

Photograph from Sydney Life, Art & About – part of the City's annual visual art festival. Photographer Marco Box – April and Crystal Roberts, Redfern.



# Special Purpose Financial Statements

for the year ended 30 June 2005

<b>Statement by Councillors and Management</b>	<b>132</b>
<b>Statement of Financial Performance by Business Activities</b>	<b>133</b>
<b>Notes to and forming part of the Financial Statements</b>	<b>136</b>
<b>Independent Audit Report</b>	<b>138</b>

## Statement by Councillors and Management made pursuant to the Local Government

The attached Special Purpose Financial Statements have been drawn up in accordance with the Local Government Code of Accounting Practice and Financial Reporting and the:

- NSW Government Policy Statement *Application of National Competition Policy to Local Government*
- Department of Local Government guidelines *Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality*.
- The Department of Energy, Utilities and Sustainability *Best Practice Management of Water Supply and Sewerage* guidelines.

To the best of our knowledge and belief, these reports:

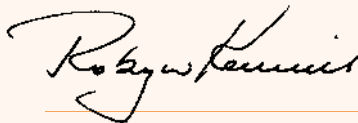
- Present fairly the financial position and operating result for each of Council's declared Business Units for the year, and
- Accord with Council's accounting and other records:

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

Signed in accordance with a resolution of Council made on 31 October 2005.



**Clover Moore**  
*Lord Mayor*



**Robyn Kemmis**  
*Councillor*



**Peter Seamer**  
*Chief Executive Officer*



**Bill Carter**  
*Finance Manager*

**Statement of Financial Performance by Business Activities**  
for the year ended 30 June 2005

	Business activities					
	Actual commercial property rents \$'000		Actual parking stations \$'000		Actual Town Hall management \$'000	
	2005	2004	2005	2004	2005	2004
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>						
Employee costs	761	1,092	518	478	1,392	1,353
Materials and contracts	5,447	4,454	1,190	789	113	136
Borrowing costs	–	–	–	–	–	–
Depreciation and amortisation	1,712	2,024	–	685	–	–
Other operating expenses	4,061	2,460	2,314	2,465	178	144
Loss on disposal of assets	–	–	–	–	–	–
Taxation equivalent payments	310	390	–	29	84	81
<b>Total</b>	<b>12,291</b>	<b>10,420</b>	<b>4,022</b>	<b>4,446</b>	<b>1,767</b>	<b>1,714</b>
<b>REVENUE FROM ORDINARY ACTIVITIES</b>						
Rates and annual charges	–	–	–	–	–	–
User charges and fees	453	426	9,018	8,787	1,907	1,756
Interest received	–	–	–	–	–	–
Grants and contributions – operating	–	–	–	–	–	–
Other operating revenues	33,822	30,210	–	–	–	–
Gain on disposal of assets	–	–	–	–	–	–
<b>Total</b>	<b>34,275</b>	<b>30,636</b>	<b>9,018</b>	<b>8,787</b>	<b>1,907</b>	<b>1,756</b>
<b>ORDINARY ACTIVITIES RESULT BEFORE CAPITAL AMOUNTS</b>	<b>21,984</b>	<b>20,216</b>	<b>4,996</b>	<b>4,341</b>	<b>140</b>	<b>42</b>
Corporate taxation equivalent	6,595	6,065	1,499	1,302	42	13
<b>SURPLUS (DEFICIT) FOR YEAR</b>	<b>15,389</b>	<b>14,151</b>	<b>3,497</b>	<b>3,039</b>	<b>98</b>	<b>29</b>
<b>OPENING RETAINED PROFITS</b>	<b>93,603</b>	<b>72,997</b>	<b>22,058</b>	<b>17,688</b>	<b>832</b>	<b>491</b>
Adjustments to NBV Assets at 30 June 2002						
Adjustments for amounts unpaid:						
– Taxation equivalent payments	–	390	–	29	–	81
– Corporate taxation equivalent	6,595	6,065	1,499	1,302	42	13
<b>CLOSING RETAINED PROFITS</b>	<b>115,587</b>	<b>93,603</b>	<b>27,054</b>	<b>22,058</b>	<b>972</b>	<b>614</b>
<b>RETURN ON CAPITAL (%)</b>	<b>11.47%</b>	<b>11.19%</b>	<b>48.53%</b>	<b>43.43%</b>	<b>23.65%</b>	<b>25.00%</b>

**Statement of Financial Position by Business Activities  
as at 30 June 2005**

	Business activities					
	Actual commercial property rents \$'000		Actual parking stations \$'000		Actual Town Hall management \$'000	
	2005	2004	2005	2004	2005	2004
<b>CURRENT ASSETS</b>						
Cash assets						
Investment securities						
Receivables	243	2,407	188	840	412	
Inventories					49	
Other – inter entity debtor				4,765		
Other			93	28		
<b>Total current assets</b>	<b>243</b>	<b>2,407</b>	<b>281</b>	<b>5,633</b>	<b>461</b>	
<b>NON-CURRENT ASSETS</b>						
Cash assets						
Investment securities						
Receivables						
Inventories						
Other						
Due from Council			18,024	7,440		1,580
Property, plant and equipment	191,640	180,605	10,294	9,995	592	168
<b>Total non-current assets</b>	<b>191,640</b>	<b>180,605</b>	<b>28,318</b>	<b>17,435</b>	<b>592</b>	<b>1,748</b>
<b>Total assets</b>	<b>191,883</b>	<b>183,012</b>	<b>28,599</b>	<b>23,068</b>	<b>1,053</b>	<b>1,748</b>

	Business activities					
	Actual commercial property rents \$'000		Actual parking stations \$'000		Actual Town Hall management \$'000	
	2005	2004	2005	2004	2005	2004
<b>CURRENT LIABILITIES</b>						
Payables	1,750	2,190		691		768
Interest bearing liabilities						
Other – inter entity creditor		33,749				
Provisions	5	345		98	7	120
<b>Total current liabilities</b>	<b>1,755</b>	<b>36,284</b>		<b>789</b>	<b>7</b>	<b>888</b>
<b>Non-current liabilities</b>						
Due to Council	74,432	52,644	1,545		56	
Payables		28		21		
Interest bearing liabilities						
Provisions	109	453		200	18	246
<b>Total non-current liabilities</b>	<b>74,541</b>	<b>53,125</b>	<b>1,545</b>	<b>221</b>	<b>74</b>	<b>246</b>
<b>Total liabilities</b>	<b>76,296</b>	<b>89,409</b>	<b>1,545</b>	<b>1,010</b>	<b>81</b>	<b>1,134</b>
<b>NET ASSETS</b>						
<b>EQUITY</b>						
Accumulated surplus	115,587	93,603	27,054	22,058	972	614
Asset revaluation reserve						
<b>Total equity</b>	<b>115,587</b>	<b>93,603</b>	<b>27,054</b>	<b>22,058</b>	<b>972</b>	<b>614</b>

This statement is to be read in conjunction with the accompanying notes.

## Notes to and forming part of the Financial Statements for the year ending 30 June 2005

### Note 1 – Significant accounting policies

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

These financial statements are a SPFR prepared for use by the Council and Department of Local Government. For the purpose of these statements, the Council is not a reporting entity.

This SPFR, unless otherwise stated, has been prepared in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, The *Local Government Act 1993* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting and the Local Government Asset Accounting Manual.

The statements are prepared on an accruals basis. They are based on historical costs and do not take into account changing money values or current values of non-current assets. Council has now deemed all of its property, plant and equipment, with the exception of 'land under roads', to be 'at cost', being the carrying value of those assets as at 30 June 2005, in accordance with the transitional provisions of AAS 30 Revaluation of Non-current Assets, paragraph 10.4 (a). Land under roads has not been valued and has been excluded from this report.

Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

#### National competition policy

Council has adopted the principle of 'competitive neutrality' to 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 Government Policy statement on the 'Application of National Competition Policy to Local Government'. The 'Pricing & Costing for Council Businesses – A Guide to Competitive Neutrality' issued by the Department of Local Government in July 1997 has been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard of 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 & Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

##### Category 1

Name	Brief description of activity
Commercial Property Rents	Commercial rental portfolio
Goulburn Street Parking Station	Parking station

Category 1 businesses have a turnover greater than \$2 million.

##### Category 2

Name	Brief description of activity
Town Hall Venue Management	Management of Conference and Events Facility

Category 2 Businesses have a turnover less than \$2 million.

#### (i) Taxation equivalent payments

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations (General Purpose Financial Report) 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 the SPFR. 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):

Tax type	Notional Rate 1/7/04 – 30/6/05
Land tax	\$100 for \$260K + 1.7% > \$260K
Payroll tax	6.0%

#### Income tax

An income tax equivalent has been applied on the profits of the business. Whilst income tax is not a specific cost for the purpose of pricing a good

or service, it needs to be taken into account of 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 per cent.

Income tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional, that is, it is payable to the 'Council' as the owner of the 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 General Purpose Financial Report. The rate applied of 30 per cent is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations which have occurred during the year.

#### **Local government rates and charges**

Rates and charges for all businesses included within the Special Purpose Financial Reports, have been applied to all assets exclusively used by the business activity.

#### **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 the Council's borrowing rate for its business. As at 30 June 2005, all Council businesses were assumed to be debt free.

#### **(ii) Subsidies**

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed. Subsidies occur where 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. Council policy is not to subsidise any losses of its business activities. Business activities are required to recover their losses from future profits.

#### **(iii) Return on investments (rate of return)**

The 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. Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council's business activities on the Statement of Financial Performance by Business Activities and Statement of Financial Position by Business Activities. Calculation of Return on Capital has been revised from that outlined in the Pricing and Costing Guidelines issued in July 1997. The revised formula is: (Gain/(Loss) from ordinary activities before Capital amounts + Interest expense) divided by (Total Written Down Value of Property, Plant and Equipment).

The revised formula has been used in all rate of return calculations including prior financial year.

#### **(iv) Dividends**

Council is not required to pay dividends to either itself as owner of a range of businesses or to any external entities. Consequently, any form of dividend payment is purely notional. Dividend payments to Council are also restricted to those activities which do not levy special rates or charges (water, sewer, domestic waste management).

Council only operates one restricted activity, Domestic Waste Management (DWM). The *Local Government Act 1993* required that all operating surpluses or deficits of these funds are credited/debited to the equity of those funds.

#### **(v) Equity**

Council has assumed that 'Equity' for the Business Activities is solely the 'Closing Retained Profits' of the business. This is derived from the Statement of Financial Performance for the Business Activity for all periods from the inception of the requirement to report on Business Activities. Council has assumed that there was no opening equity for any business prior to the first reporting year for the Special Purpose Financial Statements.

#### **(vi) Bank account**

As the business activities do not have a bank account, a payable (receivable) to (from) Council is disclosed in the Statement of Financial Position.



GPO BOX 12  
Sydney NSW 2001

**INDEPENDENT AUDIT REPORT**  
**Council of the City of Sydney**

To the Lord Mayor and Councillors

**Audit Opinion**

In my opinion, for the year ended 30 June 2005:

- (a) The Council's accounting records have been kept in accordance with Division 2, Part 3, Chapter 13 of the *Local Government Act 1993*.
- (b) The special purpose financial report of the Council of the City of Sydney -
  - (i) has been prepared in accordance with the requirements of the aforementioned Division
  - (ii) is consistent with the Council's accounting records
  - (iii) presents fairly in accordance with applicable Accounting Standards and other mandatory professional requirements the Council's financial position as at 30 June 2005 and the results of its operations by business activity.
- (c) All information relevant to the conduct of the audit has been obtained.
- (d) There are no material deficiencies in the accounting records or financial report that have come to light in the course of the audit.

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

**The Lord Mayor and Councillors' Role**

The special purpose financial report is the responsibility of the Lord Mayor and Councillors. It consists of the statement of performance of business activities, the statement of financial position by business activities and the accompanying notes.

The special purpose financial report has been prepared for distribution to the Council and the Department of Local Government for the purpose of fulfilling the Council's requirements under the National Competition Policy.

**The Auditor's Role and the Audit Scope**

As required by the *Local Government Act 1993*, I carried out an independent audit to enable me to express an opinion on the special purpose financial report. My audit provides *reasonable assurance* to the Lord Mayor and Councillors that the special purpose financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Lord Mayor and Councillors in preparing the special purpose financial report, and
- examined a sample of the evidence that supports
  - (i) the amounts and other disclosures in the special purpose financial report, and
  - (ii) compliance with accounting and associated record keeping requirements under the *Local Government Act 1993*.

An audit does *not* guarantee that every amount and disclosure in the special purpose financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the special purpose financial report or indicate that the Lord Mayor and Councillors had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Council,
- that the Council has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- that the accounting policies used and described in Note 1, are appropriate to the needs of the Lord Mayor and Councillors.

#### Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements.



R J Sendt  
Auditor-General

SYDNEY  
31 October 2005