

DRAFT  
WOLLONGONG CITY COUNCIL

# ANNUAL REPORT

2019 - 2020

ATTACHMENT A:  
FINANCIAL COMMENTARY



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## EXECUTIVE SUMMARY

As General Manager of Wollongong City Council, I present the Annual Financial Statements for 2019-2020. 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 \$35.5 million compared to a surplus of \$52.1 million in 2018-2019. The net operating result before capital grants and contributions was a deficit of \$11.9 million. While this result compares to a deficit of \$7.5 million in 2018-2019, the result was impacted by COVID-19 as well as a number of significant one-off adjustments. 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 2020 was \$2.87 billion. During 2019-2020, Council completed capital works of \$89.8 million including the construction and acquisition of \$31.2 million of new assets and \$58.6 million for the renewal of existing assets. The program included projects such as the continuation of West Dapto Access Works including the extension of Fowlers Road to Fairwater Drive, additional sections of the Grand Pacific Walk, Bellambi 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 \$157.5 million at 30 June 2020 [\$154.8 million in 2018-2019]. \$138 million of Council's cash [\$139 million in 2018-2019] is restricted in its use to specific purposes by external bodies, legislation and Council resolution.

Council's unrestricted current ratio decreased from 2.70:1 in 2018-2019 to 2.36:1 in 2019-2020. 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. The measure is expected to remain above the benchmark until payments are required.

Rates and Annual Charges outstanding increased from 5.09% in 2018-2019 to 6.74% in 2019-2020. Council's assistance package in response to COVID-19 includes an option for ratepayers to defer the 4<sup>th</sup> instalment for 2019-2020 without penalty. This has resulted in an increased level of outstanding payments.

Council continues to have relatively low levels of borrowing and did not undertake any additional borrowings in 2019-2020. 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 2019-2020 debt service ratio increased slightly to 3.41% compared to 3.28% in 2018-2019. This change is the result of decreased income from continuing operations rather than a shift in borrowing levels. This ratio 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



# Financial Commentary 2019-2020

## 2019-2020 FINANCIAL OVERVIEW

This report provides an overview of Council's 2019-2020 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° 28). 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 2019-2020 Financial Statements shows a positive Net Operating Result of \$35.5M. 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 \$11.9M which is below Council's targeted position of a small surplus result. This included an impact from COVID-19 primarily related to revenue in the order of \$3.1M. The 2019-2020 result has been impacted by a number of significant adjustments related to reclassification of prior year capital works-in-progress (WIP) to operational expense, loss on disposal of assets (assets renewed that had remaining book value, not sold) and revaluation of investment properties partly offset by the revaluation of the asset remediation provision. In addition, the Financial Assistance Grant was paid 52% in advance that is consistent with the prior year and has not had a significant impact year on year. 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.

## 2019-2020 HIGHLIGHTS

**\$2.87B**

Total Assets

LY \$2.79B

**3.41%**

Debt Service Ratio

LY 3.28%

**\$31.2M**

Capital Works - New

LY \$64.0M

**\$58.6M**

Capital Works - Renew

LY \$51.8M

**\$35.5M Surplus**

Net Operating Result

LY \$52.1M Surplus

**\$11.9M Deficit**

Net Operating Result Before Capital  
Grants & Contributions

LY \$7.5M Deficit

**\$21.3M**

Contributed Assets Recognised

LY \$7.4M

**2.36:1**

Unrestricted Current Ratio

LY 2.70:1

**\$157.5M**

Cash Assets & Investments

LY \$154.8M

**6.74%**

Rates, Annual Charges, Interest &  
Extra Charges Outstanding

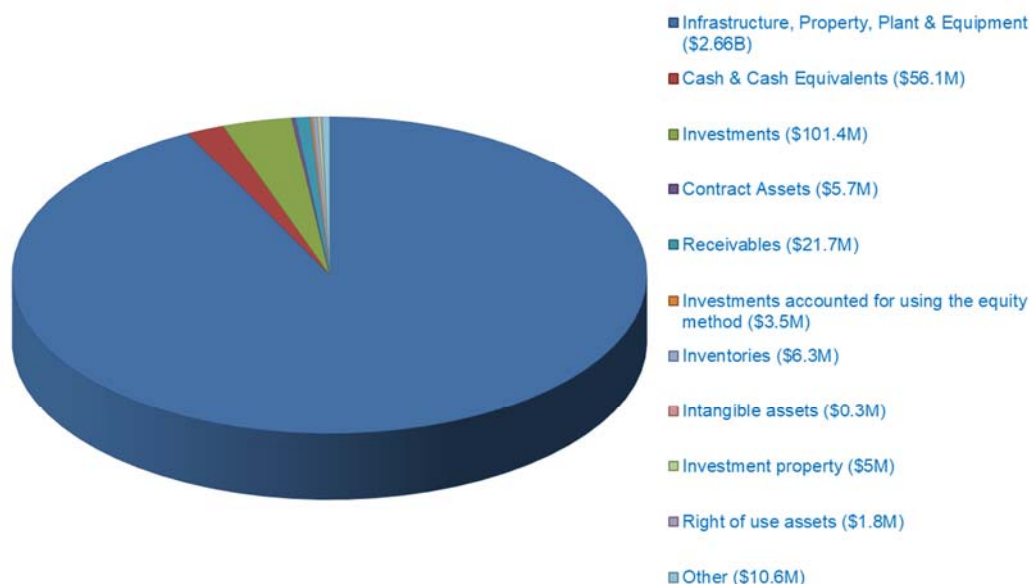
LY 5.09%

\*LY = Last Year

## ASSETS

Council is the custodian of community assets with a total value of \$2.87B at 30 June 2020. The composition of assets at balance date is shown as follows:

### TOTAL ASSET COMPOSITION 2019-2020



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

With a carrying value of \$2.66B IPPE is Council's most significant asset group representing 93% of total asset value. This asset group include roads, drains, footpaths, community facilities, recreational facilities, parks and gardens.

During 2019-2020, Council achieved its target and delivered a capital works program of \$89.8M including the construction and purchase of \$31.2M of new assets and renewal of existing assets of \$58.6M. In addition, \$21.2M of assets were contributed to Council during 2019-2020. After accounting for annual depreciation expense, the overall value of IPPE increased by \$145.7M during 2019-2020. This is mainly the result of revaluations to community & crown land. Further financial details of IPPE are shown at Note 11.

### Cash and Investments

Council maintained robust levels of cash and investments, with holdings of \$157M at 30 June 2020. Cash and investment positions over recent years are as follows:

	YTD Actual 30 June 2017	YTD Actual 30 June 2018	YTD Actual 30 June 2019	YTD Actual 30 June 2020
<b>TOTAL CASH &amp; INVESTMENTS</b>	167.577	157.768	154.822	157.474
Less Restrictions:				
External	75.788	74.192	77.657	75.470
Internal	57.379	68.129	61.203	62.675
<b>AVAILABLE CASH</b>	34.410	15.447	15.962	19.329
Adjusted for :				
Current payables	(41.617)	(30.010)	(35.020)	(35.163)
Receivables	34.211	37.702	48.499	36.707
<b>AVAILABLE FUNDS</b>	27.004	23.139	29.441	20.873

While Council's cash and investment position is robust, a significant portion of 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.

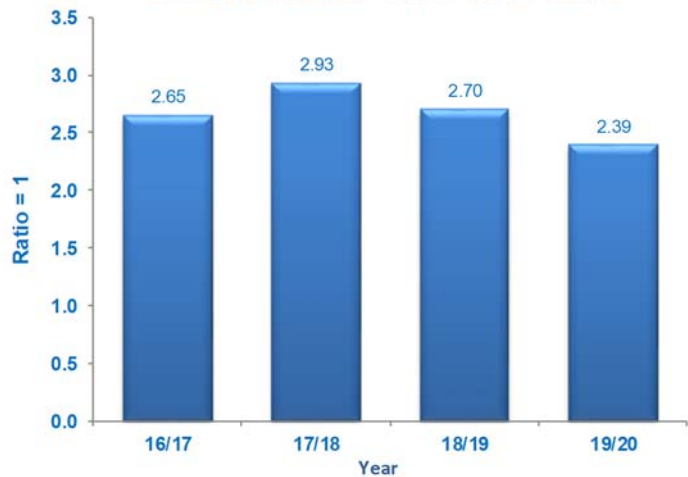
At 30 June 2020, Council achieved an available funds position of \$20.9M, which is significantly higher than the Financial Strategy target range of 3.5% to 5.5% of operational revenue (pre-capital). The result at balance date was uplifted by the early receipt of the first two instalments of the Financial Assistance Grant for 2020-2021 totalling \$9.9M.

**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.

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

### Unrestricted Current Ratio

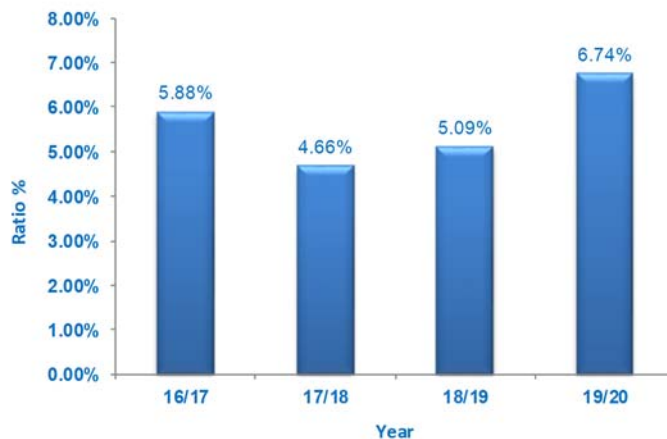


### Receivables

Receivables are the amount of money that is owed to Council or funds that Council has paid in advance. At 30 June 2020, receivables totalled \$21.7M, a decrease of \$15.0M compared to the 2018-2019 reporting period. The fluctuation is related to the implementation of new revenue accounting standards

that require the recognition of contract assets in place of receivables for grants and contracts with customers. Full details of receivables are provided in Note 8.

### Rates, Annual Charges, Interest & Extra Charges Outstanding



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

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

**Performance:** In response to COVID-19, Council developed an assistance package that includes an option for ratepayers to defer the 4<sup>th</sup> instalment for 2019-2020 without penalty. This has resulted in an increased level of outstanding payments.

### Contract Assets

AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of not-for-profit entities were effective for the first time for the year ended 30 June 2020. There were \$5.7M in contract assets relating to capital works on grant funded projects completed before the funding has been received recognised for 2019-2020.



## LIABILITIES

At 30 June 2020, Council's Total Liabilities were \$154.58M. The composition of Council's Total Liabilities is shown below.

**Provisions:** Account for 65.2% of Council's Liabilities with the most significant provisions relating to Employee Leave Entitlements [\$59.1M], Waste Depot Remediation Provision [\$33.4M], Workers' Compensation Provision [\$7.7M] and Self-Insurance [\$0.7M].

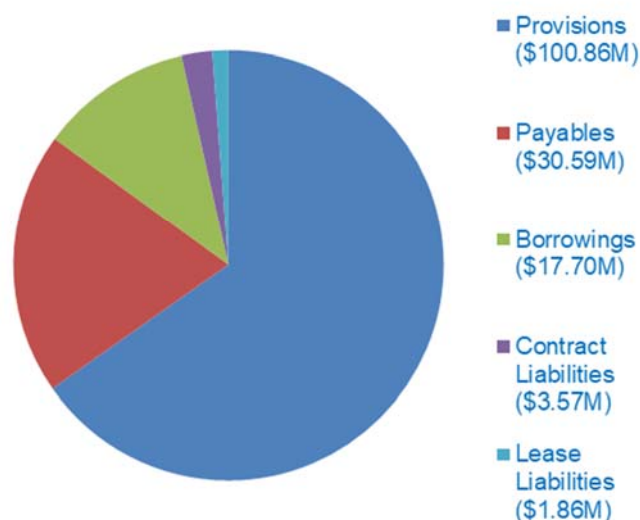
**Payables:** Account for 19.8% of Council's Liabilities. The most significant payables being goods and services received and capital expenditure incurred but not yet paid for, and accrued expenditure.

**Borrowings:** Account for 11.4% of Council's Liabilities and relate to the subsidised Local Infrastructure Renewal Scheme Programs (1, 2 and 3) secured over the previous five financial years.

**Contract Liabilities:** Account for 2.3% of Council's liabilities. Contract liabilities represent unexpended grants and contributions and fees received in advance of the service being delivered.

**Lease Liabilities:** Account for 1.2% of Council's liabilities. Lease liabilities are recognised for land and buildings that Council leases from other organisations. Further details of Leases are provided in Note 15.

**Composition of Council's Liabilities  
2019-20**



### Provisions

Provisions decreased during 2019-2020 by \$4.4M. The decrease is mainly attributable to a reduction in the asset remediation provision (\$9.57M) partially offset by increases in employee leave entitlements (\$4.64M) and the workers' compensation provision (\$0.53M).

Each financial year the provision for the remediation of Council's waste facility is calculated based on the forecast costs to rehabilitate the site. During 2019-2020, a reduction in the forecast rehabilitation costs caused a significant reduction in the provision.

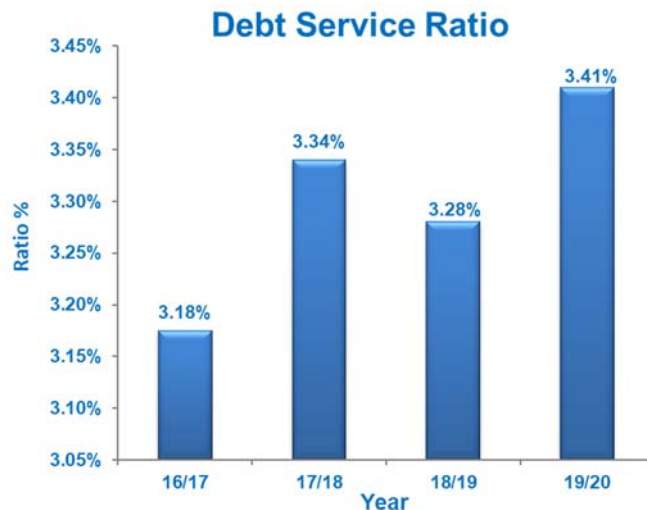
The movement in the employee leave entitlements are the result of external economic conditions through the application of discount rates to reflect the value of the provision as at 30 June 2020.

### Borrowings

Council continues to remain a relatively low debt user. In 2019-2020 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 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 Corimal 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 up to 4%.

**Performance:** A low level of debt is reflected in Council's Debt Service Ratio of 3.41%. 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 2019-2020 reporting period. This is due to a decrease in Council's income from continuing operations.

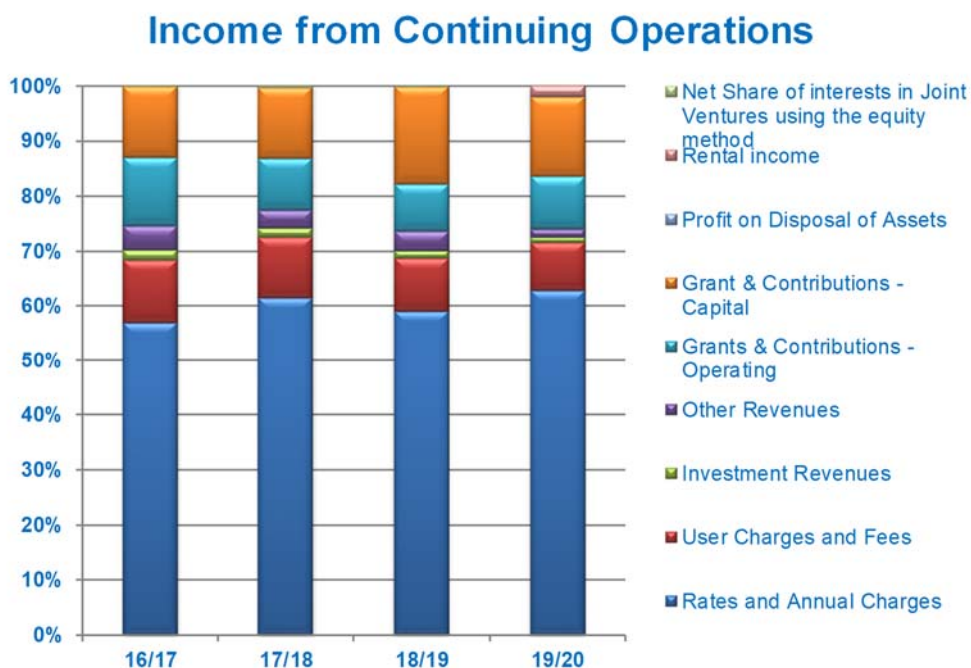
## Operational Performance - Income & Expenses

Council achieved a Net Operating Surplus from Continuing Operations of \$35.5M in 2019-2020 in comparison to a surplus of \$52.1M in 2018-2019. This result includes capital grants and contributions that vary significantly from period to period. Council's underlying measure of long term operational performance, the Operational Result before Capital Grants and Contributions, is a deficit of \$11.9M, compared to a deficit of \$7.5M in 2018-2019.

### Income

Council's Income from Continuing Operations for 2019-2020 was \$327.5M compared to a prior year result of \$338.5M. This decrease is mainly the result of a reduction in Capital Grants & Contributions during 2019-2020 as a higher level of Capital Grants was received for transport infrastructure associated with the West Dapto Urban Release Area in 2018-2019.

The composition of Council's revenue remained reasonably consistent compared to previous years as depicted in the table below. Exceptions include Rental Income, which has been recategorised from User Fees & Charges and Other Revenues as a result of the new revenue accounting standards effective from 1 July 2019, and Grants and Contributions Capital which decreased in its portion of total income from continuing operations [from 18% to 14%]. It is noted that Council does not control the flow of asset dedications by developers and contributions vary from year to year.

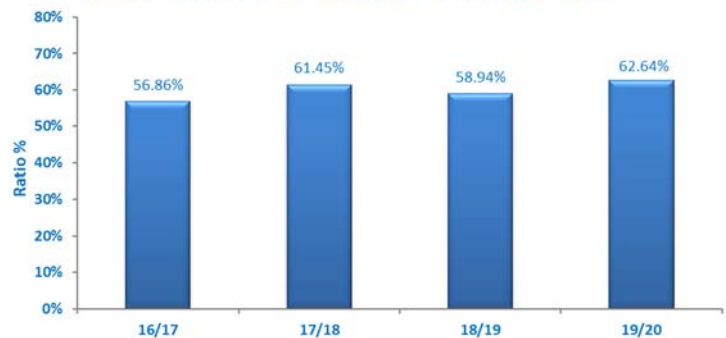


Income from Rates and Annual Charges, Council's largest revenue stream, totalled \$205.1M in 2019-2020, an increase of \$5.6M on the prior year. The increase is due to indexation and rates growth.

**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 an increased level of dependence on rates and annual charges revenue compared to last year.

Rates and Annual Charges Coverage Ratio

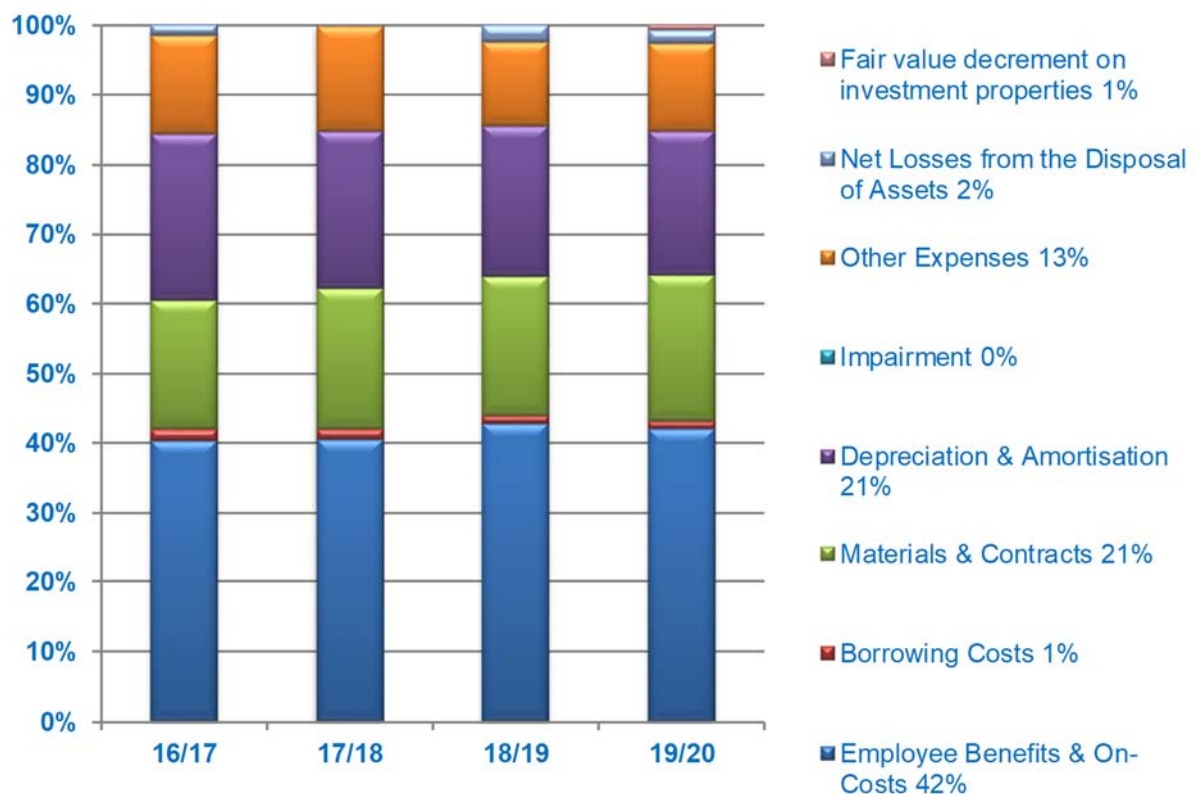


## Expenses

Expenses from Continuing Operations for 2019-2020 totalled \$291.9M, an increase on prior year expenditure of \$5.5M. This increase can be predominately explained by prior period works in progress being transferred to other expenses (\$8.0M), and the revaluation of the investment property (\$2.0M). This has been partly offset by a reduction in other expenses (\$5.6M) to offset a revaluation of the asset remediation provision.

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 the fair value decrement on investment properties. Material budget variations from the 2019-2020 year for income and expenditure items are detailed in Note 24 of the statements.

## Expenses from Continuing Operations



## Wollongong City Council

### Historical Financial Data

#### Income Statement

	Notes	Actual 2016/17 \$'000	Actual 2017/18 \$'000	Actual 2018/19 \$'000	Actual 2019/20 \$'000
<b>Income from Continuing Operations</b>					
<b>Revenue:</b>					
Rates & Annual Charges	3a	184,530	193,429	199,524	205,118
User Charges & Fees	3b	37,491	34,805	32,793	28,695
Interest and Investment Revenue	3c	5,909	5,162	5,069	3,360
Other Revenues	3d	14,418	10,551	12,125	4,794
Grants & Contributions provided for Operating Purposes	3e,f	39,639	29,384	28,856	30,727
Grants & Contributions provided for Capital Purposes	3e,f	42,022	40,637	59,656	47,472
<b>Other Income:</b>					
Fair Value Increment on Investment Property	11	-	5	220	-
Rental income		-	-	-	6,735
Net share of interests in joint ventures using the equity method	17	525	803	291	555
<b>Total Income from Continuing Operations</b>		<b>324,534</b>	<b>314,776</b>	<b>338,534</b>	<b>327,456</b>
<b>Expenses from Continuing Operations</b>					
<b>Employee Benefits &amp; On-Costs</b>					
Employee Benefits & On-Costs	4a	103,139	107,843	122,445	122,912
Borrowing Costs	4b	4,071	3,819	3,337	3,052
Materials & Contracts	4c	47,032	53,709	57,432	60,934
Depreciation & Amortisation	4d	61,271	60,067	61,781	60,845
Other Expenses	4e	35,594	40,211	34,571	36,497
Net Losses from the Disposal of Assets	5	3,960	361	6,856	5,686
Fair value decrement on investment properties		-	-	-	1,998
Loss from interests in Joint Ventures & Associates	19	-	-	-	-
<b>Total Expenses from Continuing Operations</b>		<b>255,067</b>	<b>266,010</b>	<b>286,422</b>	<b>291,924</b>
<b>Operating Result from Continuing Operations</b>		<b>69,467</b>	<b>48,766</b>	<b>52,112</b>	<b>35,532</b>
<b>NET OPERATING RESULT FOR THE YEAR</b>		<b>69,467</b>	<b>48,766</b>	<b>52,112</b>	<b>35,532</b>
<b>Less:</b>					
Grants & Contributions provided for Capital Purposes	3e,f	42,022	40,637	59,656	47,472
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>		<b>27,445</b>	<b>8,129</b>	<b>(7,544)</b>	<b>(11,940)</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 2016/17 \$'000	Actual 2017/18 \$'000	Actual 2018/19 \$'000	Actual 2019/20 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash & cash equivalents	6a	23,534	26,491	25,187	56,051
Investments	6b	119,458	109,162	114,579	97,423
Receivables	7	23,531	27,036	36,620	20,466
Inventories	8	298	306	337	381
Contract Assets		-	-	-	5,669
Other	8	10,680	10,666	11,879	10,572
Assets held for sale (previously non-current)	9	6,381	-	-	-
<b>Total current assets</b>		<b>183,882</b>	<b>173,661</b>	<b>188,602</b>	<b>190,562</b>
<b>Non-current assets</b>					
Investments	6b	24,585	22,115	15,056	4,000
Inventories	8	5,791	5,835	5,948	5,972
Infrastructure, property, plant & equipment	10	2,309,628	2,356,306	2,570,098	2,655,487
Investments accounted for using the equity method	17	1,835	2,638	2,929	2,929
Investment property	11	4,775	4,780	5,000	5,000
Intangible assets	12	653	388	440	254
Right of use assets		-	-	-	1,790
<b>Total non-current assets</b>		<b>2,347,267</b>	<b>2,392,062</b>	<b>2,599,471</b>	<b>2,675,432</b>
<b>TOTAL ASSETS</b>		<b>2,531,149</b>	<b>2,565,723</b>	<b>2,788,073</b>	<b>2,865,994</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables	13	38,660	26,754	30,006	29,392
Income received in advance	13	2,957	3,256	5,014	-
Contract Liabilities		-	-	-	3,572
Lease Liabilities		-	-	-	341
Borrowings	13	7,513	7,716	7,934	5,260
Provisions	14	48,853	50,377	58,214	61,084
<b>Total current liabilities</b>		<b>97,983</b>	<b>88,103</b>	<b>101,168</b>	<b>99,649</b>
<b>Non-current liabilities</b>					
Payables	13	-	700	385	-
Lease Liabilities		-	-	-	1,519
Borrowings		32,188	25,039	17,497	12,439
Provisions	14	48,121	44,566	47,054	39,776
<b>Total non-current liabilities</b>		<b>80,309</b>	<b>70,305</b>	<b>64,936</b>	<b>53,734</b>
<b>TOTAL LIABILITIES</b>		<b>178,292</b>	<b>158,408</b>	<b>166,104</b>	<b>153,383</b>
<b>NET ASSETS</b>		<b>\$ 2,352,857</b>	<b>2,407,315</b>	<b>2,621,969</b>	<b>2,712,611</b>
<b>EQUITY</b>					
Retained earnings	15	1,389,905	1,441,990	1,468,848	1,497,753
Revaluation reserves	15	962,952	965,325	1,153,065	1,214,858
	15	-	-	56	-
<b>Council Equity Interest</b>		<b>2,352,857</b>	<b>2,407,315</b>	<b>2,621,969</b>	<b>2,712,611</b>
Minority Equity Interest		-	-	-	-
<b>TOTAL EQUITY</b>		<b>\$ 2,352,857</b>	<b>2,407,315</b>	<b>2,621,969</b>	<b>2,712,611</b>

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