

WOLLONGONG CITY COUNCIL

ANNUAL REPORT

2021 - 2022

ATTACHMENT A

Financial Commentary



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EXECUTIVE SUMMARY

As General Manager of Wollongong City Council, I present the Annual Financial Statements for 2021-2022. These statements continue to reflect Council's transformation in recent years to an organisation which continues to be financially stable having the capacity to manage short, medium and longer term challenges.

The Income Statement shows a net operating surplus of \$59.5M compared to a surplus of \$35.0M in 2020-2021. The net operating result before capital grants and contributions was a surplus of \$14.1M. We are confident that our underlying financial performance remains on track and sustainable.

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 2022 was \$3.56B. During 2021-2022, Council completed capital works of \$89.7M including the construction and acquisition of \$46.2M of new assets and \$43.5M for the renewal of existing assets. The program included projects such as the continuation of West Dapto Access Works, Cringila Hills Community Park Car Park (Stage 2) and footpath reconstruction and upgrade, as well as 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 \$162.0M at 30 June 2022 [\$170.9M in 2020-2021]. \$140.7M of Council's cash [\$152.0M in 2020-2021] is restricted in its use to specific purposes by external bodies, legislation and Council resolution.

Council's unrestricted current ratio increased from 2.15:1 in 2020-2021 to 2.48:1 in 2021-2022. 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.

Rates and Annual Charges outstanding increased from 5.28% in 2020-2021 to 6.27% in 2021-2022. Council will continue to work and support its ratepayers who are still experiencing the impact of COVID-19 on both their personal and business finances to achieve below the industry benchmark of <5%.

Council continues to have relatively low levels of borrowing and did not undertake any additional borrowings in 2021-2022. Low debt levels remain a financial strength of Council and adds flexibility in making financial decisions for the future. The 2021-2022 debt service ratio increased to 2.43% compared to 2.28% in 2020-2021. 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.

A handwritten signature in black ink, appearing to read "Greg Doyle", written over a white background.

Greg Doyle
General Manager
Wollongong City Council



Financial Commentary 2021-2022

2021-2022 FINANCIAL OVERVIEW

This report provides an overview of Council's 2021-2022 Financial Statements. The Financial Statements are prepared by Council to provide information in relation to Council's financial performance and position. The Financial Statements comprise of five key financial reports:

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

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 – 2021-2022. The Statements are reviewed by the Audit, Risk and Improvement Committee, independently audited by the Audit Office of NSW, reported to Council, placed on public exhibition and then lodged with the Office of Local Government.

The 2021-2022 Financial Statements show a positive Net Operating Result of \$59.5M. 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 is a surplus of \$14.1M, which is in line with Council's targeted position of a small surplus result. This result includes substantial end of year adjustments, including the provision for employee leave entitlements, provision for waste remediation, investment property revaluation and the workers' compensation provision. These variations do not change the underlying capacity of the organisation over time and Council considers our underlying financial performance to be on track to meet financial strategies and targets in the short, medium and long term.

2021-2022 HIGHLIGHTS

\$3.56B

Total Assets

PY \$2.88B

2.43%

Debt Service Ratio

PY 2.28%

\$46.2M

Capital Works - New

PY \$44.5M

\$43.5M

Capital Works - Renew

PY \$33.3M

\$59.5M Surplus

Net Operating Result

PY \$35.0M Surplus

\$14.1M Surplus

Net Operating Result Before Capital
Grants & Contributions

PY \$0.5M Surplus

\$14.9M

Contributed Assets Recognised

PY \$12.2M

2.48:1

Unrestricted Current Ratio

PY 2.15:1

\$162.0M

Cash Assets & Investments

PY \$170.9M

6.27%

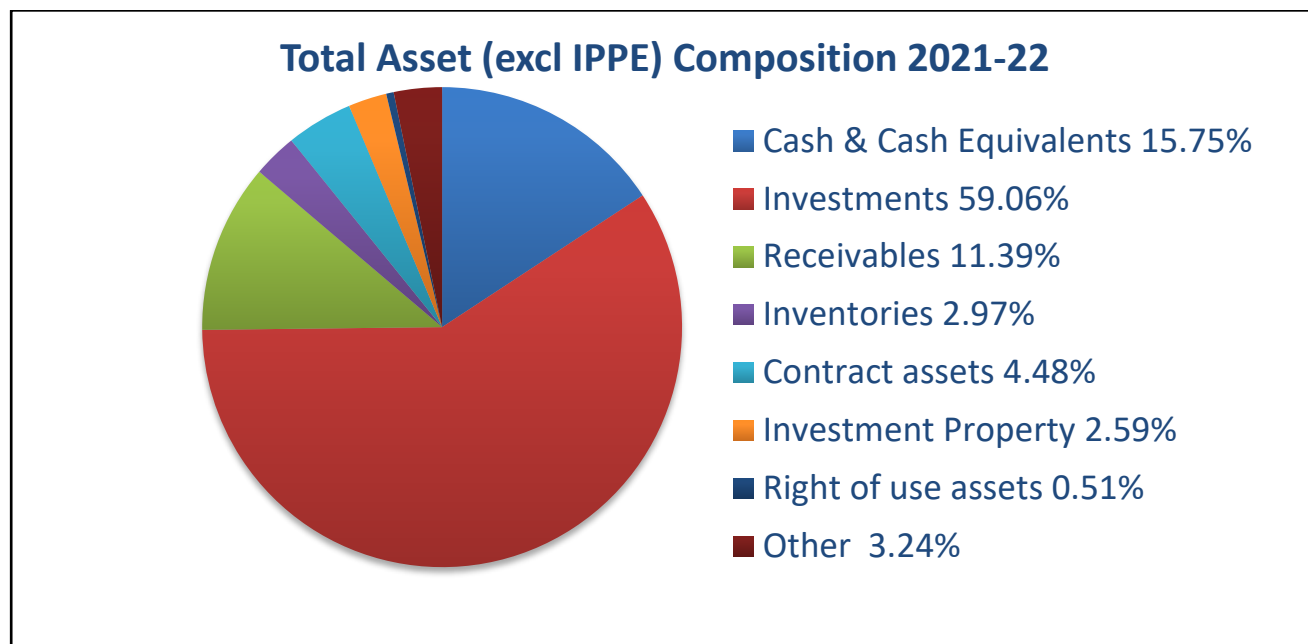
Rates, Annual Charges, Interest &
Extra Charges Outstanding

PY 5.28%

*PY= Prior Year

ASSETS

Council is the custodian of community assets with a total value of \$3.56B as at 30 June 2022. Infrastructure, Property, Plant & Equipment (IPPE) makes up \$3.35B of the total asset value. The value of assets excluding IPPE was \$216.6M with the composition of these asset classes shown as follows:



Infrastructure, Property, Plant & Equipment (IPPE)

With a carrying value of \$3.35B, IPPE is Council's most significant asset group representing 93.92% of total assets value. This asset group includes roads, drains, footpaths, community facilities, recreational facilities, parks and gardens.

During 2021-2022, Council delivered a capital works program of \$89.7M including the construction and purchase of \$46.2M of new assets and renewal of existing assets of \$43.5M. In addition, \$14.9M of assets were contributed to Council during 2021-2022. After accounting for annual depreciation expense and removing revaluation adjustments, the overall value of IPPE decreased by \$103.2M during 2021-2022. This is primarily the result of the capital works program. The value of revaluation adjustments of assets completed in 2021-2022 was \$643.4M. Further financial details of IPPE are shown at Note C1-8.

Cash and Investments

Council maintained robust levels of cash and investments with holdings of \$162.0M at 30 June 2022. Cash and investment positions over the prior two financial years are as follows:

CASH, INVESTMENTS & AVAILABLE FUNDS (\$M)		
	YTD Actual 30 June 2021	YTD Actual 30 June 2022
TOTAL CASH & INVESTMENTS	170.853	162.033
Less Restrictions:		
External	78.088	75.344
Internal	70.676	62.886
CivicRisk Investment	3.199	2.530
AVAILABLE CASH	18.890	21.273
Adjusted for:		
Payables	(26.621)	(27.376)
Receivables	21.859	24.674
Other	8.875	13.059
AVAILABLE FUNDS	23.003	31.630

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 available for specific future purposes.

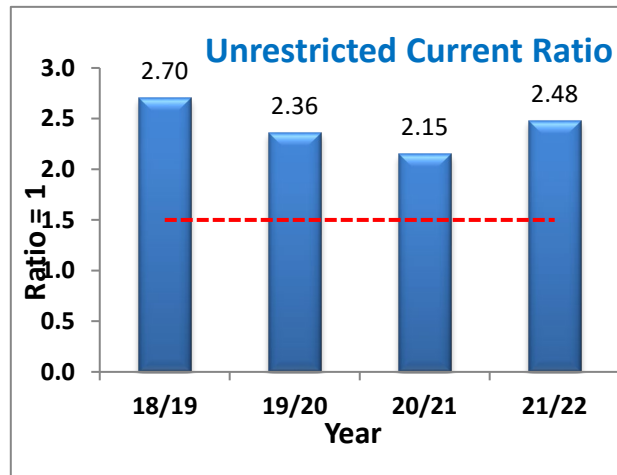
At 30 June 2022, Council achieved an available funds position of \$31.6M, which is significantly higher than the Financial Strategy target range of 3.5% to 5.5% of operational revenue (pre-capital). The result at balance date was uplifted by the receipt of the Financial Assistance Grant for 2021-2022 totaling \$15.3M.

Unrestricted Current Ratio

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.

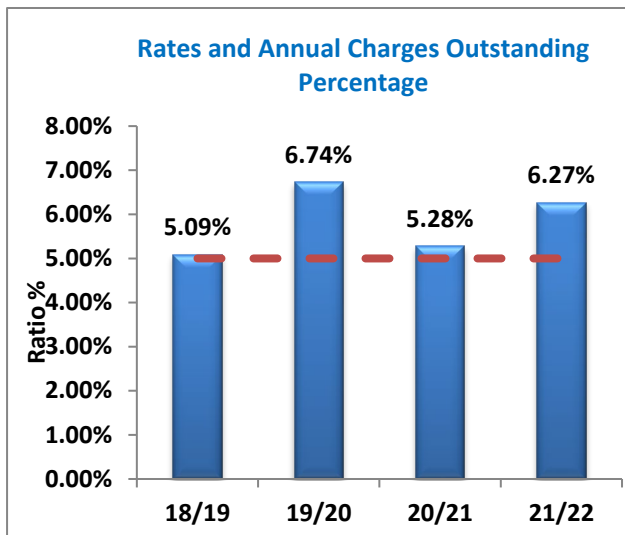
Performance: Council's performance is above the Local Government Benchmark of >1.5:1 and is consistent with the prior year.



Receivables

Receivables are the amount of money that is either owed to Council or funds that Council has paid in advance. At 30 June 2022, receivables totaled \$24.7M, an increase of \$2.8M compared to the 2020-2021 reporting period. Full details of receivables are provided in Note C1-4.

Rates and Annual Charges Outstanding Percentage



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

Target: Industry standard of <5%.

Performance: Council implemented a new property and rating system which resulted in the delay of payments being finalised within the system. The new system also had an impact on the rolling of recovery for outstanding monies owed.

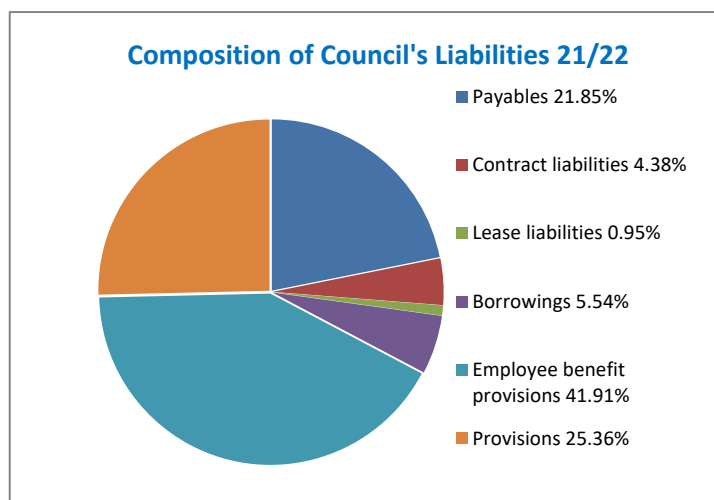
Council will continue to work and support its ratepayers who are still experiencing the impact of COVID-19 on both their personal and business finances to achieve below the industry benchmark of <5%.

Contract Assets

Contract assets represent Council's right to payment in exchange for the delivery of works relating to grants and contributions. As at 30 June 2022, contract assets totalled \$9.7M in comparison to \$4.7M in 2020-2021, resulting from spend on capital projects where funding is still to be received. Refer to C1-6 of the financial statements for additional details.

LIABILITIES

At 30 June 2022, Council's Total Liabilities were \$125.3M. The composition of Council's Total Liabilities is shown below.



Employee Benefit Provisions: Account for 41.91% of Council's Liabilities.

Provisions: Account for 25.36% of Council's Liabilities with the most significant provisions relating to Waste Depot Remediation Provision [\$19.1M], Workers' Compensation Provision [\$12.1M] and Self-Insurance [\$0.5M].

Payables: Account for 21.85% of Council's Liabilities. The most significant payables being accrued expenditure and expenditure incurred but not yet paid for expenditure.

Borrowings: Account for 5.54% of Council's Liabilities, down from prior year's

8.43% and relate to the subsidised Local Infrastructure Renewal Scheme Programs (1, 2 and 3) secured over the previous six financial years. This reduction is due to ongoing principal repayments and no additional borrowing being undertaken within the reporting period.

Contract Liabilities: Account for 4.38% 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 0.95% 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 C2-1 and C2-2. These are primarily made up of the CCTV Control Room, Dapto Ribbonwood, Warrawang Library, Helensburgh Tip and State Emergency Service site.

Provisions

Provisions represent the Council's obligation to make future payments as a result of past events. Provisions are revalued each financial year with any movements recognised through profit and loss. The value of provisions has reduced from \$98.7M in 2020-2021 to \$84.3M in 2021-2022. This movement predominately relates to the revaluation of the employee leave entitlements, workers' compensation and the waste facility provision.

Employee leave entitlements reflect the current value of the future payments, which are discounted based on published long term government bond rates. The overall decrease in the provision of \$5.2M is impacted by valuation changes including discount rates (-\$7.2M), offset by the impact of movement in the leave balances of employees (+\$1.8M) and an increase in the superannuation contribution percentage from 10% to 10.5% (+\$0.2M).

The workers' compensation provision is valued by an external actuary. As at 30 June 2022, the value of the provision increased by \$2.6M as a result of major variations in recent years' cost trends for both Council and the LG Industry which has flowed on to increases in the value of existing claims.

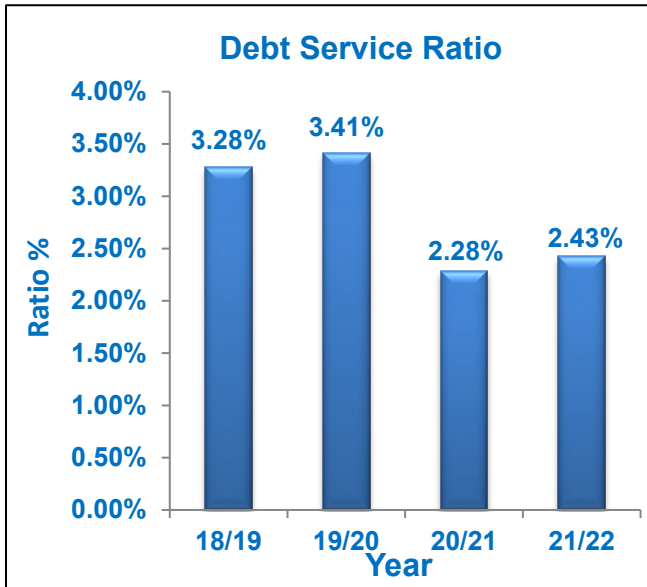
The provision for the remediation of Council's waste facility is calculated based on the forecast costs to rehabilitate the site. During the prior financial year, the reduction in the provision exceeded the carrying value of the corresponding asset and, therefore, all further adjustments are recognised through Other Expenses. The provision was reduced by a further \$11.6M in 2021-2022 as a result of reductions to the forecast rehabilitation costs and changes to the discount rates applied.

Borrowings

Council continues to remain a relatively low debt user. In 2021-2022, Council did not undertake additional borrowings with 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 are 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), round 2 (Upgrade Berkeley and Corrimal Community Centres and Thirroul Pavilion and Kiosk) and round 3 (West Dapto Access project to construct Fowlers Road to Fairwater Drive) are complete.

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 2.43%. This remains low in comparison to the Local Government benchmark ratio of <10% and is within Council's own Strategy.

The Debt Service Ratio remains consistent to the prior reporting period.

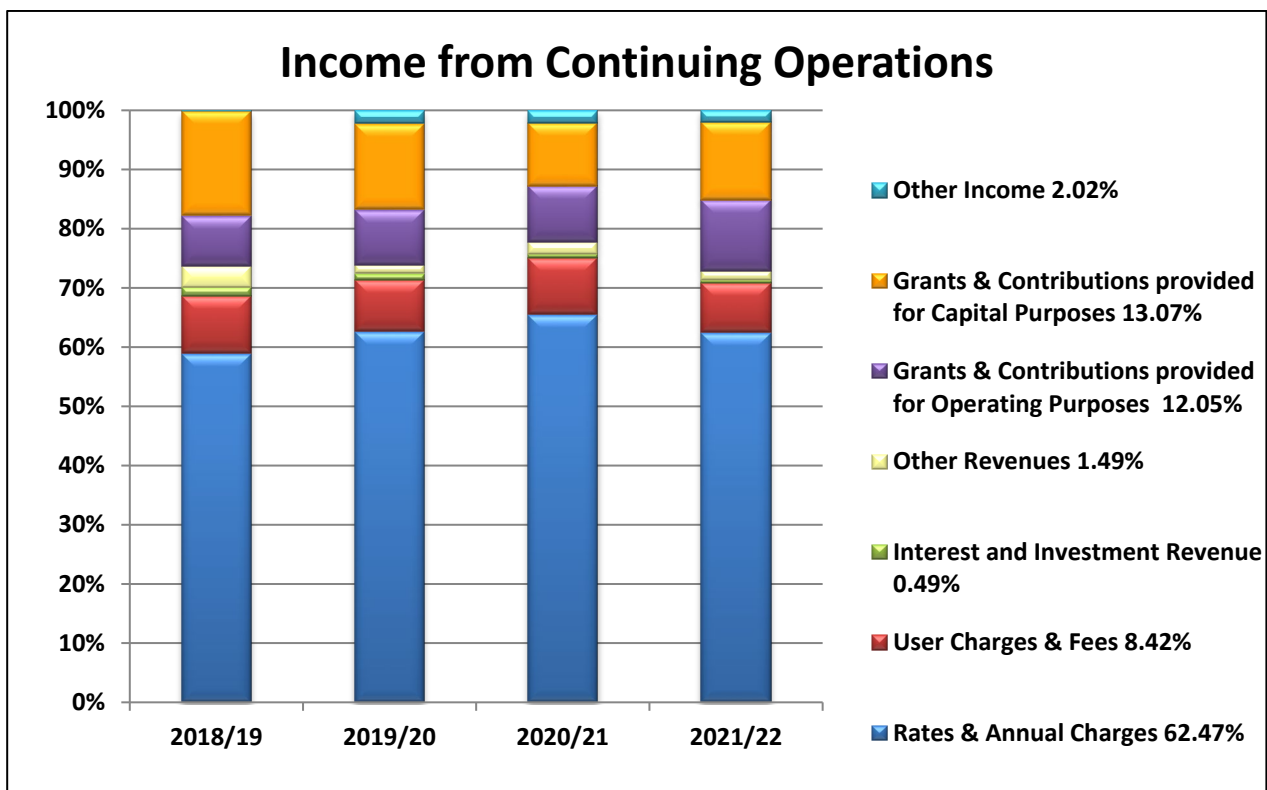
OPERATIONAL PERFORMANCE – INCOME & EXPENSES

Council achieved a Net Operating Surplus from Continuing Operations of \$59.5M in 2021-2022 in comparison to a surplus of \$35.0M in 2020-2021. This result includes capital grants and contributions that were significantly higher in 2021-2022. Council's underlying measure of long-term operational performance, the Operational Result before Capital Grants and Contributions, improved to a surplus of \$14.1M, compared to a surplus of \$0.5M in 2020-2021.

Income

Council's Income from Continuing Operations for 2021-2022 was \$347.3M compared to a prior year result of \$322.4M. A significant increase in the level of capital grants & contributions received in 2021-2022 compared to 2020-2021 has impacted on this result. Refer to B2-4 within the financial statements for more detailed information.

The composition of Council's revenue remained reasonably consistent compared to previous years as depicted in the table below. The realignment of rental income from Other Revenues to Other Income has been applied from the 2019-2020 financial year onwards within the below table.

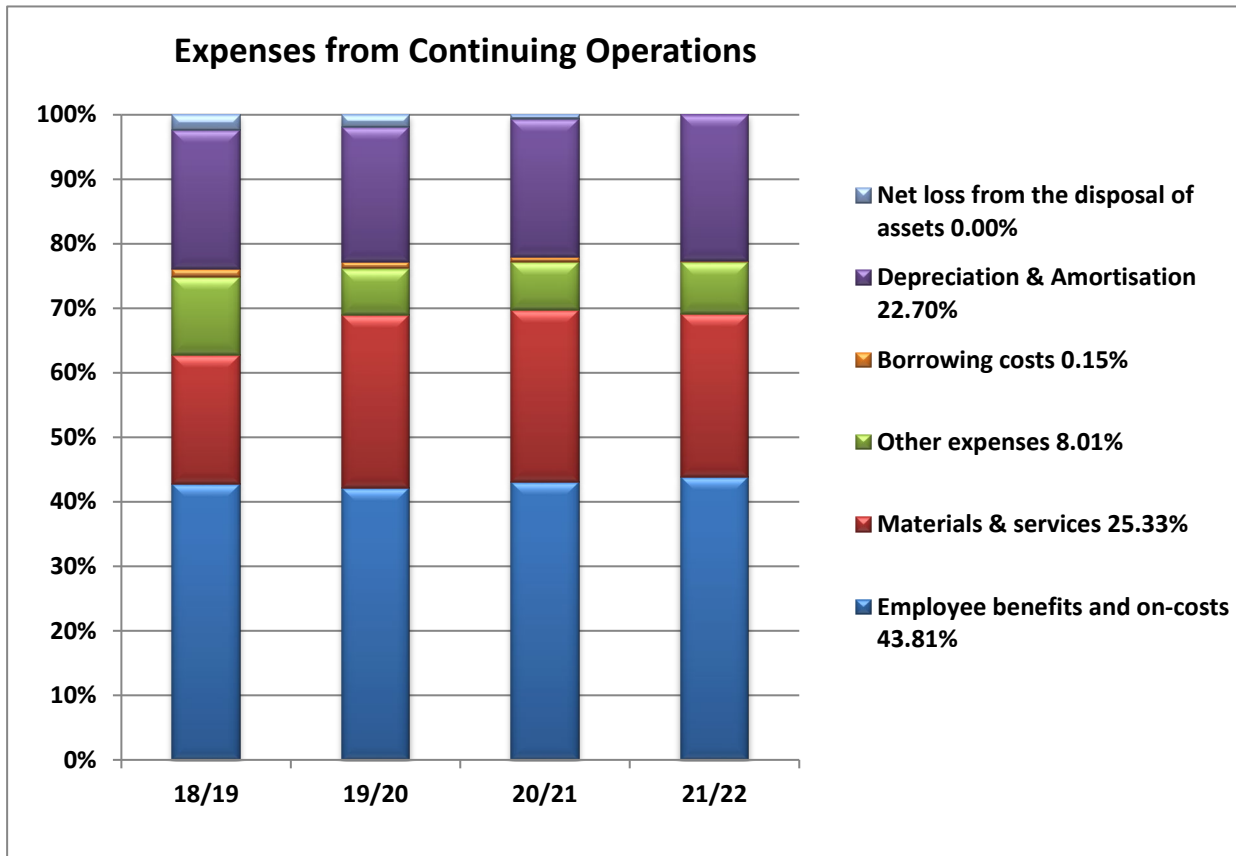


Expenses

Expenses from Continuing Operations for 2021-2022 totaled \$287.8M, a decrease on prior year expenditure of \$0.5M.

In terms of composition, the proportion of each expenditure category against total expenses from continuing operations has remained consistent compared to prior years.

Material budget variations from the 2021-2022 year for income and expenditure items are detailed in Note B5-1 of the statements.



Wollongong City Council

Historical Financial Data

Income Statement

	Notes	Actual 2018/19 \$'000	Actual 2019/20 \$'000	Actual 2020/21 \$'000	Actual 2021/22 \$'000
Income from Continuing Operations					
Revenue:					
Rates & Annual Charges	B2-1	199,524	205,118	211,126	216,919
User Charges & Fees	B2-2	32,793	28,695	30,864	29,230
Other Revenues	B2-3	12,125	4,794	6,444	5,167
Grants & Contributions provided for Operating Purposes	B2-4	28,856	30,727	30,782	41,841
Grants & Contributions provided for Capital Purposes	B2-4	59,656	47,472	34,478	45,402
Interest and Investment Revenue	B2-5	5,069	3,360	1,986	1,689
Other Income	B2-6	511	7,290	6,672	6,448
Net gain from the disposal of assets	B4-1	-	-	-	563
Total Income from Continuing Operations		338,536	327,456	322,352	347,259
Expenses from Continuing Operations					
Employee Benefits & On-Costs					
Employee Benefits & On-Costs	B3-1	122,445	122,912	123,589	126,077
Materials & Services	B3-2	57,432	78,344	76,619	72,910
Borrowing Costs	B3-3	3,337	3,052	2,179	437
Depreciation & Amortisation	B3-4	61,781	60,845	61,203	65,329
Other Expenses	B3-5	34,571	21,085	21,755	23,054
Fair value decrement on investment properties		-	-	-	-
Net Losses from the Disposal of Assets	B4-1	6,856	5,686	1,995	-
Total Expenses from Continuing Operations		286,422	291,924	287,340	287,807
Operating Result from Continuing Operations		52,114	35,532	35,012	59,452
NET OPERATING RESULT FOR THE YEAR		52,114	35,532	35,012	59,452
<u>Less:</u>					
Grants & Contributions provided for Capital Purposes	B2-4	59,656	47,472	34,478	45,402
Net Operating Result for the year before Grants and Contributions provided for Capital Purposes		(7,542)	(11,940)	534	14,050

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 2018/19 \$'000	Actual 2019/20 \$'000	Actual 2020/21 \$'000	Actual 2021/22 \$'000
ASSETS					
Current assets					
Cash & cash equivalents	C1-1	25,187	56,051	52,320	34,118
Investments	C1-2	114,579	97,423	103,334	88,185
Receivables	C1-4	36,620	21,667	21,859	24,674
Inventories	C1-5	337	381	463	461
Contract Assets	C1-6	-	5,669	4,707	9,711
Non-current Assets held for sale	C1-7	-	-	111	65
Other		11,879	10,572	6,682	6,881
Total current assets		188,602	191,763	189,476	164,095
Non-current assets					
Cash assets	C1-1	-	-	-	-
Investments	C1-2	15,056	4,000	15,199	39,730
Inventories	C1-5	5,948	5,972	5,972	5,972
Receivables	C1-4	-	-	-	-
Infrastructure, property, plant & equipment	C1-8	2,570,098	2,631,186	2,665,790	3,347,445
Investments accounted for using the equity method		2,929	3,484	-	-
Investment property	C1-9	5,000	5,000	4,600	5,600
Intangible assets	C1-10	440	254	152	76
Right of use assets	C2-1	-	1,790	1,471	1,094
Non-current assets classified as 'held for sale'		-	-	-	-
Other		-	-	-	-
Total non-current assets		2,599,471	2,651,686	2,693,184	3,399,917
TOTAL ASSETS		2,788,073	2,843,449	2,882,660	3,564,012
LIABILITIES					
Current liabilities					
Payables	C3-1	30,006	30,592	26,621	27,376
Income received in advance		5,014	-	-	-
Contract Liabilities	C3-2	-	3,572	8,177	5,491
Lease Liabilities		-	341	377	403
Borrowings	C3-3	7,934	5,260	5,497	3,569
Employee benefits provisions	C3-4	-	58,204	56,768	51,705
Provisions	C3-5	58,214	2,880	2,621	3,891
Total current liabilities		101,168	100,849	100,061	92,435
Non-current liabilities					
Payables	C3-1	385	-	-	-
Lease Liabilities	C2-1	-	1,519	1,194	788
Borrowings	C3-3	17,497	12,439	6,942	3,374
Employee benefits provisions	C3-4	-	905	957	792
Provisions	C3-5	47,054	38,871	38,357	27,879
Total non-current liabilities		64,936	53,734	47,450	32,833
TOTAL LIABILITIES		166,104	154,583	147,511	125,268
NET ASSETS		\$ 2,621,969	2,688,866	2,735,149	3,438,744
EQUITY					
Retained earnings	C4-1	1,468,848	1,481,079	1,518,472	1,576,459
Revaluation reserves	C4-1	1,153,121	1,207,790	1,216,677	1,862,285
		-	-	-	-
Council Equity Interest		2,621,969	2,688,869	2,735,149	3,438,744
Minority Equity Interest		-	-	-	-
TOTAL EQUITY		\$ 2,621,969	2,688,869	2,735,149	3,438,744

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