

# WYONG SHIRE COUNCIL

## FINANCIAL STATEMENTS 2006/2007

### DETAILED TECHNICAL ANALYSIS OF ANNUAL FINANCIAL REPORTS

The financial reports include the financial results for the year 2006-2007 from all council functions including water, drainage, sewerage, and business activities like the Holiday Parks and the Child Care Centres.

The overall process by which Council plans and monitors its activities and projects includes the annual financial statements but also includes service planning, long term strategic plans, and the annual Management Plan.

Council overall is in a healthy financial position. Council's financial condition can be assessed by taking into account the following:

- Income Statement
- Balance Sheet and Council's Cash Assets and Investment Securities (Note 6)
- Statement Of Performance Measures (Note 13)
- Significant Variations from Original Budgets (Note 16)

Other information provided in the Special Schedules also provide information relating to Council's current financial position with regards to condition of infrastructure assets (Special Schedule 7 – Condition of Public Works) and Council's projected financial position (Special Schedule 8 – Financial Projections).

#### Income Statement

The income statement ("profit and loss account") is a summary of Council's revenues and expenses for the year. The statement is in the format required by Accounting Standards and includes all revenue including grants and contributions towards capital works, but it does not include the corresponding capital expenditure to build or acquire new assets eg new buildings or pipelines.

The 2006-2007 Management Plan presented a balanced funding approach for Council. The 2006-2007 planned surplus of \$19.5 million presented in the income statements provides part of the story.

<b>Management Plan Summary 2006/2007</b>		
<b>Item</b>	<b>Management Plan Forecast - \$m</b>	<b>Management Plan Actual - \$m</b>
Financial Income Statement Budget Surplus	19.5	27.1
<i>Add back</i> depreciation expense (not cash)	33.3	34.0
<i>Add back</i> non cash developer contributions	-	(23.2)
<i>Add</i> loans raised less loans repaid	22.1	22.1
<i>Add</i> transfers from reserve accounts	33.4	33.3
<i>Add</i> asset sales	6.4	2.7
<i>Less</i> funding for capital acquisition program	(112.7)	(93.8)
<b>Equals Management Plan Budget Surplus</b>	<b>0.05</b>	<b>2.20</b>

The actual management plan result of a surplus of \$2.2 million included the following restrictions - \$1.8 million Estuary Management Plan and \$1.20 million RTA Roads Contribution. The actual deficit, after taking these restrictions into account, is \$0.8 million.

The \$27.1 million surplus for the year shown in the income statement compares to the planned surplus of \$19.5 million. There were a number of factors that contributed to this variation from original budget, namely:

- Grants and Contributions were over budget expectations by \$17.8 million. Of this, \$1.5 million represented Hunter Water contributions towards the Hunter Connection project and a federal grant of \$2.5 million. Other grants and contributions for Drainage, Water, and Sewerage were up on budget by \$9.5 million.
- Materials and Contracts were over budget by \$12.5 million. This included:
  - \$5.9 million on the Hunter Connection pipeline project, classed as an operational expense because the assets built or upgraded were not under direct Council control. These costs were included in the original budget, classified as capital expenditure.
  - \$2.5 million expended due to the natural disaster flood events in June 2007, of which \$1.8 million is recoverable through State Government funding of the natural disaster (note that this reimbursement of costs excluded overheads and costs related to Council's business activities of water and sewerage).
- User Revenues were up \$5 million compared to budget. This included an increase in RTA contributions for main road works of \$2.5m

Note 16 to the General Purpose Financial Reports provides further details on significant variations to the original operating budget, and provides detail on the line items shown in the income statement.

Further analysis of the variations against budget was provided in the report to Governance Committee on 8 August 2007 comparing line items within each principal activity shown on Council's Management Plan.

Compared to 2005/2006 the net operating result of Council increased by \$9.6 million.

Comparisons between 2006/2007 and 2005/2006 are detailed below in this report.

	<b>2006/07</b> <b>\$m</b>	<b>2005/06</b> <b>\$m</b>	<b>% Movement</b>
Income From Continuing Operations	207	173	20%
Expenses From Continuing Operations	180	155	16%
<b>Surplus From Continuing Operations</b>	<b>27</b>	<b>18</b>	<b>54%</b>

## Income

Income from continuing operations increased by \$48.6 million in 2006/2007.

Following is a breakdown of Council's Income by Category and the percentage movement from 2005/2006.

	<b>2006/07 \$m</b>	<b>2005/06 \$m</b>	<b>% Movement</b>
Rates & Annual Charges	92	85	8%
User Charges & Fees	42	36	10%
Interest and Investment Revenue	8	7	9%
Other Revenues	4	3	21%
Grants & Contributions Provided For Operating Purposes	20	18	15%
Grants & Contributions Provided For Capital Purposes	41	21	93%
Gain on Disposal Of Assets	0	0	
<b>Income From Continuing Operations</b>	<b>207</b>	<b>173</b>	<b>20</b>

### Rates & Annual Charges

Rates & Annual Charges increased in 2006/2007 by \$7.1 million. This increase can be attributed to:

- NSW Department of Local Government approved rate pegging increases
- IPART approved water & sewer rate increases
- An increase in the number of properties in the area during 2006/2007
- An increase in Council's Domestic Waste Charge in 2006/2007 resulted in additional Domestic Waste revenue but this increase was offset by the increase in the running costs of the Domestic Waste Service.

### User Charges & Fees

User Charges and Fees increased by \$5.4 million. Major growth items were:

- RTA income - main roads – an additional \$2.5 million
- Holiday Park fees – an additional \$0.5 million
- Water fees - an additional \$0.5 million

The increase in Water fees and charges resulted from approved IPART increases for water usage. Council's income for RTA works reflected increased road construction activity.

### Interest & Investment Revenue

Interest Revenue increased by \$0.6 million, or 8%. This is due to an increase in the interest rates we received on our investments with the total amount invested decreasing from June 2006 \$117 million to June 2007 \$108 million.

### Other Revenues

Other Revenues increased by \$0.6 million. This included a \$0.3 million increase in sewerage connections, an indication of increased levels of development activity.

## Grants & Contributions

Grants & Contributions increased by \$22.4 million.

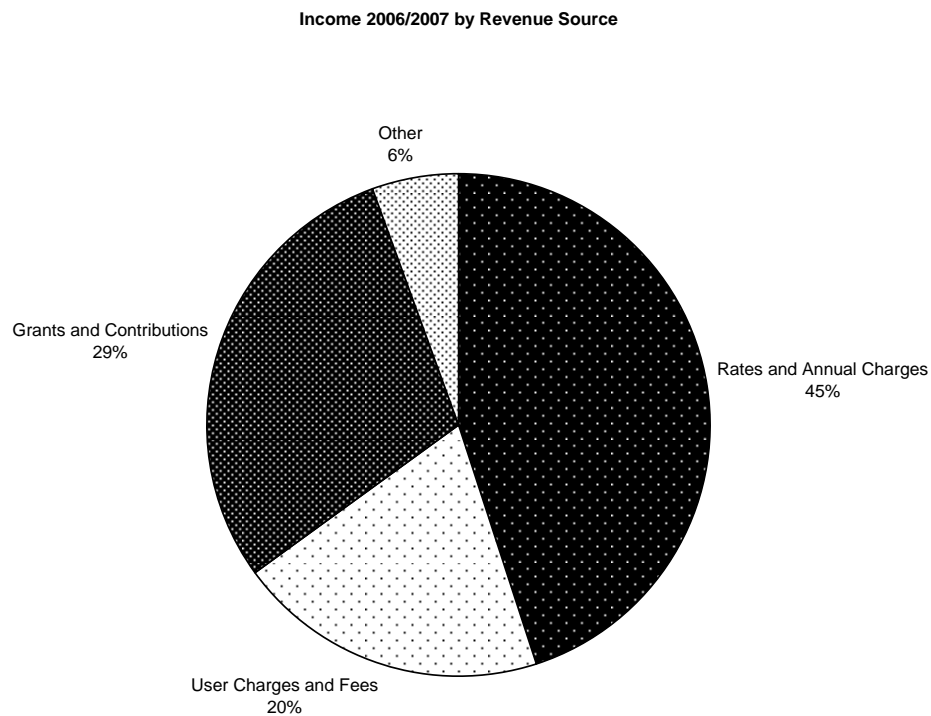
The main component was developer contributions and dedications which increased by \$12.4 million. The financial year saw the recording of an increase of \$5.5 million in subdivider dedications – which include land, paving, kerb & gutter and other contributions – and \$9.2 million of non cash assets donated under existing section 94 and section 64 contribution plans.

There is a time lag between approval of developer applications and the receipt of developer contributions, and it is expected that a downturn in applications in 2006-07 will result in a fall in the level of contributions received in the years to come.

\$2.5 million was received from the Commonwealth towards Wyong's costs on the Hunter connection project.

\$1.5 million was received from Hunter Water for the Hunter Connection project.

In summary, during 2006/2007 Council received its revenue from the following sources:



## Expense

Expenses from Continuing Operations increased by \$25 million in 2006/2007

Following is breakdown of Council's Expenses by category and the percentage movement from 2005/2006.

	2006/07	2005/06	% Movement
	\$m	\$m	
Employee Benefits & On Costs	62	57	9%
Borrowing Costs	6	5	32%
Materials & Contracts	57	39	47%
Depreciation & Impairment	34	35	-3%
Other Expenses	21	19	8%
Loss on Disposal Of Assets	0	0	
	<b>180</b>	<b>155</b>	<b>16%</b>

### Employee Benefits & On Costs

Employee Benefits & On Costs increased by \$4.9 million in 2006/2007.

Significant items in this increase relating to salaries and wages paid were a 3% to 3.5% award Increases on wages and salaries (including back-pay) totalling \$1.8 million and additional overtime in June because of storm damage (\$0.3 million)

Increases in employee overhead cost were a one off accounting adjustment to add overheads to employee leave provisions of \$1.0 million. There was also a \$1million increase in base provisions for employee leave, resulting from increased award entitlements and a revised actuarial assessment of long service leave commitments.

Other employee related expenses include Workers Compensation, FBT, Payroll Tax, training expenses, HECS payments, recruitment costs and uniform expenses.

### Borrowing Costs

Borrowing costs increased by \$1.5 million in line with loan repayment schedules.

### Materials & Contracts

Materials & Contracts increased by \$18.2 million.

This included \$5.9 million for the non-Wyong part of the Hunter Connection project, a \$2.5 million increase in RTA funded works, and \$2 million on flood mitigation works.

### Depreciation & Impairment

Depreciation & Impairment declined by \$1 million. The fall is the effect of some Council assets staying in service after the expected end of their useful life.

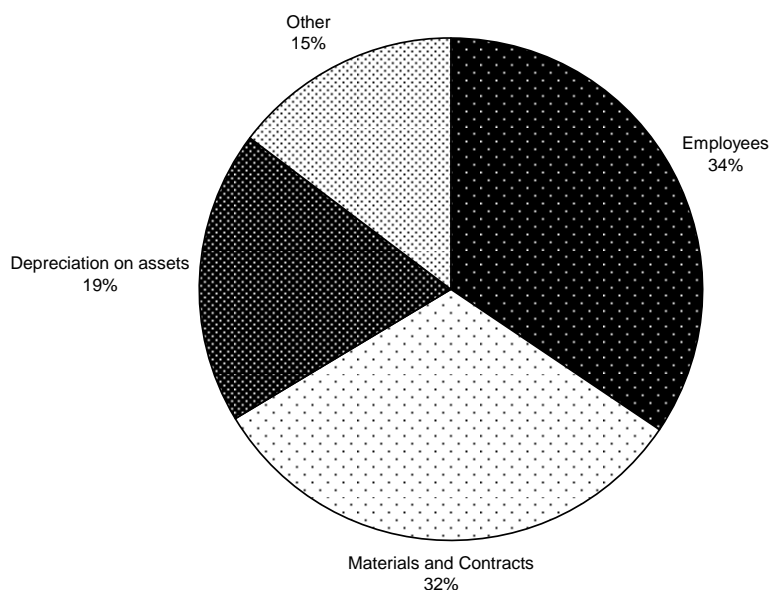
Depreciation charged to the accounts for a particular asset runs out when the total of the depreciation charged to date reaches the total of the capital cost. This run-out of depreciation occurred for a number of major assets in the 2005-2006 financial year.

## Other Expenses

Other expenses increased by \$1.5 million. A significant variation from 2005/2006 was the water tank rebate scheme costing \$1.5 million.

In summary, during 2006/2007 Council's actual operating expenditures by category were as follows:

Expenditure 2006/2007 by Category



## BALANCE SHEET MOVEMENTS

Council's net assets total \$1,479 million, comprising total assets of \$1,646 million less liabilities of \$167 million. The movements in Council's Consolidated Balance Sheet between 2006/07 and 2007/08 are shown below:

	2006/07 \$m	2005/06 \$m	% Movement
Current Assets	142	139	2%
Non Current Assets	1,505	1,080	39%
<b>Total Assets</b>	<b>1,646</b>	<b>1,219</b>	
Less :Current Liabilities	64	62	4%
Less : Non Current Liabilities	102	74	37%
<b>Total Liabilities</b>	<b>167</b>	<b>136</b>	
<b>Net Assets</b>	<b>1,479</b>	<b>1,083</b>	

The increase in Current Assets of \$2.3 million included a \$7.7 million reduction in investment balances. This resulted from the application of loan moneys received in prior years to projects completed in 2006- 2007. Offsetting the fall in available cash and investment funds was a \$9.6 million increase in accounts receivable. Some \$5 million was a June debtor account sent to Gosford Council for their contribution to the Hunter Connection project and outstanding bulk water charges.

The movement in Non-current Assets of \$425 million includes \$98 million increase in assets and the revaluation impact in Water and Sewerage infrastructure assets of \$371 million as a result of the adoption of fair value asset accounting for these assets in accordance with the accounting standards and Department of Local Government Accounting Code. Refer to *Note 1* in the Financial Reports.

The increase in Liabilities of \$30 million is mainly accounted by new loan raising of \$33 million less repayments of \$11 million.

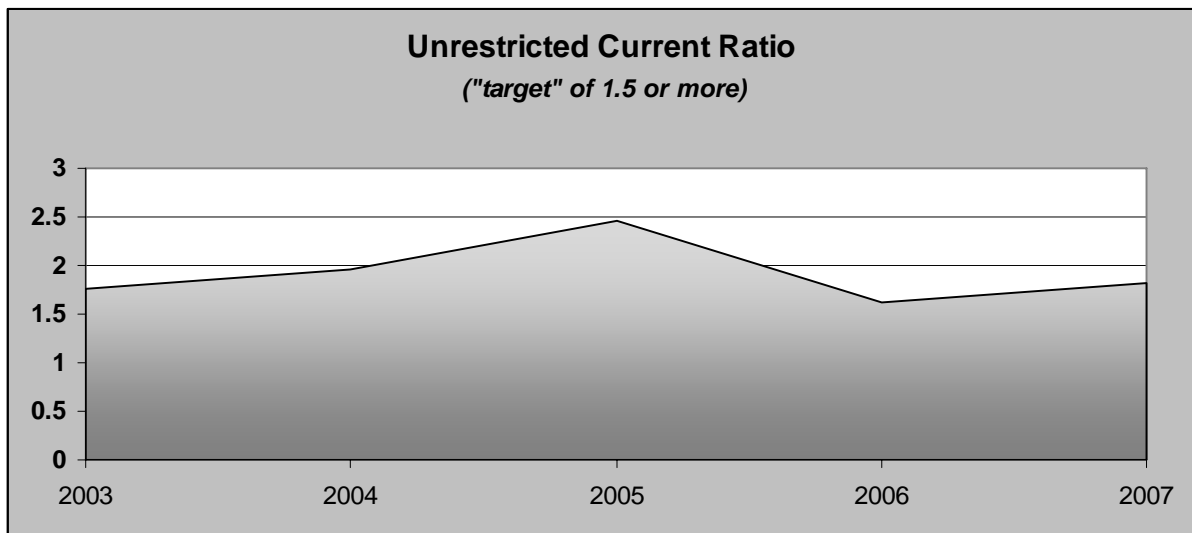
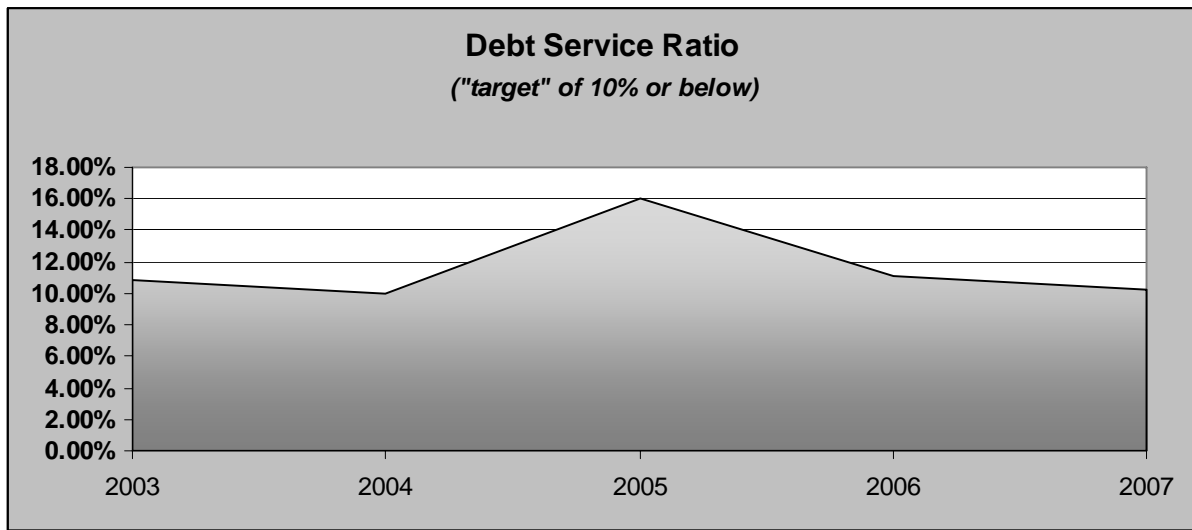
Significant project payments and waste management fees were outstanding at year end contributing to an increase in accounts payable of \$4.3 million.

There was also a \$3 million increase in non-current employee leave entitlements, of which \$1 million is due to a change in accounting methods.

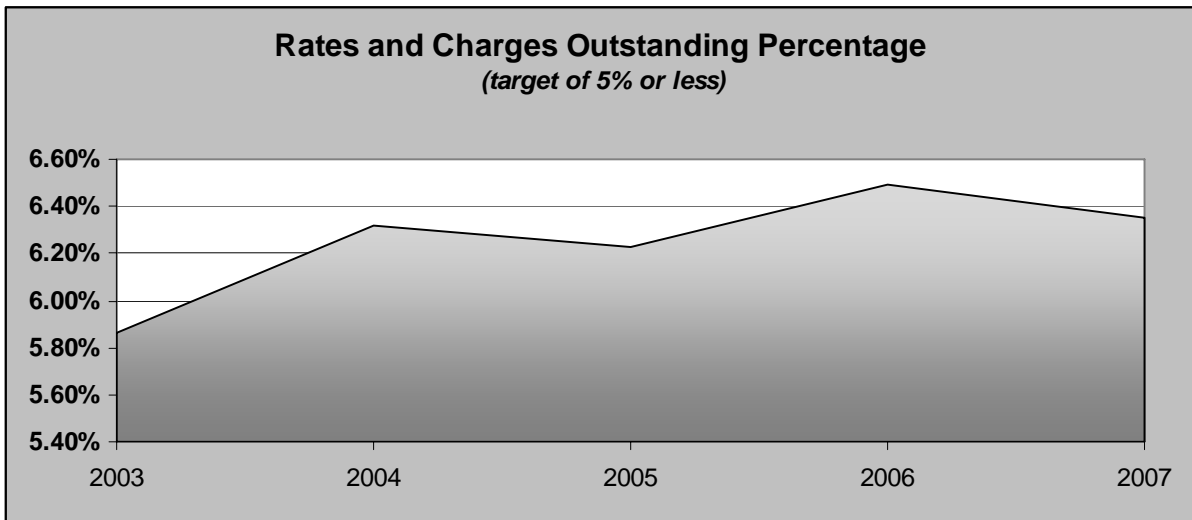
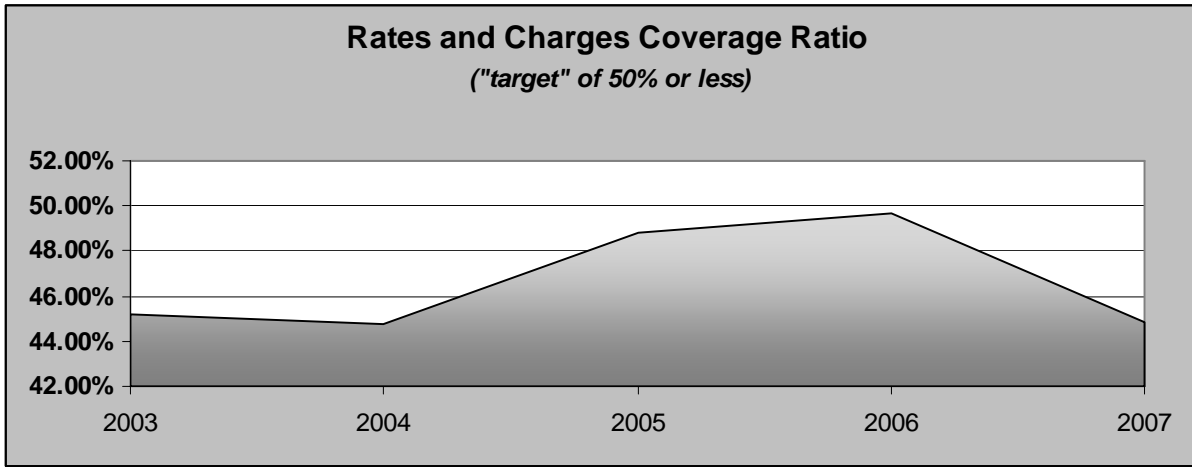
### Statement of Performance Measures

These indicators provide a 'snap shot' of Financial Performance and satisfy the accounting concepts of comparability between councils.

The "target" figure in the indicators reported below represent an indicative benchmark using industry standards but allowing for Wyong's unique situation as a multi-purpose authority with continuing, significant, green field development. The "targets" are therefore a generally accepted benchmark for "growth" councils.







And a new benchmark starting in the year 2006-2007:

Asset Renewal Ratio	1.5	Target 1 or more
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The ratios are described in more detail below.

### **Debt Service Ratio**

This indicator assesses the degree to which revenues from Continuing Operations are committed to the repayment of debt. It is generally higher for Councils in growth areas where loans have been required to fund infrastructure.

10% is a fair benchmark for a council undergoing continuous growth. An ‘alarm’ level for this indicator given Wyong’s circumstances would be at the 20% mark.

The use of loan funds for infrastructure improvements and other capital purposes is considered to be a prudent financial strategy allowing for contribution to the cost of the asset through its life by the community.

Council’s Debt Service Ratio improved to 10.25% from 11.15% in 2006/2007 in line with loan repayment schedules.

### **Unrestricted Current Ratio**

A ratio of 1.5:1 indicates that unrestricted current assets are available on hand to meet unrestricted current liabilities. If the ratio is less than 1.5:1, the ratio is unsatisfactory. A ratio of between 1.5:1 and 2:1 is satisfactory and shows that Council has sufficient liquid assets on hand to meet its short term liabilities. Council’s ratio of 1.82 falls within the satisfactory range.

Unrestricted current assets are those where there is no form of restriction imposed by regulations or some other externally imposed requirement. Restricted current assets have restrictions on their use – for example developer contributions, RTA contributions, water and sewerage contributions, special purpose grants, and domestic waste management charges.

The ratio improved, marginally, from 1.63 for 2005-2006 to 1.82 in 2006-2007.

### **Rate Coverage Ratio**

This indicator assesses the degree of dependence on rate revenue.

A lower ratio indicates the lesser the dependence on rate revenue and the greater the financial health of council. Council is well within the Department of Local Government target of 50% or less.

Some factors affecting this indicator are: the level of council’s entrepreneurial and investment activity, the socioeconomic characteristics of the area, the relative level of Federal/State funding and the rate of new development.

The decline in the ratio from 49.71% to 44.88% came as a result of a high level of developer contributions in 2006-2007. This source of revenue varies according to available development opportunities, and economic conditions, and may well decline in future. It is estimated that a value of 49% is closer to the long term trend.

## Rates & Annual Charges Outstanding Percentage

This indicator assesses the effectiveness of a Council's revenue collection.

There is a general benchmark for this ratio of 5%. The lower the percentage, the less income is tied up in receivables and the more revenue there is available for Council purposes.

Outstanding rates are a charge against property, and council can recover rates when properties are sold. As a result it is unlikely that outstanding rate accounts will remain uncollected. While the rates are uncollected, they attract an interest rate of 10% (9% before 30 June 2007), which is higher than Council's current investment returns.

Council's Rates & Annual Charges Outstanding at the end of 2006/2007 at 6.35% was a marginal improvement on the previous year of 6.49%.

## Water Supply Authority Financial Reports

Wyong Shire Council Water Supply Authority's net operating result for the year ended June 30 2007 after accounting for \$14.4 million in non cash depreciation and amortisation costs and a National Competition Policy tax equivalent payment of \$0.4 million was a loss of \$2.5 million.

The 2005-2006 result was a surplus of \$3.1 million. However in 2006-2007 corporate overheads were not recovered from capital projects because of a change in accounting policy. The value of this item was \$4 million in 2005-2006. The 2005-2006 result, re-stated according to the new policy, is a loss of \$0.9 million.

The year to year variance in the operating result was therefore an unfavourable \$1.6 million.

Contributions and donations increased by \$9.2 million, and grants from Government for capital works increased by \$2.5 million. The income growth was more than offset by non capital expenditure on the Hunter Connection projects of \$5.9 million, \$1.8 million in increased loan interest costs, \$1.4 million in pensioner subsidies, \$1.4 million in water tank rebates and an additional \$1m in wages and salaries.

	<b>2006/07 \$m</b>	<b>2005/06 \$m</b>	<b>% Movement</b>
Income From Continuing Operations	67m	52m	29%
Overhead costed to Capital		4m	
Expenses From Continuing Operations	78m	49m	42%
<b>Surplus (Loss) From Continuing Operations</b>	<b>(2.5m)</b>	<b>(1m)</b>	

## Balance Sheet

Wyong Shire Council Water Supply Authority's net assets total \$909 million. This represents total assets of \$1,014 million less liabilities of \$104 million.

Wyong Shire Council Water Supply Authority's net Current Assets Position of \$31 million means that the Authority has sufficient liquid assets to meet its short term obligations as well as providing an adequate buffer against unforeseen or emergency costs that may arise.

It should be noted that this is a decline from the comparable figure of \$42m from the previous year. The reason for the decline is that in 2006-2007 some \$14 million in unexpended loan funds was applied to projects completed during the year.

The movement in the Authority's Balance Sheet between 2006/07 and 2005/06 is shown below:

	<b>2006/07 \$m</b>	<b>2005/06 \$m</b>	<b>% Movement</b>
Current Assets	52	60	-12%
Non Current Assets	962	559	72%
<b>Total Assets</b>	<b>1,014</b>	<b>619</b>	<b>63%</b>
Less: Current Liabilities	21	19	10%
Less: Non Current Liabilities	83	58	39%
<b>Total Liabilities</b>	<b>104</b>	<b>77</b>	<b>35%</b>
<b>Equity</b>	<b>909</b>	<b>542</b>	<b>68%</b>

The increase of \$403 million in Non Current Asset values includes the impact of the revaluation of infrastructure assets to fair value \$371 million, being split between the Asset Revaluation Reserve \$258 million and \$113 million attributed to a correction to depreciation estimates charged against the Retained Earnings. The balance of the movement is explained by an increase in assets as the result of acquisitions of \$53 million.

The Wyong Shire Council Water Supply Authority continues to maintain a sound financial position.

Additional information regarding Council's Water & Sewer operations can be found in the Special Purpose Reports and Special Schedules (Schedules 3 – 6) included in Council's 2006/2007 Financial Reports.