



» 2016/17 End of Year Financial Analysis

October 2017

ballina
shire council



40 cherry street • po box 450 • ballina nsw 2478
t 02 6686 4444 • f 02 6686 7035 • e council@ballina.nsw.gov.au

ballina.nsw.gov.au

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Foreword

This report has been prepared to provide additional information to assist in evaluating the annual financial reports.

The comments and break down of information will assist the reader to gain an understanding of how Council performed financially in 2016/17 and the financial position as at 30 June 2017.

Income Statement

This section provides Council with an overview of its financial results and includes commentary on key elements of the financial statements.

Consolidated Results

Consolidated Operating Result (as per Financial Statements)	2016/17 (\$'000)	2015/16 (\$'000)
Income from continuing operations (excluding capital income)	87,879	78,873
Expenses from continuing operations (excluding depreciation)	(66,090)	(61,669)
Depreciation expense	(18,956)	(19,200)
Operating Result from continuing operations	2,833	(1,996)
Capital grants and contributions	27,029	13,678
Consolidated Surplus	29,862	11,682

Council's consolidated surplus from all activities for 2017 was \$29,862,000. This compares to a surplus in 2016 of \$11,682,000.

The 2016/17 result has been significantly impacted by several items.

A significant positive influence was a \$2,100,000 advance payment by the State Government of the 2017/18 Financial Assistance Grant in June 2017. Due to accounting requirements, this advance payment is recognised as income in the year of receipt, even though the payment is for the 2017/18 year.

The second item is an operating grant of \$1,634,000 received from the RMS for the handover of the Tintenbar to Newrybar section of the former Pacific Highway. This is a one-off grant to fund 10 years of maintenance on the road asset transferred to Council.

These two items have the impact of, somewhat misleadingly, inflating the 2016/17 operating result.

The consolidated surplus is also significantly impacted by the level of capital grants and contributions received in any one year.

In the 2016/17 year, this was impacted by the RMS handover of a section of the old Pacific Highway resulting in the recognition of a non-cash contribution of \$17,353,000.

To highlight the impact of these one-off unusual transactions, the following table dissects these items to show what the result would look without these items.

Consolidated Operating Result (dissection of unusual items)	2016/17 (\$'000)	2015/16 (\$'000)
Operating Result from continuing operations	2,833	(1,996)
Less Advance Financial Assistance Grant	2,100	0
Less RMS Cash contribution for 10 year maintenance of old Pacific Highway section	1,634	0
Revised Result from continuing operations (eliminating unusual items)	(901)	(1,996)
Capital grants and contributions	27,029	13,678
Less RMS Non Cash contribution (handover of old Pacific Highway section)	(17,353)	0
Consolidated Surplus	8,775	11,682

Once these unusual one-off items are eliminated, the revised consolidated operating result is a deficit of \$901,000 and the revised consolidated surplus (after capital) is \$8,775,000.

Refer to the 'Material Revenue and Expense Movements' section of this report for additional comments in relation to material movements in operating results.

A review of results by fund follows, including a similar analysis for the general fund to examine the impacts of these unusual items on the bottom line results.

Results by fund

Operating Result by Fund (per Financial Statements)	General		Water		Wastewater	
	2016/17 (\$'000)	2015/16 (\$'000)	2016/17 (\$'000)	2015/16 (\$'000)	2016/17 (\$'000)	2015/16 (\$'000)
Income from continuing operations (excluding capital items)	57,577	51,318	12,428	11,199	17,874	16,356
Expenses from continuing operations (excluding depreciation)	(41,834)	(38,635)	(9,750)	(9,311)	(14,506)	(13,723)
Depreciation expense	(13,765)	(14,170)	(1,460)	(1,489)	(3,731)	(3,532)
Operating Result from continuing operations	1,978	(1,487)	1,218	390	(363)	(899)
Capital grants and contributions	25,796	10,261	469	1,031	764	2,386
Surplus/(deficit)	27,774	8,774	1,687	1,421	401	1,487

Operating Result General Fund (dissection of unusual items)	General	
	2016/17 (\$'000)	2015/16 (\$'000)
Operating Result from continuing operations	1,978	(1,487)
Less Advance Financial Assistance Grant	2,100	-
Less RMS Cash contribution for 10 year maintenance of old Pacific Highway section	1,634	-
Revised Result from continuing operations (eliminating unusual items)	(1,756)	(1,487)
Capital grants and contributions	25,796	10,261
Less RMS Non Cash contribution (handover of old Pacific Highway section)	(17,353)	-
General Fund Surplus (eliminating unusual items)	6,687	8,774

The above tables illustrates that the water operating result after depreciation and before capital revenue is again in surplus and has improved on the prior year, and this is primarily due to high revenue (water consumption) in the 2016/17 year.

For the wastewater fund, there has been an improvement in the operating result, although this is still in deficit. The wastewater fund does have to support large loan balances, however it is moving towards a breakeven position.

The general fund has made an operating surplus of \$1,978,000 in 2016/17 however caution should be used in considering this result, due to the large one off items that impacted on this result, as discussed.

Of particular importance is that Council's Long Term Financial Plan highlights difficulties that the General Fund may have in achieving operating surpluses in future years. Council's Long Term Financial Plan is based on the assumption that permanent special rate variations for the 2018/19 and 2019/20 years will be approved.

Without these increases in income it will be almost impossible to achieve a permanent operating surplus, without cutting existing services.

Material Revenue and Expense Movements

Revenue/Expense	Increase/ (Decrease) on Prior Year	Comment
Revenues		
Rates and annual charges	2,920	Total rates and annual charges of \$46,258k in the 2016/17 year include ordinary rates of \$19,522k (increased by 5.34% special rate variation), wastewater annual charges of \$15,093k (7.0% price increase), water annual charges of \$3,370k (2.8% price increase) and domestic waste management charges of \$6,107k (2.0% price increase).
User charges and fees	1,676	Total user charges and fees of \$21,619k in the 2016/17 year include water and wastewater user charges, airport, and planning & building regulation income and other smaller income streams. The larger impacts on the overall increase of \$1,676k occurred due to an increase in water user charges of \$1,044k (primarily due to increase in consumption levels), an increase in airport revenues of \$694k (due to continuing growth in passenger numbers), and increase in planning & building regulation income of \$335k (due to continued strong activity in building activity), offset by a decrease in private works income of \$490k (as 2015/16 private works income was inflated due to one particularly large RMS job).
Operating grants and contributions	4,091	Total operating grants and contributions of \$13,608k were received in 2016/17, compared to \$9,517k in 2015/16. The larger impacts on the 2016/17 figures included the advance payment of \$2,108k of the 2017/18 Financial Assistance Grant and the RMS cash contribution of \$1,634k associated with the handover of a section of the old Pacific Highway.
Capital grants and contributions	13,351	The RMS handover of a section of the old Pacific Highway resulted in the recognition of a non-cash contribution of \$17,353k, being the fair value of the road asset, recognised as an asset addition in accordance with Accounting Standards. Developer contributions and developer dedications were below the prior year level.
Expenses		
Employee benefits	618	The overall increase in employee costs represents an increase of 3.3%, attributable to the local government state award

and on costs		increase and an increase in full time equivalent employees.
Depreciation	(244)	Total depreciation for the 2016/17 year is slightly below the 2015/16 year. This change is quite negligible, with overall depreciation expense as a % total infrastructure, property, plant & equipment moving from 1.8% to 1.7%. A comparison by asset class is shown later in this report.
Loss on disposal of assets	4,076	Gains/losses on disposal include the accounting write-off of infrastructure, property and real estate assets. In the 2016/17 year, the large items within the total loss of disposal year of \$4,712k relates to the accounting write-off of \$2,460 roads (these road assets were renewed during the year) and \$1,546k for the old swimming pools (currently demolished with construction of the new pools in process). The net gain from real estate assets was also lower in the 2016/17 year.
Impairment expense	(636)	There was no impairment expense for 2016/17. An impairment of \$636k was recognised in 2015/16 relating to expenditure that had been incurred on the Biochar project, which did not proceed.

Income Statement Ratios

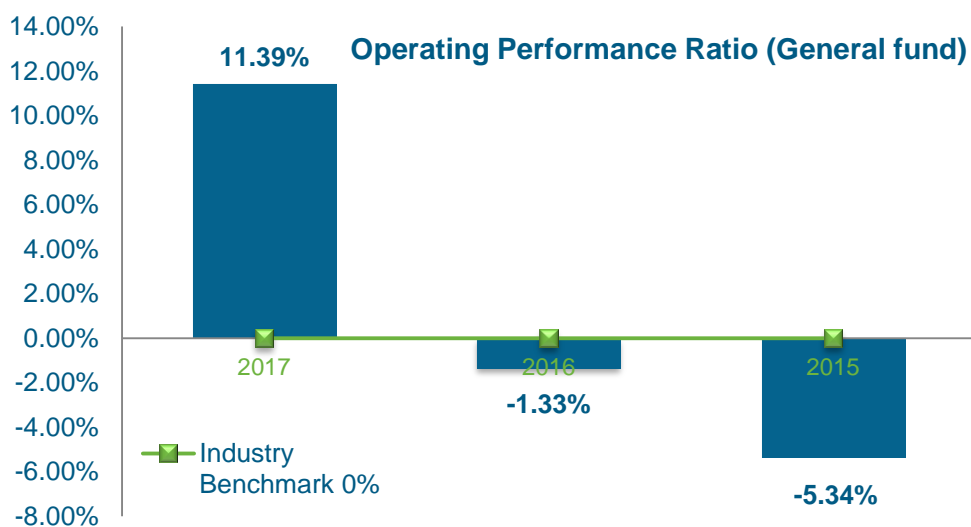
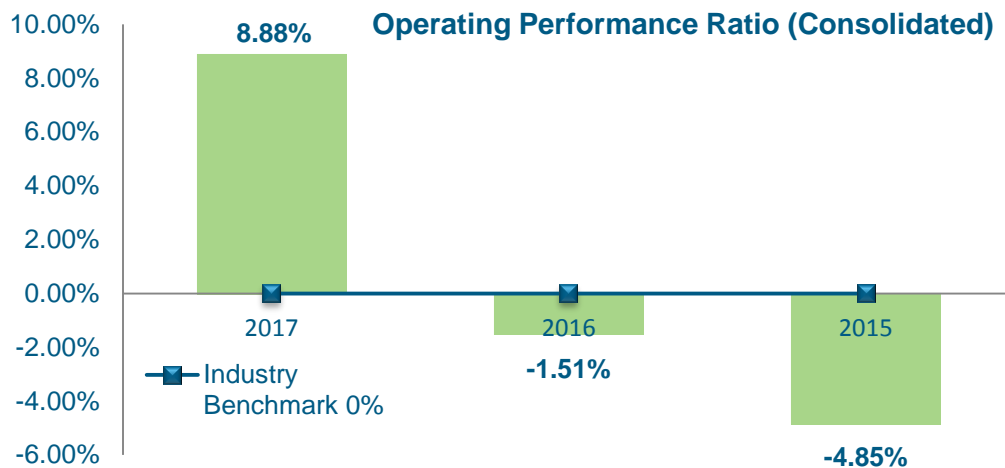
Operating Performance Ratio

This ratio measures the Council’s achievement of containing operating expenditure within operating revenue (achieving a surplus after depreciation but before capital items). The benchmark is greater than 0%.

It is important to distinguish that this ratio is focusing on operating performance and hence capital grants and contributions and fair value adjustments are excluded.

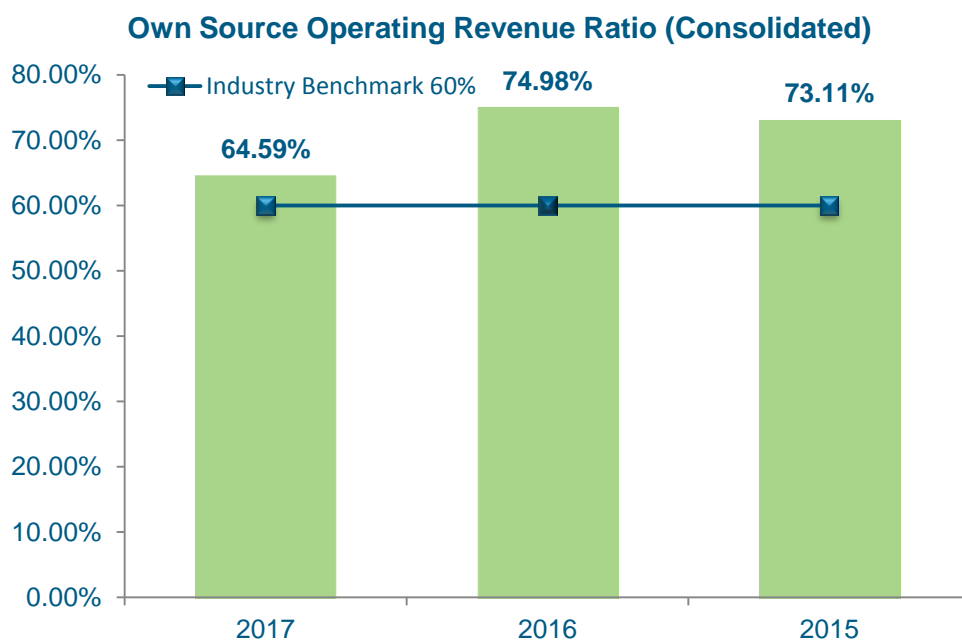
As illustrated, Council’s General Fund Operating Performance was significantly positive in 2016/17, which also impacts on the consolidated result.

The challenge for the General Fund is to achieve a positive operating performance ratio on an ongoing basis, and this is a fundamental benchmark requirement in order to meet the “Fit for the Future” requirements.

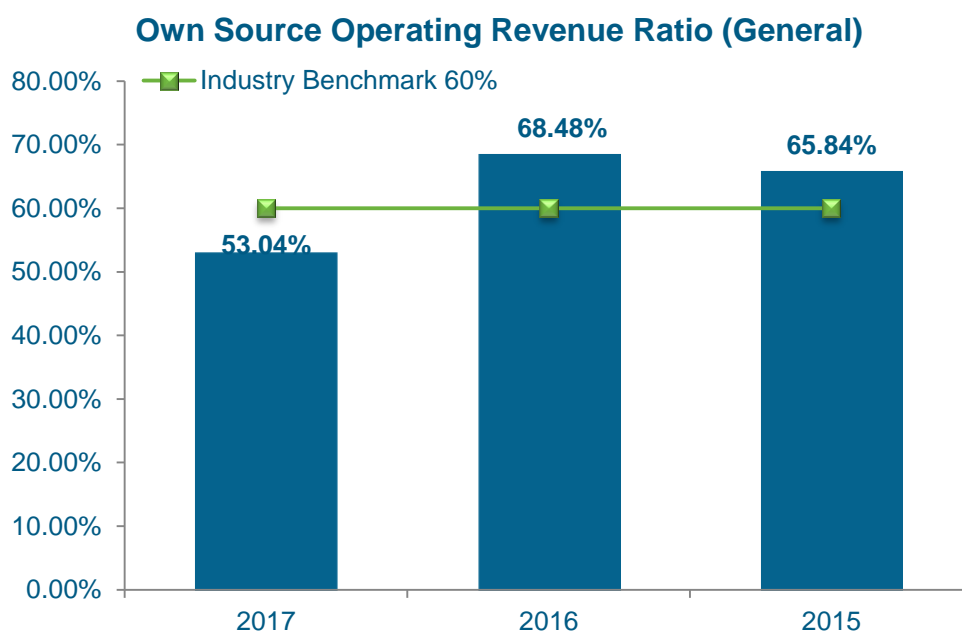


Own Source Operating Revenue Ratio

Local Government performance benchmarking analyses the ability of Council to generate its own revenue sources rather than over-reliance on grants and contributions (capital and operating) received from external sources.



The graph illustrates that Council, as a consolidated entity, sourced 64.59% of its consolidated revenue from rates, annual charges, user charges, interest etc. which exceeds the industry benchmark of 60%.



When analysing General Fund on its own, the 2016/17 result did not meet the 60% benchmark. This is because the denominator used for the calculation of this ratio includes capital grants and contributions, which as noted previously in this report, are distorted in 2016/17 due to the RMS handover of part of the old Pacific Highway.

Capital Grants and Contribution

Council receives capital grants and contributions from various sources each financial year to renew existing assets as well as construct new assets.

Total capital grants received during the year amounted to \$1,313,000 and included grants totalling \$1,017,000 received in the 2016/17 year for the Coastguard tower.

Total capital contributions received during the year amounted to \$25,716,000 and increased by \$14,931,000 on the 2016 financial year. This is due, predominantly due to the handover of the Tintenbar to Newrybar section of the old Pacific, being a non-cash dedication with an asset value of \$17,353,000.

The table below provides an understanding of the nature and quantum of contributions received during the financial year:

Capital Contribution Type	2016/17 (\$'000)	2015/16 (\$'000)
S 94 - Contributions towards amenities/services	2,420	2,226
S 64 - Water supply contributions	469	838
S 64 - Wastewater service contributions	737	1,724
Total Developer Contributions	3,626	4,788
Non-cash developer dedications	1,443	2,869
Non-cash RMS dedications	17,353	-
Other contributions	3,294	3,128
Total	25,716	10,785

Developer contributions received can vary significantly year on year, and are lower in the 2016/17 year compared to the previous year. The use of cash contributions received during each year is restricted and accordingly they are not available for use in Council's general operations.

Non cash developer dedications (i.e. dedications received on finalisation of a development) can also vary significantly year on year, and are also lower in the 2016/17 year compared to the previous year.

Statement of Financial Position

Line Item	2016/17 (\$'000)	2015/16 (\$'000)
Current assets	84,356	71,301
Non-current assets	1,172,785	1,122,213
Total Assets	1,257,141	1,193,514
Current liabilities	23,859	21,308
Non-current liabilities	80,397	79,769
Total Liabilities	104,256	101,077
Equity	1,152,885	1,092,437

We provide commentary on some of the material assets and liabilities appearing on Council's statement of financial position as at 30 June 2017 together with related Office of Local Government benchmark data below.

Unrestricted Net Current Assets

Line Item	2016/17 (\$'000)	2015/16 (\$'000)
Current Assets	84,356	71,301
Externally restricted cash and investments	(31,275)	(31,667)
Externally restricted receivables	(3,727)	(3,748)
Current Assets less all External restrictions	49,354	35,886
Current Liabilities	23,859	21,308
Externally restricted liabilities	(6,918)	(6,528)
Current Liabilities less Specific Purpose Liabilities	16,941	14,780
Unrestricted Current Net Assets before Internal Reserves	32,413	21,106

Council's unrestricted current asset position provides a measure of the Council's capacity / liquidity to meet its commitments from current assets net of externally restricted cash, investments and receivables.

At 30 June 2017 Council held \$32,413,000 of unrestricted current net assets which is \$11,307,000 more than 30 June 2016.

Trends in the General Fund's unrestricted current ratio are shown later in this report.

Cash and Investments

Cash and Investments	2016/17 (\$'000)	2015/16 (\$'000)
Externally Restricted <i>Monies can only be spent in accordance with legislation, grant agreement or developer contribution plan specifications</i>	39,297	37,667
Internally Restricted <i>Money set aside for special projects via Council resolution</i>	34,639	26,565
Unrestricted <i>Funds forming part of working capital used for day-to-day Council operations</i>	5,971	1,780
Total Cash and Investments	79,907	66,012

This table illustrates that the majority of Council's cash and investments is restricted. Total cash and investments at 30 June 2017 is particularly high, as loan funds of \$6,711,700 for the swimming pools capital projects were drawn down at the end of June 2017. A breakdown of the internally restricted reserves, amounts which Council has resolved to set aside for particular purposes, is shown in the table below.

Internally Restricted Cash	2016/17 (\$'000)	2015/16 (\$'000)
Plant and vehicle replacement	879	1,004
Employees leave entitlement	3,013	2,793
Carry over works	2,870	4,038
Bypass maintenance funding	3,962	2,324
Cemeteries	331	247
Crown land rentals	135	117
Financial assistance grant in advance	2,108	-
Land development	2,688	3,490
Landfill and resource management	3,000	3,526
Management plans and studies	664	375
Quarries	1,038	1,336
Rental properties refurbishment	1,686	1,503

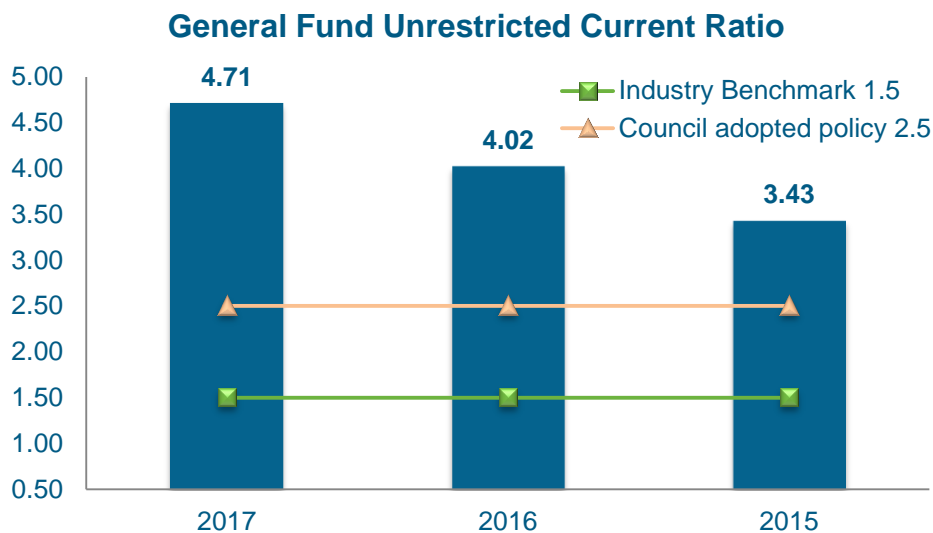
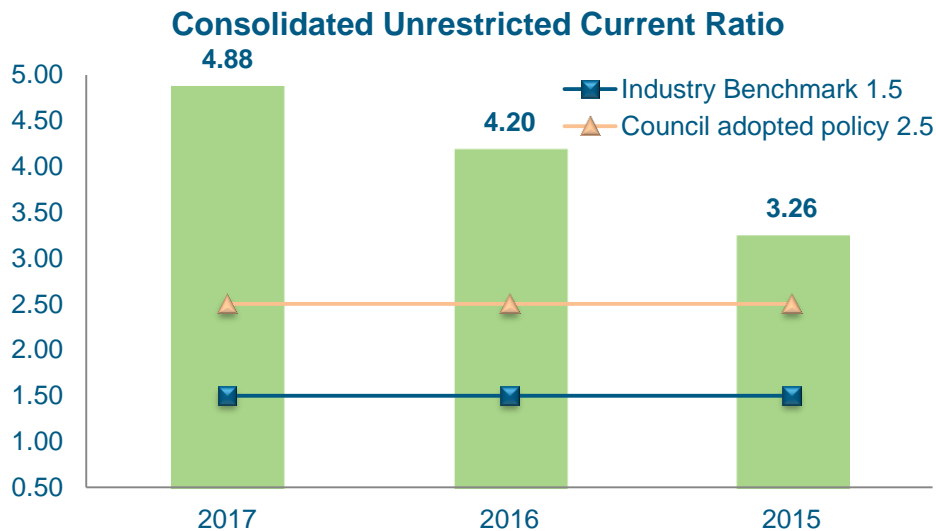
Road works	2,607	870
Sports centre	1,332	257
Strategic studies	459	412
Swimming pools	5,170	490
Other	2,697	3,783
Total Internal Restrictions	34,639	26,565

Statement of Financial Position Ratios

Unrestricted Current Ratio

The unrestricted current ratio provides a measure of Council's capacity / liquidity to meet its commitments from current assets net of externally restricted assets.

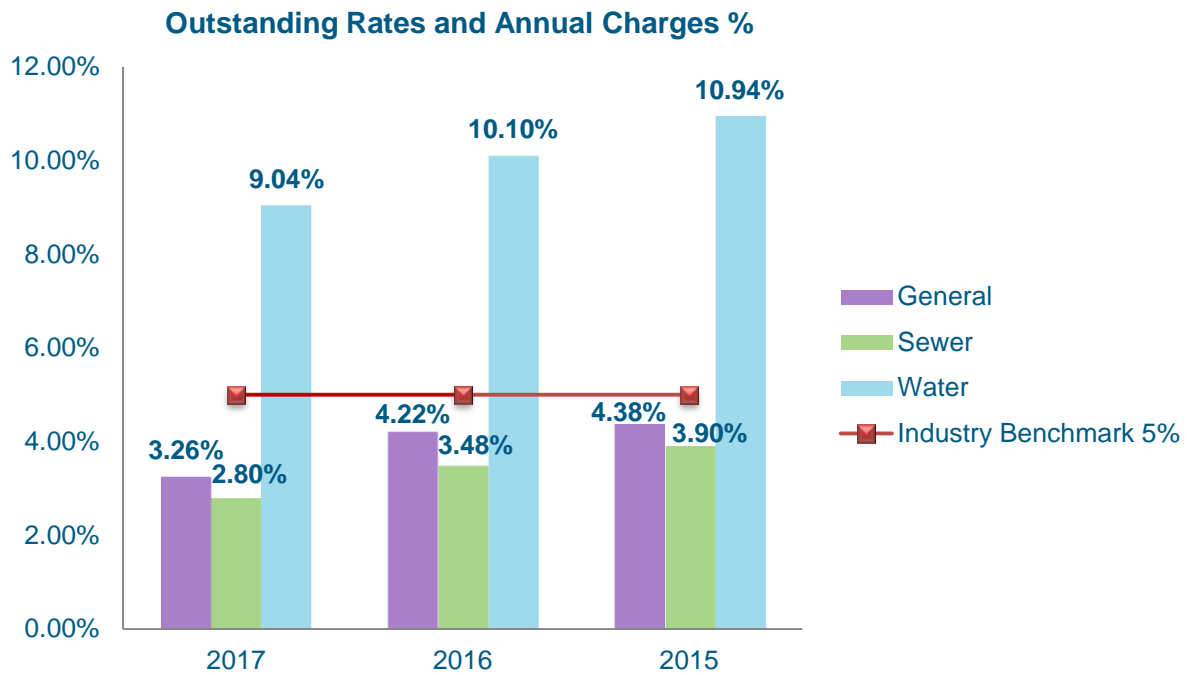
The Office of Local Government and NSW Treasury consider that this ratio should be at least 1.5.



At 30 June 2017 Council's General Fund has \$4.71 in liquid current assets for every \$1 of current liabilities.

Rates and Charges Outstanding Ratio

This is a financial performance indicator that assesses the effectiveness of Council's revenue collection processes, with a low ratio being favourable.



Council's General Fund rates and annual charges outstanding ratio has decreased from 4.22% in 2016 to 3.26% as at 30 June 2017 which satisfies the industry benchmark.

The ratio for Water Fund is higher than the benchmark rate as a result of Council levying annual charges for non-residential fixed charges in arrears.

The NSW Office of Local Government benchmark is less than 5% for urban and Coastal Council's and less than 10% for rural Council's.

Infrastructure, Property, Plant & Equipment Matters

Council Constructed/Purchased Additions

Each year Council budgets to renew or capitalise new assets. An illustration of Infrastructure, Property, Plant & Equipment capitalised over the past two years is provided below:

Asset Type	2016/17 (\$'000)	2015/16 (\$'000)
Council Constructed / Purchased Assets:		
Infrastructure under construction - WIP	15,835	16,930
Plant and equipment	1,973	2,228
Land, buildings & other structures	3,367	1,149
Roads and drainage network	23,158	6,752
Water supply network	460	1,288
Wastewater network	719	774
Other assets	191	0
Total Asset Additions	45,703	29,121
Asset additions - Renewals	13,761	15,448
Asset additions – New	31,942	13,673

Total asset additions for 2017 of \$45.703m is significantly higher than the prior year.

A large contributor to this was the RMS handover of the old Pacific Highway, as noted in the earlier commentary on contributions received, with this road having an asset value of \$17,353,000.

Large projects in progress at June 2017 included:

- Administration Roofing and Air Conditioning,
- Skennars Head Road and Coast Road roundabout,
- Wollongbar Sportsfield, and
- Swimming Pools.

Depreciation

Asset Class	2016/17		2015/16	
	WDV \$'000	Depreciation Expense \$'000	WDV \$'000	Depreciation Expense \$'000
Plant & equipment	7,797	1,711	7,647	1,764
Operational land	41,600	-	43,010	-
Community land	110,326	-	110,326	-
Land under roads	15,302	-	13,247	-
Land improvements	9,517	771	10,288	868
Buildings	63,918	2,775	62,227	2,666
Other structures	11,636	614	11,330	585
Roads, bridges & footpaths	506,715	6,509	476,846	6,901
Bulk earthworks	4,113	-	3,710	-
Stormwater drainage	73,296	1,458	72,231	1,466
Water supply infrastructure	71,650	1,399	67,127	1,433
Wastewater supply infrastructure	199,938	3,574	189,566	3,375
Swimming pools	-	17	1,563	16
Other assets	439	128	376	126
Work in progress	24,483	-	21,248	-
	1,140,730	18,956	1,090,742	19,200

By far the largest asset or liability appearing on Council's statement of financial position is Infrastructure, Property, Plant & Equipment (IPP&E).

Note 9 to the general purpose financial statements provides an understanding of Council's IPP&E and illustrates that Council is responsible for maintaining assets with a written down value of approximately \$1.1 billion.

This table indicates that Council needs to generate approximately \$19m in surplus to fund the rate at which IPP&E is being consumed.

Asset Revaluations

In accordance with the requirement to maintain assets at fair value, infrastructure assets are comprehensively revalued on a 5 year rotational basis in line with the Office of Local Government stipulation, and are assessed for fair value (and indexed) on the years between full revaluations.

In 2016/17, water supply network assets and wastewater network assets were comprehensively revalued, with a resulting increase to the fair value of these assets of \$9,320k and \$9,278k, respectively.

Indexation of other infrastructure asset classes (buildings, other structures, roads and related assets) has increased their value by \$12,424k.

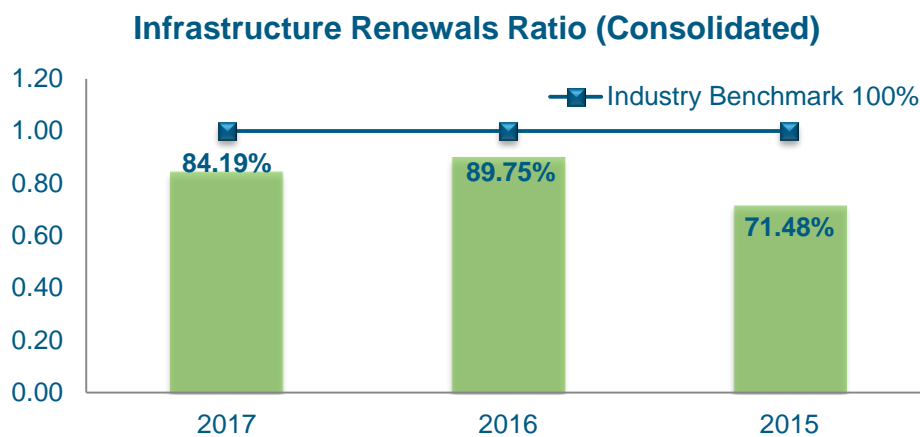
Ratios

Infrastructure Renewals Ratio

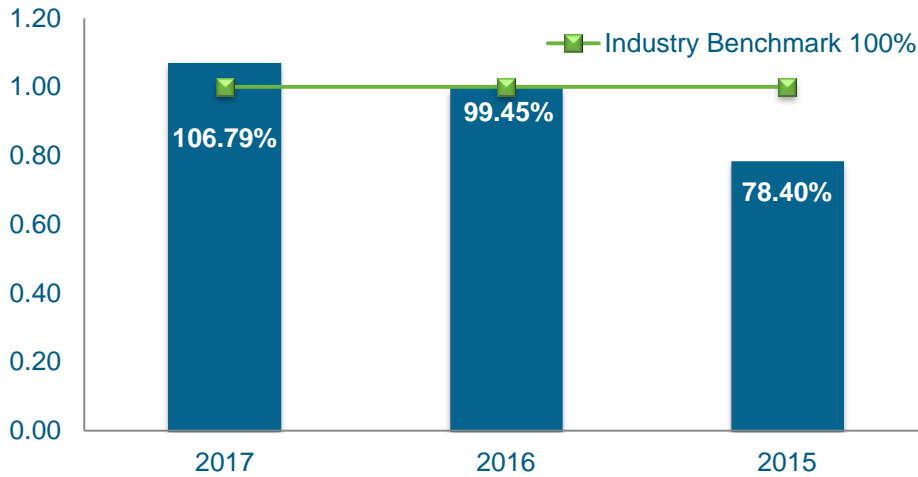
This ratio assesses the rate at which buildings and infrastructure assets are being renewed against the rate at which they are depreciating.

The building and infrastructure renewals ratio is calculated based on replacement of existing assets with assets of equivalent capacity or performance as opposed to the acquisition of new assets. Expenditure incurred to add capacity to existing assets is excluded from this ratio.

Industry benchmarking recommends that asset renewals equate to 100% of the related depreciation expense.



Infrastructure Renewals Ratio (General Fund)



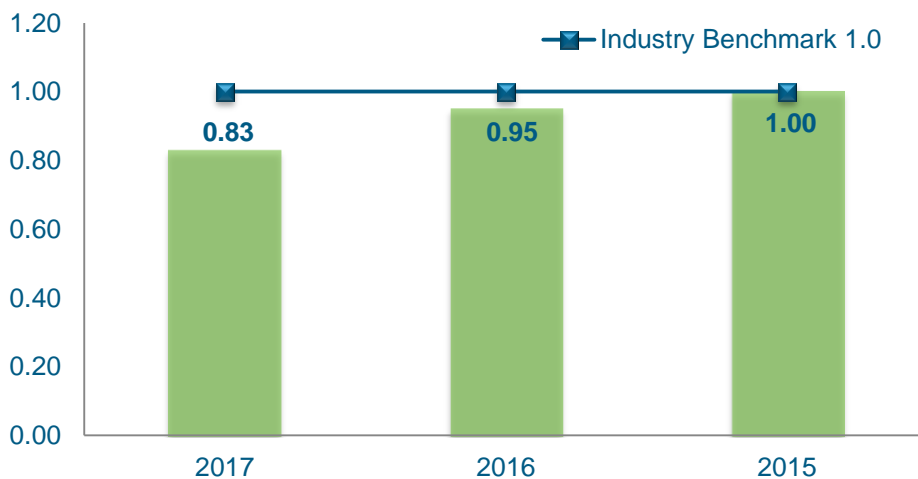
Council is improving this ratio on a consolidated basis whilst General Fund has satisfied the benchmark in 2017. This means that General Fund has renewed assets equivalent to the rate at which they are depreciating.

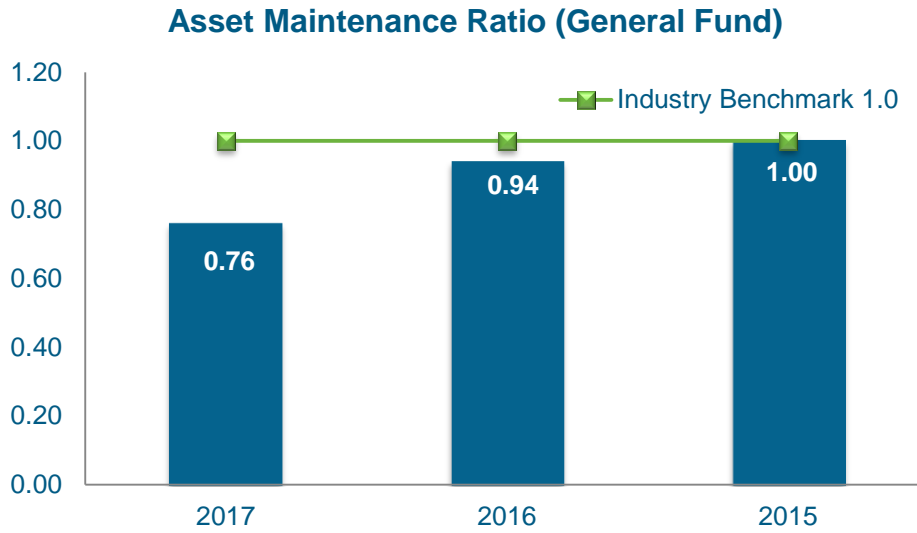
The challenge facing all local government authorities is to maintain this ratio and consistently satisfy this industry benchmark, particularly in the General Fund.

Asset Maintenance Ratio

This ratio compares actual versus required (as estimated by Council staff) annual asset maintenance. A ratio of above 1.0 indicates that the Council is investing enough funds within the year to stop the Infrastructure Backlog from growing. This ratio is highly dependent on accurate and consistent required maintenance data and quantified infrastructure backlog calculations. The benchmark for this ratio is greater than 1.0.

Asset Maintenance Ratio (Consolidated)





Council's ratios have been reasonably consistent over the past few years, falling in 2016/17 below a preferred level / benchmark. It is necessary that Council spend sufficient funds on asset maintenance so their condition does not deteriorate below a satisfactory standard.

Debt Levels

Loan Liability

Line Item	2016/17 (\$'000)	2015/16 (\$'000)
Current loan liability	6,219	6,654
Non-current loan liability	76,078	75,244
Total Loan Liability	82,297	81,898
By Fund		
General Fund (incl. Domestic Waste)	23,122	20,015
Water Fund	0	0
Wastewater Fund	59,175	61,883
Total	82,297	81,898

The movement in the general fund borrowings is impacted by a new loan of \$6,711,700 for the swimming pools taken out in June 2017 (a further \$5,927,800) has been taken out subsequent to year end to bring total loan borrowings for the swimming pools to \$12,639,500). Other general fund borrowings have been repaid in the year, notably two of the waste loans are now paid in full.

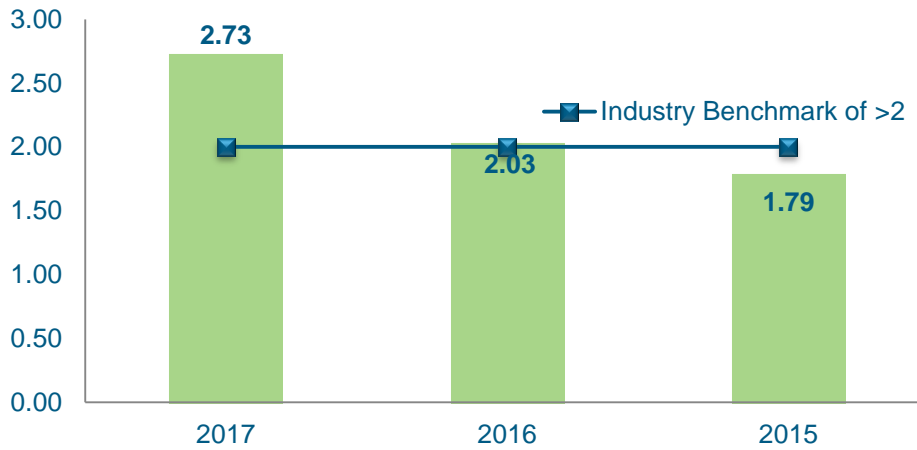
The wastewater fund's debt levels continue to fall as a result of repayment of debt in accordance with the required repayment program.

Ratios

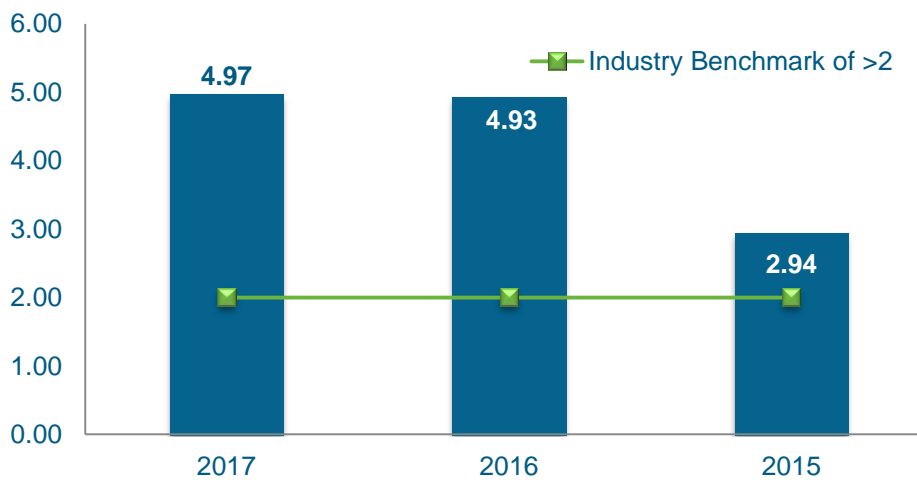
Debt Service Cover Ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments. The benchmark for the ratio is greater than 2.

Debt Service Cover Ratio (Consolidated)



Debt Service Cover Ratio (General)



Council is satisfying the industry benchmark. This means that Council is generating sufficient cash to satisfy its debt repayment obligations.