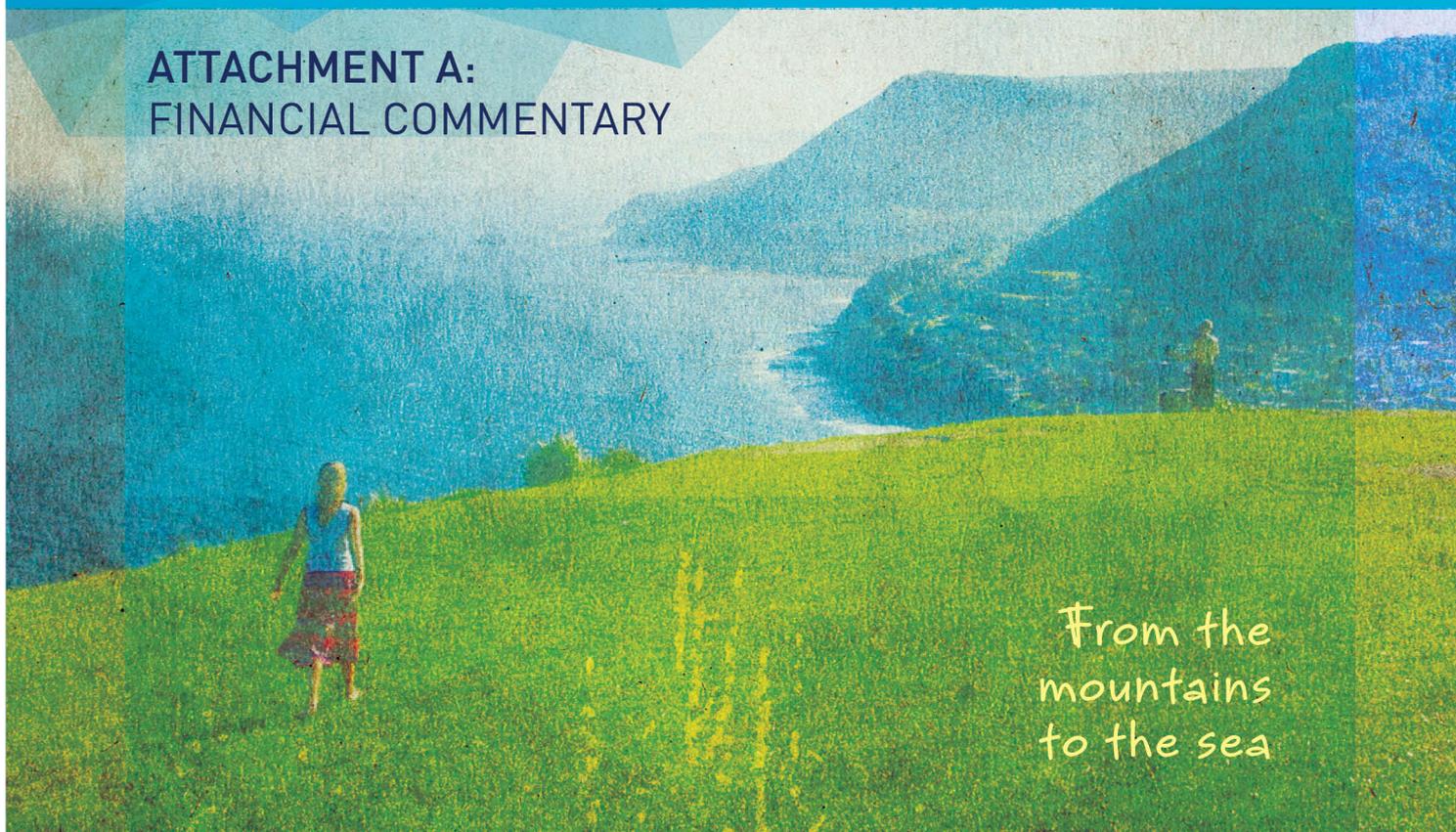


WOLLONGONG CITY COUNCIL

ANNUAL REPORT

2015 - 2016

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 2015-2016. These statements continue to reflect Council's transformation from an organisation that had underlying long-term financial issues to one that is well placed financially to continue to operate at its existing level well into the future. At the end of the reporting period Council is strong and stable in the short, medium and longer term.

Council's 2013-2014 major financial review (Securing our Future) identified long-term issues, including renewal of long-lived assets such as roads, bridges, buildings and recreation facilities. Council at that time, following engagement with the community, implemented a change program that targeted a minimum improvement of \$4.5 million from internal efficiencies, \$1.5 million in service level adjustments, a minimum of \$500,000 in increased fees and charges and a Special Rate Variation for an increase in General Revenue of \$14.5 million. Since this review, Council has been able to maintain budget control and work actively towards these targets which have led to expectations being exceeded in financial terms. This is reflected in Council's 2015-2016 results.

The Income Statement shows a net operating surplus of \$27.8 million compared to a surplus of \$31.6 million in 2014-2015. The net operating result before capital grants and contributions, Council's main indicator of long term financial viability, was a surplus of \$1.3 million. This compares to a surplus of \$9.6 million in 2014-2015 which took in several one-off events, including a \$4.2 million net profit on the sale of assets, a \$1.8 million legal settlement and positive impacts from the timing of the Financial Assistance Grant [\$8.9 million]. The 2013-2014 net operating result of a \$19.2 million deficit highlights progress over subsequent years.

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 2016 was \$2.46 billion. During 2015-2016, Council completed capital works of \$82.7 million including the construction and acquisition of \$23.4 million of new assets and \$59.3 million for the renewal of existing assets. The program has included projects such as the preliminary design and land acquisition for the extension of Fowlers Road, Berkeley Community Centre upgrade, Thirroul Beach Pavilion refurbishment and Crown Street West upgrade.

Council maintains a strong position in cash and investments, with holdings of \$154 million at 30 June 2016 (\$144.7 million in 2014-2015). \$130.6 million of Council's cash (\$119.6 million in 2014-15) is restricted in its use to specific purposes by external bodies, legislation and Council resolution.

Council's unrestricted current ratio rose slightly from 2.19:1 in 2014-2015 to 2.25:1 in 2015-2016. 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 increase until payments are required. Rates and Annual Charges outstanding fell from 5.48% in 2014-2015 to 4.79% in 2015-2016 as Council continued to build on its improved debt recovery processes. The result is positive when measured against the industry standard of <5%.

While Council has continued to borrow on attractive and/or subsidised terms for specific works, the relatively low levels of borrowing remain a financial strength of Council and add flexibility in making financial decisions for the future. The 2015-2016 debt service ratio increased to 3.25% compared to 2.73% in 2014-2015 as Council commenced repayments of LIRS 3. This ratio remains positive in comparison to the Local Government benchmark of <10%. Council continues to operate within a ratio of 4% as per its financial strategy.

On 18 December 2015, the NSW Government announced Merger Proposals for a number of councils including the potential merger of Wollongong and Shellharbour City Councils. An ongoing legal challenge by Shellharbour City Council has delayed any possible merger and it is not clear when, or if, a merger will proceed. Council remains well placed for the future with underlying stability and sufficient capacity to manage short-term challenges.

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



David Farmer
General Manager
Wollongong City Council

2015-2016 Financial Statements

This report provides an overview of Council's 2015-2016 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° 24). The Statements are independently audited by PricewaterhouseCoopers, 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 (Primary Financial Statements) and explanatory notes. The Primary Financial Statements are:

- Income Statement
- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows

2015-2016 Highlights

- Total Assets \$2.46B from \$2.43B (2015)
- Capital Program [Renewal] \$59.3M (2015: \$59.4M)
- Capital Program [New] \$23.4M (2015: \$27.4M)
- Recognition of Contributed Assets including Infrastructure \$4.6M (2015: \$1.9M)
- Cash Assets of \$154M
- Debt Service Ratio at 3.25% (2015: 2.73%)
- Net Operating Result \$27.8M Surplus (2015: Surplus \$31.6M)
- Net Operating Result before Capital Grants and Contributions \$1.3M Surplus (2015: \$9.6M Surplus)
- Unrestricted Current Ratio of 2.25:1 (2015: 2.19:1)
- Rates, Annual Charges, Interest and Extra Charges Outstanding 4.79% (2015: 5.48%)

2015-2016 Financial Overview

The 2015-2016 financial year concludes a defining period, where Council has moved from being financially unsustainable to one that is fit and well placed for long term stability. While the future will be determined by the decisions and delivery of future terms of Council, the position at the end of the reporting period is one that is described as strong and stable in the short, medium and longer term.

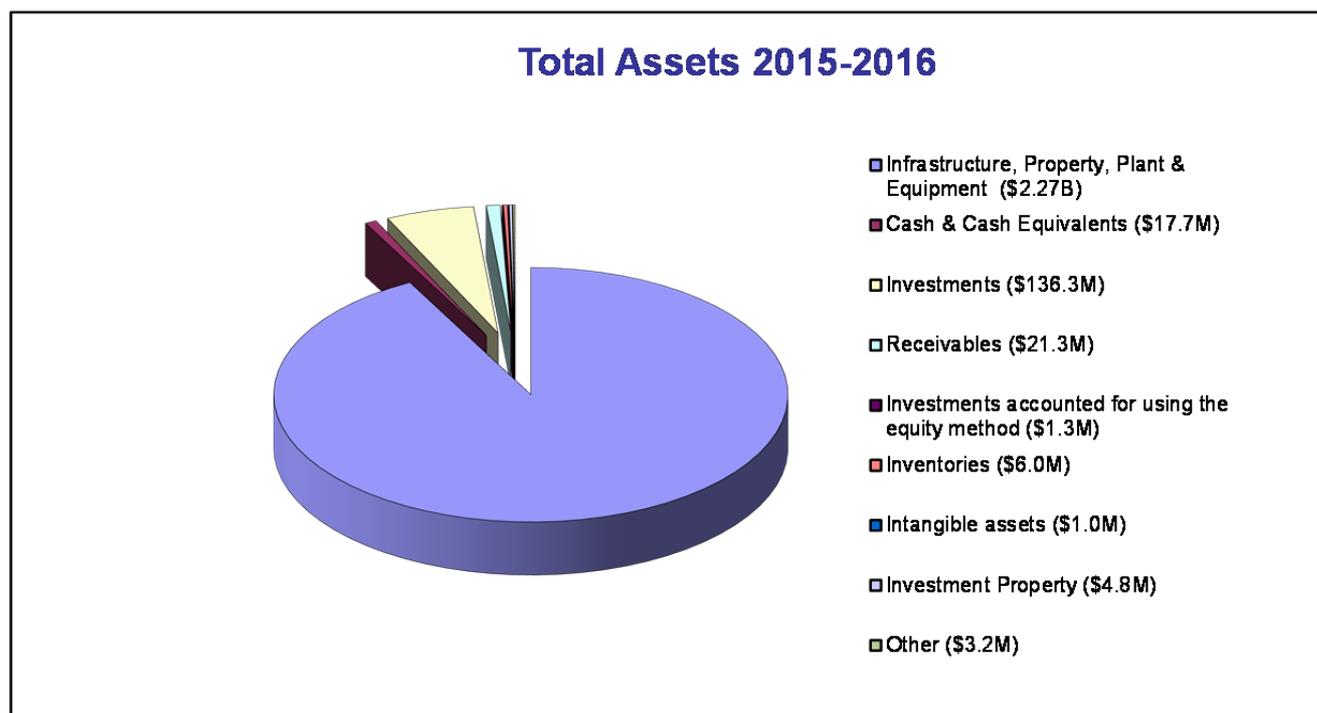
Essential to this result was the adoption of a Revised Delivery Program in 2014 following an extensive community consultation process. This facilitated the development of the 2014-2015 Annual Plan, which included Council's preferred scenario. The preferred scenario included the 'Securing our Future' plan to improve underlying performance by around \$21 million per annum to provide capacity for long-term sustainability. The plan included a revised \$4.5 million operational efficiency target that required a reduction in resources used to provide current levels of services; a \$1.5 million adjustment to existing services that was predominantly achieved by lowering the service expectations of footpath assets; a \$0.5 million increase in other revenue above baseline expectations and increases in rates over a three year period of approximately \$14.5 million per annum.

Council's continued efforts to maintain budget control and work actively towards its Secure Our Future targets have led to expectations being exceeded in financial terms. While Council's delivery of service has remained high and, in some instances, increased over the period, Council has been able to 'bank' one off savings that have been achieved over the time. This has allowed Council to use gains to progress actions that were not funded from annual provisions.

Together with the delivery achievements during this period, key measures of financial performance have been met and exceeded which is exemplified in the operating result for 2015-2016 (Actual: 0.84% Projected: 2.6%). Overall, Council is well placed for the future with underlying stability and sufficient capacity to manage short-term challenges.

Assets

Council's Statement of Financial Position shows the vast extent of assets managed by Council for the Community. The total value of Council's assets at 30 June 2016 was \$2.46 billion. The composition of assets is shown below.



Infrastructure, Property, Plant & Equipment (IPPE)

With a carrying value of \$2.27 billion, Infrastructure, Property, Plant and Equipment (IPPE) is Council's most significant asset and represents 92% of the total value of assets.

During 2015-2016, Council completed a capital works program of \$82.7 million including the construction and purchase of \$23.4 million of new assets and renewal of existing assets of \$59.3 million.

After accounting for annual depreciation expense, the overall value of IPPE increased by \$75.4 million during 2015-2016. The increase was primarily due to asset renewals of \$58.8 million and \$18.1 million as a result of assets transferred in and adjustments made through the discovery of new assets. Further financial details of IPPE are shown at Note 9.

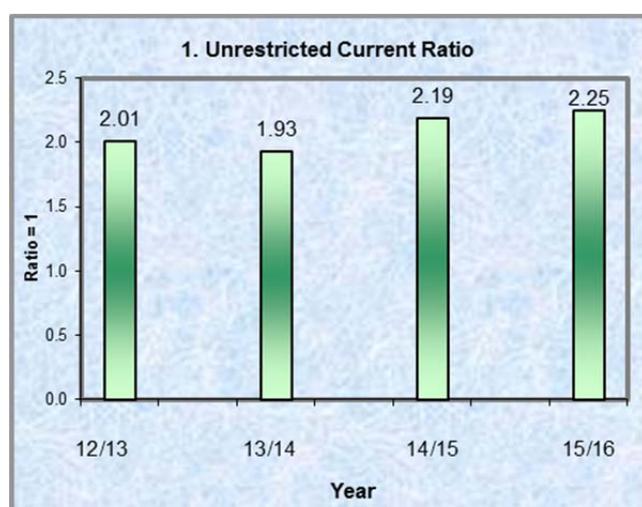
Cash and Investments

In 2015-2016, Council maintained a strong position in cash and investments, with holdings of \$154 million at 30 June 2016. Council's cash and investment positions over recent years are as follows:

CASH, INVESTMENTS & AVAILABLE FUNDS					
		YTD Actual 30 June 2013	YTD Actual 30 June 2014	YTD Actual 30 June 2015	YTD Actual 30 June 2016
Total Cash and Investments	\$M	116.796	117.971	144.656	154.025
Less Restrictions:					
External	\$M	63.961	62.979	77.693	75.276
Internal	\$M	24.383	26.964	41.960	55.377
Available Cash	\$M	28.452	28.028	25.003	23.372
Adjusted for :					
Current payables	\$M	(23.201)	(29.360)	(34.039)	(37.432)
Receivables	\$M	26.205	25.454	26.422	24.487
Available Funds	\$M	31.456	24.122	17.386	10.427

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. Cash holdings have continued to track higher than anticipated throughout the 2015-2016 financial year. This is predominately due to an increase in net payables [\$5 million] and an improved funds result compared to budget [\$4 million].

At 30 June 2016, Council achieved an available funds position of \$10.4 million. This is reflective of the Financial Strategy target range of \$8.8 million - \$11.7 million.



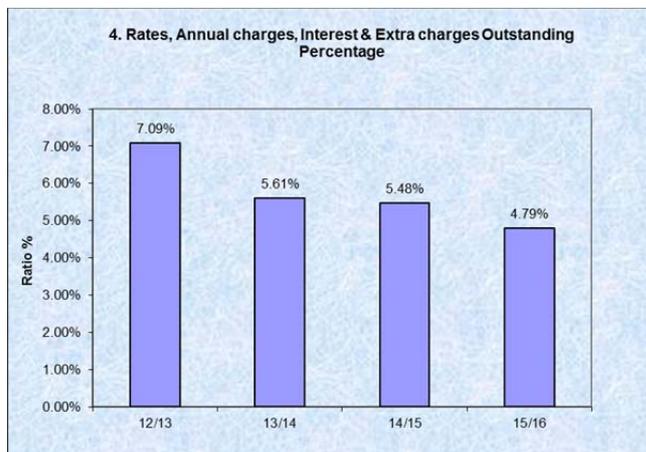
The Unrestricted Current Ratio measures Council's Cash/Liquidity Position or its ability to satisfy obligations in the short term from the unrestricted activities of Council.

Council's strategy is to maximise the use of available funds and target a lean Unrestricted Current Ratio. Cash Assets held for future waste facility requirements are held in the Unrestricted Ratio. As the requirement to hold funds for the waste facility is significant, the measure is expected to increase until payments are required.

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

Receivables

Receivables are the amount of money owed to Council or funds that Council has paid in advance. At 30 June 2016, receivables totalled \$21.3 million, a decrease of \$0.8 million compared to the 2014-2015 reporting period. This decrease is mainly due to a reduction in Rates and Annual Charges Outstanding. Full details of receivables are provided in Note 7.

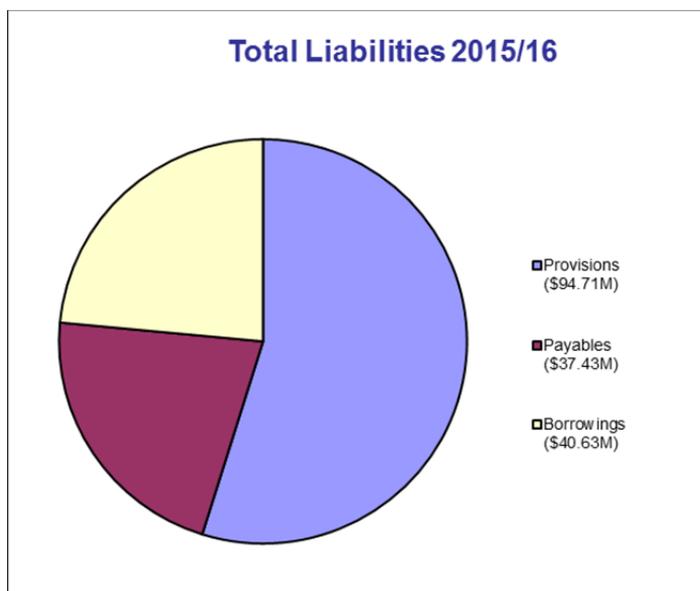


This measure assesses the impact of uncollected rates and other charges on liquidity and the adequacy of recovery efforts.

An improved debt recovery process was implemented in 2013-2014. The process has continued to generate positive implications on the 2015-2016 result. Council's Debt Recovery Policy has produced a result in line with the industry standard of <5%.

Liabilities

At 30 June 2016, Council's Total Liabilities were \$172.8 million. The composition of Council's Total Liabilities is shown below.



Provisions account for 54.8% of Council's Liabilities with the most significant provisions relating to Employee Leave Entitlements [\$47.5 million], Waste Depot Remediation Provision [\$42.7 million] and Workers' Compensation Provision [\$4 million].

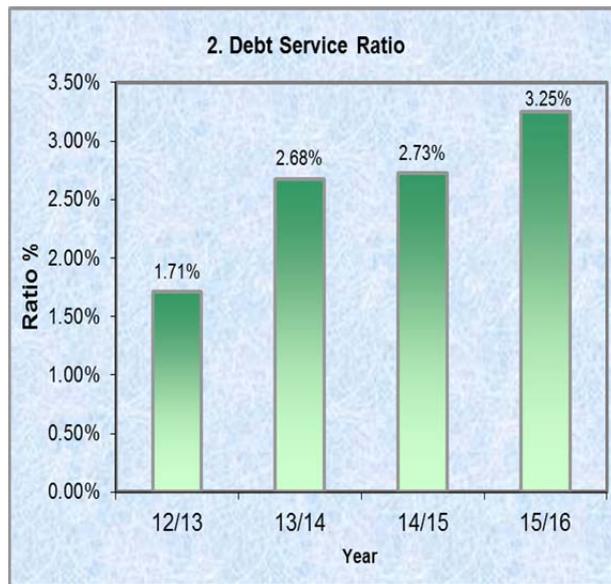
Payables account for 21.7% of Council's Liabilities. The majority of payables relate to goods and services received and capital expenditure incurred but not yet paid for.

Borrowings account for 23.5% 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 loans (1, 2 and 3) secured during the previous three financial years.

Provisions

Provisions increased during 2015-2016 by \$4.7 million. The increase is attributable to increased valuation for future remediation works at Whytes Gully Waste Facility [\$1.7 million], Long Service Leave Provision [\$3.4 million] and a decrease in the Workers' Compensation Provision [\$0.5 million].

Borrowings



Historically, one of Council's financial strengths has been a relatively low level of borrowing. However, Council determined modest debt growth was prudent until underlying financial parameters were sustainable, or where specific capital programs that could provide economic benefit were available. Over the past five years, Council has utilised advantageous borrowing opportunities to accelerate spending on Infrastructure. For example, in 2010 Council secured a \$26 million interest free Infrastructure Loan from the NSW State Government for West Dapto Access works. This will continue to be spent over the next financial year and paid back over the next five years. During 2012-2013, Council also secured a \$20 million subsidised loan under the Local Government Infrastructure Renewal Scheme that will be used over a five year period to accelerate the Citywide Footpaths and Shared Path Renewal and Missing Links Construction Program. Within the 2013-2014 financial year, Council secured a \$4.3 million subsidised loan under round two of the

Local Government Infrastructure Renewal Scheme which has been used for the renewal and upgrade of the Berkeley and Corrimal Community Centres and Thirroul Pavilion and Kiosk.

Council continued to take advantage of such opportunities throughout the 2014-2015 year, securing a \$15 million subsidised loan under round three of the Local Government Infrastructure Renewal Scheme. This loan is to be repaid over the next eight years at a fixed rate and is to be used for the West Dapto Access Project to construct Fowler's Road to Fairwater Drive. During 2015-2016, Council successfully applied for an additional amount under the LIRS 3 program for \$5.5 million that is expected to be drawn down in the 2016-2017 year.

The Debt Service Ratio measures the proportion of revenues that is required to meet Council's annual loan repayments. A low level of debt is reflected in Council's Debt Service Ratio of 3.25%. This is exceptionally low in comparison to the Local Government benchmark ratio of <10%.

The increased Debt Service Ratio for 2015-2016 is due to the inclusion of a complete year of interest expense attributable to the \$15 million LIRS 3 loan. As the loan was drawn down in February 2015, the 2014-2015 result contained only four months of interest expense. While an increased result compared to last year, Council's financial strategy allows for a ratio of 4% and Council continues to operate within this strategy.

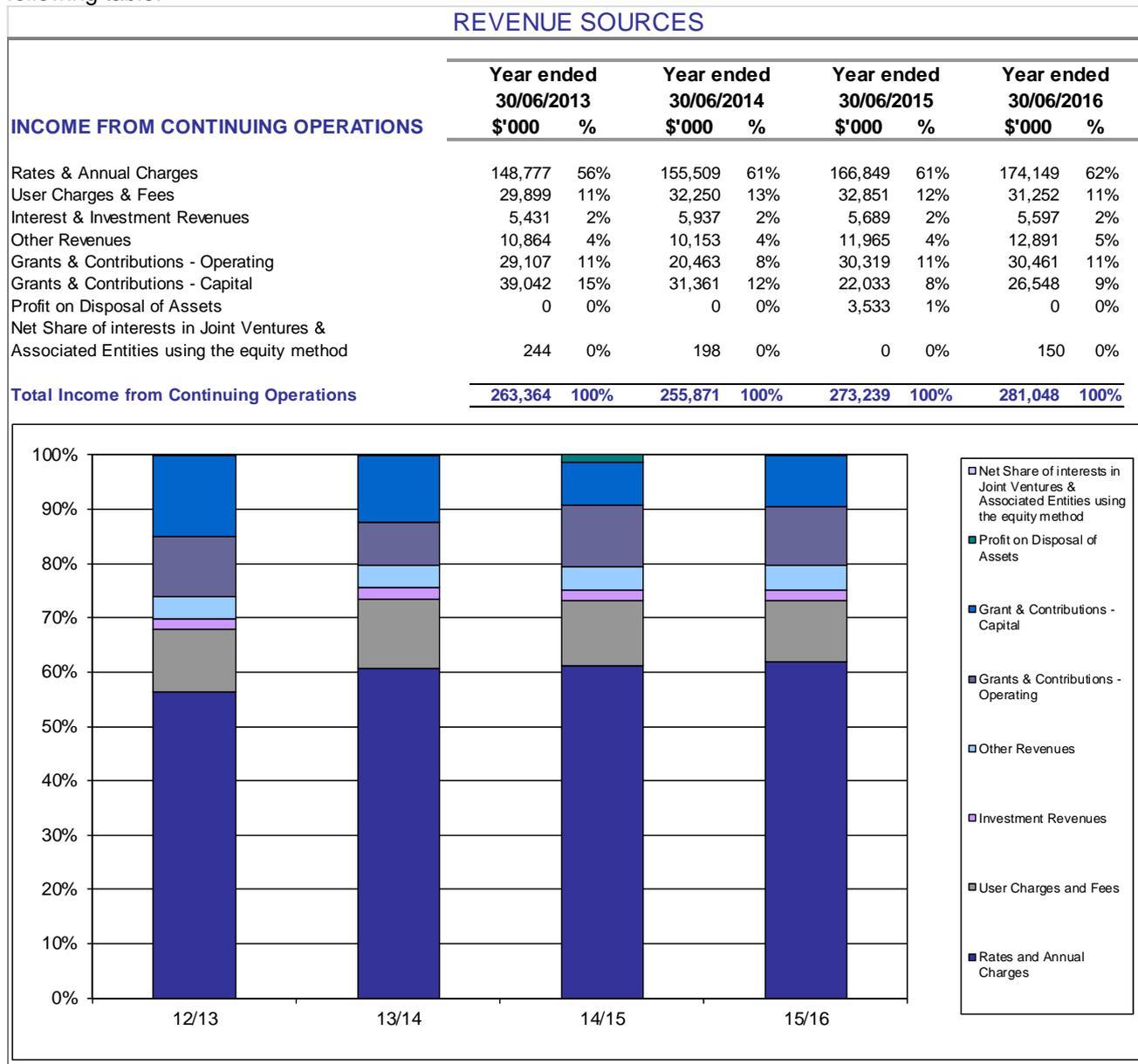
Operational Performance - Income & Expenses

Council's financial performance in 2015-2016 decreased slightly during the reporting period, achieving a Net Operating Surplus from Continuing Operations of \$27.8 million, compared to a prior year Surplus of \$31.6 million. Council's underlying measure of long term operational performance, the Operational Result before Capital Grants and Contributions shows a surplus of \$1.3 million, compared to a surplus of \$9.6 million in 2014-2015. While the 2015-2016 result is lower, it should be noted that the prior year's surplus was attributable to a number of one-off events, which included net profit on the sale of assets [\$4.2 million], a legal settlement [\$1.8 million] and the timing of the receipt of the Financial Assistance Grant [\$8.9 million]. The 2015-2016 result of \$1.3 million is favourable, reflects a positive improvement against budget and is consistent with the longer term direction set in the Securing our Future Program.

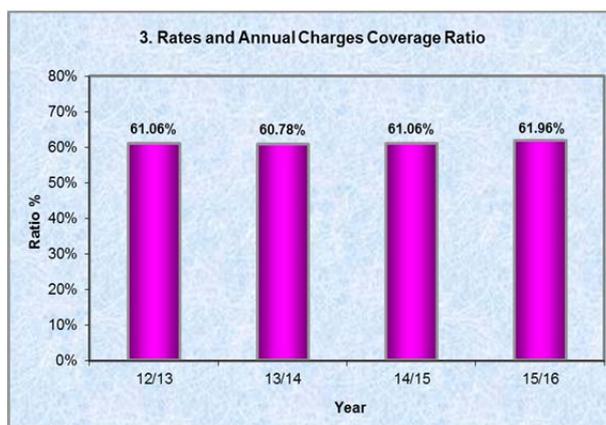
Income

Council's Income from Continuing Operations for 2015-2016 was \$281 million compared to a prior year result of \$273.2 million. The improvement in income is due to an increase in rates and annual charges which is reflective of the Special Rate Variation increase, an improved debt recovery process and an increase in grants and contributions provided for capital purposes.

The other sources of revenue for Council remained steady based on prior financial years, as shown in the following table.



Income from Rates and Annual Charges in 2015-2016 totalled \$174.1 million, an increase of \$7.3 million on the prior year. The increase in 2015-2016 is primarily due to Council being in the second year of a three year Special Rates Variation increase as approved by the Independent Pricing and Regulatory Tribunal.



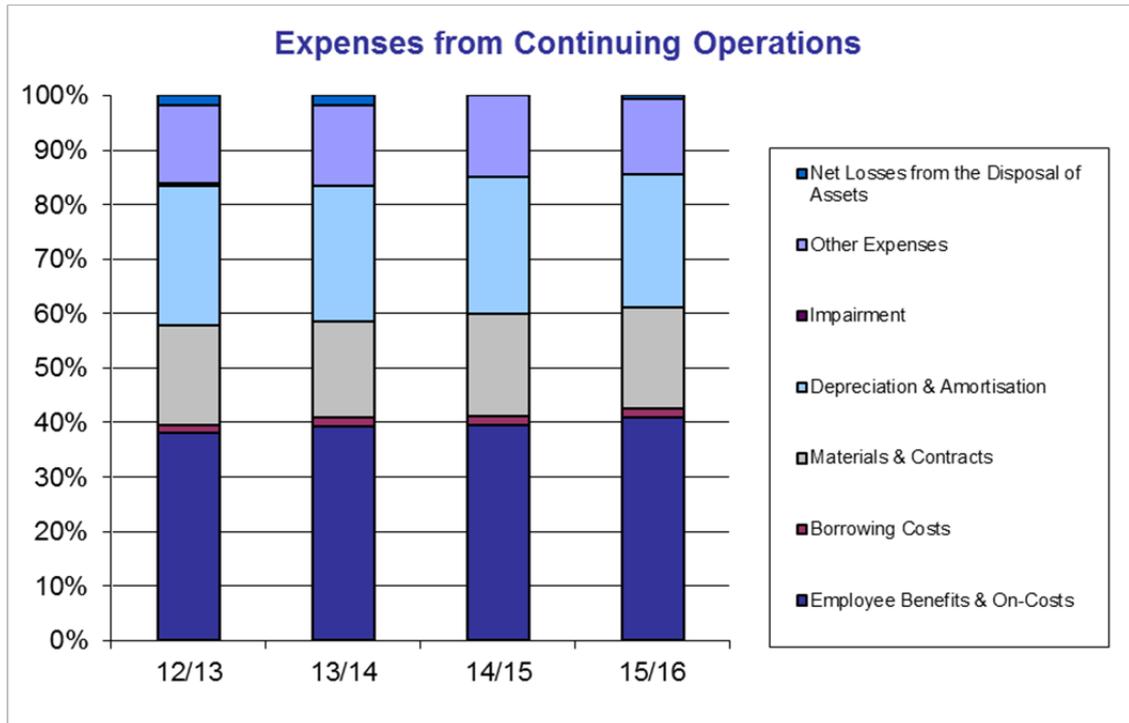
The Rates and Annual Charges Coverage Ratio assesses the degree of Council's dependence upon revenue from rates and annual charges and the security of Council's income.

Interest and Investment Income of \$5.6 million was recognised, representing a consistent result when compared to the prior year result of \$5.7 million. Capital Grant & Contribution income increased throughout the year, primarily attributable to additional funding received for transport purposes. Examples of these include the Roads to Recovery Programme, Restart NSW Illawarra Infrastructure Fund and various Roads and Maritime Services grants and contributions.

Expenses

Council's Expenses from Continuing Operations for 2015-2016 totalled \$253.2 million, compared to prior year expenditure of \$241.6 million. This is largely attributed to an increase in Employee Benefits and On-Costs, being Salary and Wages [\$4.1 million], Long Service Leave Provision [\$3.4 million] offset by a decrease in Workers' Compensation provision by \$0.5 million. During the 2015-2016 financial year, Council has been able to keep costs within expectations.

Material budget variations from the 2015-2016 year for income and expenditure items are detailed in Note 16 of the statements.



Wollongong City Council

Historical Financial Data

Income Statement

		Actual 2012/13 \$'000	Actual 2013/14 \$'000	Actual 2014/15 \$'000	Actual 2015/16 \$'000
Income from Continuing Operations					
Revenue:					
Rates & Annual Charges	3a	148,777	155,509	166,849	174,149
User Charges & Fees	3b	29,899	32,250	32,851	31,252
Interest and Investment Revenue	3c	5,431	5,937	5,689	5,597
Other Revenues	3d	10,864	10,153	11,965	12,891
Grants & Contributions provided for Operating Purposes	3e,f	29,107	20,463	30,319	30,461
Grants & Contributions provided for Capital Purposes (1)	3e,f	39,042	31,361	22,033	26,548
Other Income:					
Net Gains from the Disposal of Assets	5	-	-	3,533	-
Profit from interests in Joint Ventures & Associates Entities using the equity method	19	-	-	-	-
		244	198	-	150
Total Income from Continuing Operations		263,364	255,871	273,239	281,048
Expenses from Continuing Operations					
Employee Benefits & On-Costs					
Employee Benefits & On-Costs	4a	91,043	95,792	95,399	103,547
Borrowing Costs	4b	3,367	3,989	4,037	4,223
Materials & Contracts	4c	43,139	42,685	45,647	47,144
Depreciation & Amortisation	4d	61,240	61,203	60,763	61,882
Impairment	4d	990	-	-	6
Other Expenses	4e	34,135	35,846	35,777	34,782
Net Losses from the Disposal of Assets	5	4,311	4,245	-	1,627
Loss from interests in Joint Ventures & Associates	19	-	-	22	-
Total Expenses from Continuing Operations		238,225	243,760	241,645	253,211
Operating Result from Continuing Operations		25,139	12,111	31,594	27,837
NET OPERATING RESULT FOR THE YEAR		25,139	12,111	31,594	27,837
Less:					
Grants & Contributions provided for Capital Purposes	3e,f	39,042	31,361	22,033	26,548
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes		(13,903)	(19,250)	9,561	1,289

This Statement is to be read in conjunction with the Notes in the body of the financial statements and with consideration to Note (1) below.

(1) Capital Grants and Contributions increased in 2013 primarily as a result of a significant amount of contributed assets treated as income.

Wollongong City Council

Historical Financial Data

Statement of Financial Position

	Notes	Actual 2012/13 \$'000	Actual 2013/14 \$'000	Actual 2014/15 \$'000	Actual 2015/16 \$'000
ASSETS					
Current assets					
Cash & cash equivalents	6a	99,502	33,299	33,580	17,747
Investments	6b	7,294	63,672	102,076	126,193
Receivables	7	20,481	23,808	22,109	21,280
Inventories	8	8,940	6,037	6,040	6,027
Other	8	885	1,646	4,313	3,207
Assets held for sale (previously non-current)	22	-	1,700	-	-
Total current assets		137,102	130,162	168,118	174,454
Non-current assets					
Cash assets	6a	-	-	-	-
Investments	6b	10,000	21,000	9,000	10,085
Receivables	7	4,839	-	-	-
Inventories	8	-	-	-	-
Infrastructure, property, plant & equipment	9	2,376,962	2,207,842	2,251,343	2,265,413
Investments accounted for using the equity method	19	983	1,181	1,160	1,310
Investment property	14	3,725	2,750	2,750	4,775
Intangible assets	25	364	930	1,220	1,043
Non-current assets classified as 'held for sale'	22	-	-	-	-
Other	8	-	-	-	-
Total non-current assets		2,396,873	2,233,703	2,265,473	2,282,626
TOTAL ASSETS		2,533,975	2,363,865	2,433,591	2,457,080
LIABILITIES					
Current liabilities					
Payables	10	23,201	29,360	34,039	37,432
Interest bearing liabilities	10	3,332	3,908	6,369	6,690
Provisions	10	40,833	42,651	47,487	50,683
Total current liabilities		67,366	75,919	87,895	94,805
Non-current liabilities					
Payables	10	-	4,034	-	-
Interest bearing liabilities	10	31,236	31,459	39,758	33,940
Provisions	10	45,401	45,183	42,554	44,031
Total non-current liabilities		76,637	80,676	82,312	77,971
TOTAL LIABILITIES		144,003	156,595	170,207	172,776
NET ASSETS		\$ 2,389,972	2,207,270	2,263,384	2,284,304
EQUITY					
Retained earnings	20	1,163,160	1,193,467	1,252,318	1,299,521
Revaluation reserves	20	1,226,812	1,013,803	1,011,066	984,783
Council Equity Interest		2,389,972	2,207,270	2,263,384	2,284,304
Minority Equity Interest	19	-	-	-	-
TOTAL EQUITY		\$ 2,389,972	2,207,270	2,263,384	2,284,304

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

Council Amalgamation

On 18 December 2015, the Premier and Minister for Local Government announced the Government's Merger Proposals that included Wollongong City Council to be joined with Shellharbour City Council to form one entity. This proposed amalgamation has been delayed due to an ongoing legal challenge by Shellharbour City Council. On this basis, it is not clear when, or if, the merger will proceed.