

WOLLONGONG CITY COUNCIL

# ANNUAL REPORT

2017 - 2018

ATTACHMENT A:  
FINANCIAL COMMENTARY

From the mountains to the sea

## EXECUTIVE SUMMARY

As General Manager of Wollongong City Council, I present the Annual Financial Statements for 2017-2018. These statements continue to reflect Council's transformation in recent years to an organisation that is financially stable having the capacity to manage short, medium and longer term challenges.

It is pleasing to report that Council continued the momentum gained under the Securing Our Future Program, which was finalised in 2016-2017. During 2017-2018 Council was able to continue to harness improvements and to add to the Strategic Projects restricted asset. It was also able to deliver some recurring service enhancements and accelerated some capital projects applying improvements from prior years. Also, following extensive community consultation, Council increased its preparedness for the challenges and opportunities of future years through the development of the Wollongong 2028 Community Strategic Plan and the Our Resourcing Strategy 2018-2021.

The Income Statement shows a net operating surplus of \$48.8 million compared to a surplus of \$69.4 million in 2016-2017. The net operating result before capital grants and contributions, Council's external financial indicator of long term financial viability, was a surplus of \$8.1 million. This compares to a surplus of \$27.4 million in 2016-2017. The 2016-17 result was peculiarly high due to several one-off events. This year's result is consistent with long term financial target of achieving a small operating surplus.

Council's Balance Sheet shows the vast extent of assets managed by Council for the Community. The total value of Council's assets at 30 June 2018 was \$2.57 billion. During 2017-2018, Council completed capital works of \$95.9 million including the construction and acquisition of \$39.4 million of new assets and \$56.4 million for the renewal of existing assets. The program includes projects such as the continuation of West Dapto Access Works including the extension of Fowlers Road to Fairwater Drive, continuation of works on the Blue Mile, the Tramway sea wall, the Grand Pacific Walk and various upgrades to community centres, amenities and buildings at Council parks, gardens and sports fields across the Local Government Area.

Council maintains a strong position in cash and investments with holdings of \$158 million at 30 June 2018 [\$168 million in 2016-2017]. \$142 million of Council's cash [\$133 million in 2016-2017] is restricted in its use to specific purposes by external bodies, legislation and Council resolution.

Council's unrestricted current ratio rose slightly from 2.65:1 in 2016-2017 to 2.93:1 in 2017-2018. This ratio, which measures Council's liquidity and ability to satisfy short-term obligations, is above the Local Government Bench mark of >1.5:1. Council's strategy is to better utilise cash and target a lean unrestricted cash ratio, however, significant cash assets held for future waste facility requirements are included in this ratio. The measure is expected to increase until payments are required.

Rates and Annual Charges outstanding fell from 5.88% in 2016-2017 to 4.66% in 2017-2018, an improvement which is attributable to Council's ongoing development of improved recovery processes for all classes of rate payers. The result is also within the industry standard of <5%.

Council continues to have relatively low levels of borrowing and did not undertake any additional borrowings in 2017-2018. This contrasts to recent years where borrowings under attractive and/or subsidised terms for specific works have been sought. Low debt levels remain a financial strength of Council and add flexibility in making financial decisions for the future. The 2017-2018 debt service ratios increased slightly to 3.34% compared to 3.18% in 2016-2017. This change is the result of decreased income from continuing operations, which was impacted by the timing of the receipt of the Financial Assistance Grant year-on-year, rather than a shift in borrowing levels. This ratio remains positive in comparison to the Local Government benchmark of <10% and is within Council's financial strategy to operate within a ratio of 4%.

My thanks to all staff and external auditors who worked on the preparation of these statements.



David Farmer  
General Manager  
Wollongong City Council



## Financial Commentary 2017-2018

### 2017-2018 FINANCIAL OVERVIEW

This report provides an overview of Council's 2017-2018 Financial Statements. The Financial Statements are prepared by Council to provide information in relation to Council's financial performance and position. The Statements are prepared in accordance with Australian Accounting Standards, the NSW Local Government Act 1993 and the NSW Local Government Code of Accounting Practice and Financial Reporting (Update N<sup>o</sup> 26). The Statements are independently audited by the Audit Office of NSW, reported to Council, placed on public exhibition and lodged with the Office of Local Government. The Financial Statements are made up of five key financial reports; Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

### 2017-2018 FINANCIAL OVERVIEW

The 2017-2018 financial results are positive, continuing to build on the achievements of the Securing our Future Program, achieving an operating surplus before grants and contributions for capital purposes. At the end of the reporting period the Council's financial position is financially sustainable in the short, medium and long term. Overall, Council is well placed for the future having the financial stability and capacity to manage short and medium-term challenges.

While the Securing our Future Program was officially completed in 2017, Council continued the practice developed under the Program where improvements beyond plan targets are restricted for future Strategic Projects. During the year, Council added to these restricted assets and delivered recurring service enhancements and accelerated some capital projects. These funds are allocated using Council's planning process, which encapsulates extensive community consultation.

During its first year of term, the current Council worked on developing the Wollongong 2028 Community Strategic Plan and relevantly the Our Resourcing Strategy 2018-2021. Having achieved financial sustainability under the Securing our Future Program, Council will continue to rigorously maintain financial sustainability and shift focus to deliver services more effectively, efficiently and innovatively. Alongside this it will manage the anticipated significant growth in West Dapto and associated impacts. These plans and strategies will take Council into the future by building on current strengths and addressing future challenges.

## 2017-2018 HIGHLIGHTS

**\$2.57B**

Total Assets

LY \$2.53B

**3.34%**

Debt Service Ratio

LY 3.18%

**\$39.4M**

Capital Works - New

LY \$31M

**\$56.4M**

Capital Works - Renew

LY \$59.4M

**\$48.8M Surplus**

Net Operating Result

LY \$69.5M Surplus

**\$8.1M Surplus**

Net Operating Result Before Capital  
Grants & Contributions

LY \$27.4M Surplus

**\$18.2M**

Contributed Assets Recognised

LY \$29.5M

**2.93:1**

Unrestricted Current Ratio

LY 2.60:1

**\$157.8M**

Cash Assets & Investments

LY \$167.6M

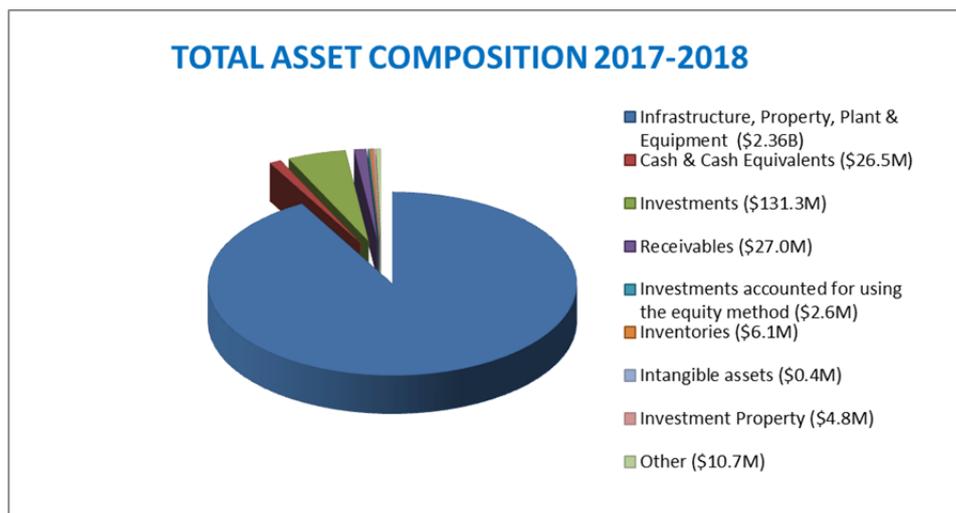
**4.66%**

Rates, Annual Charges, Interest &  
Extra Charges Outstanding

LY 5.88%

## ASSETS

Council is the custodian of community assets with a total value of \$2.57B at 30 June 2018. The composition of assets at balance date is shown as follows:



### Infrastructure, Property, Plant & Equipment (IPPE)

With a carrying value of \$2.36B IPPE is Council's most significant asset group representing 92% of total asset value. This asset group include roads, drains, footpaths, community facilities, recreational facilities, parks and gardens.

During 2017-2018, Council achieved its target and delivered a capital works program of \$95.9M including the construction and purchase of \$39.4M of new assets and renewal of existing assets of \$56.4M. After accounting for annual depreciation expense, the overall value of IPPE increased by \$106.4M during 2017-2018. Further financial details of IPPE are shown at Note 10.

### Cash and Investments

Council maintained robust levels of cash and investments, with holdings of \$158M at 30 June 2018. While holdings decreased compared to last year it is noted that last year's holdings were higher than usual. Cash and investment positions over recent years are as follows:

<b>CASH, INVESTMENTS &amp; AVAILABLE FUNDS (\$M)</b>				
	YTD Actual 30 June 2015	YTD Actual 30 June 2016	YTD Actual 30 June 2017	YTD Actual 30 June 2018
<b>TOTAL CASH &amp; INVESTMENTS</b>	144.656	154.025	167.577	157.768
Less Restrictions:				
External	77.693	75.276	75.788	74.192
Internal	41.960	55.377	57.379	68.129
<b>AVAILABLE CASH</b>	<b>25.003</b>	<b>23.372</b>	<b>34.410</b>	<b>15.447</b>
Adjusted for :				
Current payables	(34.039)	(37.432)	(41.617)	(30.010)
Receivables	26.422	24.487	34.211	37.702
<b>AVAILABLE FUNDS</b>	<b>17.386</b>	<b>10.427</b>	<b>27.004</b>	<b>23.139</b>

Council's cash and investment position is robust at face-value; however these funds are subject to restriction. Council's true cash position is more accurately depicted by considering available funds which are uncommitted and not subject to restriction. External restrictions are funds held by Council that must be spent for a specific purpose and cannot be used by Council for general operations. Internal restrictions are funds that Council has determined will be used for a specific future purpose.

At 30 June 2018, Council achieved an available funds position of \$23.1M, which is significantly higher than the Financial Strategy target range of 3.5% to 5.5% of operational revenue (pre-capital) or \$9.6M - \$15.1M. The result at balance date was uplifted by the early receipt of the first two instalments of the Financial Assistance Grant for 2018-2019 totalling \$9.5M.



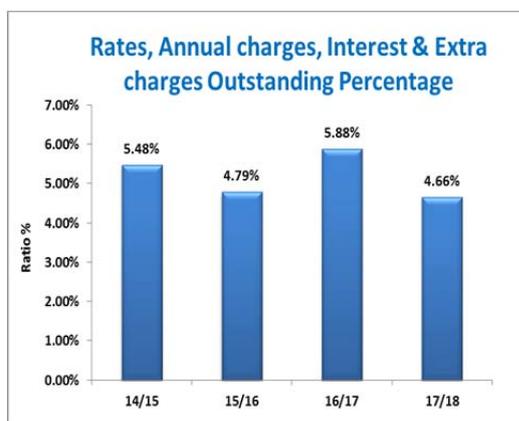
**Measures:** Cash/Liquidity Position or Council's ability to satisfy obligations in the short term from its unrestricted activities.

**Strategy:** Council's strategy is to maximise the use of available funds for asset renewal by targeting a lean Unrestricted Current Ratio. Cash assets held for future waste facility requirements are captured in this ratio. As these amounts are significant, this ratio is expected to increase until payments are required.

**Performance:** Council's performance is on par with the Local Government Benchmark of >1.5:1 and it is reflective of a deliberate strategy to better utilise cash.

## Receivables

Receivables are the amount of money that is owed to Council or funds that Council has paid in advance. At 30 June 2018, receivables totalled \$27M, an increase of \$3.5M compared to the 2016-2017 reporting period. The fluctuation is related to an increase in Government Grants and Subsidies receivable, which is partially offset by a decrease in Rates and Annual Charges Outstanding. Full details of receivables are provided in Note 7.

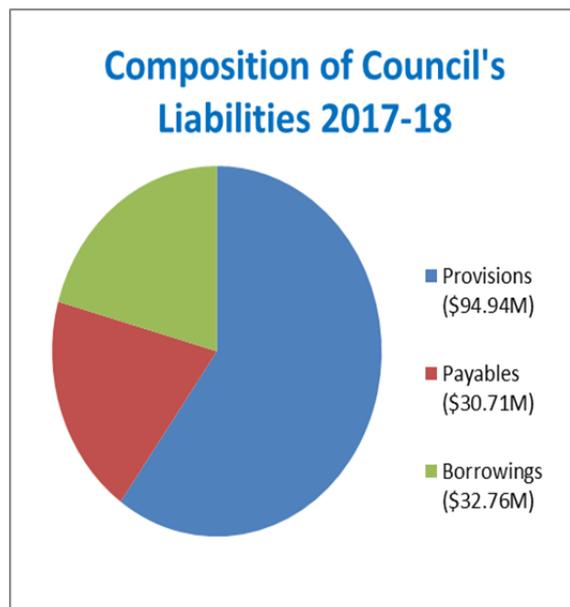


**Measures:** The impact of uncollected rates and other charges on liquidity and the adequacy of recovery efforts.

**Target:** Industry standard of <5%.

**Performance:** Council's Debt Recovery Policy has produced a result which exceeds target and performance in recent years. This is the result of an improved debt recovery process for all classes of rate payers implemented over the last several years.

## LIABILITIES



At 30 June 2018 Council's Total Liabilities were \$158.4M. The composition of Council's Total Liabilities is shown below.

**Provisions:** Account for 59.9% of Council's Liabilities with the most significant provisions relating to Employee Leave Entitlements [\$47.9M], Waste Depot Remediation Provision [\$41.3M], Workers' Compensation Provision [\$4.9M] and Self-Insurance [\$0.8M].

**Payables:** Account for 19.4% of Council's Liabilities. The most significant payables being goods and services received and capital expenditure incurred but not yet paid for, and accrued expenditure.

**Borrowings:** Account for 20.7% of Council's Liabilities and relate to the interest free Infrastructure Loan from the State Government secured in 2010 and the subsidised Local Infrastructure Renewal Scheme Programs (1, 2 and 3) secured over the previous five financial years.

## Provisions

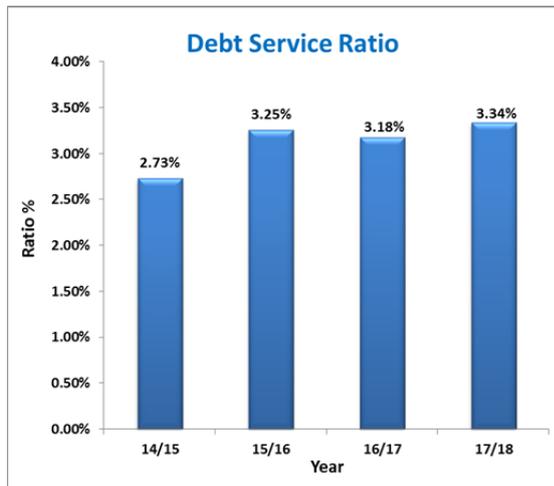
Provisions decreased during 2017-2018 by \$2M. The decrease is mainly attributable to decreased valuation for future remediation works at Whytes Gully waste facility [\$2.9M] offset by increased Workers' Compensation [\$0.7M].

## Borrowings

Council continues to remain a relatively low debt user. In 2017-2018 Council did not undertake additional borrowings, all activity related to the repayment of previously secured loans.

In prior years Council took advantage of borrowing opportunities enabling it to accelerate specific capital programs. The loan facilities which Council has in place include an interest free infrastructure loan from the NSW State Government for West Dapto Access Works, which was secured in 2010 for a 10 year term which will continue to be repaid over the next three years.

Council also has subsidised loans under the Local Government Infrastructure Renewal Scheme (LIRS). Funds were secured under LIRS rounds 1, 2 and 3. The projects funded under round 1 (Citywide Footpaths and Shared Path Renewal and Missing Links Construction Program) and round 2 (Upgrade Berkeley and Corrimal Community Centres and Thirroul Pavilion and Kiosk) are complete. The project funded by the round 3 applications, (the West Dapto Access Project to construct Fowlers Road to Fairwater Drive) is still active. Repayment of LIRS loans will continue in accordance with the various payment schedules until 2025.



**Measures:** The proportion of revenues that is required to meet Council's annual loan repayments.

**Target:** Council's Financial Strategy allows for a ratio of 4%.

**Performance:** A low level of debt is reflected in Council's Debt Service Ratio of 3.34%. This is exceptionally low in comparison to the Local Government benchmark ratio of <10%, and is within Council's own Strategy.

The Debt Service Ratio increased slightly in the 2017-2018 reporting period. This is due to a decrease in Council's income from continuing operations.

## Operational Performance - Income & Expenses

Council achieved a Net Operating Surplus from Continuing Operations of \$48.8M in 2017-2018 in comparison to a Surplus of \$69.5M in 2016-2017. Council's underlying measure of long term operational performance, the Operational Result before Capital Grants and Contributions, is a surplus of \$8.1M, compared to a surplus of \$27.4M in 2016-2017. The 2017-2018 result compares favourably to the original budget and meets Council's long term financial target of achieving a small surplus. The decrease on prior year result is due to several one-off events that occurred in 2016-2017.

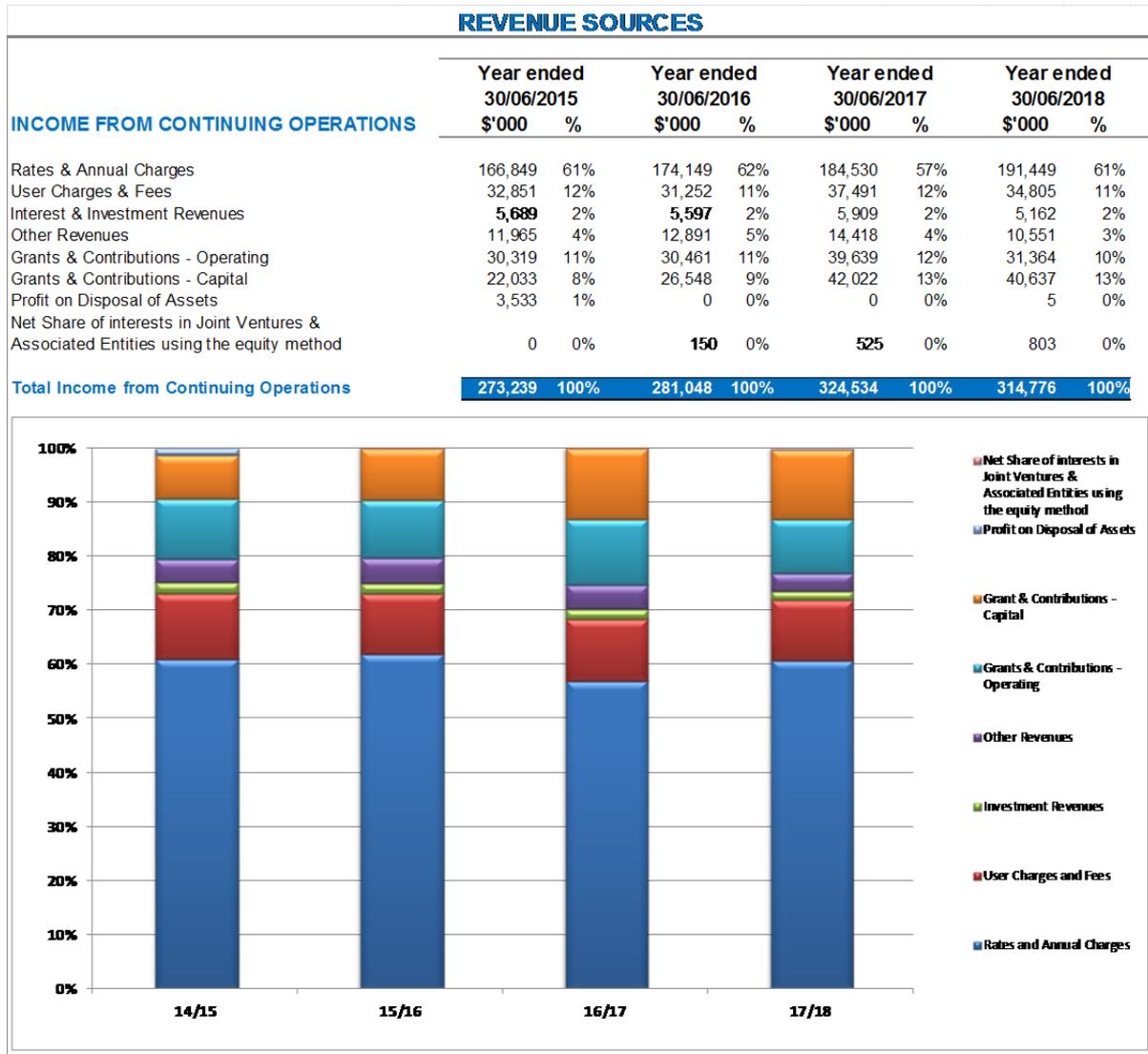
### Income

Council's Income from Continuing Operations for 2017-2018 was \$314.8M compared to a prior year result of \$324.5M. Although there was an increase in Rates & Annual Charges of \$6.9M, decreases in other revenue categories combined to offset this and cause an overall decrease, including:

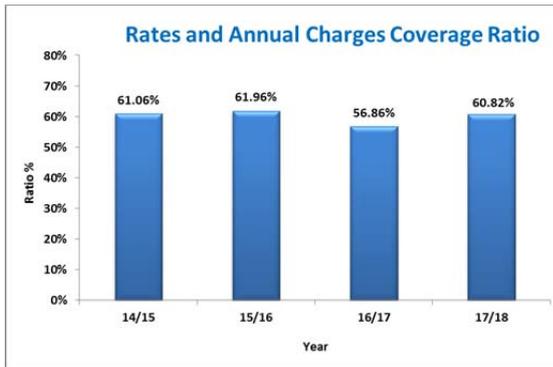
- Decreased grants & contributions operating [\$8.3M] due to the timing of Financial Assistance Grant receipts from the Federal Government. The equivalent of a full year grant was received in 2017-2018 compared to one and a half years grant in 2016-2017.
- Decreased other revenues [\$3.9M] as 2016-2017 included recognition of a one off rebate for the cessation of the Carbon Tax Legislation of \$4.2M.
- Decreased user fees and charges [\$2.7M] mainly associated with lower revenue at Whytes Gully Waste Facility the result of reduced use by major commercial customers.
- Decreased Grants and Contributions Capital [\$1.4M] due to a lower level of subdivision dedications which are impacted by the timing of development activity, largely offset by an

increase in capital grants due to funding for West Dapto Infrastructure in particular for Fowlers Road.

The composition of Council's revenue remained reasonably consistent compared to previous years as depicted in the table below. Exceptions include Rates and Annual Charges which increased in its portion of total income from continuing operations [from 57% to 61%] in favour of Grants and Contributions Capital which decreased [from 12% to 10%] its portion of total income from continuing operations. It is noted that Council does not control the flow of asset dedications by developers and contributions vary from year to year.



Income from Rates and Annual Charges, Council's largest revenue stream, totalled \$191.5M in 2017-2018, an increase of \$6.9M on the prior year. The increase is due to indexation and an increase in residential rates resulting from subdivision growth in West Dapto and an increase in multi-unit developments. In addition, there was also an increase in revenue from domestic waste management that is partly due to a discount in 2016-2017 charges for carbon tax payments collected in previous years and increased costs of providing the service and growth in services as the City continues to grow.

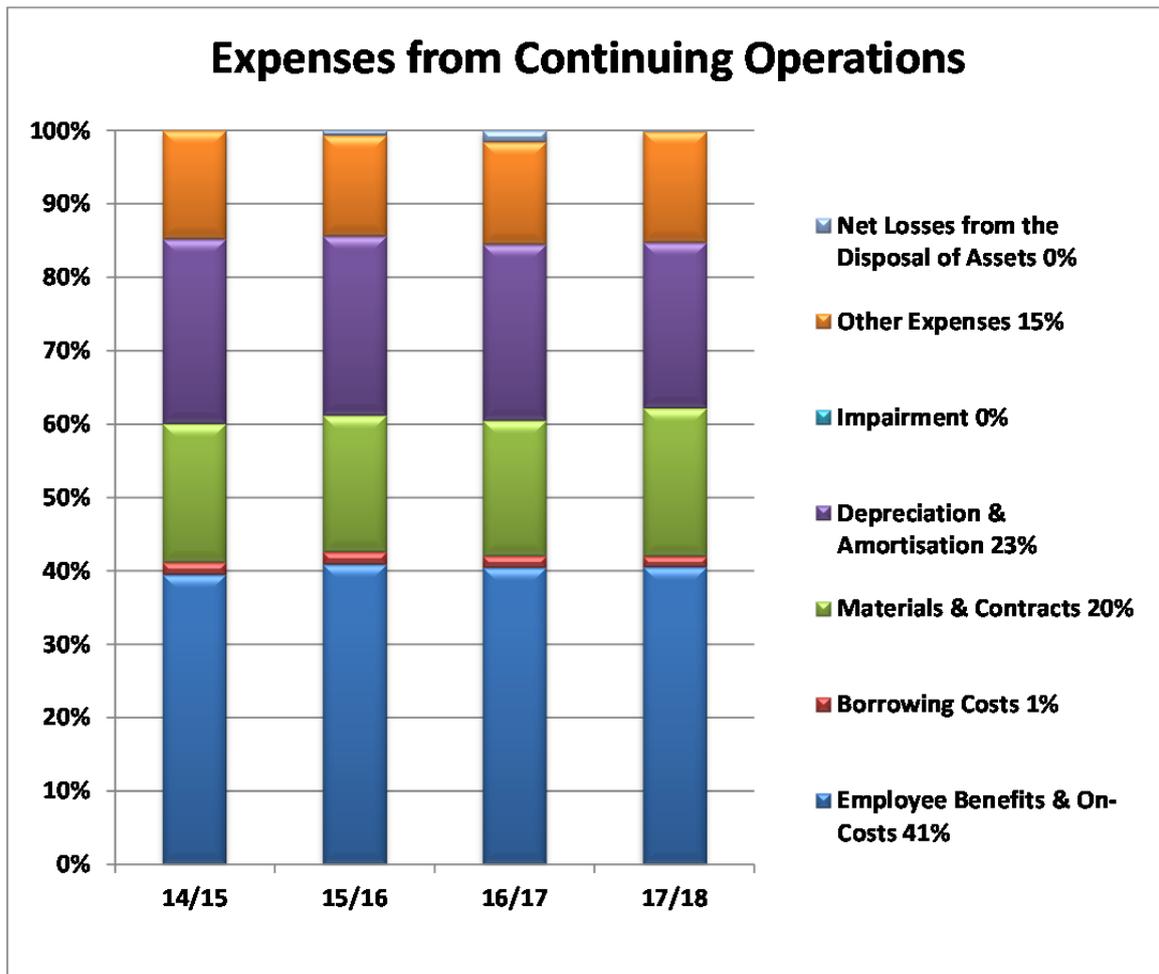


**Measures:** The degree of Council's dependence upon revenue from rates and annual charges and the security of Council's income.

**Performance:** In this ratio indicates an increased level of dependence on rates and annual charges revenue compared to last year. It is noted that this year's performance is in line with the years prior to 2016-2017 and last year's result was skewed by an increase in the flow of developer contributions which did not recur this year. As predicted, this ratio is subject to some fluctuation, and the current year performance is as expected.

## Expenses

Expenses from Continuing Operations for 2017-2018 totalled \$266M, an increase on prior year expenditure of \$10.9M. This increase can predominately be explained by Materials and Contracts rising from \$47M in 2016-2017 to \$53.8M in 2017-2018 alongside the \$4.7M increase in Employee Benefits and On-Costs. This is partly due to impact of normal price increases such as enterprise agreement rises as well as an increase in volume of specific projects undertaken that required additional resources. In terms of composition, the proportion of each expenditure category against total expenses from continuing operations has remained consistent compared to prior years. Material budget variations from the 2017-2018 year for income and expenditure items are detailed in Note 21 of the statements.



## Wollongong City Council

### Historical Financial Data

#### Income Statement

		Actual 2014/15 \$'000	Actual 2015/16 \$'000	Actual 2016/17 \$'000	Actual 2017/18 \$'000
<b>Income from Continuing Operations</b>					
<b>Revenue:</b>					
Rates & Annual Charges	3a	166,849	174,149	184,530	191,449
User Charges & Fees	3b	32,851	31,252	37,491	34,805
Interest and Investment Revenue	3c	5,689	5,597	5,909	5,162
Other Revenues	3d	11,965	12,891	14,418	10,551
Grants & Contributions provided for Operating Purposes	3e,f	30,319	30,461	39,639	31,364
Grants & Contributions provided for Capital Purposes	3e,f	22,033	26,548	42,022	40,637
<b>Other Income:</b>					
Net Gains from the Disposal of Assets	5	3,533	-	-	-
Fair Value Increment on Investment Property	11	-	-	-	5
Profit from interests in Joint Ventures & Associates		-	-	-	-
Entities using the equity method	17	-	150	525	803
<b>Total Income from Continuing Operations</b>		<b>273,239</b>	<b>281,048</b>	<b>324,534</b>	<b>314,776</b>
<b>Expenses from Continuing Operations</b>					
<b>Employee Benefits &amp; On-Costs</b>					
Employee Benefits & On-Costs	4a	95,399	103,547	103,139	107,843
Borrowing Costs	4b	4,037	4,223	4,071	3,819
Materials & Contracts	4c	45,647	47,144	47,032	53,709
Depreciation & Amortisation	4d	60,763	61,882	61,271	60,067
Impairment	4d	-	6	-	-
Other Expenses	4e	35,777	34,782	35,594	40,211
Net Losses from the Disposal of Assets	5	-	1,627	3,960	361
Loss from interests in Joint Ventures & Associates	19	22	-	-	-
<b>Total Expenses from Continuing Operations</b>		<b>241,645</b>	<b>253,211</b>	<b>255,067</b>	<b>266,010</b>
<b>Operating Result from Continuing Operations</b>		<b>31,594</b>	<b>27,837</b>	<b>69,467</b>	<b>48,766</b>
<b>NET OPERATING RESULT FOR THE YEAR</b>		<b>31,594</b>	<b>27,837</b>	<b>69,467</b>	<b>48,766</b>
<b>Less:</b>					
Grants & Contributions provided for Capital Purposes	3e,f	22,033	26,548	42,022	40,637
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>		<b>9,561</b>	<b>1,289</b>	<b>27,445</b>	<b>8,129</b>

This Statement is to be read in conjunction with the Notes in the body of the financial statements.

## Wollongong City Council

## Historical Financial Data

## Statement of Financial Position

	Notes	Actual 2014/15 \$'000	Actual 2015/16 \$'000	Actual 2016/17 \$'000	Actual 2017/18 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash & cash equivalents	6a	33,580	17,747	23,534	26,491
Investments	6b	102,076	126,193	119,458	109,162
Receivables	7	22,109	21,280	23,531	27,036
Inventories	8	6,040	6,027	298	306
Other	8	4,313	3,207	10,680	10,666
Assets held for sale (previously non-current)	9	-	-	6,381	-
<b>Total current assets</b>		<b>168,118</b>	<b>174,454</b>	<b>183,882</b>	<b>173,661</b>
<b>Non-current assets</b>					
Cash assets	6a	-	-	-	-
Investments	6b	9,000	10,085	24,585	22,115
Receivables	7	-	-	-	-
Inventories	8	-	-	5,791	5,835
Infrastructure, property, plant & equipment	10	2,250,472	2,270,419	2,309,628	2,356,306
Investments accounted for using the equity method	17	1,160	1,310	1,835	2,638
Investment property	11	2,750	4,775	4,775	4,780
Intangible assets	12	1,220	1,043	653	388
Non-current assets classified as 'held for sale'		-	-	-	-
Other		-	-	-	-
<b>Total non-current assets</b>		<b>2,264,602</b>	<b>2,287,632</b>	<b>2,347,267</b>	<b>2,392,062</b>
<b>TOTAL ASSETS</b>		<b>2,432,720</b>	<b>2,462,086</b>	<b>2,531,149</b>	<b>2,565,723</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables	13	34,039	34,238	38,660	26,754
Income received in advance	13	6,369	3,194	2,957	3,256
Interest bearing liabilities	13	47,487	6,690	7,513	7,716
Provisions	14	-	50,683	48,853	50,377
<b>Total current liabilities</b>		<b>87,895</b>	<b>94,805</b>	<b>97,983</b>	<b>88,103</b>
<b>Non-current liabilities</b>					
Payables	13	-	-	-	700
Interest bearing liabilities	13	39,758	33,940	32,188	25,039
Provisions	14	42,554	44,031	48,121	44,566
<b>Total non-current liabilities</b>		<b>82,312</b>	<b>77,971</b>	<b>80,309</b>	<b>70,305</b>
<b>TOTAL LIABILITIES</b>		<b>170,207</b>	<b>172,776</b>	<b>178,292</b>	<b>158,408</b>
<b>NET ASSETS</b>		<b>\$ 2,262,513</b>	<b>2,289,310</b>	<b>2,352,857</b>	<b>2,407,315</b>
<b>EQUITY</b>					
Retained earnings	15	1,251,040	1,302,643	1,389,905	1,441,990
Revaluation reserves	15	1,011,473	986,667	962,952	965,325
<b>Council Equity Interest</b>		<b>2,262,513</b>	<b>2,289,310</b>	<b>2,352,857</b>	<b>2,407,315</b>
Minority Equity Interest		-	-	-	-
<b>TOTAL EQUITY</b>		<b>\$ 2,262,513</b>	<b>2,289,310</b>	<b>2,352,857</b>	<b>2,407,315</b>

This Statement is to be read in conjunction with the Notes in the body of the financial statements..