Council staff.

Asset classes : Heritage Collections and City Art

Fair value of this asset class is estimated based on appraisals performed by an independent and professionally qualified valuer. A combination approach to valuations is utilised, with direct comparison evidence derived from the analysis of recent sales considered in combination with costs to commission similar assets, in order to establish the value of the subject asset.

Asset classes : Roads, Bridges, Footpaths, Stormwater Drainage, Open Space & Recreational Assets, Trees

Fair value of these asset classes is determined on the depreciated replacement cost approach based on replacement costs determined with reference to current third party asset replacement contracts. The gross value is adjusted by depreciation, representing the wear and tear of the assets based on the estimated useful life of the asset. The valuation process is conducted by Council staff.

Asset class : Operational Land

Fair value of this asset class is estimated based on appraisals performed by an independent and professionally qualified property valuer. The market appraisal adopted the direct comparison approach whereby evidence derived from the analysis of recent sales of similar properties is used to establish the value of the subject property. Valuations distinguished between 'Sydney' (core CBD) and 'Fringe' (elsewhere within the Council area) locations, and applied a unit rate per square metre of land area and adjusted accordingly to reflect any character differences between the subject and comparable sales data.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Fair value measurement (continued)

(3) Valuation techniques used to derive level 2 and level 3 fair values

Infrastructure, property, plant and equipment (IPP&E) continued

Asset classes : Buildings (Specialised and Non-Specialised)

Valuations of all building assets were undertaken by an external, qualified valuer (APV Valuers and Asset Management). In accordance with the brief given to APV, valuations are compliant with AASB 13 - Fair Value. Depending upon the nature of the specific asset the valuation approach may have included the adoption of a singular or multiple techniques. □

- The **Market approach** has been applied where there is a principal market which provides observable evidence of the Fair Value of the asset.
- The **Income approach** has been applied for assets where the income generating capability of the asset provides the best estimate of the assets' Fair Value.
- The **Cost approach** is used for assets which are not commonly traded. Typically these include assets that public and not-for-profit sectors entities use to provide services to the public for no or minimal charge.
- In rare circumstances the valuation may also include a **combination** of approaches

The valuations are based on a range of inputs. Some inputs may be gathered at a high level prior to application of inputs at the Asset or Component Level.

Key level 2 inputs include recent comparable property sales conducted in the open market.

Key level 3 inputs include:

- Component proportions (as part of building value)
- Unit Rates / Overall Value
- Consumption Scores & Valuation Profiles

A consistent valuation approach was applied to all Council-owned buildings, whether classified and 'Specialised' or 'Non-Specialised'. Level 2 inputs were only applicable to some buildings within the 'Non-Specialised' class, with the remainder of assets valued utilising Level 3 inputs.

Asset class : Community Land (Council-owned)

Fair value of these asset classes is determined on the basis of an indicative replacement cost, utilising valuations provided by the NSW Valuer-General for surrounding properties. An average square metre unit rate is determined for the surrounding properties and applied to the square metre area of the subject assets to determine a notional replacement cost reflective of their location. In instances where the presence of a significant park directly contributes to an inflated value of surrounding properties, broader surrounding areas are utilised in determining an appropriate average. The valuation process is conducted by Council staff.

Asset class : Land Under Roads (post 30/06/2008)

Council utilises the 'englobo' valuation methodology for Land Under Roads, as allowable under the Office of Local Government Code of Accounting Practice and Financial Reporting. The approach utilises the average land valuation rate from the NSW Valuer-General for the Local Government Area, and applies a 90% 'discount' to reflect the 'restrictions' inherent to land under roads (in particular, the difficulty associated with sale or transfer).

Asset class : Community Land (Crown and 3rd Party owned)

Consistent with the Office of Local Government Code of Accounting Practice and Financial Reporting, Crown Reserves under Council's care and control are recognised as assets of the council. Fair value is determined for these assets with due allowance made for the 'restrictions' associated with the land (in particular, Council's inability to sell or transfer the assets). The valuation approach utilises Valuer-General valuations of adjacent land parcels, with a 'discount' factor applied to reflect the valuation impact of the associated restrictions.

Non-current assets classified as 'held for sale'

The assets classified as 'held for sale' at 30 June 2018 were transferred from the Buildings - Non-specialised and Operational Land classes. Valuation techniques are consistent with those described above in relation to those classes.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 23. Fair value measurement (continued)

\$ '000

(4). Highest and best use

The following non-financial assets of Council are being utilised in a manner that does not generate commercial revenue:

Community based assets

Council undertakes a number of services with a strong focus of providing community benefits to its constituents. These services are based meeting essential community needs and are not of a nature that would be provided in a commercially competitive environment.

Land under the asset class Community Land comprises Crown land under Council's care and control as well as Council-owned land that has been classified as community land under the provisions of the Local Government Act 1993. Furthermore, Council has a number of buildings that are applied in delivering community services. The restrictions on the land and the community use of the buildings in delivering community based services is considered to be the 'highest and best use' of those assets to Councils.

Land Under Roads

Land holdings under the Land Under Roads asset class comprise parcels of land acquired by (or dedicated to) after 30 June 2008. The *englobo* methodology applied to valuations is intended to reflect the inherent restriction inherent on land that is used for the purpose of roads. The continued use of this land for the purposes of road, footpath, cycleway and stormwater drainage (as applicable) is considered to be 'highest and best use'.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 24. Related party transactions

 \$ '000

a. Key management personnel

Key management personnel (KMP) of the Council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly. Included withing KMP are the Councillors, Chief Executive Officer and the other members of Executive.

The aggregate amount of KMP compensation included in the Income Statement is:

Compensation:	2018	2017
Short-term benefits	3,932	3,901
Post-employment benefits	479	357
Total	4,411	4,258

b. Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council's typical provision of services (e.g. payment of Rates/Annual Charges by KMP; access to library or Council swimming pool by KMP) will not be disclosed.

Aside from these arm's length "ordinary citizen transactions", no further transactions between KMP (and their related parties) and Council took place during the reporting period.

City of Sydney

Notes to the Financial Statements for the year ended 30 June 2018

Note 25. Events occurring after the reporting date

Council is aware of the following 'non-adjusting event' that merits disclosure:

On 10 July 2018, the independent certifier to the Transport for NSW CBD to South East light rail project provided a 'certificate of payment', indicating that project milestones had been adequately met to require payment of Council's contribution amount. Payment was made on 6 August, in accordance with the terms of the Light Rail development agreement. The payment of \$63.6M was in accordance with the amount budgeted but not paid during 2017/18. No financial adjustment has been made to the 2017/18 accounts, as the amount was not payable at balance date.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 26. Statement of developer contributions

\$ '000

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure/ Asset Received during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	–	976	1,309	–	(250)	(726)	1,309	25,432
Traffic and transport	16,976	5,565	3,744	541	(2,972)	–	23,854	–
Open space	47,566	27,640	1,979	1,330	(11,481)	(15,227)	51,807	(41,385)
Community facilities	843	5,564	–	1,309	(23,670)	15,953	–	15,953
Section 7.11 contributions – under a plan	65,386	39,745	7,032	3,181	(38,373)	–	76,971	–
Section 7.4 planning agreements	62,358	34,643	17,164	903	(31,667)	–	83,401	–
Section 61 contributions	–	24,487	–	–	(24,487)	–	–	–
Total contributions	127,743	98,875	24,196	4,084	(94,526)	–	160,372	–
Cash Contribution Movement	78,068	98,875	–	4,084	(81,360)	–	99,667	–
Section 7.11 (all plans)	61,326	39,745		3,181	(38,373)	–	65,879	–
Section 7.4 Planning Agreements (VPAs, FSR)	16,742	34,643		903	(18,500)	–	33,787	–
Section 61 Contributions	–	24,487		–	(24,487)	–	–	–
Contributions Receivable Movement	49,676	–	24,196	–	(13,167)	–	60,705	–
Section 7.11 (all plans)	4,060	–	7,032		–		11,092	
Section 7.4 Planning Agreements (VPAs, FSR)	45,616	–	17,164		(13,167)		49,614	
Total Contributions	127,743	98,875	24,196	4,084	(94,526)	–	160,372	–

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 26. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CITY OF SYDNEY DEVELOPER CONTRIBUTIONS PLAN 2015

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure/ Asset Received during year	Internal borrowing to/(from)	Held as restricted asset	Cumulative internal borrowings (due)/payable
		Cash	Non-cash					
Drainage	–	976	1,309	–	(250)	(726)	1,309	25,432
Traffic and transport	16,976	5,565	3,744	541	(2,972)	–	23,854	–
Open space	47,566	27,640	1,979	1,330	(11,481)	(15,227)	51,807	(41,385)
Community facilities	843	5,564	–	1,309	(23,670)	15,953	0	15,953
Total	65,386	39,745	7,032	3,181	(38,373)	–	76,971	–

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 27. Financial result and financial position by fund

\$ '000

Council utilises only a general fund for its operations.

City of Sydney

Notes to the Financial Statements

for the year ended 30 June 2018

Note 28(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2018	Indicator 2018	Prior periods 2017	2016	Benchmark
Local government industry indicators – consolidated					
1. Operating performance ratio (excluding non-recurrent capital expenditure from Operating Expenses)					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses ⁽⁵⁾	<u>32,579</u>	5.68%	2.69%	2.39%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	<u>573,133</u>				
1a. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>32,579</u>	5.68%	-5.75%	-6.73%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	<u>573,133</u>				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>558,415</u>	79.08%	79.71%	78.68%	> 60.00%
Total continuing operating revenue ⁽¹⁾	<u>706,174</u>				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	<u>439,888</u>	4.06x	2.68x	2.92x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	<u>108,371</u>				
3a. Unrestricted current ratio (less Internal and External Restrictions)					
Current assets less all internal and external restrictions ⁽²⁾	<u>273,391</u>	3.43x	2.02x	1.30x	> 1.0x
Current liabilities less specific purpose liabilities ^(3, 4)	<u>79,715</u>				

⁽¹⁾ Excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets and the net share of interests in joint ventures and associates.

⁽²⁾ Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

⁽³⁾ Refer to Notes 13 and 14.

⁽⁴⁾ Refer to Note 13(b) and 14(b) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

⁽⁵⁾ Operating Performance Ratio 1 above excludes the operating expenditure impact of Council's contribution to Transport for NSW for the CBD to South East Light Rail Project (refer Note 4e). Ratio 1a. is prepared in accordance with the OLG Code of Accounting Practice

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 28(a). Statement of performance measures – consolidated results

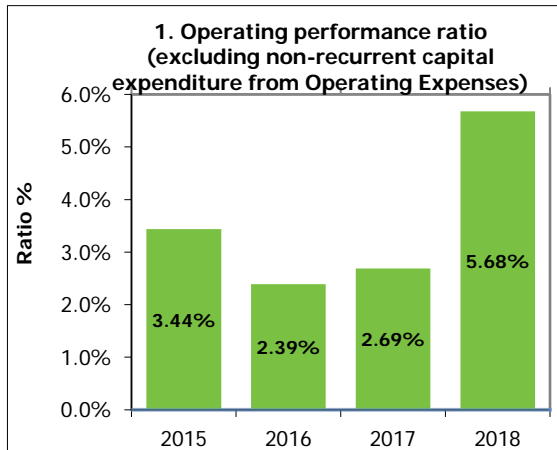
\$ '000	Amounts 2018	Indicator 2018	Prior periods 2017	Prior periods 2016	Benchmark
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	133,184	0.00x	0.00x	0.00x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	–				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	4,181	1.32%	1.23%	1.16%	< 5% metro
Rates, annual and extra charges collectible	315,711				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	371,374	9.20 mths	6.5 mths	6.9 mths	> 3 mths
Payments from cash flow of operating and financing activities	40,359				

Notes

⁽¹⁾ Excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets and the net share of interests in joint ventures and associates.

Notes to the Financial Statements
for the year ended 30 June 2018

Note 28(b). Statement of performance measures – consolidated results (graphs)



Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on 2017/18 result

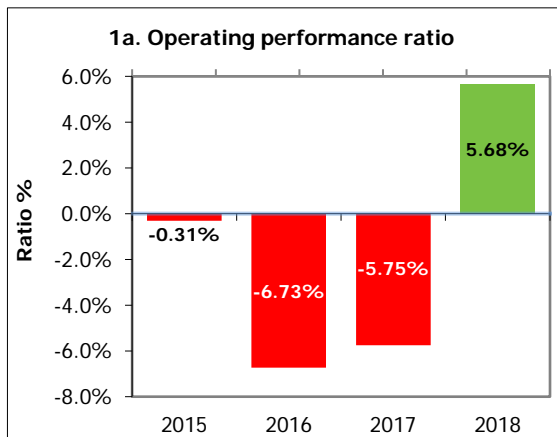
2017/18 ratio 5.68%

Operating performance remained above the benchmark minimum of 0.00%. Improved operating performance against prior year can be attributed to revised depreciation methodology for buildings and roads infrastructure. Additionally, income relating to street furniture advertising, commercial property rents and enforcement income also improved against 2016/17 performance

Benchmark: Minimum $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
Ratio is outside benchmark



Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on green result

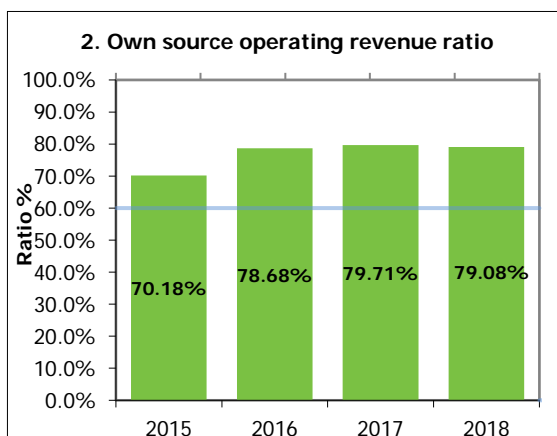
2017/18 ratio 5.68%

2017/18 operating performance was consistent with the adjusted result above, due to the delayed payment of the contribution to Transport for NSW for the CBD to South East light rail project. Prior years were affected by payment of light rail contributions (refer note 4e for 2016/17), which are not considered to form part of underlying operating performance.

Benchmark: Minimum $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
Ratio is outside benchmark



Purpose of own source operating revenue ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

Commentary on 2017/18 result

2017/18 ratio 79.08%

Council continues to retain a high level of own source revenue and perform well above the benchmark. Underlying operating revenues remain largely consistent with recent performance.

Benchmark: Minimum $\geq 60.00\%$

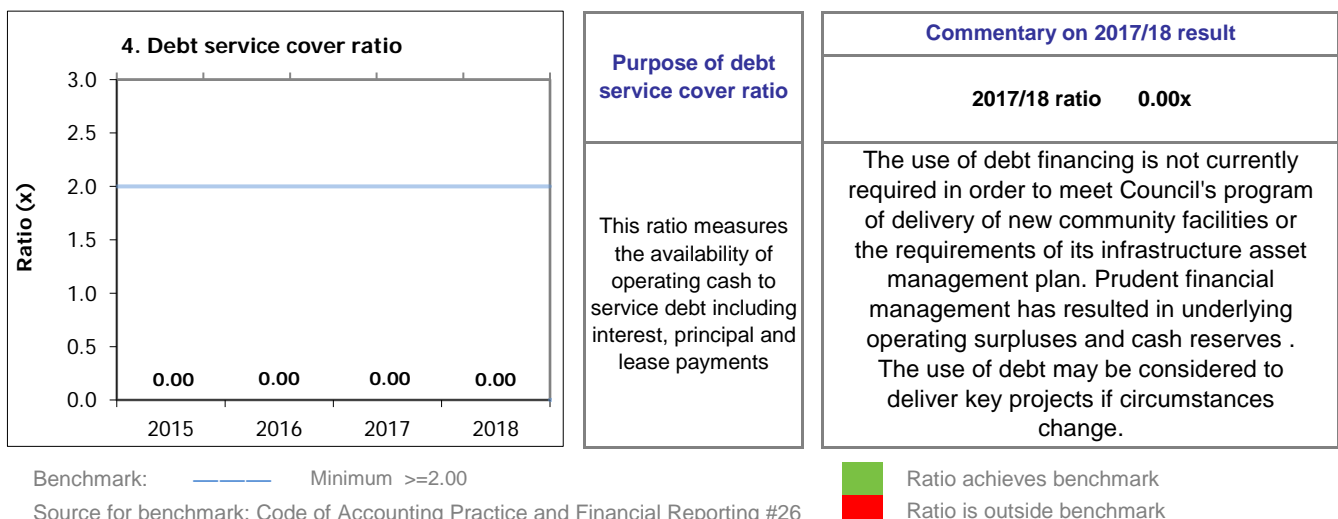
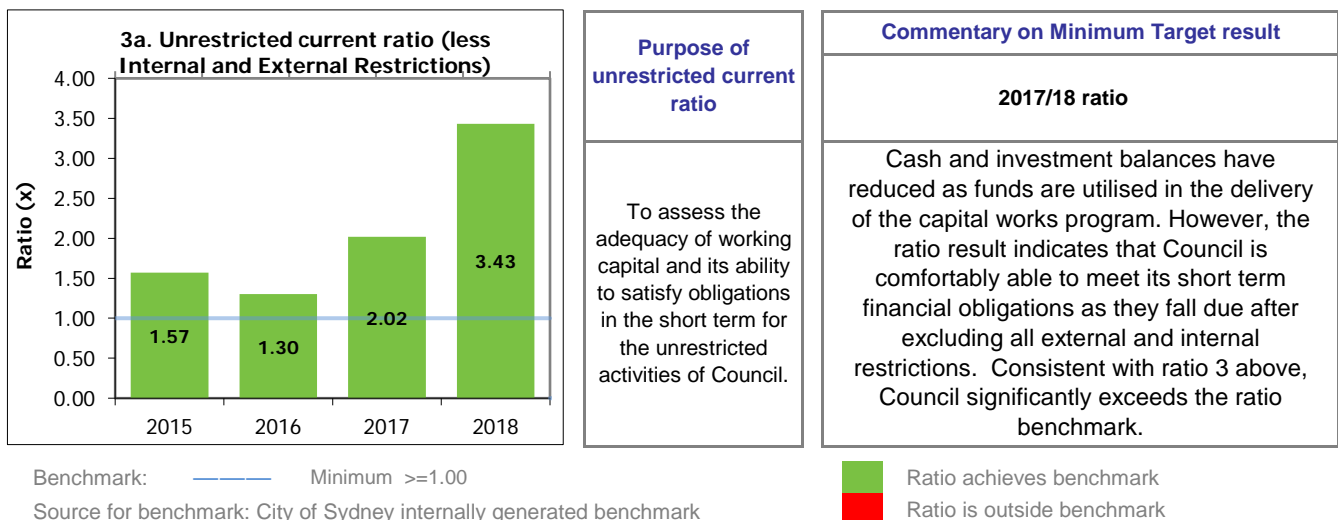
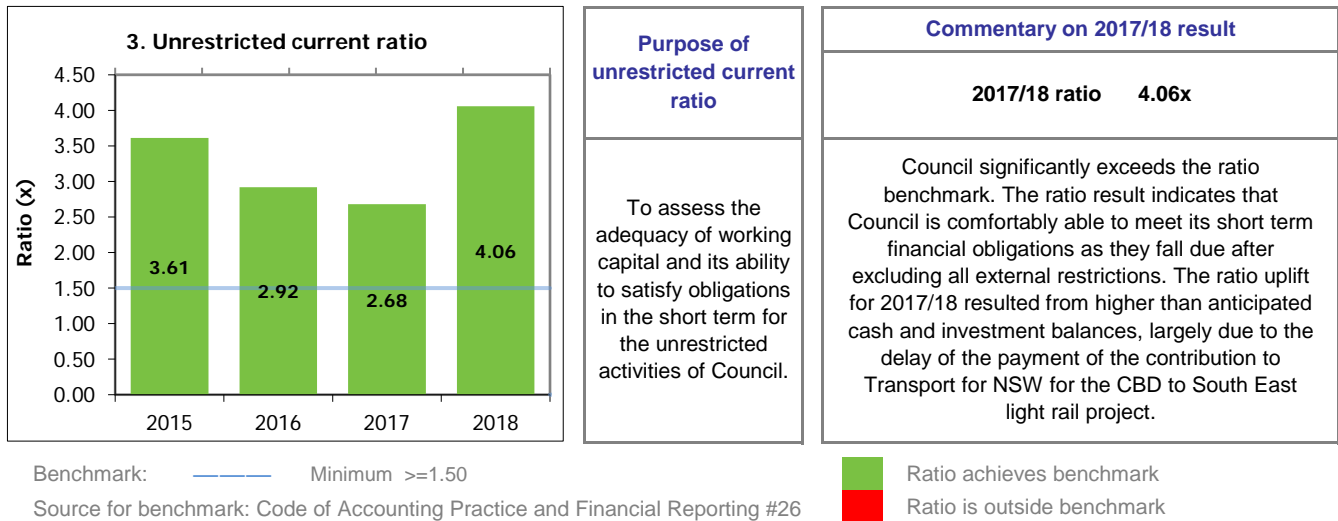
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
Ratio is outside benchmark

City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

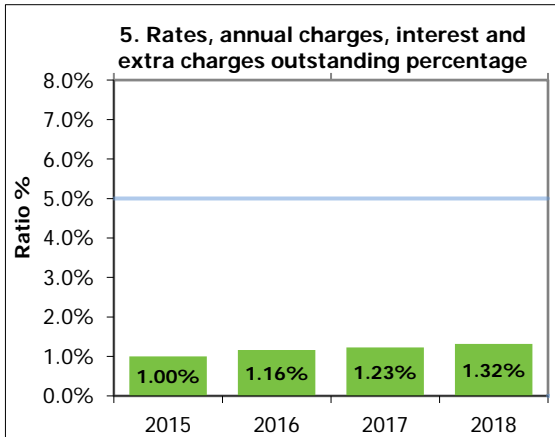
Note 28(b). Statement of performance measures – consolidated results (graphs)



City of Sydney

Notes to the Financial Statements
for the year ended 30 June 2018

Note 28(b). Statement of performance measures – consolidated results (graphs)



Purpose of rates and annual charges outstanding ratio

To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

Commentary on 2017/18 result

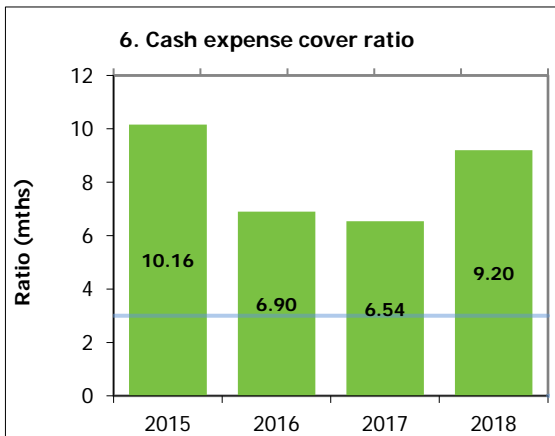
2017/18 ratio 1.32%

The ratio remains on trend, and well below the maximum OLG benchmark of 5% for metropolitan councils.

Benchmark: ——— Maximum <5.00%

Source for Benchmark: Code of Accounting Practice and Financial Reporting #26

■ Ratio is within Benchmark
■ Ratio is outside Benchmark



Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Commentary on 2017/18 result

2017/18 ratio 9.20 mths

As forecast in Council's Long Term Financial Plan, cash and investment balances are expected to reduce over the next 5 years with the delivery of major projects and contributions toward the NSW Government's Light Rail project. The increase against trend is attributed to the delayed payment of the contribution to Transport for NSW for the CBD to South East light rail project.

Benchmark: ——— Minimum >=3.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

■ Ratio achieves benchmark
■ Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial report
Council of the City of Sydney

To the Councillors of the Council of the City of Sydney

Opinion

I have audited the accompanying financial report of Council of the City of Sydney (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial report have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Report' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 21 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Margaret Crawford
Auditor-General of NSW

30 October 2018

SYDNEY

Ms Clover Moore
Lord Mayor
City of Sydney Council
Town Hall House
Level 2, 456 Kent Street
SYDNEY NSW 2000

Contact: Margaret Crawford
Our ref: D1812915/1791

30 October 2018

Dear Lord Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2018
City of Sydney Council**

I have audited the general purpose financial statements of the City of Sydney Council (the Council) for the year ended 30 June 2018 as required by section 415 of the *Local Government Act 1993* (the Act).

I will express an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2018 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

Income Statement

Operating result

	2018	2017	Variance
	\$m	\$m	%
Rates and annual charges revenue	311.6	312.7	0.4 ↓
Grants and contributions revenue	147.8	137.4	7.6 ↑
Operating result for the year	217.1	131.8	64.7 ↑
Net operating result before capital amounts	84.0	12.7	561.4 ↑

Rates and annual charges revenue (\$311.6 million) decreased by \$1.1 million (0.4 per cent) in 2017–2018. The slight decrease is mainly due to Council re-categorising some land parcels from business to residential category.

Grants and contributions revenue (\$147.8 million) increased by \$10.4 million (7.6 per cent) in 2017–2018 due to \$14.9 million contributions received for the development of the Green Square Town Centre.

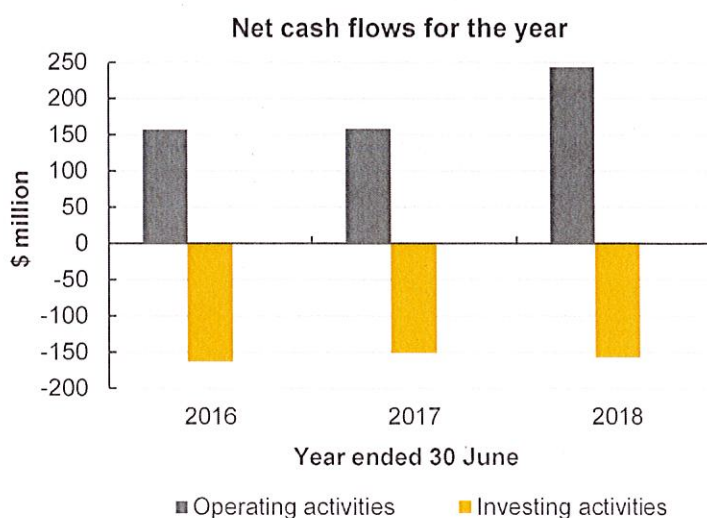
Council’s operating result (\$217.1 million including the effect of depreciation and amortisation expense of \$100.6 million) was \$85.3 million higher than the 2016–17 result. The increase was mainly due to a budgeted \$63.6 million contribution for the light rail project to Transport for NSW which did not occur in the 2017–18 financial year and higher developer contributions received. The budgeted \$63.6 million contribution of the agreed \$220 million total contribution was subsequently paid in August 2018 (2018–19). The 2016–17 operating result included a \$47.1 million contribution for the light rail project paid by Council to Transport for NSW in 2016–17.

Council’s net operating result before capital grants and contributions (\$84.0 million) was \$71.3 million higher than the 2016–17 result.

STATEMENT OF CASH FLOWS

Operating cash flows are significantly higher in 2018 as Council’s light rail contribution to Transport for NSW which was not required to be paid until 2018–19.

Cash flows from investing activities remained steady over the last three years.



FINANCIAL POSITION

Cash and Investments

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	126.7	100.7	Externally restricted balances include cash reserves earmarked for specific purposes such as developer contributions and domestic waste management charges.
Internal restrictions	309.6	301.4	
Unrestricted	166.9	113.7	
Cash and investments	603.2	515.8	Council also imposes internal restrictions due to policy or decisions for forward planning. This includes cash and investments held for the city centre transformation reserve and the Green Square reserve. Unrestricted balances provide liquidity for day-to-day operations.

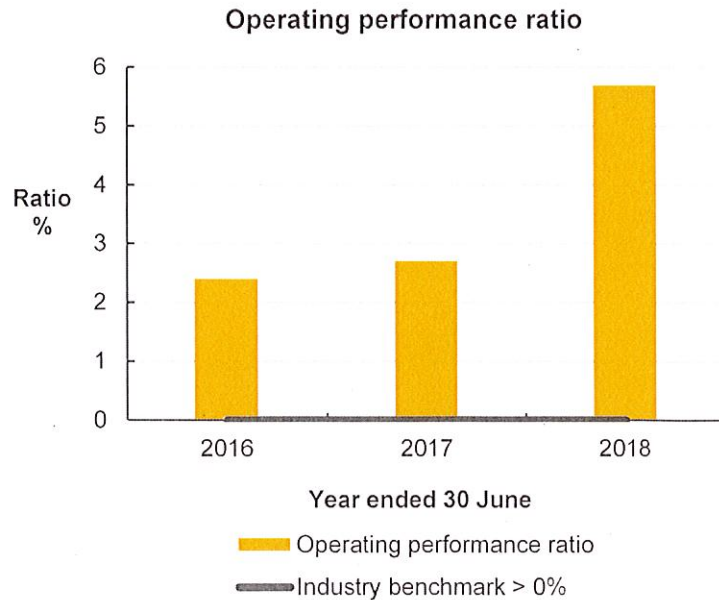
PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 28 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7 which has not been audited.

Operating performance ratio

The Council's operating performance, after adjusting for capital related contribution to the light rail project in prior years, is above the benchmark level. The delayed payment of the contribution to Transport for NSW for the light rail project contributed to the higher ratio in 2018.

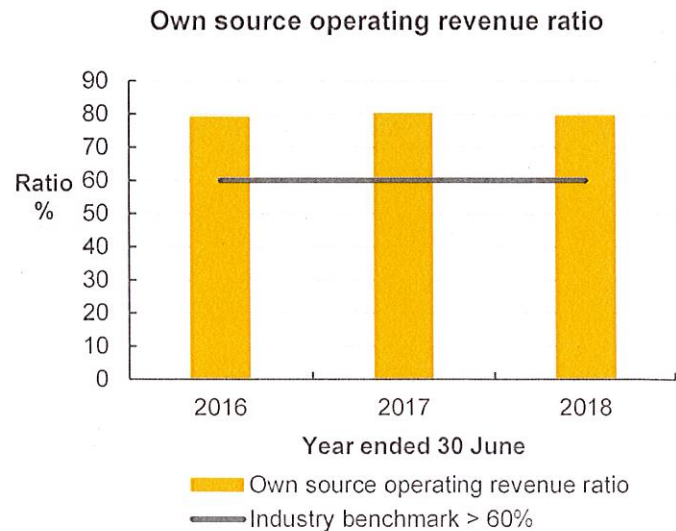
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.



Own source operating revenue ratio

The Council's own source operating revenue continues to exceed the benchmark over the past three years and has remained consistent at 79.1 in 2018. The ratio fluctuates with movements in grants and contributions.

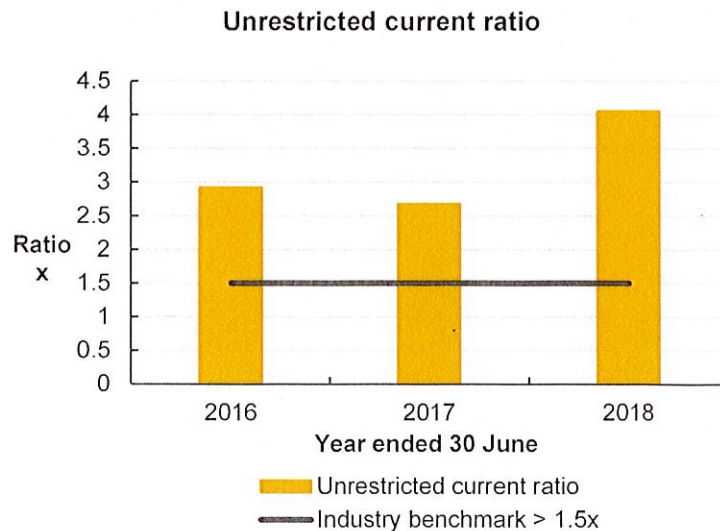
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

The Council continues to exceed the benchmark. Improved unrestricted current ratio in 2018 is mainly due to increase in short term deposits resulting from the delayed Transport for NSW light rail contribution.

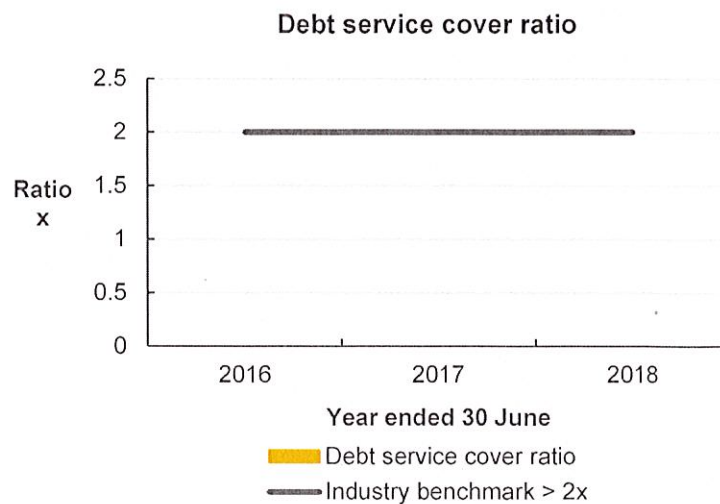
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

The Council currently does not have any debt.

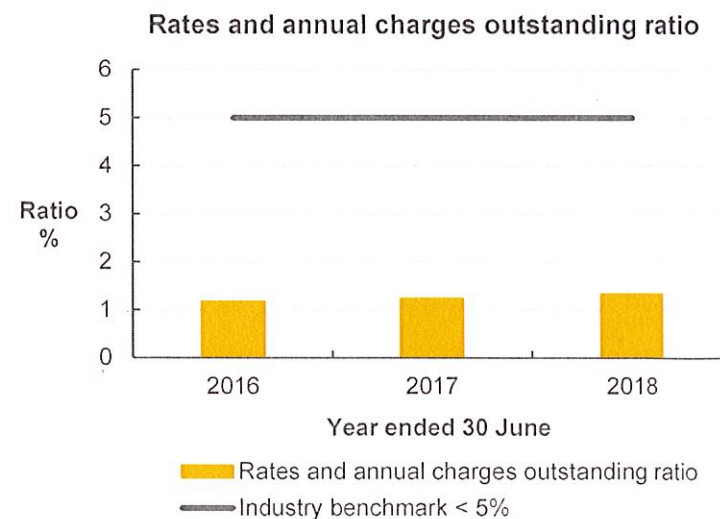
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding ratio

The Council's rates and annual charges outstanding ratio has been below 2 per cent over the past three years, significantly better than the benchmark level of 'less than 5 per cent'.

The 'rates and annual charges outstanding ratio' 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 metro councils.



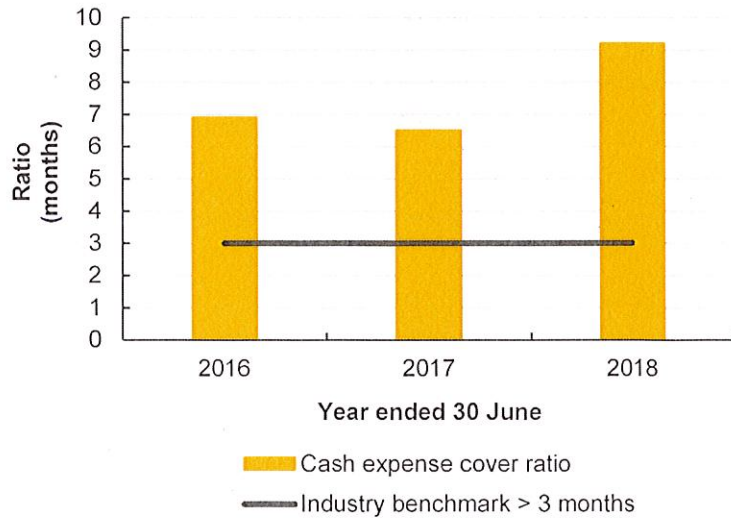
Cash expense cover ratio

The Council continues to exceed the benchmark. Improved cover ratio in 2018 (9.2 months) due to a \$80 million increase in short term deposits not spent due to the delayed light rail contribution to Transport for NSW.

Consistent with the Long Term Financial Plan, cash and investment balances are expected to reduce over the next 5 years with the delivery of major projects and contributions towards the Transport for NSW's light rail project.

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.

Cash expense cover ratio



Building and infrastructure renewals ratio (unaudited)

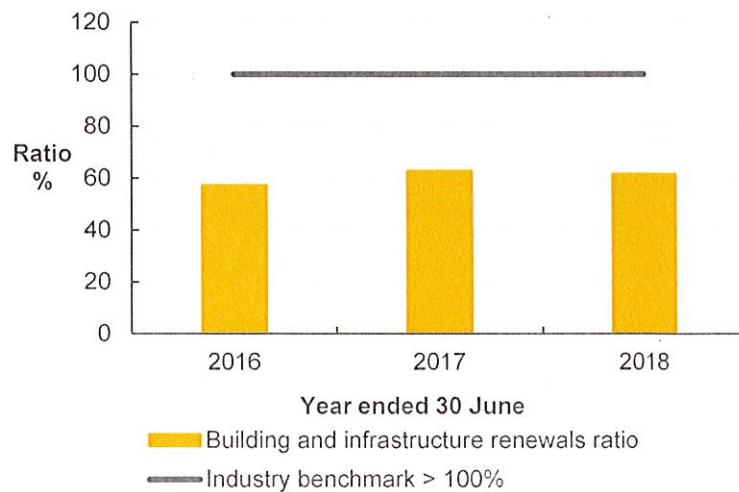
The Council's building and infrastructure renewals ratio decreased from 62.6 per cent in 2017 to 61.5 per cent in 2018. The Councils rate of asset renewal is lower than the relative rate at which assets are depreciated.

The Council ensures it matches the required expenditure for asset renewals with the actual condition assessment of the assets through its asset management program.

The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from council's Special Schedule 7 which has not been audited.

Building and infrastructure renewals ratio



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 reports. The Council's:

- accounting records were maintained in a manner and form to allow the general purpose financial statements to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Margaret Crawford
Auditor-General of NSW

30 October 2018
SYDNEY

cc: Monica Barone, Chief Executive Officer
Elizabeth Crouch, Chair of the Audit Risk and Compliance Committee
Tim Hurst, Chief Executive of the Office of Local Government



City of Sydney

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents	Page
1. Statement by Councillors and Management	1
2. Special Purpose Financial Statements:	
Income Statement – Other Business Activities	2
Statement of Financial Position – Other Business Activities	3
3. Notes to the Special Purpose Financial Statements	4
4. Auditor’s Report	

Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
 - (ii) The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

City of Sydney

Special Purpose Financial Statements

for the year ended 30 June 2018

Statement by Councillors and Management

made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

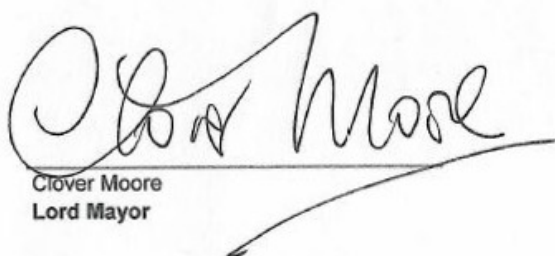
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these financial statements:


- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

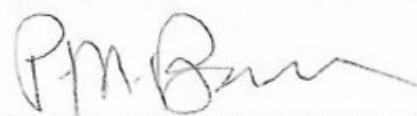
Signed in accordance with a resolution of Council made on 29 October 2018.




Clover Moore
Lord Mayor



Jess Scully
Councillor
(Member - Audit, Risk and Compliance
Committee)



Monica Barone
Chief Executive Officer



Bill Carter
Responsible Accounting Officer

City of Sydney

Income Statement of Council's Business Activities
for the year ended 30 June 2018

Parking Stations

\$ '000	Category 1	
	Actual 2018	Actual 2017
Income from continuing operations		
User charges	10,025	10,009
Total income from continuing operations	10,025	10,009
Expenses from continuing operations		
Employee benefits and on-costs	139	162
Materials and contracts	1,591	1,585
Depreciation, amortisation and impairment	902	1,514
Calculated taxation equivalents	86	89
Other expenses	1,681	1,669
Total expenses from continuing operations	4,399	5,019
Surplus (deficit) from continuing operations before capital amounts	5,627	4,990
Surplus (deficit) from all operations before tax	5,627	4,990
Less: corporate taxation equivalent (30%) [based on result before capital]	(1,688)	(1,497)
SURPLUS (DEFICIT) AFTER TAX	3,939	3,493
Plus opening retained profits	81,156	76,077
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	86	89
– Corporate taxation equivalent	1,688	1,497
Closing retained profits	86,868	81,156
Return on capital %	5.9%	5.2%
Subsidy from Council	–	–

City of Sydney

Statement of Financial Position – Council's Business Activities

as at 30 June 2018

Parking Stations

Category 1

\$ '000	Actual 2018	Actual 2017
ASSETS		
Current assets		
Receivables	95	64
Total Current Assets	95	64
Non-current assets		
Infrastructure, property, plant and equipment	95,901	96,869
Inter-Entity Debtor	74,284	67,652
Total non-current assets	170,185	164,521
TOTAL ASSETS	170,280	164,585
LIABILITIES		
Current liabilities		
Payables	752	759
Provisions	47	55
Total current liabilities	799	814
Non-current liabilities		
Provisions	14	17
Total non-current liabilities	14	17
TOTAL LIABILITIES	813	831
NET ASSETS	169,467	163,754
EQUITY		
Accumulated surplus	86,868	81,156
Revaluation reserves	82,598	82,598
TOTAL EQUITY	169,467	163,754

City of Sydney

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

Note 1. Significant accounting policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the Local Government (General) Regulation, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

Parking Stations - Operation of the Goulburn Street and Kings Cross Parking Stations

City of Sydney

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars.

(i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first \$629,000 of combined land values attracts 0%. For the combined land values in excess of \$629,001 up to \$3,846,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$3,846,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$750,000.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income tax is only applied where a gain/(loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 30% is the equivalent company tax rate prevalent at reporting date.

Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

City of Sydney

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

$$\frac{\text{Operating result before capital income + interest expense}}{\text{Written down value of I,PP\&E as at 30 June}}$$

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.79% at 30/6/18.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

END OF AUDITED SPECIAL PURPOSE FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial report
Council of the City of Sydney

To the Councillors of the Council of the City of Sydney

Opinion

I have audited the accompanying special purpose financial report (the financial report) of Council of the City of Sydney's (the Council) Declared Business Activity, which comprise the Income Statement of the Declared Business Activity for the year ended 30 June 2018, the Statement of Financial Position of the Declared Business Activity as at 30 June 2018, notes comprising a summary of Significant accounting policies and other explanatory information for the Business Activity declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- Parking Station Operations

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Council's declared Business Activity as at 30 June 2018, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (LG Code).

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Report' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report and for determining that the accounting policies, described in Note 1 to the financial report, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial report.

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Caroline Karakatsanis
Director, Financial Audit Services

30 October 2018
SYDNEY



City of Sydney

Special Schedules

for the year ended 30 June 2018

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Special Schedules ¹

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¹ Special Schedules are not audited (with the exception of Special Schedule 2).

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water (NOW), and
 - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

City of Sydney

Special Schedule 1 – Net Cost of Services

for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	6,904	–	–	(6,904)
Administration	117,379	6,533	1,072	(109,774)
Public order and safety				
Fire service levy, fire protection, emergency services	3,759	–	–	(3,759)
Beach control	–	–	–	–
Enforcement of local government regulations	23,911	38,900	–	14,989
Animal control	–	–	–	–
Other	7,307	–	–	(7,307)
Total public order and safety	34,977	38,900	–	3,923
Health	16,088	12,188	–	(3,900)
Environment				
Noxious plants and insect/vermin control	–	–	–	–
Other environmental protection	5,500	829	–	(4,671)
Solid waste management	34,082	46,004	–	11,922
Street cleaning	25,790	927	–	(24,863)
Drainage	4,270	1,943	–	(2,327)
Stormwater management	–	–	–	–
Total environment	69,642	49,703	–	(19,939)
Community services and education				
Administration and education	3,014	39	–	(2,975)
Social protection (welfare)	3,113	43	–	(3,070)
Aged persons and disabled	3,288	1,380	–	(1,908)
Children's services	7,866	3,790	–	(4,076)
Total community services and education	17,281	5,252	–	(12,029)
Housing and community amenities				
Public cemeteries	–	–	–	–
Public conveniences	76	–	–	(76)
Street lighting	15,729	14,636	508	(585)
Town planning	27,424	6,229	128,020	106,825
Other community amenities	2,090	–	–	(2,090)
Total housing and community amenities	45,319	20,865	128,528	104,074
Water supplies	–	–	–	–
Sewerage services	–	–	–	–

City of Sydney

Special Schedule 1 – Net Cost of Services (continued)
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	10,739	693	–	(10,046)
Museums	–	–	–	–
Art galleries	–	–	–	–
Community centres and halls	9,635	1,127	–	(8,508)
Performing arts venues	730	231	–	(499)
Other performing arts	–	–	–	–
Other cultural services	42,889	792	–	(42,097)
Sporting grounds and venues	270	–	–	(270)
Swimming pools	3,386	1,059	–	(2,327)
Parks and gardens (lakes)	45,438	42	–	(45,396)
Other sport and recreation	3,635	1,288	–	(2,347)
Total recreation and culture	116,722	5,232	–	(111,490)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	–	–	–	–
Other mining, manufacturing and construction	–	–	–	–
Total mining, manufacturing and const.	–	–	–	–
Transport and communication				
Urban roads (UR) – local	23,133	5,855	–	(17,278)
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	–	–	–	–
Sealed rural roads (SRR) – regional	–	–	–	–
Unsealed rural roads (URR) – local	–	–	–	–
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	–	–	–	–
Bridges on SRR – local	–	–	–	–
Bridges on URR – local	–	–	–	–
Bridges on regional roads	–	–	–	–
Parking areas	11,732	48,473	–	36,741
Footpaths	15,243	–	–	(15,243)
Aerodromes	–	–	–	–
Other transport and communication	9,176	12,295	1,064	4,183
Total transport and communication	59,284	66,623	1,064	8,403
Economic affairs				
Camping areas and caravan parks	–	–	–	–
Other economic affairs	56,681	133,451	–	76,770
Total economic affairs	56,681	133,451	–	76,770
Totals – functions	540,277	338,747	130,664	(70,866)
General purpose revenues ⁽¹⁾		285,844		285,844
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	540,277	624,591	130,664	214,978

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges

(2) As reported in the Income Statement

City of Sydney

Special Schedule 2 – Permissible income for general rates

for the year ended 30 June 2019

\$'000		Calculation 2018/19	Calculation 2017/18
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	271,183	271,779
Plus or minus adjustments ⁽²⁾	b	3,026	4,000
Notional general income	c = (a + b)	274,208	275,778
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	2.30%	0.00%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	2.58%
Less expiring special variation amount	g	–	–
Plus special variation amount	h = d x (c – g)	–	–
Or plus rate peg amount	i = c x e	6,307	–
Or plus Crown land adjustment and rate peg amount	j = c x f	–	7,115
Sub-total	k = (c + g + h + i + j)	280,515	282,893
Plus or (less) last year's result	l	11,730	32
Less vunrecovered amounts claimed in previous year	m	–	–
Sub-total	n = (k + l + m)	292,245	282,925
Plus one-off catch-up of previous years' shortfall	o	11,730	–
Plus catch-up of unrecovered amounts ⁽⁵⁾	p	326	–
Less unused catch-up ⁽⁶⁾	q	–	(13)
Maximum general income permissible	r = o + p – q	304,302	282,913
Less notional general income yield	s	(304,302)	(271,183)
Catch-up or (excess) result⁷	t = r – s	–	11,730

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. Adjustments include 'supplementary valuations' as defined in the *Valuation of Land Act 1916* and estimate valuation changes, as allowed under s509(2)(b) and s509(2)(c) of the *Local Government Act 1993*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) The catch-up of a previous year shortfall in general income is allowed under section 511 of the *Local Government Act, 1993*.
- (5) Councils can claim the value of the permissible income unable to be recovered or retained due to reductions in valuations issued by the Valuer-General, as allowed under section 511A of the *Local Government Act 1993*.
- (6) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (7) Excess results require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 2 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Council of the City of Sydney

To the Councillors of Council of the City of Sydney

Opinion

I have audited the accompanying Special Schedule 2 – Permissible Income for general rates (the Schedule) of Council of the City of Sydney (the Council) for the year ending 30 June 2019.

In my opinion, the Schedule of the Council for the year ending 30 June 2019 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Schedule' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and the Special Schedules excluding Special Schedule 2 (the other Schedules).

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and the special purpose financial statements.

In connection with my audit of the Schedule, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Schedule or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

The Councillors are responsible for the preparation of the Schedule in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

- obtain reasonable assurance whether the Schedule as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar8.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.

A handwritten signature in black ink, appearing to read 'C. Karakatsanis', written in a cursive style.

Caroline Karakatsanis
Director

30 October 2018
SYDNEY

City of Sydney

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard ^a	Estimated cost to bring to the agreed level of service set by Council ^b	2017/18 Required maintenance ^c	2017/18 Actual maintenance ^c	Net carrying amount ^c	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings – non-specialised	16,737	27,838	26,780	24,598	1,361,480	1,674,631	4%	60%	35%	1%	0%
	Buildings – specialised	3,296	3,479	1,771	1,629	30,679	43,224	0%	37%	29%	1%	33% ^f
	Sub-total	20,032	31,317	28,551	26,227	1,392,159	1,717,856	3.8%	59.5%	35.1%	0.8%	0.8%
Roads	Sealed roads - surface	5,149	3,926	3,000	2,942	134,861	192,374	28%	53%	17%	1%	0%
	Sealed roads - structure	520	520	132	207	396,001	448,136	40%	42%	15%	2%	1%
	Bridges	2,768	1,050	44	82	40,923	88,597	5%	28%	61%	6%	0%
	Footpaths	15,933	12,157	5,113	5,450	217,308	535,836	8%	36%	48%	8%	1%
	Kerb and gutter	1,893	373	797	1,468	73,553	306,836	1%	11%	88%	0%	0%
	Other ^e	400	400	2,119	2,084	12,194	39,753	4%	36%	56%	4%	0%
	Sub-total	26,662	18,426	11,205	12,233	874,840	1,611,532	17.7%	34.5%	43.6%	3.7%	0.5%
Stormwater drainage	Stormwater drainage	3,000	3,000	2,709	3,203	205,258	315,019	38%	35%	17%	6%	4%
	Sub-total	3,000	3,000	2,709	3,203	205,258	315,019	38.0%	35.0%	17.5%	6.0%	3.5%
Open space/recreational assets	Open Space Assets	5,354	10,707	15,391	15,189	210,864	468,548	5%	32%	58%	5%	0%
	Sub-total	5,354	10,707	15,391	15,189	210,864	468,548	4.9%	32.1%	58.2%	4.9%	0.0%

City of Sydney

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (continued)

Notes:

- a **Estimated Cost to Bring To Satisfactory Standard** per Office of Local Government Requirements, reflects the estimated cost to restore all Council assets to condition '3' or better. These cost (and asset condition) assessments remain highly subjective, as in previous years
- b **Estimated Cost to Bring to the Agreed Level of Service Set by Council** reflects the estimated cost to restore all assets assessed to be at a condition beneath Council's minimum service levels. These standards (i.e. target conditions) are detailed in Council's Asset Management Strategy, and reflect the strategy of maximising the consumption of assets' service potential before renewal works are undertaken.
- c Maintenance costs, per Office of Local Government Requirements, include both maintenance and (appropriate) operational costs
Required maintenance reflects amounts identified within Asset Management Plans for the respective classes, and equivalent expenditure types are included within the 'Actual' column
- d Carrying Value reflects the asset value by class, per Note 9 of the General Purpose Financial Statements. Added to the Buildings class is the carrying value of Council's 'Investment Properties', per Note 14 of the General Purpose Financial Statements
- e 'Other' infrastructure includes street furniture and street fixtures (e.g. traffic islands)
- f The proportion of Specialised Buildings assessed as condition 5 is distorted by the inclusion of the Sydney Park Brick Kilns, assessed to be in a "poor" condition. This asset represents a disproportionate share of the small 'Specialised Buildings' class

Infrastructure asset condition assessment 'key'

1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

City of Sydney

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018

	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Infrastructure asset performance indicators * consolidated					
1. Buildings and infrastructure renewals ratio⁽¹⁾					
Asset renewals ⁽²⁾	<u>43,752</u>	61.47%	62.59%	57.01%	>= 100%
Depreciation, amortisation and impairment	<u>71,177</u>				
1a. Buildings and infrastructure renewals ratio (alternate)⁽¹⁾					
Asset renewals ⁽²⁾	<u>43,752</u>	67.39%	88.47%	87.13%	>= 100%
Required asset renewal (per adopted asset management strategy)	<u>64,922</u>				
2. Infrastructure backlog ratio⁽¹⁾					
Estimated cost to bring assets to a satisfactory standard	<u>55,048</u>	2.05%	3.55%	3.54%	< 2.00%
Net carrying amount of infrastructure assets	<u>2,683,121</u>				
3. Asset maintenance ratio					
Actual asset maintenance	<u>56,852</u>	98.26%	100.14%	101.73%	> 100%
Required asset maintenance	<u>57,857</u>				
4. Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	<u>63,450</u>	1.54%	1.31%	1.80%	< 2.00%
Gross replacement cost	<u>4,112,954</u>				

Notes

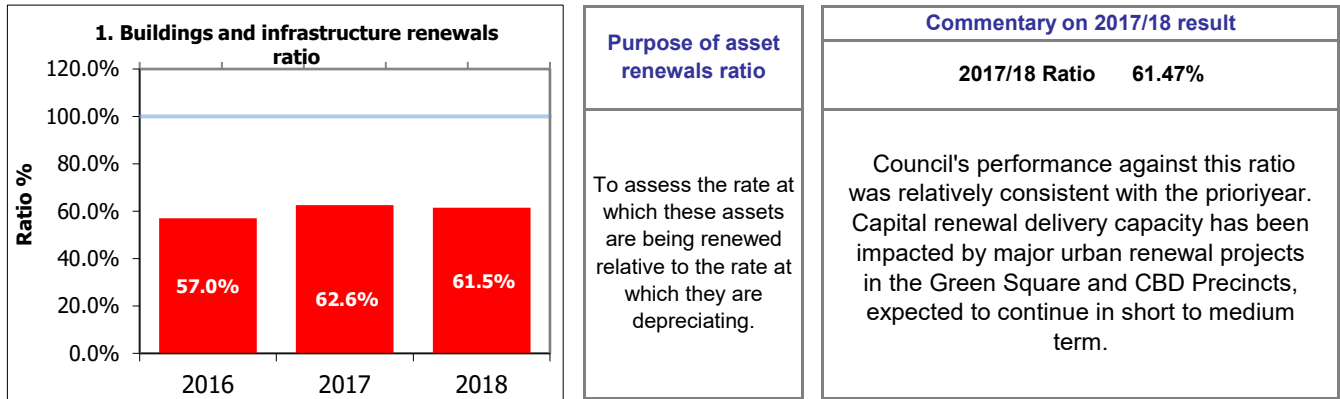
* All asset performance indicators are calculated using the asset classes identified in the previous table.

⁽¹⁾ Excludes Work In Progress (WIP)

⁽²⁾ Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

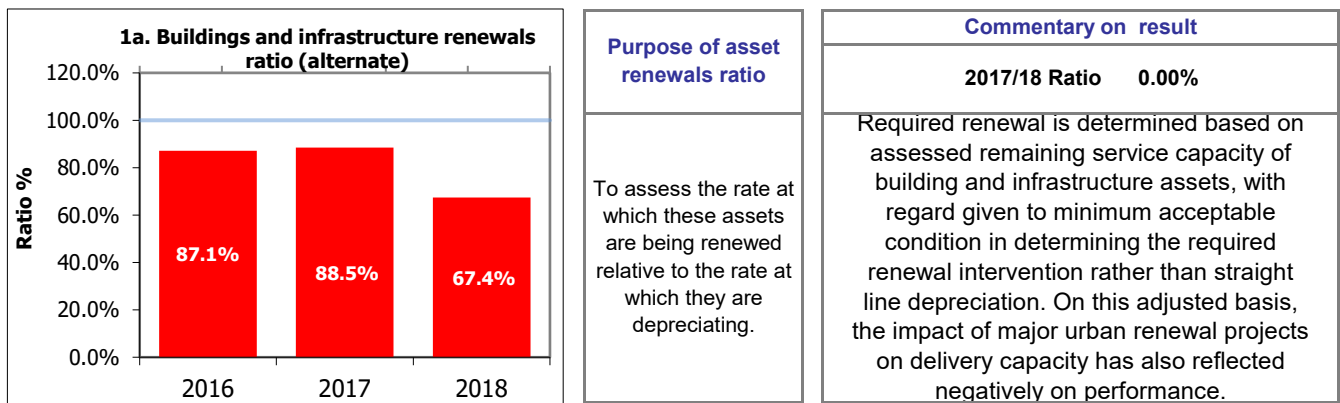
City of Sydney

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018



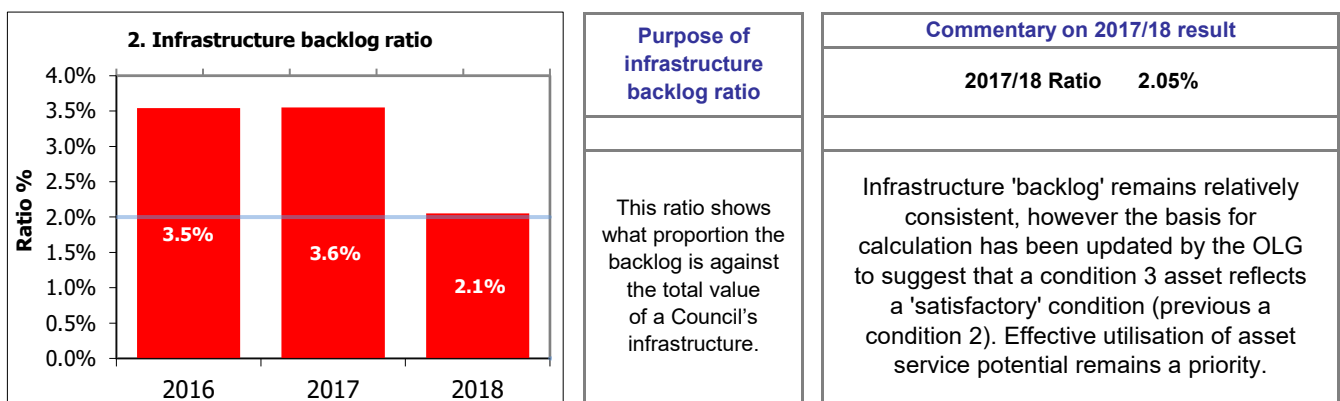
Benchmark: — Minimum $\geq 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark



Benchmark: — Minimum $\geq 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

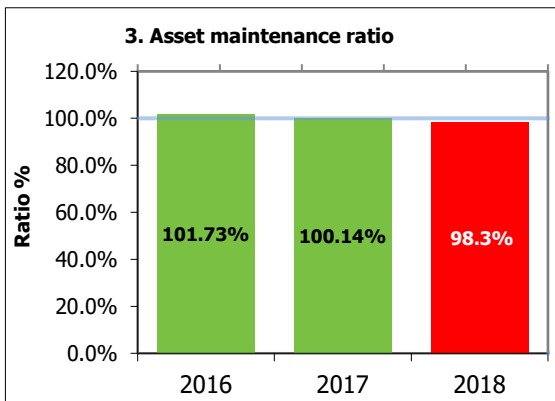
Ratio achieves benchmark
 Ratio is outside benchmark



Benchmark: — Maximum $< 2.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018



Purpose of asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 100% indicates Council is investing enough funds to stop the infrastructure backlog growing.

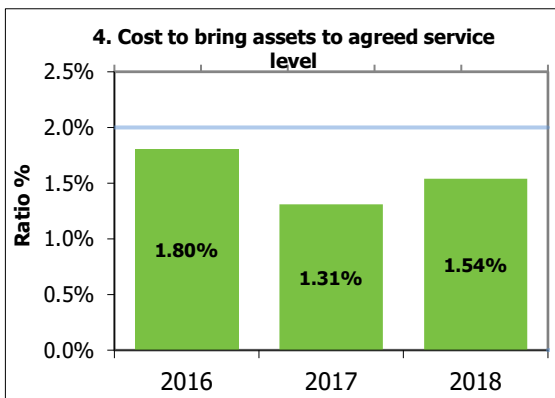
Commentary on 2017/18 result

2017/18 Ratio 98.26%

Council has met the benchmark of this ratio. A ratio significantly in excess of 100% would represent potential overservicing of assets. "Required" maintenance totals are subject to ongoing refinement as part of asset management planning. Maintenance timing/cycles vary, from time to time, as asset condition assessments are undertaken.

Benchmark: Minimum >100.00%
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
Ratio is outside benchmark



Purpose of agreed service level ratio

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

Commentary on 2017/18 result

2017/18 Ratio 1.54%

Council has continued to meet the benchmark for this ratio, which was introduced from 2015-16. This ratio is considered to be more reflective of Council's infrastructure 'backlog', particularly due to the use of gross replacement cost in calculation.

Benchmark: Minimum >=2.00%
Source for benchmark: City of Sydney

Ratio achieves benchmark
Ratio is outside benchmark