

City of Gold Coast

Debt Management



Public Statement

October 2020

This statement explains the City of Gold Coast's debt management approach and position. It includes the following:

- Overall Financial Position
 - Statement of Comprehensive Income
 - Statement of Financial Position
 - Financial Indicators
- How Council borrows
- Council's recent track record
- Comparisons with other Councils
- Council's cash reserves

Overall Financial Position

To put the size of the Council into perspective:

- 2020-21 budget of \$1.7 billion
- Manages assets valued at \$16.0 billion as at 30 June 2020

Council has four (4) main pillars by which it monitors its financial performance:

- Scope and standards of its services
- Rates and charges (including user-pays charges)
- Debt levels
- The condition of the City's infrastructure assets

Also, just like any business, Council produces a set of financial statements which includes a Statement of Comprehensive Income and a Statement of Financial Position. These statements are audited by the Queensland Audit Office (QAO).

Statement of Comprehensive Income

- Its purpose is:
 - to summarise all revenue received by Council (cash and non-cash)
 - to summarise all operating expenses, including the cost of all services provided by Council (this does not include capital or debt principal repayments)
 - to show the annual "surplus", which equals revenue minus operating expenses
- Shows a surplus of \$223.2 million for 2019-20 (refer to the City's 2019-20 Financial Statements)
- To calculate the available cash amount (or "underlying surplus") the following "non-cash" adjustments apply:
 - Subtract:
 - Infrastructure built by developers and then transferred to Council's ownership and recognised as revenue - \$135.0 million
 - Increase in value of existing assets as a result of annual revaluations - \$22.6 million
 - Decrease in payables and unearned revenue - \$24.2 million
 - Add:
 - Reduction in value of assets as a result of some assets being decommissioned or replaced - \$36.6 million
 - Depreciation (calculated on a straight line basis) - \$271.0 million
 - Net accruals and other non-cash items - \$8.0 million
- After the above adjustments, there is \$357.1 million as an "underlying surplus", which is cash available to repay debt (principal), fund capital works and work in progress.

Statement of Financial Position

- Its purpose is:
 - to summarise assets that the Council owns
 - to summarise liabilities that the Council owes
 - to show the equity or the value of the “business”, which equals assets minus liabilities
- Shows total assets of \$16.0 billion as at 30 June 2020, including:
 - cash at bank (including investments) - \$986.4 million
 - money owed to Council - \$214.8 million
 - property, plant and equipment (such as land, buildings, roads, drainage, water and sewerage infrastructure) - \$14.3 billion
 - capital works currently being constructed - \$473.3 million
- Shows total liabilities of \$932.5 million, including:
 - money owed by Council (i.e. accounts payable) - \$118.1 million
 - loan borrowings owed to the Queensland Treasury Corporation (QTC) - \$603.8 million
 - employee benefits (annual and long service leave) - \$90.0 million
- The difference between assets and liabilities is \$15.1 billion, which is the value of the “business” managed by Council on behalf of the community

Financial Indicators

- Council’s position in relation to the following financial performance indicators confirms that its debt is quite manageable:
 - Debt Service Ratio
 - this calculates the percentage of operating revenue that Council spends on repaying loans (interest & principal)
 - the forecast for 2020-21 is 8%
 - this is comparable to a household with an annual income of \$100,000 spending \$8,000 (\$154 per week) on mortgage repayments
 - Net Financial Liabilities Ratio
 - this calculates total liabilities (mainly loans and accounts to be paid by Council) less current assets (mainly cash at bank or money owed to Council) as a percentage of operating revenue
 - the forecast for 2020-21 is -9%
 - This is comparable to a family with income of \$100,000 being able to pay off all credit card debts, home loans and other debts, with \$9,000 cash remaining in the bank.

How Council borrows

Borrowing by Councils in Queensland is tightly controlled via the following external agencies:

- Department of Local Government, Racing and Multicultural Affairs (DLGRMA)
- Queensland Audit Office (QAO)
- Queensland Treasury Corporation (QTC)

The borrowing process can be summarised as follows:

- Council's annual proposed borrowings are subject to approval by DLGRMA based on an assessment of Council's ten year financial forecast (which shows indicative future revenues and expenses and related forecasting assumptions). This assessment is generally in the form of a Credit Review conducted by QTC. The credit review includes interviews with senior management and a detailed assessment of current and forecast financial performance and position.
- Borrowings must be sourced through QTC based on DLGRMA approval, and are subject to terms and conditions.
- The State government sets three measures (ratios) to assess the financial sustainability of local governments. These measures are audited annually by the QAO.
- QTC sets a further three measures (ratios) to monitor Councils ability to repay debt.
- QTC is the central financing authority for the Queensland State Government, Queensland local governments and State controlled entities. QTC borrows funds in domestic and global markets. Significant economies of scale can be achieved by combining the debt requirements of all State authorities.
- The cost of debt is influenced by the State's credit rating of AA+ and interest rates accessed are substantially lower than if Council had to borrow from commercial banks.

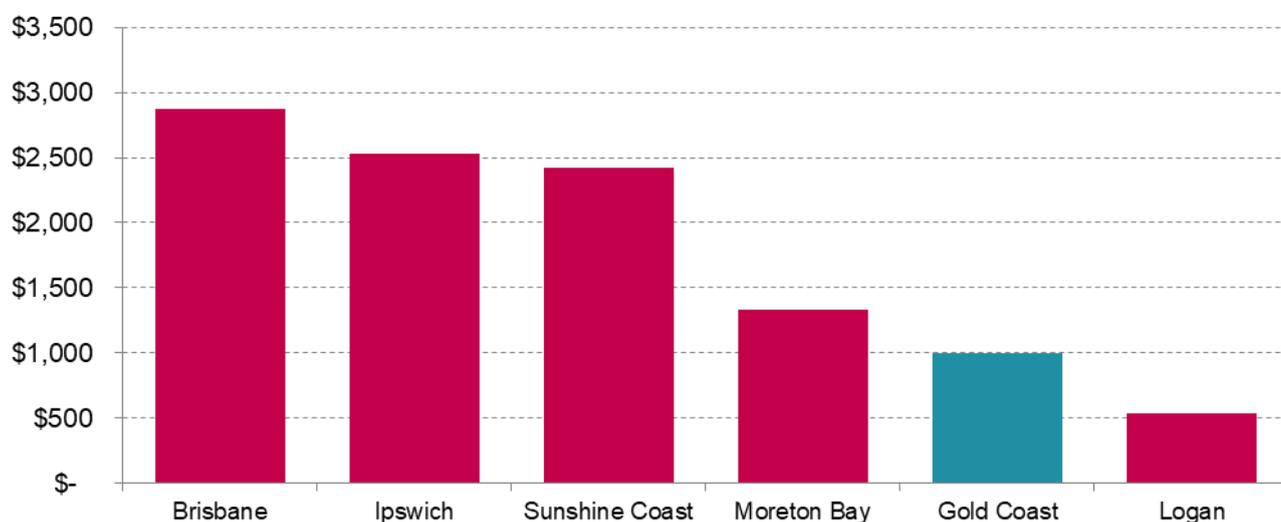
Council's recent track record

- On 1 July 2012, \$77.7 million of debt was transferred to Council upon the dissolution of Allconnex Water, taking total debt to \$807.7m.
- The balance of debt as at June 2020 was \$603.8 million, including the remaining Allconnex Water debt.
- Therefore, since July 2012, external debt has reduced by \$203.9 million.
- Since July 2012, the City has borrowed externally \$302.1 million whilst delivering \$1.6 billion in new capital works. It has also contributed to major State owned assets such as Light Rail and Commonwealth Games infrastructure.

Comparisons with other Councils

- Current external debt of \$0.6 billion compares to property, plant and equipment assets of \$14.7 billion as at 30 June 2019, representing 4.1%.
- In 2019-20 Council's principal and interest payments of \$110.6 million on outstanding debt took up 7.0% of its total income. By comparison, the median household on the Gold Coast allocates 32.1% of total income just on mortgage repayments (source: ABS 2016 Census Data)
- In June 2019, the City had \$995 of external debt per capita. The following graph (source: audited financial statements for 2018-19 and the Queensland Government Statistician's Office) illustrates the recent debt position for comparable Councils.
- Consideration should also be given to the likelihood of future borrowings. The City of Gold Coast is well placed compared to other Councils as its infrastructure is generally of a high standard and in relatively good condition.

Council Debt Per Capita (June 2019)



Note: City of Gold Coast and Logan City Council have water and sewerage debt included in the Council accounts. The other Councils now operate water and sewerage through separate entities. To be comparable, the water and sewerage debt (based on participation rights) for the other Councils has been added to the debt shown in the Council accounts to produce this comparison graph.

Council's cash reserves

- As at 30 June 2020 Council had a total of \$820.7 million which is set aside for specific purposes in various reserve funds.
- The largest reserves are as follows:
 - Infrastructure Charges Reserve (\$459.6 million)
 - Funds held in reserve being Infrastructure Charges collected from developers for the specific purpose of providing trunk (growth related) infrastructure for water, sewerage, transport, parks and stormwater drainage. Council has an adopted Local Government Infrastructure Plan that outlines the planned trunk infrastructure for the city over the next 15 years.
 - Water & Sewerage Capital Works (\$184.2 million)
 - Funds held for future capital works, including recycled water release projects with \$131.0 million in planned expenditure between 2020-21 & 2023-24 and Coombabah treatment works upgrade \$140.7 million between 2020-21 & 2022-23.
 - Waste Management Capital Works and Future Landfill Remediation (\$43.6 million)
 - Workers' Compensation (\$13.1 million)
 - Fleet & Plant Replacement (\$10.9 million)
 - Strategic Priorities (\$7.1 million)
 - Funds held for major events and tourism attraction initiatives, with funds to be expended over the next few years.
 - Cultural Precinct Reserve (\$6.2 million)
 - Funds held for the significant upgrade of the Cultural Precinct with funds to be expended over the next few years.
 - Investment Fund Reserve (\$79.1 million)
 - This reserve was established to provide Council's annual budget with a future dividend from investments to compensate for the loss of dividends from the bulk water assets, which was taken over by the State Government on 1 July 2008.
 - The current Council has borrowed "internally" from the Investment Fund Reserve for such purposes as :
 - \$14.3 million to establish new depot facilities at Ashmore, with repayments being made from returns from private tenants.
 - \$19.1 million to fund the Karp Court building purchase and refurbishment, to be repaid by savings in rent as a result of no longer requiring the rental of the Varsity Lakes building.
 - \$2.0 million to fund accelerated emergency Coastal Protection Works following a major storm in February 2013.
 - \$6.0 million to fund the up-front investment in the Integrated Parking Management System.
 - \$29.6 million to fund Business Application and Support as part of the ICT roadmap move to outsourcing ICT services and implementing a new customer based systems.
 - \$19.6 million funding towards the new Cultural Precinct at Evandale.
 - \$8.7 million towards Energy Management Unit initiatives to reduce energy consumption and costs by installing more efficient street lighting and solar systems at various facilities.
 - \$13.7 million to fund Digital City Plans in relation to improving and expanding the City's digital infrastructure.
 - By retaining funds in the Investment Fund Reserve, Council will have flexibility to make decisions regarding future borrowings and emerging projects, particularly when interest rates are higher than current rates and borrowing externally is not as attractive as it is currently.

Key Points in Summary

- Based on financial performance indicators and comparison with other SEQ Councils, Council's debt is quite low and certainly manageable.
- Since July 2012, debt has been reduced by \$203.9 million.
- Council has set aside past surpluses to the amount of \$820.7 million in reserves to finance large upcoming commitments, limiting the requirement for new borrowings.



For more information

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