

ITEM 14 JUNE 2017 FINANCIALS - PRELIMINARY AND PRE AUDIT RESULT

This report presents the preliminary and pre audit results for the year ending 30 June 2017. This result is subject to change pending receipt of the insurance pool valuation, workers' compensation actuarial report, finalisation of the asset capitalisation and disposal process and completion of the annual independent audit.

The June 2017 financial results are positive compared to budget across the key indicators. The Operating Result [pre capital] shows a favourable result compared to budget of \$19.5M. This includes the early payment of the 2017-18 Financial Assistance Grant of \$9.0M and any variation in restricted income and expenditure which creates a timing issue. The Funds Available from Operations result shows a variation of \$14.7M which excludes timing issues other than the early payment of FAG and, therefore, is more indicative of operating performance over the period.

The overall Funds Result variance is slightly lower at \$13.8M as it includes the additional \$1.2M of general revenue applied to fund an increased capital works program and a slightly lower than budgeted debt repayment.

The Cash Flow Statement at the end of the period indicates that there is sufficient cash to support external restrictions.

Council has expended \$91.2M on its capital works program representing 102.5% of the annual budget. Council has recognised additional capital contributions in addition to this amounting to \$29.5M.

RECOMMENDATION

The financials be received and noted.

REPORT AUTHORISATIONS

Report of: Tana Ramsden, Manager Finance (Acting)

Authorised by: Tom Tyrpenou, Director Corporate Services (Acting)

ATTACHMENTS

- 1 Income and Expense Statement - June 2017
- 2 Capital Project Report - June 2017
- 3 Balance Sheet - June 2017

BACKGROUND

This report presents the Income and Expense Statement and Balance Sheet for June 2017. The preliminary and pre audit result for the year ending 30 June 2017 indicates Operating Surplus [pre capital] of \$30.8M and a Total Funds Surplus of \$11.9M.

The following table provides a summary view of the organisation's overall financial results for the year to date.

FORECAST POSITION		Original Budget	Revised Budget	YTD Actual	Variation
KEY MOVEMENTS		1-Jul	30-Jun	30-Jun	
Operating Revenue	\$M	262.0	267.3	281.6	14.3
Operating Costs	\$M	(262.1)	(256.0)	(250.8)	5.2
Operating Result [Pre Capital]	\$M	(0.0)	11.3	30.8	19.5
Capital Grants & Contributions	\$M	32.9	12.0	42.0	30.0
Operating Result	\$M	32.9	23.4	72.9	49.5
Funds Available from Operations	\$M	61.8	65.4	80.1	14.7
Capital Works		101.6	89.0	91.2	(2.2)
Contributed Assets		-	-	29.5	(29.5)
Transfer to Restricted Cash		-	9.7	9.7	-
Borrowings Repaid	\$M	7.3	7.3	7.2	0.1
Funded from:					
- Operational Funds	\$M	61.8	58.1	80.1	14.7
- Other Funding	\$M	47.1	38.7	69.3	30.6
Total Funds Surplus/(Deficit)	\$M	(0.1)	(1.9)	11.9	13.8

Financial Performance

The end of year preliminary and pre audit Operating Result [pre capital] shows a positive variance compared to budget of \$19.5M. This result includes a number of large adjustments that are related to timing of grant receipts and project completion and non-cash adjustments related to employee leave and carbon tax provisions. The following is a summary of impacts:

- Early payment 2017-18 Financial Assistance Grant **\$9.0M (F)**. Councils received a preliminary payment of the first two quarters of the 2017-18 allocation during June 2017.
- Non cash variation **\$3.1M (F)**. Major positive variations include the elimination of remaining Carbon Tax provision (\$1.9M), revaluation of employee entitlements (\$0.9M) that is mainly due to application of current discount rates and depreciation (\$0.8M). These are offset by loss on asset disposal (\$0.6M). These items do not affect the funds result.
- Projects in progress **\$2.0M (F)**. This improvement is due to timing in delivery of a number of projects that are expected to be finalised in 2017-18. These projects are supported by funding of \$1.5M from restricted cash and as such the impact on the Fund Result is reduced to \$0.5M.
- Additional internal services used in the delivery of capital works **\$0.9M (F)**.
- Improvements relating to prior year matters **\$0.6M (F)**. This included final payment of \$0.4M for the Independent Insurance Company insolvency settlement as well as recovery of legal costs and adjustment for prior year insurance accruals.
- Other operational variations **\$3.9M (F)**. Other operational savings include lower than budgeted employee costs of \$1.6M that are associated with increased level of vacancies through the potential merger period and a range of other positive variances across the organisation.

The Operating Result, inclusive of capital contributions, shows a positive variance compared to budget of \$49.5M. As well as the items discussed above, this result includes the recognition of contributed assets of \$29.5M and improvements in developer cash contributions. Neither of these transactions impacts the Fund Result.

Funds Result

The Total Funds Result includes a positive variance of \$13.8M. This result excludes non-cash variances, timing of grant receipts and progress of funded projects discussed above but includes the net increase in capital expenditure of \$1.1M.

Capital Budget

As at 30 June 2017, Council had expended \$91.2M or 102.5% of the approved annual capital program of \$89.0M. This over expenditure has been partially offset by increased funding (\$1.0M) leaving an impact of \$1.2M to the funds result.

Liquidity

Council's cash and investments increased during June 2017 to holdings of \$167.3M compared to \$163.0M at the end of May 2017. This is largely due to the early payment of instalments relating to the 2017-18 Financial Assistance Grant.

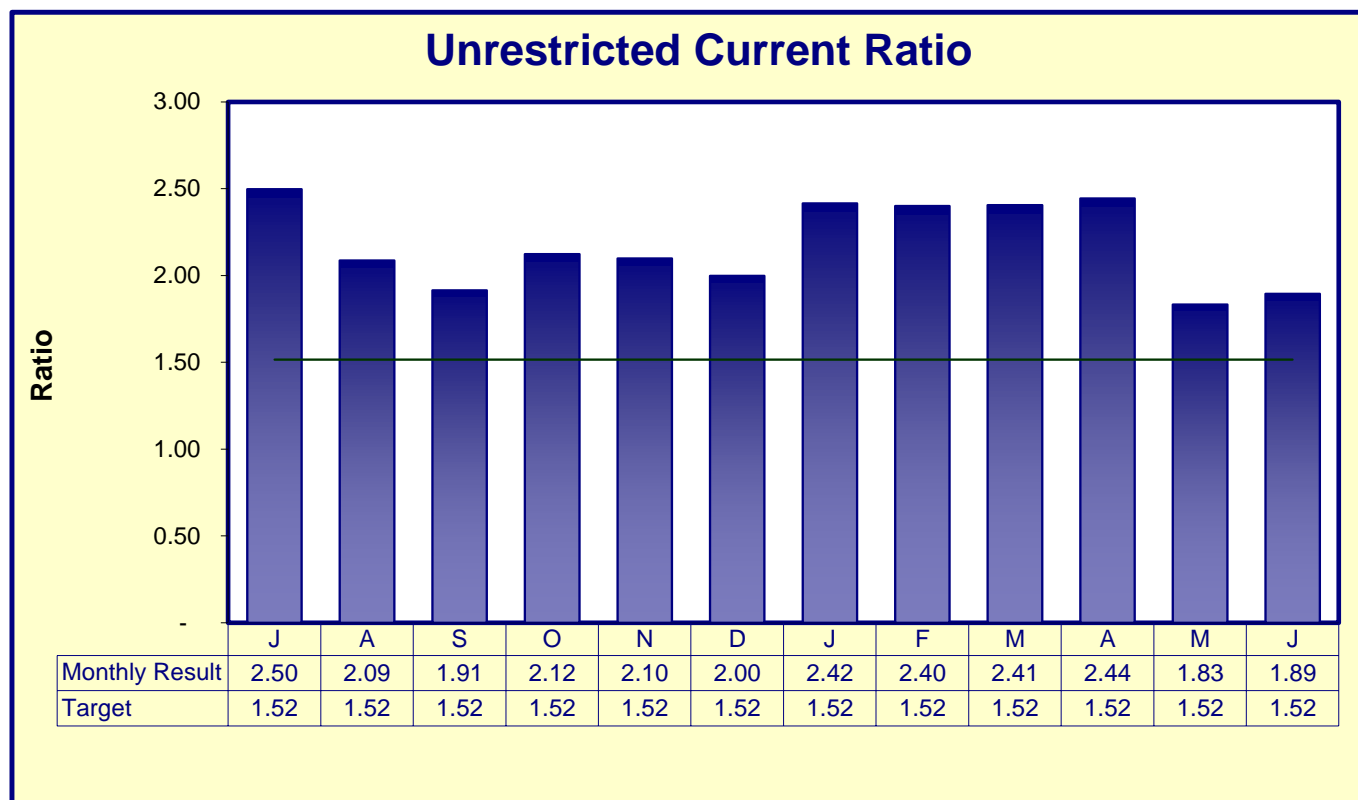
Income and Expenses

CASH, INVESTMENTS & AVAILABLE FUNDS					
	Actual 2015/16 \$M	Original Budget 2016/17 \$M	December QR 2016/17 \$M	March QR 2016/17 \$M	Actual Ytd June 2017 \$M
Total Cash and Investments	154.0	133.7	137.8	143.6	167.3
Less Restrictions:					
External	75.3	88.8	74.5	75.0	75.0
Internal	55.3	37.6	52.2	57.9	58.3
Total Restrictions	130.6	126.4	126.7	132.9	133.2
Available Cash	23.5	7.3	11.1	10.7	34.0
Adjusted for :					
Current payables	(34.9)	(23.6)	(23.5)	(23.0)	(41.7)
Receivables	22.9	23.0	25.3	25.1	23.6
Other	2.9	4.6	-	-	10.7
Net Payables & Receivables	(9.1)	4.0	1.8	2.0	(7.5)
Available Funds	14.4	11.3	12.9	12.8	26.5

The Available Funds position excludes restricted cash. External restrictions are funds 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.

The Available Funds forecast that was revised during the March Quarterly Review is within Council's Financial Strategy target of 3.5% to 5.5% of Operational Revenue [pre capital] and is between \$9.2M and \$14.4M for the year ending 30 June 2017. The actual Available Funds at 30 June 2017 are impacted by the early payment of the Financial Assistance Grant, progress of planned expenditure and increased revenue to date.

The Unrestricted Current Ratio measures the cash/liquidity position of an organisation. This ratio is intended to disclose the ability of an organisation to satisfy payment obligations in the short term from the unrestricted activities of Council. Council's current ratio is below the Local Government Benchmark of >2:1, however, the strategy is to maximise the use of available funds for asset renewal by targeting a lean Unrestricted Current Ratio.



Receivables

Receivables are the amount of money owed to Council or funds that Council has paid in advance. At June 2017, receivables totalled \$23.6M, compared to receivables of \$22.9M at June 2016. Fluctuations relate to the timing of rates payments which are accrued before the actual payments are due.

Payables

Payables (the amount of money owed to suppliers) of \$41.7M were owed at June 2017 compared to payables of \$34.9M in June 2016. The difference in payables relate to goods and services and capital projects delivered but not yet paid for, timing of the receipt of rating income and timing of the Financial Assistance Grant payments.

Debt

Council continues to have financial strength in its low level of borrowing. The industry measure of debt commitment is the Debt Service Ratio that measures the proportion of revenues that is required to meet annual loan repayments.

Council's Financial Strategy includes provision for additional borrowing in the future and Council will consider borrowing opportunities from time to time to bring forward the completion of capital projects where immediate funding is not available. Council currently has borrowings through an interest free loan and the subsidised Local Government Infrastructure Renewal Scheme (LIRS). In 2009-10, Council borrowed \$26M interest free to assist in the delivery of the West Dapto Access Plan. Council has also been successful in securing subsidies for loans under the three rounds of the LIRS program and has entered into loans of \$20M in 2012-13 for Round 1, \$4.3M in 2013-14 for Round 2 and \$15M for Round 3. The LIRS program provides a loan subsidy of 4% for Round 1 and 3% for the subsequent rounds. Loan funds have been used to accelerate the Citywide Footpaths, Shared Path Renewal, Missing Links Construction Program, building refurbishment works for Berkeley Community Centre, Corrimal Library and Community Centre, Thirroul Pavilion and Kiosk and to support the West Dapto Access – Fowlers Road project respectively. Council was advised of eligibility for further subsidy under Round 3 and an additional amount of \$5.5M was drawn down earlier this year that will also be used to support the West Dapto Access – Fowlers Road project.

Council's Debt Service Ratio forecast for 2016-17 is approximately 3.5%, which is still below Council's target of 4% and remains low in comparison to the Local Government's benchmark ratio of <10%. It is noted that non-cash interest expense relating to the amortisation of the income recognised on the West Dapto Access Plan Loan is not included when calculating the Debt Service Ratio.

Assets

The Balance Sheet shows that \$2.5B of assets are controlled and managed by Council for the community as at 30 June 2017. The 2016-17 capital works program includes projects such as the West Dapto Access strategy, civil asset renewals including roads, car parks and buildings and purchase of library books. As at 30 June 2017, Council has expended \$91.2M on its capital works program representing 102.5% of the annual budget. Council has recognised additional capital contributions in addition to this amounting to \$29.5M.

PLANNING AND POLICY IMPACT

This report contributes to the delivery of Wollongong 2022 goal '*We are a connected and engaged community*'. It specifically delivers on the following:

Community Strategic Plan		Delivery Program 2012-17		Annual Plan 2017-18
Strategy		5 Year Action		Annual Deliverables
4.4.5	Finances are managed effectively to ensure long term financial sustainability	4.4.5.1	Effective and transparent financial management systems are in place	Provide accurate and timely financial reports monthly, quarterly and via the annual financial statement
				Continuous Budget Management is in place, controlled and reported
				Manage and further develop compliance program
				Monitor and review achievement of Financial Strategy

CONCLUSION

While the preliminary, pre audit result for the year ended 30 June 2017 is distorted by the early payment of the first two instalments of the 2017-18 Financial Assistance Grant of \$9.0M, the results show a significant improvement compared to budget. Consistent with the treatment of prior period improvements, this will provide Council with the opportunity to consider moving surplus funds into the Strategic Projects Restriction for future requirements of the organisation.

WOLLONGONG CITY COUNCIL				
1 July 2016 to 30 June 2017				
	2016/17 Original Budget \$'000	2016/17 Current Budget \$'000	2016/17 Actual YTD \$'000	2016/17 Variation \$'000
Income Statement				
Income From Continuing Operations				
Revenue:				
Rates and Annual Charges	184,035	184,540	184,531	(8)
User Charges and Fees	33,594	36,874	37,355	481
Interest and Investment Revenues	4,253	5,448	5,600	152
Other Revenues	10,205	12,164	14,353	2,189
Grants & Contributions provided for Operating Purposes	29,961	30,521	39,774	9,253
Grants & Contributions provided for Capital Purposes	32,947	12,049	42,028	29,980
Total Income from Continuing Operations	294,994	281,595	323,642	42,046
Expenses From Continuing Operations				
Employee Costs	117,960	119,762	117,500	2,261
Borrowing Costs	4,131	4,082	4,072	10
Materials, Contracts & Other Expenses	89,066	87,126	83,083	4,043
Depreciation & Amortisation	64,840	61,839	61,018	821
Internal Charges (labour)	(12,352)	(12,935)	(14,142)	1,206
Internal Charges (not labour)	(1,566)	(1,566)	(1,270)	(296)
Profit/Loss on Disposal of Assets	0	(52)	523	(576)
Total Expenses From Continuing Operations	262,079	258,255	250,785	7,470
Operating Results From Continuing Operations	32,916	23,340	72,857	49,517
Net Operating Result for the Year	32,916	23,340	72,857	49,517
Net Operating Result for the Year before Grants & Contributions provided for Capital Purposes	(31)	11,292	30,829	19,537
NET SURPLUS (DEFICIT) [Pre capital] %	11.2%	8.3%	22.5%	117.8%
Funding Statement				
Net Operating Result for the Year	32,916	23,340	72,857	49,517
Add back:				
- Non-cash Operating Transactions	78,451	76,002	72,880	(3,123)
- Restricted cash used for operations	15,013	15,050	13,514	(1,536)
- Income transferred to Restricted Cash	(52,636)	(36,906)	(67,028)	(30,122)
- Payment of Accrued Leave Entitlements	(11,943)	(12,082)	(12,103)	(21)
Funds Available from Operations	61,801	65,404	80,119	14,715
Advances (made by) / repaid to Council	0	0	0	0
Borrowings repaid	(7,285)	(7,285)	(7,160)	125
Operational Funds Available for Capital Budget	54,516	58,119	72,960	14,841
CAPITAL BUDGET				
Assets Acquired	(101,627)	(89,019)	(91,243)	(2,224)
Contributed Assets	0	0	(29,456)	(29,456)
Transfers to Restricted Cash	0	(9,654)	(9,654)	0
Funded From :-				
- Operational Funds	54,516	58,119	72,960	14,841
- Sale of Assets	1,743	3,297	3,239	(58)
- Internally Restricted Cash	21,770	11,808	11,987	178
- Borrowings	0	5,500	5,500	0
- Capital Grants	11,065	7,387	8,208	821
- Developer Contributions (Section 94)	6,008	4,549	4,444	(105)
- Other Externally Restricted Cash	5,620	5,072	5,153	81
- Other Capital Contributions	850	1,090	30,777	29,688
TOTAL FUNDS SURPLUS / (DEFICIT)	(55)	(1,852)	11,914	13,765

Manager Project Delivery Division**Commentary on June 2017 Capital Budget Report**

As at 30 June 2017, Council had expended \$91.2M or 102.5% of the approved annual capital program of \$89.0M. This over expenditure has been partially offset by increased funding (\$1.0M) leaving an impact of \$1.2M to the funds result.

The over expenditures occurred across a number of program areas with the largest five listed below:

- Cycle Shared Paths – Council commenced a number of shared paths near the end of the financial year and was able to achieve better progress than previously expected on multiyear projects. A typical example of this is the Tramway project where additional cliff scaling work was able to be implemented prior to end of year as the heritage approval was issued early than expected.
- Roadworks – On a number of projects in this category it was found that the scope of work was increased as work progressed due to uncovering additional areas requiring road reconstruction rather than just resealing. Examples of this were found at Carrington Street Bulli and works on the Princes Highway in the northern suburbs at various locations.
- Whytes Gully New Cells – The contractor working on the construction of the new landfill cell was able to achieve greater than predicted progress on this multiyear project.
- West Dapto Infrastructure – The contractor working on the Fowlers Road project achieved a quicker start on the Stage 1 works than was originally envisaged.
- Information Technology – A hardware and services project was able to be finalized ahead of program while an individual large piece of equipment was delivered early than expected.

CAPITAL PROJECT REPORT						
Year Ended 30 June 2017						
ASSET CLASS PROGRAMME	\$'000		\$'000		\$'000	
	CURRENT BUDGET		Actual		VARIATION	
	EXPENDITURE	OTHER FUNDING	EXPENDITURE	Funding	EXPENDITURE	OTHER FUNDING
Roads And Related Assets						
Traffic Facilities	1,107	(699)	1,126	(629)	18	70
Public Transport Facilities	242	(20)	336	(19)	94	1
Roadworks	16,870	(3,122)	17,316	(3,855)	446	(733)
Bridges, Boardwalks and Jetties	2,145	(112)	2,080	(111)	(65)	1
TOTAL Roads And Related Assets	20,364	(3,952)	20,857	(4,614)	493	(661)
West Dapto						
West Dapto Infrastructure Expansion	3,834	(3,619)	4,086	(3,900)	252	(281)
TOTAL West Dapto	3,834	(3,619)	4,086	(3,900)	252	(281)
Footpaths And Cycleways						
Footpaths	4,490	(1,591)	4,549	(1,717)	59	(127)
Cycle/Shared Paths	5,912	(2,523)	7,042	(2,708)	1,130	(185)
Commercial Centre Upgrades - Footpaths and Cycleways	3,784	(795)	3,922	(773)	138	22
TOTAL Footpaths And Cycleways	14,185	(4,908)	15,513	(5,198)	1,328	(290)
Carparks						
Carpark Construction/Formalising	170	0	177	0	7	0
Carpark Reconstruction or Upgrading	2,032	0	1,936	0	(96)	0
TOTAL Carparks	2,202	0	2,113	0	(89)	0
Stormwater And Floodplain Management						
Floodplain Management	1,966	(905)	1,616	(898)	(350)	7
Stormwater Management	2,296	(418)	2,290	(393)	(6)	25
Stormwater Treatment Devices	358	(130)	377	(106)	18	24
TOTAL Stormwater And Floodplain Management	4,620	(1,453)	4,282	(1,397)	(338)	56
Buildings						
Cultural Centres (IPAC, Gallery, Townhall)	1,117	0	1,054	0	(63)	0
Administration Buildings	1,565	0	1,646	0	81	0
Community Buildings	11,573	(1,801)	11,684	(1,767)	111	34
Public Facilities (Shelters, Toilets etc.)	2,423	(170)	2,435	(170)	12	(0)
Carbon Abatement	1,211	(1,000)	1,166	(992)	(45)	8
TOTAL Buildings	17,889	(2,971)	17,985	(2,929)	96	42
Commercial Operations						
Tourist Park - Upgrades and Renewal	1,081	0	1,104	0	23	0
Crematorium/Cemetery - Upgrades and Renewal	212	0	217	0	5	0
Leisure Centres & RVGC	157	0	157	0	0	0
TOTAL Commercial Operations	1,450	0	1,478	0	28	0
Parks Gardens And Sportfields						
Play Facilities	1,314	(10)	1,332	(13)	19	(3)
Recreation Facilities	1,846	(246)	1,768	(201)	(78)	45
Sporting Facilities (Shelters, Toilets etc.)	1,374	(580)	1,335	(556)	(39)	24
Lake Illawarra Foreshore	(0)	0	0	0	0	0
TOTAL Parks Gardens And Sportfields	4,534	(836)	4,435	(769)	(99)	66
Beaches And Pools						
Beach Facilities	427	0	432	0	5	0
Rock/Tidal Pools	1,262	0	1,280	0	17	0
Treated Water Pools	979	(9)	1,121	(9)	142	0
TOTAL Beaches And Pools	2,668	(9)	2,832	(9)	165	0

Item 14 - Attachment 2 - Capital Project Report - June 2017

CAPITAL PROJECT REPORT						
Year Ended 30 June 2017						
ASSET CLASS PROGRAMME	\$'000		\$'000		\$'000	
	CURRENT BUDGET		Actual		VARIATION	
	EXPENDITURE	OTHER FUNDING	EXPENDITURE	Funding	EXPENDITURE	OTHER FUNDING
Natural Areas						
Environmental Management Program	0	0	0	0	(0)	0
Natural Area Management and Rehabilitation	165	0	155	0	(10)	0
TOTAL Natural Areas	165	0	155	0	(10)	0
Waste Facilities						
Whytes Gully New Cells	7,302	(7,302)	7,681	(7,681)	378	(378)
Whytes Gully Renewal Works	395	(395)	325	(325)	(70)	70
Helensburgh Rehabilitation	49	(49)	49	(49)	(0)	0
TOTAL Waste Facilities	7,746	(7,746)	8,054	(8,054)	308	(308)
Fleet						
Motor Vehicles	1,843	(940)	1,868	(1,088)	25	(149)
TOTAL Fleet	1,843	(940)	1,868	(1,088)	25	(149)
Plant And Equipment						
Portable Equipment (Mowers etc.)	442	(53)	189	(92)	(253)	(39)
Mobile Plant (trucks, backhoes etc.)	3,686	(1,436)	4,198	(874)	512	562
Fixed Equipment	320	0	0	0	(320)	0
TOTAL Plant And Equipment	4,448	(1,489)	4,387	(966)	(61)	523
Information Technology						
Information Technology	1,335	(165)	1,565	(155)	230	10
TOTAL Information Technology	1,335	(165)	1,565	(155)	230	10
Library Books						
Library Books	1,193	(66)	1,195	(6)	1	60
TOTAL Library Books	1,193	(66)	1,195	(6)	1	60
Public Art						
Public Art Works	200	0	35	0	(165)	0
Art Gallery Acquisitions	110	0	103	0	(7)	0
TOTAL Public Art	310	0	138	0	(172)	0
Emergency Services						
Emergency Services Plant and Equipment	80	0	100	0	20	0
TOTAL Emergency Services	80	0	100	0	20	0
Land Acquisitions						
Land Acquisitions	84	0	138	(57)	54	(57)
TOTAL Land Acquisitions	84	0	138	(57)	54	(57)
Non-Project Allocations						
Capital Project Contingency	0	0	0	0	(0)	0
Capital Project Plan	69	0	66	0	(3)	0
TOTAL Non-Project Allocations	69	0	66	0	(3)	0
GRAND TOTAL	89,019	(28,154)	91,248	(29,143)	2,229	(989)

WOLLONGONG CITY COUNCIL		
	Actual 2016/17 \$'000	Actual 2015/16 \$'000
Balance Sheet		
Current Assets		
Cash Assets	8,513	17,746
Investment Securities	134,170	126,193
Receivables	23,579	21,280
Inventories	6,146	6,028
Other	10,680	3,207
Assets classified as held for sale	6,381	0
Total Current Assets	189,467	174,453
Non-Current Assets		
Non Current Cash Assets	24,585	10,085
Property, Plant and Equipment	2,317,000	2,265,362
Investment Properties	4,775	4,775
Westpool Equity Contribution	1,310	1,310
Intangible Assets	443	1,042
Total Non-Current Assets	2,348,113	2,282,574
TOTAL ASSETS	2,537,580	2,457,027
Current Liabilities		
Current Payables	41,744	33,258
Current Provisions payable < 12 months	13,468	16,998
Current Provisions payable > 12 months	37,538	37,858
Current Interest Bearing Liabilities	7,513	6,690
Total Current Liabilities	100,262	94,804
Non-Current Liabilities		
Non Current Interest Bearing Liabilities	32,188	33,940
Non Current Provisions	46,046	44,031
Total Non-Current Liabilities	78,234	77,970
TOTAL LIABILITIES	178,496	172,774
NET ASSETS	2,359,084	2,284,253
Equity		
Accumulated Surplus	1,253,306	1,167,459
Asset Revaluation Reserve	972,532	986,148
Restricted Assets	133,246	130,647
TOTAL EQUITY	2,359,084	2,284,253