WOLLONGONG CITY COUNCIL

ANNUAL REPORT

2018 - 2019

ATTACHMENT A:
FINANCIAL COMMENTARY

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EXECUTIVE SUMMARY

As General Manager of Wollongong City Council, I present the Annual Financial Statements for 2018-2019. These statements continue to reflect Council's transformation in recent years to an organisation which is financially stable having the capacity to manage short, medium and longer term challenges.

The Income Statement shows a net operating surplus of $52.1 million compared to a surplus of $48.8 million in 2017-2018. The net operating result before capital grants and contributions was a deficit of $7.5 million. While this result compares to a surplus of $8.1 million in 2017-2018, the result was impacted by a large number of valuation adjustments primarily related to external economic conditions on long term accounting estimates. We are confident that our underlying financial performance is on track and remains sustainable.

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 2019 was $2.78 billion. During 2018-2019, Council completed capital works of $115.8 million including the construction and acquisition of $64.0 million of new assets and $51.8 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, new waste cells at Whytes Gully, our first synthetic football field at Ian McLennan Park, additional sections of the Grand Pacific Walk, Stanwell Park Beach Kiosk, power supply to Mt Keira, Wombarra Rock Pool Refurbishment, 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 $155 million at 30 June 2019 [$158 million in 2017-2018]. $139 million of Council's cash [$142 million in 2017-2018] is restricted in its use to specific purposes by external bodies, legislation and Council resolution.

Council's unrestricted current ratio decreased from 2.93:1 in 2017-2018 to 2.70:1 in 2018-2019. This ratio, which measures Council's liquidity and ability to satisfy short-term obligations, is above the Local Government Benchmark 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 remain above the benchmark until payments are required.

Rates and Annual Charges outstanding increased from 4.66% in 2017-2018 to 5.09% in 2018-2019. Although Council continue to improve the recovery processes for all rate payers, there has been an increase in debt owed to Council by pensioners that Council policy allows.

Council continues to have relatively low levels of borrowing and did not undertake any additional borrowings in 2018-19. 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 adds flexibility in making financial decisions for the future. The 2018-2019 debt service ratio decreased slightly to 3.28% compared to 3.34% in 2017-2018. This change is the result of increased income from continuing operations 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.

Greg Doyle
General Manager
Wollongong City Council

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Financial Commentary 2018-2019

2018-2019 FINANCIAL OVERVIEW

This report provides an overview of Council's 2018-2019 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^{o} 27). The Statements are independently audited by the Audit Office of NSW, reviewed by the Audit, Risk and Improvement Committee, 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.

The 2018-2019 Financial Statements shows a positive Net Operating Result of $52.1M. This result includes grants and contributions for capital purposes which increases the asset base of Council however is not considered to truly reflect the underlying operating performance of the organisation.

The Net Operating Result before Grants and Contributions for Capital Purposes was a deficit of $7.5M which is below Council's targeted position of a small surplus result. The 2018-2019 result has been impacted by a number of significant one off non-cash adjustments related to valuation of employee leave and workers compensation provisions, loss on disposal of assets (assets renewed that had remaining book value, not sold), and reclassification of prior year capital works-in-progress (WIP) to operational expense. These adjustments alone were reported in Council's June Quarterly Review to have negatively impacted the result by $15.7M. These variations do not change the underlying capacity of the organisation over a period of time, and while there are also some positive one off items reported, Council considers our underlying financial performance to be on track to meet financial strategies and targets in the short, medium and long term.

2018-2019 HIGHLIGHTS

$2.78B
Total Assets
LY $2.57B

3.28%
Debt Service Ratio
LY 3.34%

$64.0M
Capital Works - New
LY $39.4M

$51.8M
Capital Works - Renew
LY $56.4M

$52.1M Surplus
Net Operating Result
LY $48.8M Surplus

$7.5M Deficit
Net Operating Result Before Capital Grants & Contributions
LY $8.1M Surplus

$7.4M
Contributed Assets Recognised
LY $18.2M

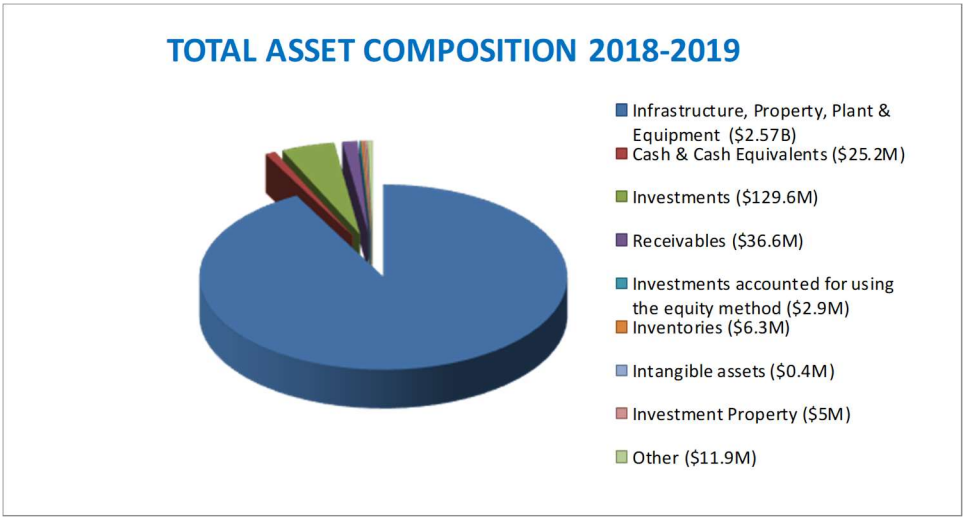
2.70:1
Unrestricted Current Ratio
LY 2.79:1

$154.8M
Cash Assets & Investments
LY $157.8M

5.09%
Rates, Annual Charges, Interest & Extra Charges Outstanding
LY 4.66%

ASSETS

Council is the custodian of community assets with a total value of $2.78B at 30 June 2019. The composition of assets at balance date is shown as follows:



Infrastructure, Property, Plant & Equipment (IPPE)

With a carrying value of $2.57B 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 2018-2019, Council achieved its target and delivered a capital works program of $115.8M including the construction and purchase of $64.0M of new assets and renewal of existing assets of $51.8M. After accounting for annual depreciation expense, the overall value of IPPE increased by $309.6M during 2018-2019. This is mainly the result of revaluations to operational land and buildings. Further financial details of IPPE are shown at Note 10.

Cash and Investments

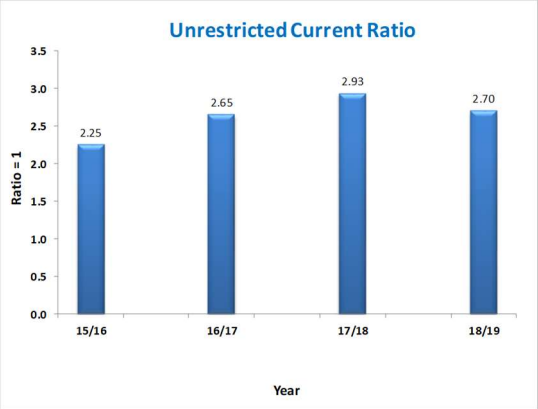
Council maintained robust levels of cash and investments, with holdings of $155M at 30 June 2019. Cash and investment positions over recent years are as follows:

CASH, INVESTMENTS & AVAILABLE FUNDS ($M)

	YTD Actual 30 June 2016	YTD Actual 30 June 2017	YTD Actual 30 June 2018	YTD Actual 30 June 2019
TOTAL CASH & INVESTMENTS	154.025	167.577	157.768	154.822
Less Restrictions:				
External	75.276	75.788	74.192	77.657
Internal	55.377	57.379	68.129	61.203
AVAILABLE CASH	23.372	34.410	15.447	15.962
Adjusted for :				
Current payables	(37.432)	(41.617)	(30.010)	(35.020)
Receivables	24.487	34.211	37.702	48.499
AVAILABLE FUNDS	10.427	27.004	23.139	29.441

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 2019, Council achieved an available funds position of $29.4M, which is significantly higher than the Financial Strategy target range of 3.5% to 5.5% of operational revenue (pre-capital). The result at balance date was uplifted by the early receipt of the first two instalments of the Financial Assistance Grant for 2019-2020 totalling $9.4M.



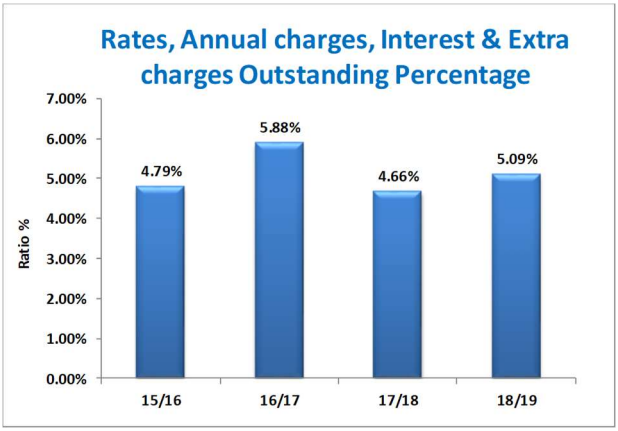
Measures: Cash/Liquidity Position or Council's ability to satisfy obligations in the short term from its unrestricted activities.

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 exceed the benchmark until payments are required.

Performance: Council's performance is above the Local Government Benchmark of >1.5:1 and is consistent with prior years.

Receivables

Receivables are the amount of money that is owed to Council or funds that Council has paid in advance. At 30 June 2019, receivables totalled $36.6M, an increase of $9.6M compared to the 2017-2018 reporting period. The fluctuation is related to an increase in Government Grants and Subsidies receivable. Full details of receivables are provided in Note 7.



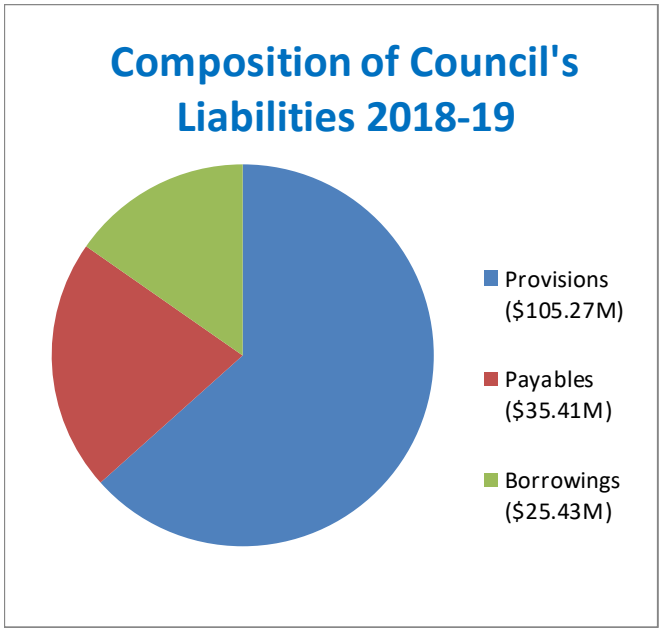
Measures: The impact of uncollected rates and other charges on liquidity and the adequacy of recovery efforts.

Target: Industry standard of <5%.

Performance: Council's Debt Recovery Policy has produced a result which exceeds target and performance in recent years. Although Council continues to improve the debt recovery processes for all rate payers, there has been an increase in debt owed to Council by pensioners that Council policy allows.

LIABILITIES

At 30 June 2019 Council's Total Liabilities were $166.1M. The composition of Council's Total Liabilities is shown below.



Provisions: Account for 63.4% of Council's Liabilities with the most significant provisions relating to Employee Leave Entitlements [$54.5M], Waste Depot Remediation Provision [$42.9M], Workers' Compensation Provision [$7.1M] and Self-Insurance [$0.7M].

Payables: Account for 21.3% 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 15.3% 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

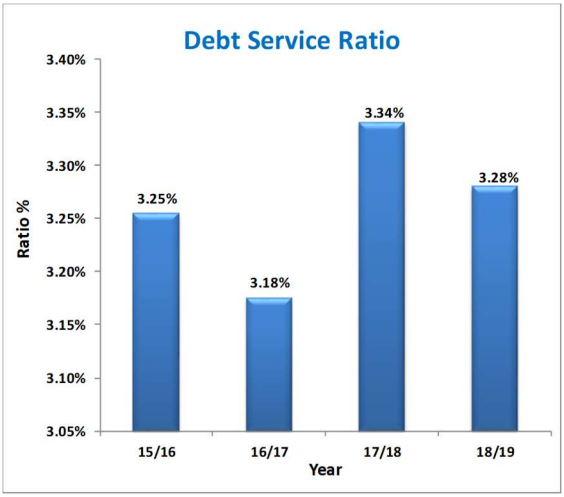
Provisions increased during 2018-2019 by $10.3M. The increase is mainly attributable to the revaluation of employee leave entitlements [$5.2M] and the reassessment of prior year workers' compensation claims to reflect broader community valuation trends [$2.0M]. Although the provisions are revalued each financial year, these changes are the result of external economic conditions through the application of discount rates to reflect the value of the provisions as at 30 June 2019.

Borrowings

Council continues to remain a relatively low debt user. In 2018-2019 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 two 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 3.28%. 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 decreased slightly in the 2018-2019 reporting period. This is due to an increase in Council's income from continuing operations.

Operational Performance - Income & Expenses

Council achieved a Net Operating Surplus from Continuing Operations of $52.1M in 2018-2019 in comparison to a Surplus of $48.8M in 2017-2018. Council's underlying measure of long term operational performance, the Operational Result before Capital Grants and Contributions, is a deficit of $7.5M, compared to a surplus of $8.1M in 2017-2018. The 2018-2019 result has been impacted by a number of large valuation transactions primarily related to the accounting treatment of employee liabilities.

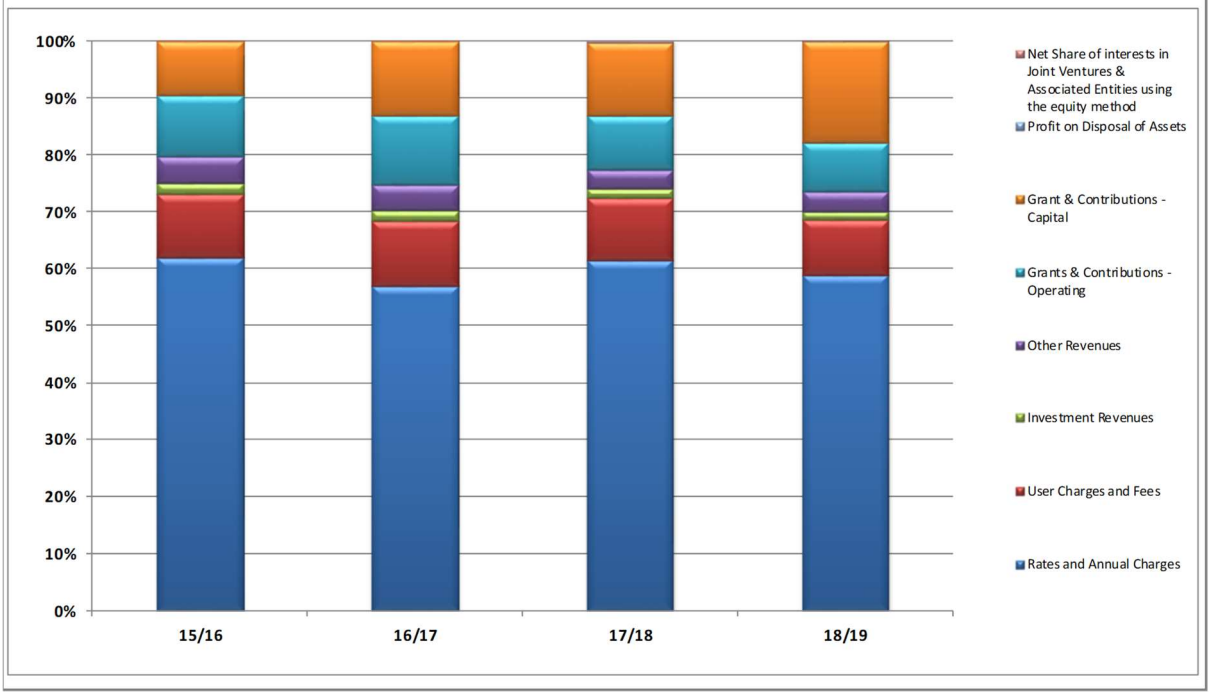
Income

Council's Income from Continuing Operations for 2018-2019 was $338.5M compared to a prior year result of $314.8M. This increase is mainly attributed to an increase in Capital Grants and Contributions [$19.0M] due to an increase in developer contributions and capital grants funding for transport infrastructure associated with the West Dapto Urban Release Area, partially offset by lower levels of subdivision dedications.

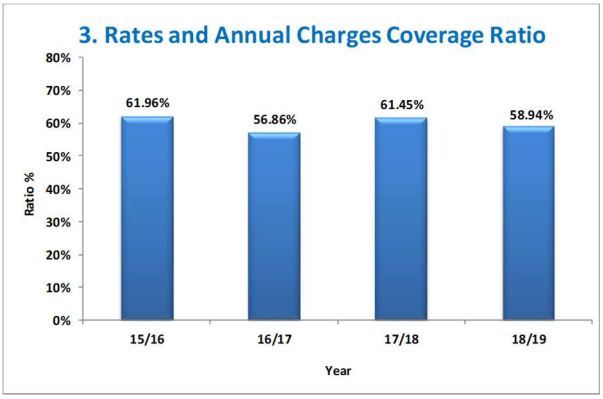
The composition of Council's revenue remained reasonably consistent compared to previous years as depicted in the table below. Exceptions include Grants and Contributions Capital which increased in its portion of total income from continuing operations [from 13% to 18%]. It is noted that Council does not control the flow of asset dedications by developers and contributions vary from year to year.

REVENUE SOURCES

INCOME FROM CONTINUING OPERATIONS	Year ended 30/06/2016 $'000	%	Year ended 30/06/2017 $'000	%	Year ended 30/06/2018 $'000	%	Year ended 30/06/2019 $'000	%
Rates & Annual Charges	174,149	62%	184,530	57%	193,419	61%	199,524	59%
User Charges & Fees	31,252	11%	37,491	12%	34,805	11%	32,793	10%
Interest & Investment Revenues	5,597	2%	5,909	2%	5,162	2%	5,069	1%
Other Revenues	12,891	5%	14,418	4%	10,551	3%	12,125	4%
Grants & Contributions - Operating	30,461	11%	39,639	12%	29,384	9%	28,856	9%
Grants & Contributions - Capital	26,548	9%	42,022	13%	40,637	13%	59,656	18%
Profit on Disposal of Assets	0	0%	0	0%	5	0%	220	0%
Net Share of interests in Joint Ventures & Associated Entities using the equity method	150	0%	525	0%	803	0%	293	0%
Total Income from Continuing Operations	**281,048**	**100%**	**324,534**	**100%**	**314,766**	**100%**	**338,536**	**100%**



Income from Rates and Annual Charges, Council's largest revenue stream, totalled $199.5M in 2018-2019, an increase of $6.1M on the prior year. The increase is due to indexation and additional income from the finalisation of objections to land values from previous financial years.



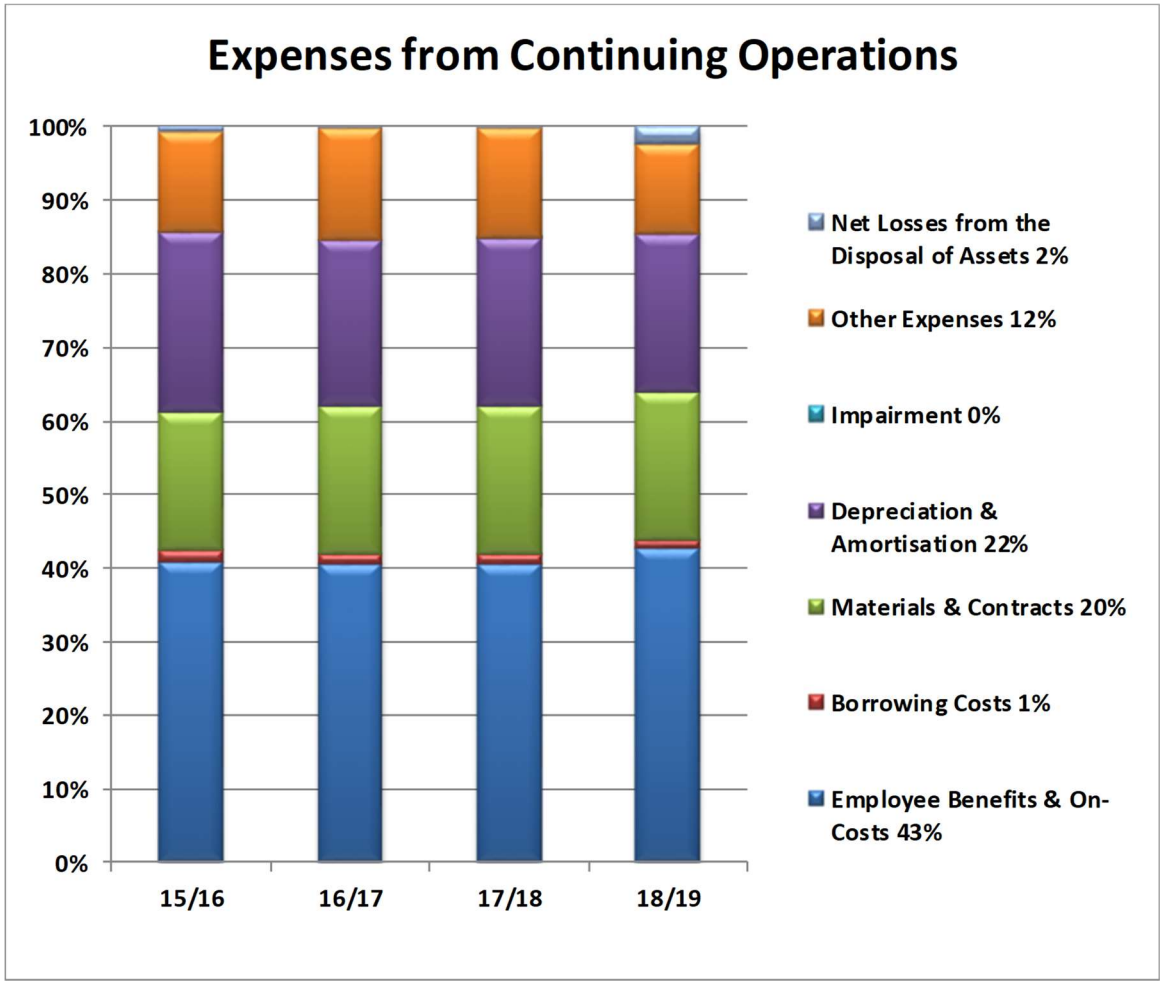
Measures: The degree of Council's dependence upon revenue from rates and annual charges and the security of Council's income.

Performance: This ratio indicates a decreased 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 2016-2017 result and was skewed by an increase in the flow of developer contributions. As predicted, this ratio is subject to some fluctuation, and the current year performance is as expected.

Expenses

Expenses from Continuing Operations for 2018-2019 totalled $286.4M, an increase on prior year expenditure of $20.4M. This increase can be predominately explained by Employee Costs rising from $107.8M in 2017-2018 to $122.4M in 2018-2019. This is partly due to the impact of the revaluation of employee leave entitlements [$5.2M] and the reassessment of prior year workers' compensation claims to reflect broader community valuation trends [$2.0M]. The increase in expenses has also been impacted by an increase in Loss on Disposal of Assets from $0.4M in 2017-2018 to $6.9M in 2018-2019.

In terms of composition, the proportion of each expenditure category against total expenses from continuing operations has remained consistent compared to prior years with the exception of net losses from the disposal of assets. Material budget variations from the 2018-2019 year for income and expenditure items are detailed in Note 21 of the statements.



Wollongong City Council

Historical Financial Data

Income Statement

	Notes	Actual 2015/16 $'000	Actual 2016/17 $'000	Actual 2017/18 $'000	Actual 2018/19 $'000
Income from Continuing Operations					
Revenue:					
Rates & Annual Charges	3a	174,149	184,530	193,429	199,524
User Charges & Fees	3b	31,252	37,491	34,805	32,793
Interest and Investment Revenue	3c	5,597	5,909	5,162	5,069
Other Revenues	3d	12,891	14,418	10,551	12,125
Grants & Contributions provided for Operating Purposes	3e,f	30,461	39,639	29,384	28,856
Grants & Contributions provided for Capital Purposes	3e,f	26,548	42,022	40,637	59,656
Other Income:				-	
Net Gains from the Disposal of Assets	5	-	-	-	-
Fair Value Increment on Investment Property	11	-	-	5	220
Profit from interests in Joint Ventures & Associates		-	-	-	-
Entities using the equity method	17	150	525	803	293
Total Income from Continuing Operations		**281,048**	**324,534**	**314,776**	**338,536**
Expenses from Continuing Operations					
Employee Benefits & On-Costs					
Employee Benefits & On-Costs	4a	103,547	103,139	107,843	122,445
Borrowing Costs	4b	4,223	4,071	3,819	3,337
Materials & Contracts	4c	47,144	47,032	53,709	57,432
Depreciation & Amortisation	4d	61,882	61,271	60,067	61,781
Impairment	4d	6	-	-	-
Other Expenses	4e	34,782	35,594	40,211	34,571
Net Losses from the Disposal of Assets	5	1,627	3,960	361	6,856
Loss from interests in Joint Ventures & Associates	19	-		-	
Total Expenses from Continuing Operations		**253,211**	**255,067**	**266,010**	**286,422**
Operating Result from Continuing Operations		**27,837**	**69,467**	**48,766**	**52,114**
NET OPERATING RESULT FOR THE YEAR		**27,837**	**69,467**	**48,766**	**52,114**
Less:					
Grants & Contributions provided for Capital Purposes	3e,f	26,548	42,022	40,637	59,656
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes		**1,289**	**27,445**	**8,129**	**(7,542)**

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 2015/16 $'000	Actual 2016/17 $'000	Actual 2017/18 $'000	Actual 2018/19 $'000
ASSETS					
Current assets					
Cash & cash equivalents	6a	17,747	23,534	26,491	25,187
Investments	6b	126,193	119,458	109,162	114,579
Receivables	7	21,280	23,531	27,036	36,620
Inventories	8	6,027	298	306	337
Other	8	3,207	10,680	10,666	11,879
Assets held for sale (previously non-current)	9	-	6,381	-	-
Total current assets		**174,454**	**183,882**	**173,661**	**188,602**
Non-current assets					
Cash assets	6a	-	-	-	-
Investments	6b	10,085	24,585	22,115	15,056
Receivables	7	-	-	-	-
Inventories	8	-	5,791	5,835	5,948
Infrastructure, property, plant & equipment	10	2,270,419	2,309,628	2,356,306	2,565,095
Investments accounted for using the equity method	17	1,310	1,835	2,638	2,929
Investment property	11	4,775	4,775	4,780	5,000
Intangible assets	12	1,043	653	388	440
Non-current assets classified as 'held for sale'		-			
Other		-	-	-	-
Total non-current assets		**2,287,632**	**2,347,267**	**2,392,062**	**2,594,468**
TOTAL ASSETS		**2,462,086**	**2,531,149**	**2,565,723**	**2,783,070**
LIABILITIES					
Current liabilities					
Payables	13	34,238	38,660	26,754	30,006
Income received in advance	13	3,194	2,957	3,256	5,014
Interest bearing liabilities	13	6,690	7,513	7,716	7,934
Provisions	14	50,683	48,853	50,377	58,214
Total current liabilities		**94,805**	**97,983**	**88,103**	**101,168**
Non-current liabilities					
Payables	13	-	-	700	385
Interest bearing liabilities	13	33,940	32,188	25,039	17,497
Provisions	14	44,031	48,121	44,566	47,054
Total non-current liabilities		**77,971**	**80,309**	**70,305**	**64,936**
TOTAL LIABILITIES		**172,776**	**178,292**	**158,408**	**166,104**
NET ASSETS		**$ 2,289,310**	**2,352,857**	**2,407,315**	**2,616,966**
EQUITY					
Retained earnings	15	1,302,643	1,389,905	1,441,990	1,463,845
Revaluation reserves	15	986,667	962,952	965,325	1,153,065
	15	-	-	-	56
Council Equity Interest		**2,289,310**	**2,352,857**	**2,407,315**	**2,616,966**
Minority Equity Interest		-	-	-	-
TOTAL EQUITY		**$ 2,289,310**	**2,352,857**	**2,407,315**	**2,616,966**

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