Randwick City Council

Financial Assessment and Sustainability Report

Date:	19 May 2014

Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by Randwick City Council (the Council) as detailed in TCorp's letter of 4 February 2014.

The report has been prepared based on information provided to TCorp. TCorp has relied on this information and has not verified or audited the accuracy, reliability or currency of the information provided to it for the purpose of preparation of the report. TCorp and its directors, officers and employees make no representation as to the accuracy, reliability or completeness of the information contained in the report.

In addition, TCorp does not warrant or guarantee the outcomes or projections contained in this report. The projections and outcomes contained in the report do not necessarily take into consideration the commercial risks, various external factors or the possibility of poor performance by the Council all of which may negatively impact the financial capability and sustainability of the Council. The TCorp report focuses on Council's future Sustainability, within prudent risk parameters and the limits of its financial projections.

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Contents

1 Executive Summary

In April 2013 TCorp provided Randwick City Council (the Council) with a Financial Assessment, Sustainability and Benchmarking Report as part of the work undertaken for the Independent Local Government Review Panel.

In the report TCorp made the following observations:

- Operating surpluses had been posted in each year of the review period (when capital grants and contributions are excluded) and operating surpluses were forecast to continue for all 10 years of the financial forecast (when capital grants and contributions are excluded).
- Council's 2012 Infrastructure Backlog Ratio decreased even though the backlog value was at a similar level to the 2009 backlog total. This was due to the Asset Revaluation process more than doubling the total value of infrastructure assets during the review period.
- The largest asset category within the backlog was buildings at $22.6m. Council has an SRV in place to assist in addressing the buildings backlog.
- Council has spent adequately on capital expenditure in each year with the Capital Expenditure Ratio above the benchmark in all four years and forecast above benchmark in all 10 years.
- Council had not spent enough in relation to asset renewals with the Buildings and Infrastructure Asset Renewal Ratio below the benchmark in all four years.
- Council had operated debt free for 11 years and was forecast to remain debt free throughout the 10 years forecast.

TCorp's report stated that "*Based on our review of both the historic financial information and the 10 year financial forecast within Council's long term financial plan, we consider Council to be in a Sound Sustainability position".*

In April 2013, TCorp provided Council with its assessment of the Financial Sustainability Rating (FSR) and Outlook. Council was assigned a FSR of Sound with an Outlook of Neutral.

Following receipt of the report Council has updated their Long Term Financial Plan (LTFP) and IP&R documents including their AMP's. In 2013 the Division of Local Government Infrastructure Asset report stated assets in Condition 3 were deemed satisfactory. In 2013 Council adjusted their satisfactory condition in SS7 from Condition 2 to Condition 3 and as a result Council's backlog figure was revised downwards.

Council has provided TCorp with two scenarios within their LTFP, a "Base Case" scenario and a "Sustainability" scenario.

The "Base Case" scenario includes Council's existing four year Special Rate Variation (SRV) of 3.59% including rate peg, but does not include the proposed extension to the existing 6.0% environmental levy due to expire in June 2014. While Council will still be able to fund infrastructure programs, this will be reduced by the amount usually funded from the environment levy, and this may have an impact on Council's infrastructure assets and current service levels in the future.

The "Sustainability" scenario includes the existing four year SRV of 3.59%, including rate peg, and also includes a continuation of the existing environmental levy of 6.0% due to expire in June 2014. While Council has applied for a five year continuation, they have assumed that the environmental levy will continue after five years as a permanent source of revenue, and therefore the levy has been retained in their financial forecast for the full 10 years. This special rate has been applied for but has not yet been approved. With the extension of the existing environmental levy all assets would be maintained at satisfactory levels, current service levels would be sustained and Council anticipate being able to provide some new services.

Since the completion of TCorp's previous assessment of Council, the 2013 financial year results and performance measures have been completed by Council. These results have demonstrated continued improvement in Council's results. For the 2013 financial year, Council has achieved the benchmark level for all 10 of TCorp's financial and asset sustainability ratios.

As Council only operates one Fund the analysis contained in this report is focussed on the General Fund.

The key observations from our review of Council's latest audited accounts and updated 10 year forecasts for its General Fund for the Base Case scenario are:

- Council reported an operating surplus in 2013, when capital grants and contributions were excluded. The result improved in 2013 primarily due to an increase in user fees and charges.
- Council has forecast an operating surplus, excluding capital grants and contributions, each year of the forecast period.
- Council's Own Source Operating Revenue Ratio was above benchmark each year of the review period and is above benchmark each year of the forecast period which indicates Council's low reliance on external sources of revenue.
- When investments are included, Council's Cash Expense Ratio is well above benchmark for the forecast period.
- Council has been debt free since 2001 and has not forecast any borrowings in their LTFP.

Based on the revised information provided to TCorp for the Base Case scenario, Council is currently assessed to have a FSR of Sound with an Outlook for the next three years of Positive, which means that Council could achieve a FSR of Strong within the next three years.

In respect of the long term Sustainability of the Council our key observations for the Base Case scenario are:

- Council is forecasting an operating surplus each year of the forecast period, when capital grants and contributions are excluded, however the result is forecast to decrease from $5.3m in 2013 to $2.8m in 2023 as the existing environmental levy expires.
- Council's Unrestricted Current Ratio is above benchmark over the forecast period.
- Council's Cash Expense Ratio is forecast to fall below benchmark from 2018, however when investments are included the ratio is well above benchmark over the 10 year forecast period.

The key observations from our review of Council's updated 10 year forecasts for the Sustainability scenario are:

- Council is forecasting an operating surplus each year of the forecast period, when capital grants and contributions are excluded. The operating result is forecast to increase from $5.3m in 2013 to $7.6m in 2023.
- Council's Unrestricted Current Ratio is well above benchmark for the entire forecast period.
- Council's Capital Expenditure Ratio is above benchmark for the entire forecast period.

Based on the revised information provided to TCorp for the Sustainability scenario, Council is currently assessed to have a FSR of Sound with an Outlook for the next three years of Positive which means that Council could achieve a FSR of Strong within the next three years.

In respect of the long term Sustainability of the Council our key observations for the Sustainability scenario are:

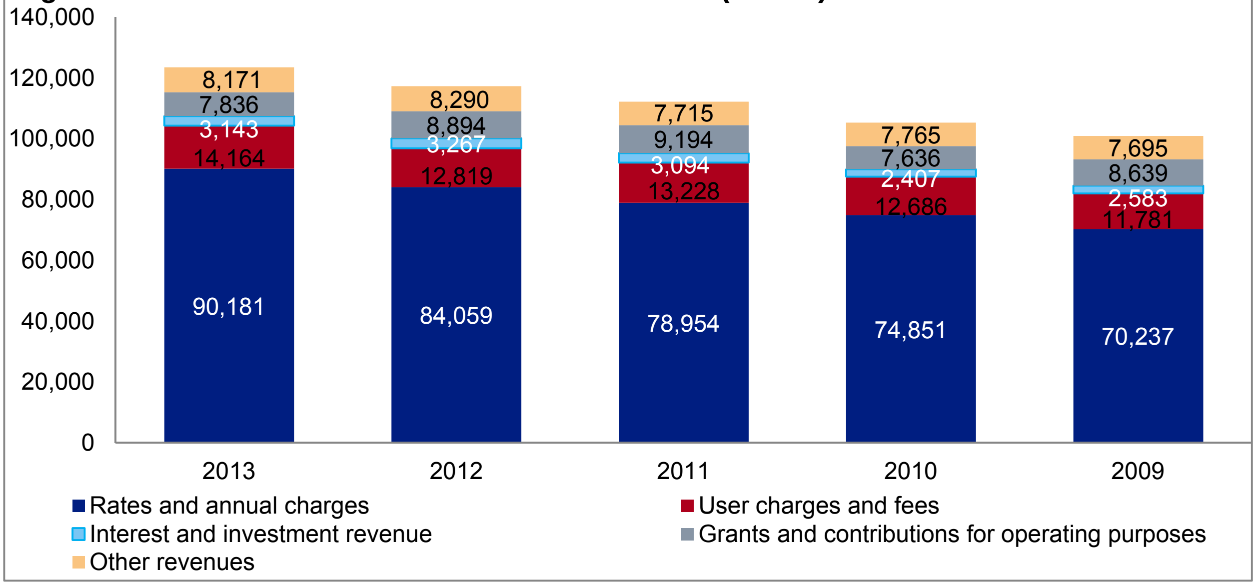
- Council is forecasting an operating surplus each year of the forecast period when capital grants and contributions are excluded. The result is forecast to increase from \$5.3m in 2014 to \$7.6m in 2023.
- The extension of Council's existing environmental levy will add an additional \$38.1m to Council's operating revenue between 2014 and 2023. However this is based on a permanent extension over 10 years, which has not as yet been approved.
- Council's Capital Expenditure Ratio is above benchmark over the forecast period.
- Under this scenario Council would be able to maintain existing assets at a satisfactory level and sustain current service levels as well as provide some new services.

2 Review of Financial Performance and Position

TCorp has updated its review based on the 2013 annual audited accounts of the Council.

2.1 Revenue

Figure 1 - Revenue Sources for 2008/09 to 2012/13 ($'000s)



Key Observations

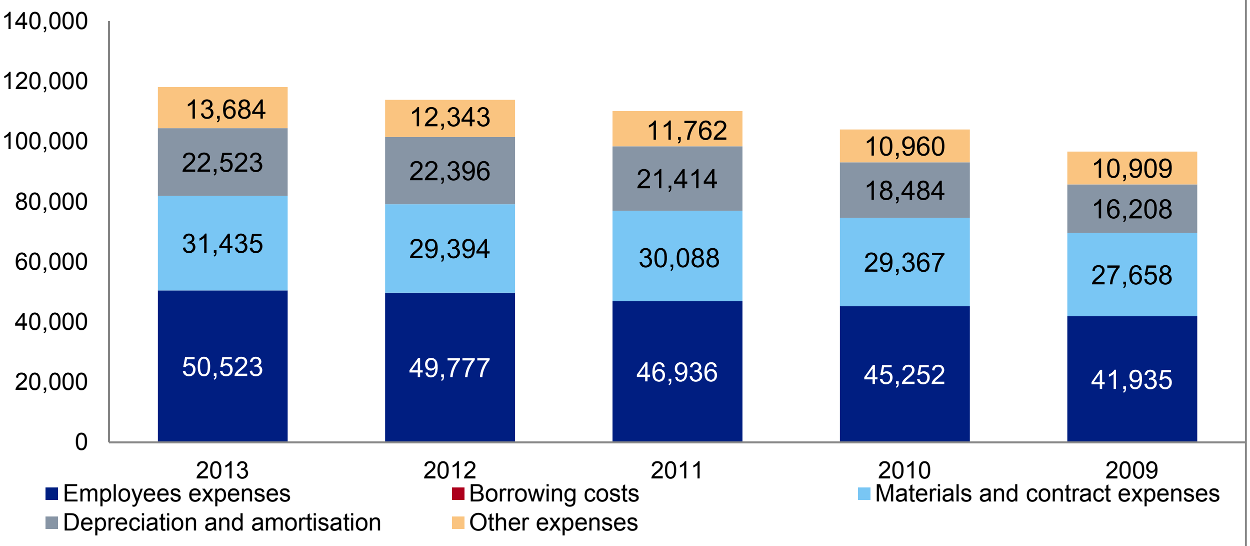
- Council's total revenue, excluding capital grants and contributions, increased by 5.3% ($6.1m) in 2013 to $123.5m.
- Rates and annual charges increased by 7.3% in 2013 due to an increase of 6.7% ($3.7m) in ordinary rates as a result of the SRV in place, as well as an increase of 9.0% ($2.1m) in domestic waste management charges. In 2013 Council established a new waste contract for recycled waste and the increased cost of this system has been incorporated into the domestic waste management charge.
  - In 2011 Council was approved a three year (2010/11 - 2012/13) SRV, of 2.69% p.a. above rate peg, to remain in their general rate base thereafter. The SRV is to fund a seven year 'Buildings for the Community' upgrade program.
  - In 2013 Council were approved a four year (2013/14 - 2016/17) special variation of 3.59%, including rate peg, to remain in their general rate base. The revenue raised is to fund the management of community infrastructure assets.
  - Council also has an environmental levy in place since 2004/05 for their 'Sustaining our City Initiative'. This special rate was extended in 2009 for a further five years (2009/10 - 2013/14), at 6.0%, and provided $3.4m in special rates revenue in 2013.
  - In December 2013 Council applied to IPART for an extension on their existing environmental levy set to expire in June 2014 for an additional five years.
- In 2012 user fees and charges decreased by 3.1% ($0.4m) due to decreases in non-domestic waste management service charges and planning and statutory fees. In 2013 they increased by

10.5% ($1.3m) driven by increases in revenue from aquatic centre fees ($0.3m), road & other infrastructure reinstatements ($0.5m) and 'other' revenue ($0.3m).

- Operating grants and contributions decreased by 3.3% (0.3m) in 2012 and 11.9% ($1.0m) in 2013. The FAG has been prepaid for a number of years. In 2011 one quarter of the 2012 FAG was prepaid, in 2012 half the 2013 FAG was prepaid, and in 2013 half the 2014 FAG was prepaid. As a result, 1.25 years of FAG payments were accounted for in 2012 while only 1.0 year of FAG payment was accounted for in 2013 and as a result a decrease is reflected in the operating grants in the 2013 accounts. While Council was prepaid half the 2013 FAG in 2012 this was offset by a $2.0m decrease in other contributions due to a one off contribution of $2.0m for parks and beaches paid in 2011.
- Other revenue makes up an average of 7.1% ($7.9m) of Council's overall revenue each year. In 2013 the main contributors were rental income of $2.7m and parking fines of $4.2m.

2.2 Expenses

Figure 2 - Expenses for 2008/19 to 2012/13 ($'000s)



Key Observations

- Council's overall expenses increased by 3.7% ($4.2m) in 2013 to $118.1m.
- Employee expenses were well managed in 2013 which is reflected in an increase of 1.5% on the previous year.
- Materials and contracts expenses decreased in 2012 due to a $2.2m decrease in IT managed service provider costs. In 2013 Council signed a new garbage and recycling contract with waste contractor SITA to send 7,000 tonnes of public and domestic waste to an Alternative Waste Technology facility. This resulted in a $2.7m increase in Council's waste management expense that year. The cost of the domestic waste was included in Council's domestic waste management charge revenue in 2013. Council's depreciation expense has been maintained at consistent levels since 2011 following the Asset Revaluation process.

- Other expenses made up an average of 11.0% ($11.9m) of Council's overall operating expenses over the review period. The main contributors in 2013 were street lighting ($2.5m), insurance ($2.3m), NSW fire brigade levy ($2.1m) and electricity and heating ($1.1m).
- Council has been debt free since 2001 and therefore they do not have any borrowing costs.

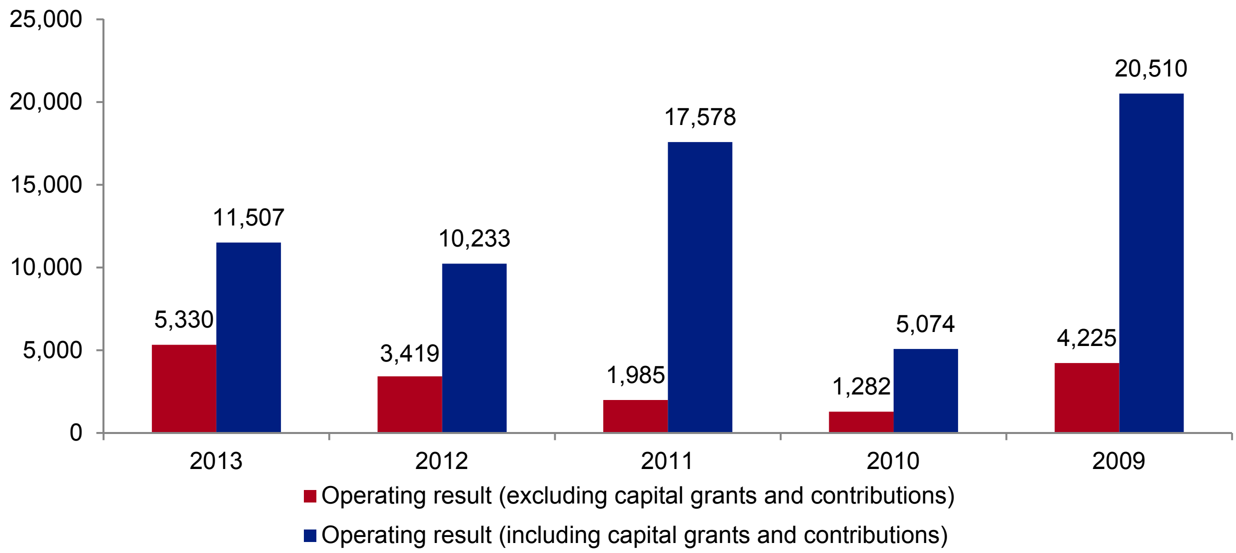
2.3 Operating Results

TCorp has made some standard adjustments to focus the analysis on core operating council results. Grants and contributions for capital purposes, realised and unrealised gains on investments and other assets are excluded, as well as one-off items which Council have no control over (e.g. impairments).

TCorp believes that the exclusion of these items will assist in normalising the measurement of key performance indicators, and the measurement of Council's performance against its peers.

All items excluded from the income statement and further historical financial information is detailed in Appendix A.

Figure 3 - Operating Results for 2008/09 to 2012/13 ($'000s)



Key Observations

- Council has posted an operating surplus each year of the review period, when capital grants and contributions are excluded. The increase in 2013 is primarily due to increased rates and annual charges, and user fees and charges.
- Capital grants peaked in 2009 and 2011. In 2009 capital contributions increased by $12.0m due to a $12.6m property dedication from the developers of the Prince Henry development site at Little Bay. The balance of this dedication, $10.0m, was received in 2011.

2.4 Financial Management Indicators

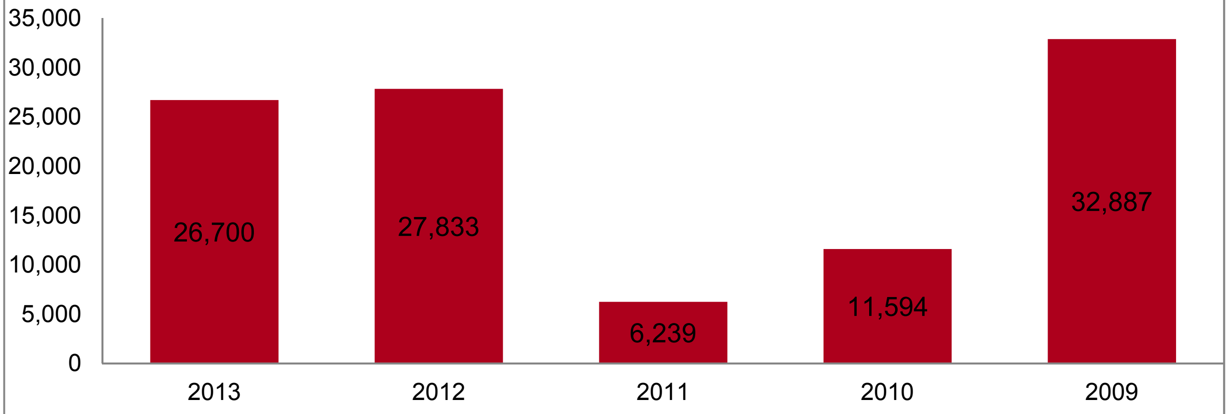
Performance Indicators	Year ended 30 June				
	2013	2012	2011	2010	2009
EBITDA ($'000s)	27,853	25,815	23,399	19,766	20,433
Operating Ratio	4.3%	2.9%	1.8%	1.2%	4.2%
Interest Cover Ratio	N/A	N/A	N/A	N/A	N/A
Debt Service Cover Ratio	N/A	N/A	N/A	N/A	N/A
Unrestricted Current Ratio	2.66x	2.83x	2.44x	2.52x	3.25x
Own sourced revenue	80.5%	78.0%	72.1%	80.2%	70.0%
Cash expense ratio	3.3 months	3.6 months	0.8 months	1.6 months	4.9 months
Net assets ($'000s)	1,303,880	1,292,053	1,283,821	1,270,950	2,106,037

Key Observations

- Council's underlying performance, as measured by EBITDA, has been on an upward trend since 2010 which is reflected in the Operating Ratio.
- Council has been debt free since 2001 and as a result there is no Interest Cover Ratio or Debt Service Cover Ratio calculated. Given the strength of its Operating Ratio, the Council would be able to service a certain level of borrowings should the situation arise where Council determined that it was appropriate to do so.
- Council's Unrestricted Current Ratio is above benchmark each year of the review period indicating Council has sufficient liquidity.
- The Own Source Operating Revenue Ratio is well above benchmark each year of the review period which highlights that Council is not heavily reliant on external sources of revenue.
- Council's Cash Expense Ratio increased significantly in 2012 due to the reclassification of 2012 term deposits as cash and cash equivalents in the 2013 audited accounts.
- Council's Net Assets have increased by $11.8m in 2013 to $1,303.8m. In 2013 when Asset Revaluations are excluded, Council's IPP&E asset base increased by $7.1m.
- At $22.5m Council's annual depreciation expense is currently 1.7% of Council's IPP&E assets. Roads infrastructure is Council's largest asset class and as at financial year ended 2013 this was valued at $514.8m. Of this 73.2% relates to road pavement, which Council has assessed as having an average useful life of 120 years. The majority of Council's drainage assets also have an average useful life of 120 years and as a result Council's depreciation expense is relatively low.

2.5 Statement of Cashflows

Figure 4 - Cash and Cash Equivalents for 2008/09 to 2012/13 ($'000s)



Key Observations

- In the 2012 audited accounts Council's cash and cash equivalents is reported as $9.8m. This figure has been amended, and the 2012 cash and cash equivalents figure has been reported at $27.8m in the 2013 audited accounts. Previously term deposits were classified as cash and cash equivalents if they had a maturity date of 90 days from the date of purchase. Term deposits are now classified as cash and cash equivalents when the maturity dates are less than 150 days post balance date and as a result $19.0m of long term deposits were reclassified as cash and cash equivalents in the 2013 accounts.
- In 2013 Council held $26.7m in cash and cash equivalents of which $0.03m was held in cash at bank, $6.1m are deposits at call, $1.5m are held in managed funds and $19.0m are short term deposits.
- Of the $44.7m held in cash, cash equivalents and investments, $8.6m was externally restricted, $33.0m was internally restricted and $3.1m was unrestricted.

2.6 Capital Expenditure

The following section predominantly relies on information obtained from Special Schedules 7 and 8 that accompany the annual financial statements. These figures are unaudited and are therefore Council's estimated figures.

2.6.1 Infrastructure Backlog

Figure 5 - Infrastructure Backlog for 2008/09 to 2012/13($'000s)

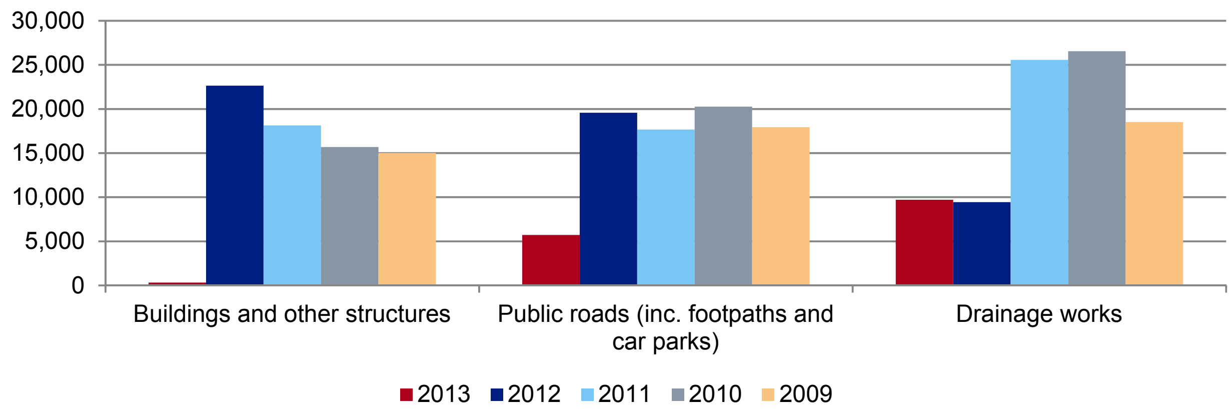
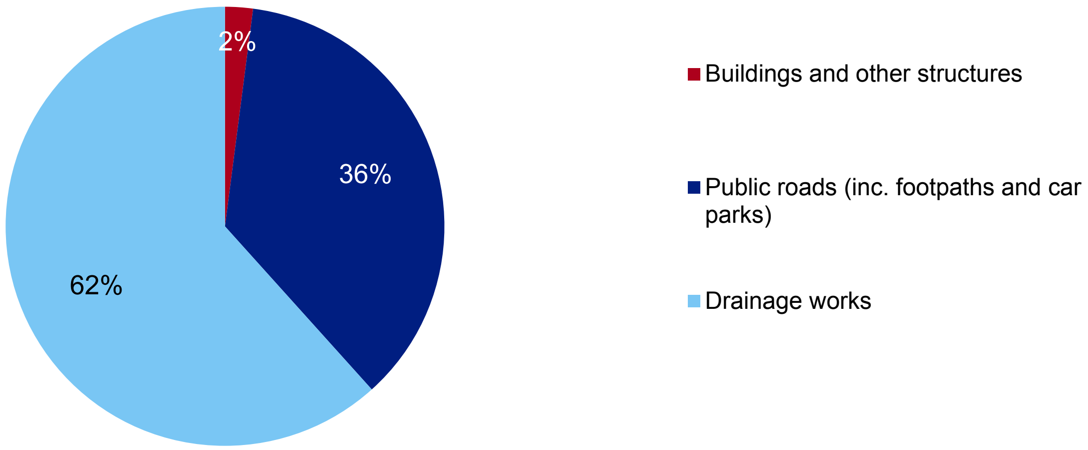


Figure 6 - Infrastructure Backlog Composition for 2012/13



Council reported $15.7m in Infrastructure Backlog in 2013, a decrease of 69.5% ($35.9m) on the previous year. 62.0% ($9.7m) relates to drainage infrastructure, 36.0% ($5.7m) to public roads and 2.0% ($0.3m) to buildings and other structure.

In 2013 buildings and other structures backlog decreased by 98.6% ($22.3m) while public roads backlog decreased by 70.8% ($13.8m). Previously Council had reported infrastructure assets in Condition 2 as satisfactory, however the Division of Local Government Infrastructure Audit report stated that Condition 3 was deemed satisfactory. In 2013 Council adjusted their satisfactory condition in SS7 from Condition 2 to Condition 3 and as a result Council's backlog figure was revised downwards.

In their AMPs, Council has advised that their infrastructure assets will be maintained at a safe and serviceable level for the community.

2.6.2 Infrastructure Status

Infrastructure status	Year ended 30 June				
	2013	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	9,710	51,643	61,383	62,507	51,473
Required annual maintenance ($'000s)	6,052	15,377	18,784	18,433	13,245
Actual annual maintenance ($'000s)	10,424	21,495	19,259	17,725	11,032
Total value infrastructure assets ($'000s)	869,738	861,894	856,191	838,879	389,556
Total assets ($'000s)	1,335,067	1,319,428	1,309,981	1,296,338	2,128,595
Infrastructure Backlog Ratio	0.01x	0.06x	0.07x	0.07x	0.13x
Asset Maintenance Ratio	1.72x	1.40x	1.03x	0.96x	0.83x
Building and infrastructure asset renewal ratio	1.03x	0.74x	0.69x	0.60x	0.72x
Capital Expenditure Ratio	1.32x	1.26x	1.67x	1.13x	1.73x

Note 9a in Council's audited accounts includes a category 'open space – depreciable assets'. For the purposes of calculating the 'total value infrastructure asset', TCorp does not generally include open space. Following discussions with Council it has been clarified that this category consists solely of assets *occupying* open spaces. This includes park furniture, barbeques, playgrounds and landscape areas. These assets are not considered 'open space assets' and as a result it is considered appropriate to include these assets in the total value of infrastructure assets. Council's 'open space assets' includes parks and landfill sites and these assets are included in Note 9a in the community land category.

Council's Infrastructure Backlog improved to benchmark levels in 2013 following the change in their satisfactory condition rating as mentioned previously.

Council calculate their required annual maintenance on the condition rating of their assets as well as community requirements, therefore following the condition rating adjustment the required annual maintenance figure decreased. Whilst Condition 3 is deemed satisfactory, these assets will still require annual maintenance and Council has advised they will continue to improve their asset condition and keep them at a satisfactory condition.

The Building and Infrastructure Asset Renewal Ratio increased above benchmark in 2013 following an increase in asset renewal expenditure as a result of the Building for the Community program.

Council calculates an additional asset renewal ratio which includes open space renewals. The open space renewals for the purposes of the ratio calculation by Council, includes renewal of open spaces classified under Community land. TCorp has not taken this ratio into consideration as this is not comparative with all other Council's in NSW.

Council's Capital Expenditure Ratio has been above benchmark each year of the review period. The ratio peaked in 2009 and 2011 as capital expenditure was boosted by capital dedications received in relation to the Prince Henry development at Little Bay.

The Building for the Community program is a $38.0m program of works over 7 years and incorporates a number of large projects which spans a number of years. As a result Council's infrastructure asset value, which increased by only $7.8m in 2013, does not fully reflect the program of works.

2.6.3 Capital Program

The following figures are sourced from the Council's Annual Financial Statements at Special Schedule No. 8 and are not audited. New capital works are major non-recurrent projects.

Capital Program ($'000s)	Year ended 30 June				
	2013	2012	2011	2010	2009
New capital works	6,455	8,883	0	0	12,600
Replacement/refurbishment of existing assets	17,176	28,693	27,675	22,289	0
Total	23,631	37,576	27,675	22,289	12,600

While SS8 has not reported any new capital works for 2010 and 2011 this does not affect the Capital Expenditure Ratio as it is calculated from Note 9a.

During the 2012-2013 financial year Council's capital works included the staged redevelopment of Heffron Park. Stage Two of the Heffron Park Plan saw the construction of the Children's Bicycle Education Facility, the Jersey Road car park and picnic facilities.

Council's Building for the Community program is in its fourth year and 16 projects have been completed to date. One of the largest projects in the program is the upgrade and extension of the Des Renford Aquatic Centre which is currently under construction. This will comprise of a new two-storey community fitness centre and gym, a purpose built crèche, a new reception and administration area and landscaping and refurbishment of the existing amenities and café.

At the completion of the Buildings for the Community Program Council's Capital Program maintenance expenditure on Buildings will be dependent on the condition of each of Council buildings and the work that will be required to keep them at satisfactory standard. There are no plans for any new buildings outside of the Building for the Community program. Between 2014 and 2023 Council plan to spend approximately $4.5m on road related infrastructure upgrades and renewal.

Building for the Community Program

2013-2014

Kensington Community Centre upgrades	$2.7m
Randwick Town Hall Renovation	$1.2m
Heffron Park Central West Precinct amenities construction	$1.2m

Coogee Citizens Centre upgrades	$1.0m
Heffron Park South West Precinct amenities upgrades	$1.0m
2014-2015	
Matraville Youth and Cultural Hall renewal	$1.0m
Mahon Pool amenities renewal	$1.0m
Popplewell Park childcare centre construction	$0.8m
2015-2016	
Maroubra Beach Community Centre renewal	$1.9m
Heffron Park Indoor Sports Centre construction	$1.6m
Kingsford Town Centre amenities construction	$0.6m
2016-2017	
Southern Suburbs Youth facility construction	$2.7m
Wylies Baths Amenities renovation	$1.3m

3 Review of Financial Forecasts

The revised financial forecast model shows the projected financial statements and assumptions for the next 10 years. As the Council operates only one fund we focused our review on this General Fund.

Council has provided TCorp with two scenarios being the Base Case scenario and the Sustainability scenario.

The Base Case scenario includes Council's existing four year SRV of 3.59% including rate peg, but does not include the proposed extension to the existing 6.0% environmental levy due to expire in June 2014.

The Sustainability scenario includes the existing four year SRV of 3.59%, including rate peg, and also includes a continuation of the existing environmental levy of 6% due to expire in June 2014. While Council has applied for a five year continuation they have assume that the environmental levy will continue after 5 years as the permanent source of funding, and therefore the levy has been retained in their financial forecast for the full 10 years. The environmental levy extension has been applied for but not yet approved.

Under the Base Case scenario Council will be able to fund capital and infrastructure programs however these will be reduced by the amount normally funded from the Environment Levy Program. This may have an impact on the Council's Infrastructure Assets as well as service levels in the future.

Under the Sustainability scenario Council will have the capacity to generate operating surpluses well into the future and fund capital and infrastructure programs. All categories of assets would be maintained at a satisfactory standard and Council would be able to sustain current service levels as well as provide some new services.

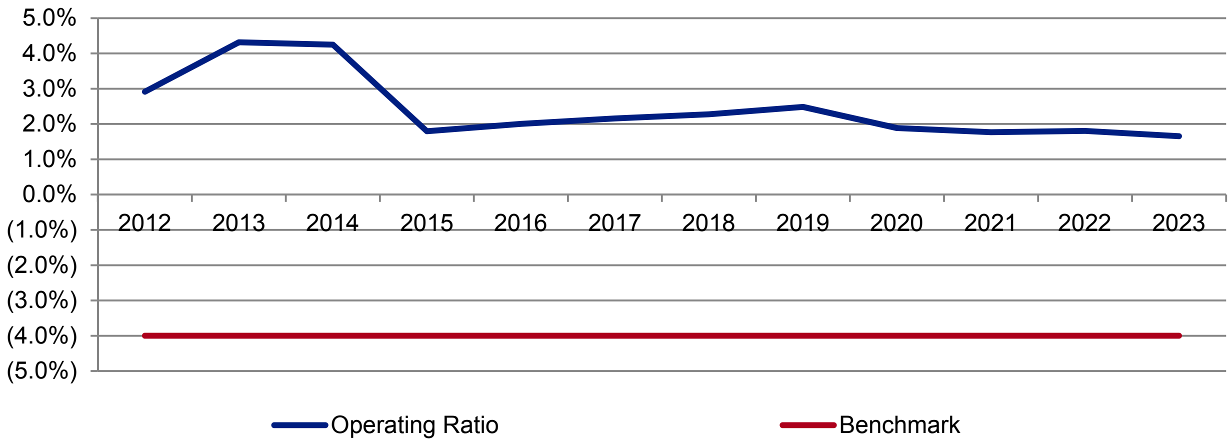
Section 3a analyses the Base Case scenario and section 3b analyses the Sustainability scenario

3a Base Case Scenario

The Base Case scenario includes the existing four year SRV of 3.59% including rate peg, but does not include the proposed extension to the existing 6.0% environmental levy due to expire in June 2014.

3.1a Operating Results

Figure 7- Operating Ratio for General Fund



Council has forecast an operating surplus each year of the forecast period, when capital grants and contributions are excluded.

Under the Base Case scenario Council's operating result decreases from $5.4m in 2014 to $2.8m in 2023.

While the Building for the Community SRV ends in 2013, Council has forecast a 31.9% ($4.5m) increase in user fees and charges in 2014. The increase in user fees and charges is due to the reclassification of council property rental income from other revenue in the 2013 audited accounts to user fees and charges in the LTFP and an additional $1.0m in revenue from the new leisure centre.

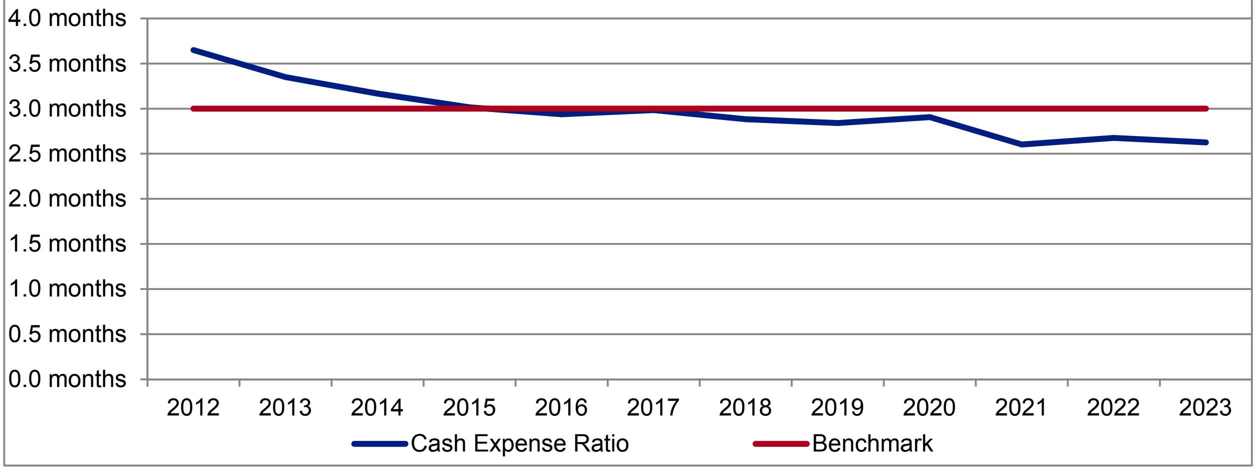
In 2015 the operating result is forecast to decrease by $5.5m as a result of the expiry of the environmental levy, as well as a 5.4% ($2.8m) increase in employee expenses and a 7.4% ($2.5m) increase in materials and contracts expenses. The increase in employee expenses is due to award increments as well growth in staff numbers which includes an increase in leisure centre staff. The increases in materials and contracts expenses relate to the new alternative waste technology and the Aquatic Centre Gym.

For the remainder of the period operating revenue is forecast to increase by an average of 3.3% p.a. (compared to 5.2% historically) while operating expenses are forecast to increase by an average of 3.5% p.a. (compared to 5.2% historically).

3.2a Financial Management Indicators

Liquidity Ratios

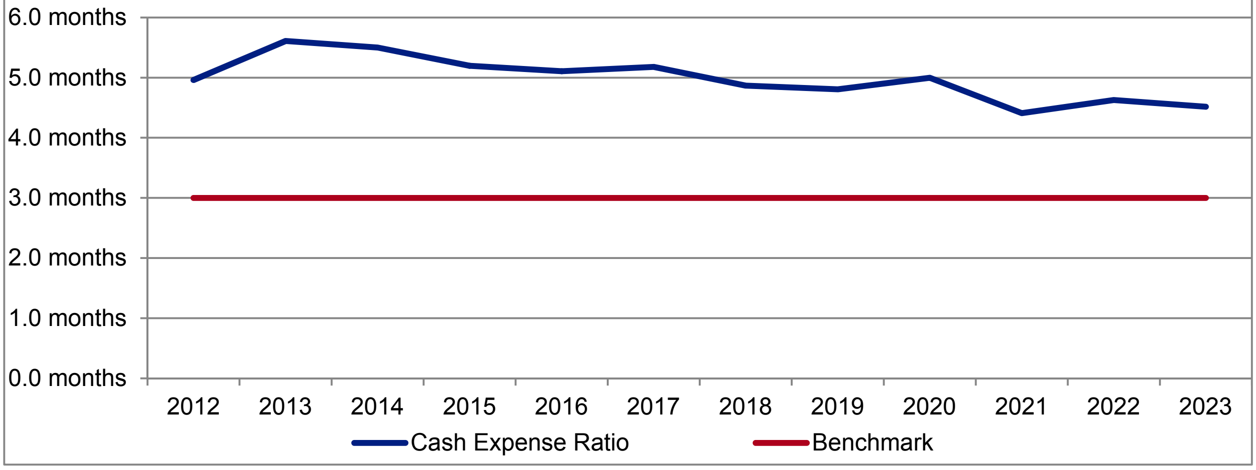
Figure 8 - Cash Expense Ratio for General Fund

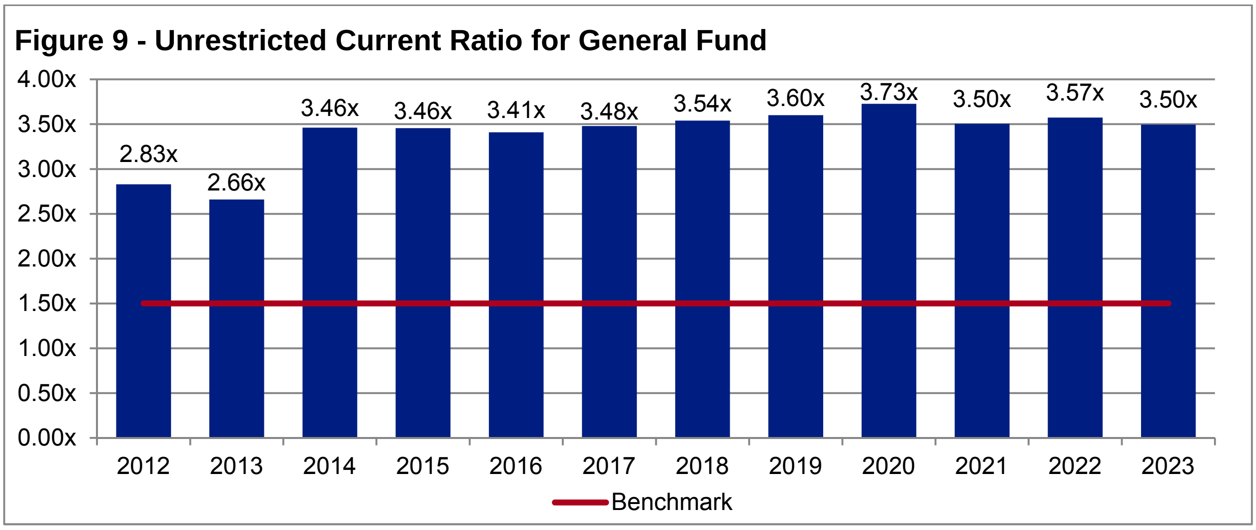


Council's Cash Expense Ratio decreases from 3.3 months in 2013 to 2.6 months in 2023 as Council's IPP&E purchases are marginally higher than their operating cash over the period.

This ratio does not include Council's investments. If Council's current investments are included in the calculation Council's Cash Expense Ratio would be well above benchmark for the forecast period. In the LTFP Council does not differentiate their investment type, however in 2013 Council held $18.0m in investments of which 88.9% ($16.0m) were held in long term deposits.

Figure 8(a) - Cash Expense Ratio for General Fund incl Investments

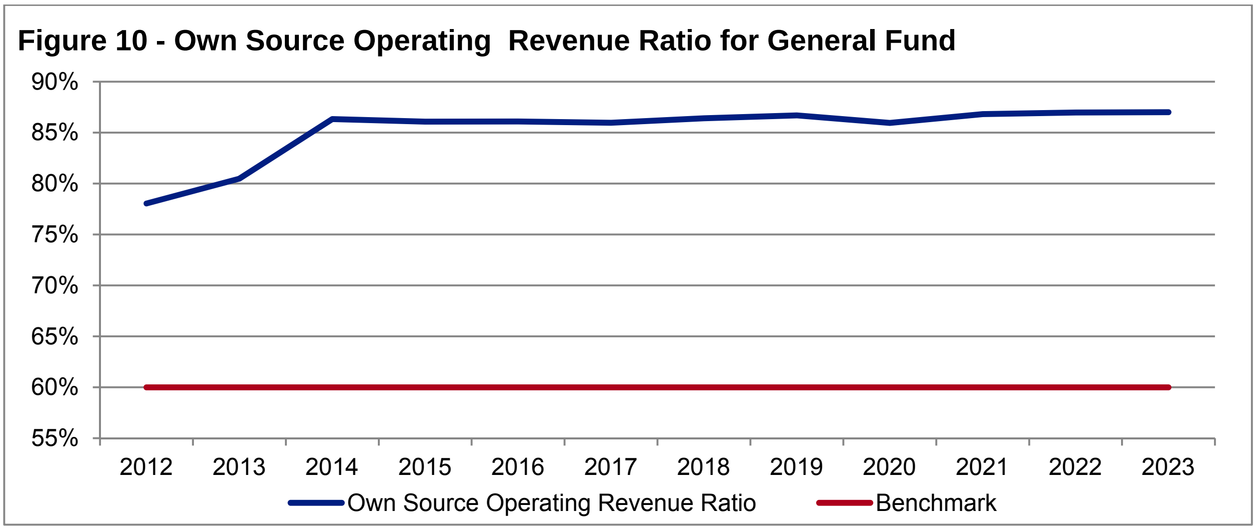




Council's Unrestricted Current Ratio is above benchmark each year of the forecast period which indicates Council should not face any liquidity issues.

Fiscal Flexibility Ratios

Council has been debt free since 2001 and plan to remain debt free, therefore no DSCR or Interest Cover Ratio have been calculated.

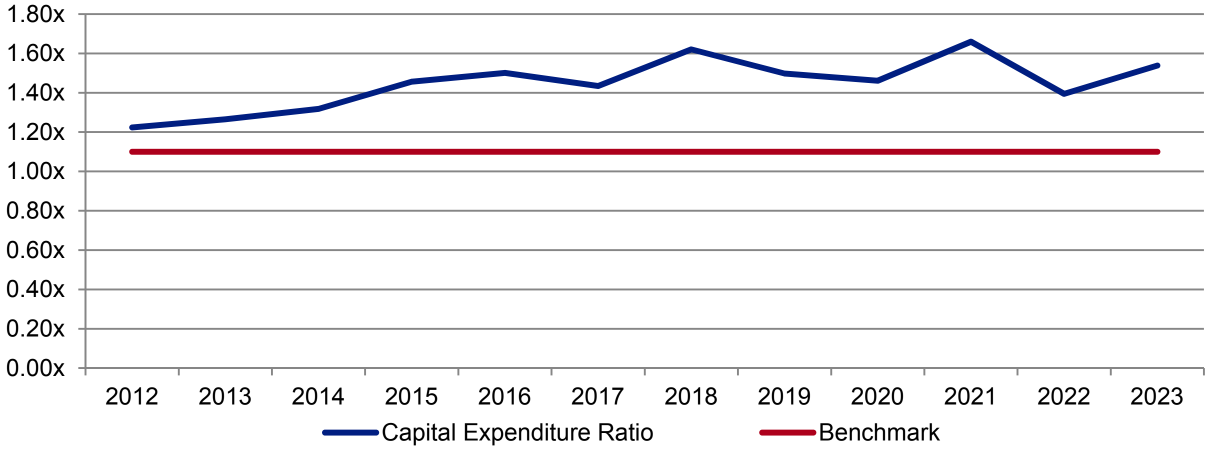


Council's Own Source Operating Revenue Ratio is above benchmark each year of the forecast period and at 86.0% this indicates that Council has sufficient financial flexibility and is not heavily reliant on external sources of revenue.

Capital grants are forecast to decrease by 85.1% ($2.8m) in 2014 to $3.3m which are maintained at this level over the forecast period as Council has included only recurring grants in the financial forecast.

3.3a Capital Expenditure

Figure 11 - Capital Expenditure Ratio for General Fund



The Capital Expenditure Ratio is above benchmark for the entire forecast period. Under this scenario Council has forecast $336.2m in IPP&E purchases, of which Council has allocated approximately 75% for asset renewals and 25% to new assets. Council anticipate they will substantially reduce their backlog by 2023.

The ratio peaks in 2018 and 2021 due to an increase in IPP&E purchases as a result of projects under Council's Plant and Equipment Replacement Program and the Contaminated Site Remediation Program.

3.4a Financial Model Assumption Review

Council has used its own assumptions in developing their forecasts.

In order to evaluate the validity of the Council's forecast model, TCorp has compared the model assumptions versus TCorp's benchmarks for annual increases in the various revenue and expenditure items. Any material differences from these benchmarks should be explained through the LTFP.

TCorp's benchmarks:

- Rates and annual charges: TCorp notes that the Local Government Cost Index (LGCI) increased by 3.4% in the year to September 2011, 2.8% in 2012, and 3.6% in 2013 and 3.4% in 2014. In December 2013 IPART announced that the rate peg to apply in the 2014/15 financial year will be 2.3%. Beyond 2015 TCorp has assessed a general benchmark for rates and annual charges to increase by mid-range LGCI annual increases of 3.0%.
- IPART developed the LGCI to use for setting the maximum allowable increase in general income for local government in NSW (rate peg). The LGCI is the measure of movement in the unit costs incurred by NSW council activities funded from the general rate base.
- Interest and investment revenue: annual return of 5%
- All other revenue items: the estimated annual CPI increase of 2.5%
- Employee costs: 3.5% (estimated CPI+1%)
- All other expenses: the estimated annual CPI increase of 2.5%

Key Observations and Risks

- The Base Case scenario is based on maintaining existing levels of services. This scenario includes the current four year SRV of 3.59% including rate peg, but does not include the proposed extension to the existing 6.0% environmental levy due to expire in June 2014.
- Rates and annual charges are forecast to increase by 4.3% in 2014. While Council's Building for the Community SRV of 2.69% above rate peg ends in 2013, this is offset by a 6.1% increase in the domestic waste levy in 2014. In 2015 rates and annual charges are forecast to increase by only 0.4% due to the completion of the environmental SRV in 2014. From 2015 rates and annual charges have forecast an average increase of 3.3% p.a. which appears reasonable.
- User fees and charges have been forecast to increase by 31.9% ($4.5m) in 2014 and 10.2% ($1.9m) in 2015. In the 2013 audited accounts rental income from 'other council properties' is classified as other revenue, however in the LTFP from 2014 it is classified as user fees and charges. This revenue amounted to $2.7m in 2013. 2014 also includes $1.0m in revenue as a result of the completion of Council's leisure centre. The increase in 2015 is due to a further increase in revenue from the new leisure centre. From 2016 user fees and charges increase by an average of 4.2% p.a. which appears reasonable when compared to the historic average increase of 4.8% p.a.
- Operating grants and contributions are forecast to decrease in 2014 as a result of the prepayment of half the 2014 FAG in 2013. From 2015 they are forecast to increase by an average of 2.3% p.a. which appears reasonable.
- Other revenue is forecast to decrease by 30.7% ($2.5m) in 2014 due to the reclassification of rental income as discussed previously. From 2015 it is forecast to increase by 4.0% p.a. which, when compared to the historic average increase of 1.6% p.a., would appear overstated.

- Following an increase of 1.5% in 2013 employee expenses are forecast to increase by 5.3% in 2014 due to award increments and growth in staff numbers. From 2015 employee expenses are forecast to increase by an average of 4.5% p.a. for the remainder of the forecast period. This would appear reasonable when compared with the historic average increase of 4.8% p.a.
- Materials and contract expenses are forecast to increase by 7.3% ($2.3m) and 7.5% ($2.5m) in 2014 and 2015 respectively due to the new leisure centre. The leisure centre has been in operation approximately five months and Council anticipate it will break even by 2015. From 2016 materials and contract expenses increase by an average of 3.1% p.a. which appears understated when compared to the average historic increase of 5.7% between 2009 and 2013.
- Depreciation expense has been forecast to decrease by 5.0% ($2.6m) in 2014 due to the improvement of Council's assets. For the remainder of the period depreciation expense is forecast to increase by an average of 1.1% p.a.
- Other expenses are forecast to increase by an average of 3.5% p.a. which appears conservative when compared to the average historic increase of 5.9% p.a. In 2017 other expenses increases above the average rate at 7.7% due to the completion of the new communications centre.
- While Council's assumptions for their revenue items appear reasonable the expense items appear understated when compared with historic results.

3.5a Sustainability

Based on the information received and the revised LTFP for the Base Case scenario, TCorp believes the Council to be currently in a Sound Sustainability position. The Outlook for Council for the next three years is currently Positive.

In considering the longer term sustainability of Council we make the following observations

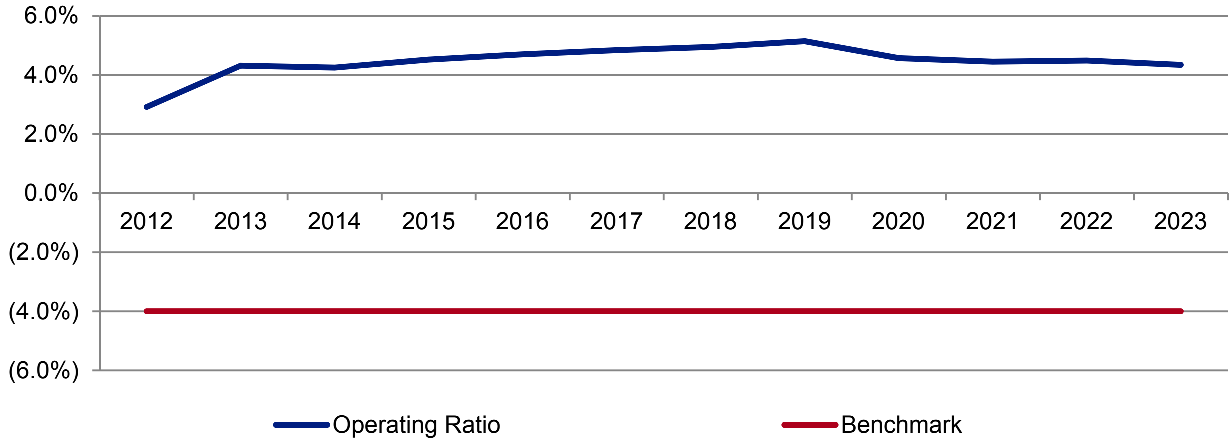
- Council is forecasting an operating surplus each year of the entire forecast period, when capital grants and contributions are excluded. However the result is forecast to decrease from $5.3m in 2013 to $2.8m in 2023.
- Council's Unrestricted Current Ratio is above benchmark and improving over the entire forecast period.
- Council's Own Source Operating Ratio is forecast above benchmark for the entire forecast period which indicates Council is not heavily reliant on external sources of revenue.
- When investments are included Council's Cash Expense Ratio is well above benchmark for the entire forecast period.
- Council's Capital Expenditure Ratio is above benchmark for the entire forecast period which indicates Council plan to spend sufficiently on new and renewal of assets.
- This result is based on Council achieving the operating result and maintaining expenses at levels forecast in their LTFP.

3b Sustainability Scenario Forecast

The “Sustainability” scenario includes a continuation of the existing environmental levy of 6.0% due to expire in June 2014. This SRV has been applied for but not been approved as yet.

3.1b Operating Results

Figure 12 - Operating Ratio for General Fund



Under the Sustainability scenario Council has forecast an operating surplus each year of the forecast period, when capital grants and contributions are excluded.

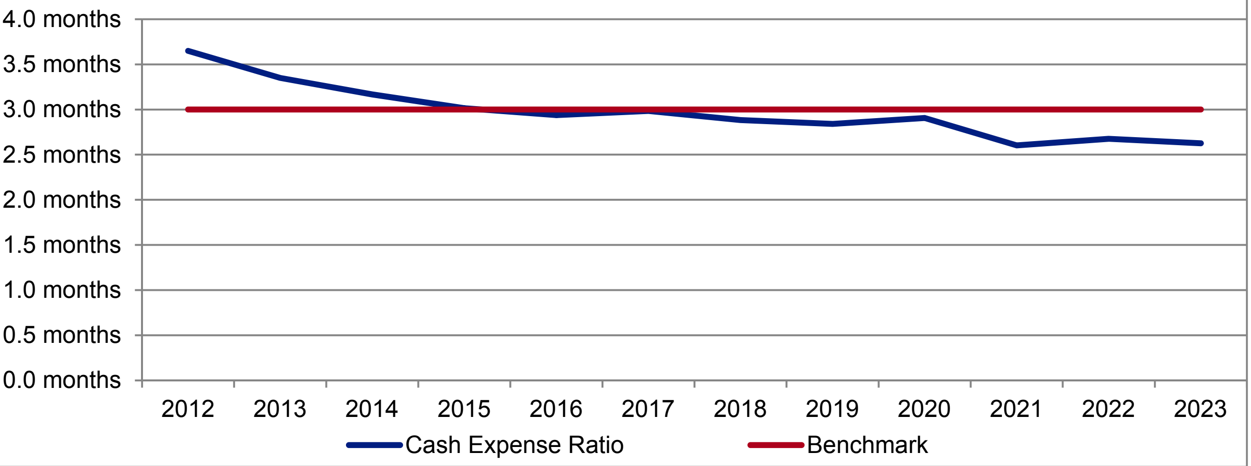
Under this scenario Council’s operating result increases from $5.4m in 2014 to $7.6m in 2023.

Under this scenario Council includes a continuation of the existing environmental levy of 6.0% from 2015. While Council has applied for a five year extension on the existing levy, from 2015 to 2019 inclusive, in their financial forecast Council has assumed that the environmental levy will continue after 2019 as the permanent source of funding. As a result the operating result may be overstated.

From 2014 Council’s operating revenue has been forecast to increase by an average of 3.5% p.a. and operating expenses has been forecast to also increase by 3.5% p.a.

3.2b Financial Management Indicators

Figure 13 - Cash Expense Ratio for General Fund



There is no change forecast in Council's Cash Expense Ratio compared to Base Case. When investments are included the Cash Expense Ratio is above benchmark for the entire forecast period.

Figure 13(a) - Cash Expense Ratio for General Fund incl Investments

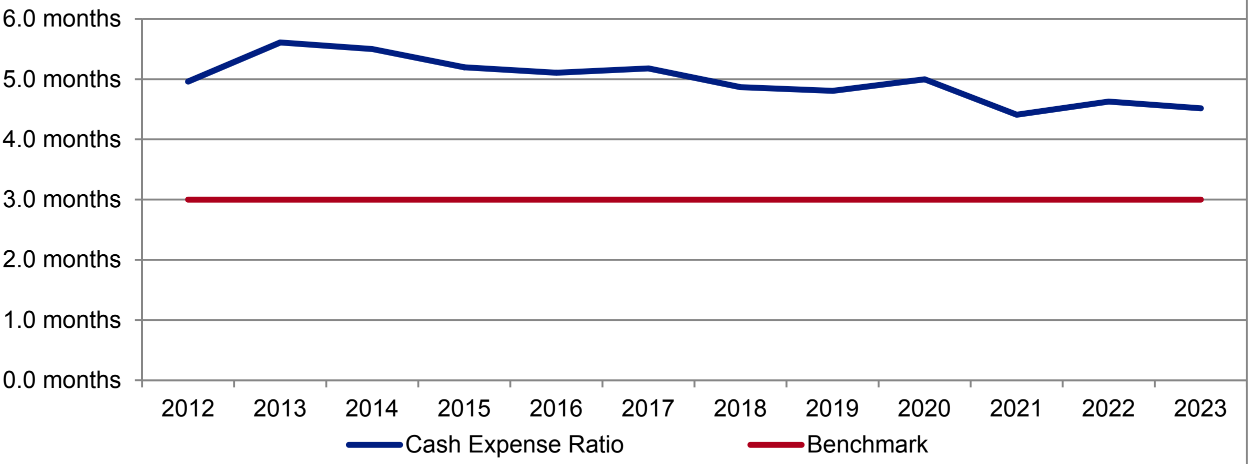
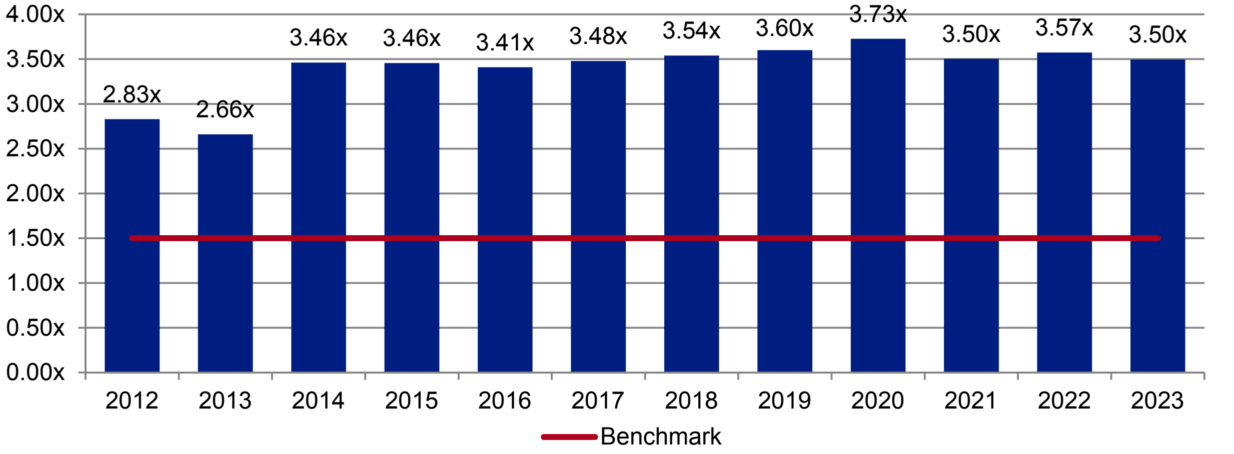


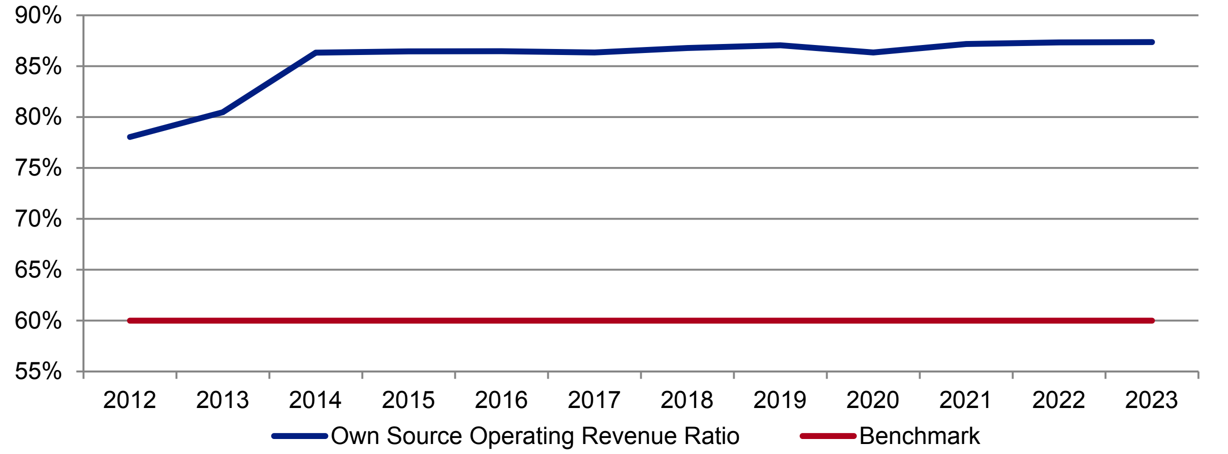
Figure 14 - Unrestricted Current Ratio for General Fund



Under the Sustainability scenario Council's Unrestricted Current Ratio is well above benchmark for the entire forecast period.

Fiscal Flexibility Ratios

Figure 15 - Own Source Operating Revenue Ratio for General Fund

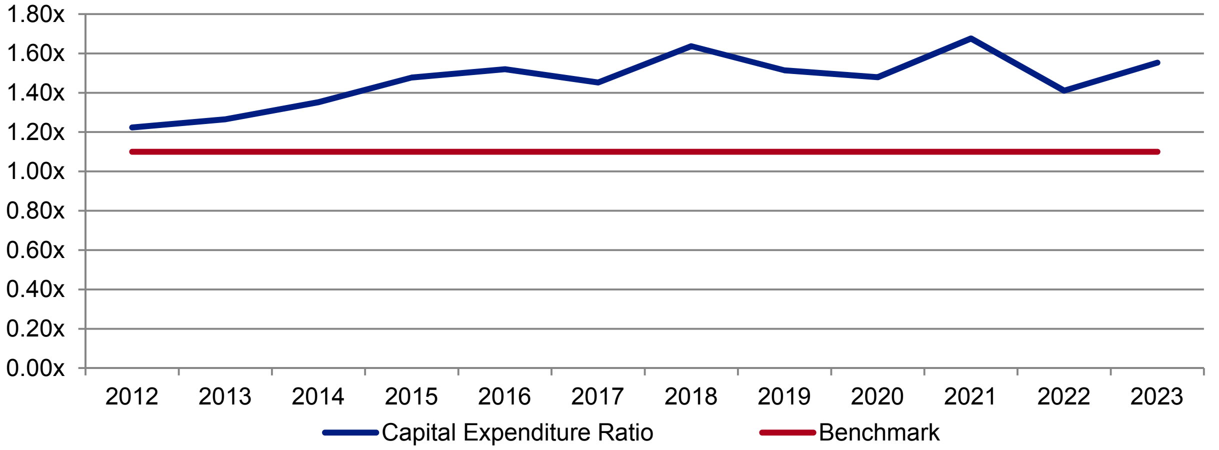


Council's Own Source Operating Revenue Ratio is also well above benchmark for the entire forecast period.

As Council does not hold any debt and is not forecast to, there are no debt service ratios to report.

3.3b Capital Expenditure

Figure 16 - Capital Expenditure Ratio for General Fund



Under this scenario Council has allocated $342.0m to IPP&E purchases over the forecast period, an increase of $5.7m on the base case scenario over the 10 forecast years.

3.4b Financial Model Assumption Review

Council has used its own assumptions in developing their forecasts.

In order to evaluate the validity of the Council's forecast model, TCorp has compared the model assumptions versus TCorp's benchmarks for annual increases in the various revenue and expenditure items. Any material differences from these benchmarks should be explained through the LTFP.

TCorp's benchmarks:

- Rates and annual charges: TCorp notes that the Local Government Cost Index (LGCI) increased by 3.4% in the year to September 2011, 2.8% in 2012, and 3.6% in 2013 and 3.4% in 2014. In December 2013 IPART announced that the rate peg to apply in the 2014/15 financial year will be 2.3%. Beyond 2015 TCorp has assessed a general benchmark for rates and annual charges to increase by mid-range LGCI annual increases of 3.0%.
- IPART developed the LGCI to use for setting the maximum allowable increase in general income for local government in NSW (rate peg). The LGCI is the measure of movement in the unit costs incurred by NSW council activities funded from the general rate base.
- Interest and investment revenue: annual return of 5%
- All other revenue items: the estimated annual CPI increase of 2.5%
- Employee costs: 3.5% (estimated CPI+1%)
- All other expenses: the estimated annual CPI increase of 2.5%

Key Observations and Risks

- The Sustainability scenario includes a continuation of the existing environmental levy of 6.0% due to expire in June 2014. This SRV has been applied for but has not yet been approved.
- Rates and annual charges are forecast to increase by 6.8% in 2014 as previously discussed. In 2015 Council has forecast an increase of 4.4% in total rates and annual charges due to the inclusion of the environmental levy. From 2015 they are forecast to increase by an average of 3.3% p.a.
- Council's depreciation expense has been forecast at a marginally higher rate than the base case scenario with an average increase of 1.25% p.a. as opposed to 1.15% in the Base Case scenario. This is due to the higher amount of capital expenditure which results in more depreciating assets.
- With the exception of rates and annual charges and depreciation expense and their forecast capital expenditure the assumptions used for the various revenue and expenditure items in the LTFP are the same for the Base Case scenario and the Sustainability scenario.

3.5b Sustainability

Based on the information received and the revised LTFP, TCorp believes the Council to be currently in a Sound Sustainability position. The Outlook for Council is currently Positive.

Should an extension to the existing SRV be approved, in considering the longer term Sustainability of the Council we make the following comments:

- Council is forecasting a surplus position each year of the forecast period when capital grants and contributions are excluded. The result is forecast to increase from $5.3m in 2014 to $7.6m in 2023.
- Council's Capital Expenditure Ratio is above benchmark over the forecast period.
- Under this scenario Council would be able to maintain existing assets at a satisfactory level and sustain current service levels.
- This result is based on Council achieving the operating result and maintaining expenses at levels forecast in their LTFP.

4 Conclusion

Our review has considered both the historic financial information and the 10 year financial forecasts within Council's long term financial plans. We consider Council to be in a Sound Sustainability position over the period of their LTFP under both their Base Case scenario and their Sustainability scenario. A review of the proposed environmental levy extension highlights that with additional funding Council's sustainability will be improved and as a result the Sustainability scenario presents a stronger position for Council in the medium to long term.

Appendix A Historical Financial Information Tables

Table 1-Income Statement

Income statement	Year ended 30 June					% annual change			
	2013	2012	2011	2010	2009	2013	2012	2011	2010
Revenue									
Rates and annual charges	90,181	84,059	78,954	74,851	70,237	7.3%	6.5%	5.5%	6.6%
User charges and fees	14,164	12,819	13,228	12,686	11,781	10.5%	(3.1%)	4.3%	7.7%
Interest and investment revenue	3,143	3,267	3,094	2,407	2,583	(3.8%)	5.6%	28.5%	(6.8%)
Grants and contributions for operating purposes	7,836	8,894	9,194	7,636	8,639	(11.9%)	(3.3%)	20.4%	(11.6%)
Other revenues	8,171	8,290	7,715	7,765	7,695	(1.4%)	7.5%	(0.6%)	0.9%
Total revenue	**123,495**	**117,329**	**112,185**	**105,345**	**100,935**	**5.3%**	**4.6%**	**6.5%**	**4.4%**
Expenses									
Employees	50,523	49,777	46,936	45,252	41,935	1.5%	6.1%	3.7%	7.9%
Borrowing costs	0	0	0	0	0	N/A	N/A	N/A	N/A
Materials and contract expenses	31,435	29,394	30,088	29,367	27,658	6.9%	(2.3%)	2.5%	6.2%
Depreciation and amortisation	22,523	22,396	21,414	18,484	16,208	0.6%	4.6%	15.9%	14.0%
Other expenses	13,684	12,343	11,762	10,960	10,909	10.9%	4.9%	7.3%	0.5%
Total expenses	**118,165**	**113,910**	**110,200**	**104,063**	**96,710**	**3.7%**	**3.4%**	**5.9%**	**7.6%**
Operating result (excluding capital grants and contributions)	**5,330**	**3,419**	**1,985**	**1,282**	**4,225**	55.9%	72.2%	54.8%	(69.7%)
Operating result (including capital grants and contributions)	**11,507**	**10,233**	**17,578**	**5,074**	**20,510**	12.4%	(41.8%)	246.4%	(75.3%)

Table 2 - Items excluded from Income Statement

Excluded items					
Grants and contributions for capital purposes	6,177	6,814	15,593	3,792	16,285
Interest revenue/ (losses)	409	(14)	564	1,199	(813)
Net gain/(loss) from the disposal of assets	(89)	(182)	449	294	3,018

Table 3 – Balance Sheet

Balance sheet ($'000s)	Year ended 30 June					% annual change			
	2013	2012	2011	2010	2009	2013	2012	2011	2010
Current assets									
Cash and cash equivalents	26,700	27,833	6,239	11,594	32,887	(4.1%)	346.1%	(46.2%)	(64.7%)
Investments	18,000	10,000	33,301	32,307	6,389	80.0%	(70.0%)	3.1%	405.7%
Receivables	6,286	6,223	6,439	6,113	5,364	1.0%	(3.4%)	5.3%	14.0%
Inventories	568	663	702	617	359	(14.3%)	(5.6%)	13.8%	71.9%
Other	384	263	877	798	28	46.0%	(70.0%)	9.9%	2750.0%
Total current assets	51,938	44,982	47,558	51,429	45,027	15.5%	(5.4%)	(7.5%)	14.2%
Non-current assets									
Investments	17,487	15,984	8,006	0	0	9.4%	99.7%	0.0%	0.0%
Receivables	496	511	435	534	515	(2.9%)	17.5%	(18.5%)	3.7%
Infrastructure, property, plant & equipment	1,265,139	1,257,944	1,253,975	1,244,368	2,083,046	0.6%	0.3%	0.8%	(40.3%)
Investments accounted for using the equity method	7	7	7	7	7	0.0%	0.0%	0.0%	0.0%
Total non-current assets	1,283,129	1,274,446	1,262,423	1,244,909	2,083,568	0.7%	1.0%	1.4%	(40.3%)
Total assets	**1,335,067**	**1,319,428**	**1,309,981**	**1,296,338**	**2,128,595**	**1.2%**	**0.7%**	**1.1%**	**(39.1%)**

Balance sheet ($'000s)	Year ended 30 June					% annual change			
	2013	2012	2011	2010	2009	2013	2012	2011	2010
Current liabilities									
Payables	15,871	11,976	12,311	12,180	10,712	32.5%	(2.7%)	1.1%	13.7%
Provisions	14,851	14,905	13,353	12,712	11,672	(0.4%)	11.6%	5.0%	8.9%
Total current liabilities	30,722	26,881	25,664	24,892	22,384	14.3%	4.7%	3.1%	11.2%
Non-current liabilities									
Payables	260	260	260	260	0	0.0%	0.0%	0.0%	0.0%
Provisions	205	234	236	236	174	(12.4%)	(0.8%)	0.0%	35.6%
Total non-current liabilities	465	494	496	496	174	(5.9%)	(0.4%)	0.0%	185.1%
Total liabilities	**31,187**	**27,375**	**26,160**	**25,388**	**22,558**	**13.9%**	**4.6%**	**3.0%**	**12.5%**
Net assets	**1,303,880**	**1,292,053**	**1,283,821**	**1,270,950**	**2,106,037**	**0.9%**	**0.6%**	**1.0%**	**(39.7%)**

Table 4-Cashflow

Cash Flow Statement ($'000s)	Year ended 30 June				
	2013	2012	2011	2010	2009
Cash flows from operating activities	36,038	32,781	29,559	25,068	20,206
Cash flows from investing activities	(37,171)	(11,187)	(34,914)	(46,361)	(19,120)
Proceeds from borrowings and advances	0	0	0	0	0
Repayment of borrowings and advances	0	0	0	0	0
Cash flows from financing activities	0	0	0	0	0
Net increase/(decrease) in cash and equivalents	**(1,133)**	**21,594**	**(5,355)**	**(21,293)**	**1,086**
Cash and cash equivalents	26,700	27,833	6,239	11,594	32,887

Appendix B Glossary

Asset Revaluations

In assessing the financial sustainability of NSW councils, IPART found that not all councils reported assets at fair value[1]. In a circular to all councils in March 2009[2], OLG required all NSW councils to revalue their infrastructure assets to recognise the fair value of these assets by the end of the 2009/10 financial year.

Collateralised Debt Obligation (CDO)

CDOs are structured financial securities that banks use to repackage individual loans into a product that can be sold to investors on the secondary market.

In 2007 concerns were heightened in relation to the decline in the "sub-prime" mortgage market in the USA and possible exposure of some NSW councils, holding CDOs and other structured investment products, to losses.

In order to clarify the exposure of NSW councils to any losses, a review was conducted by the DLG (now OLG) with representatives from the Department of Premier and Cabinet and NSW Treasury.

A revised Ministerial investment Order was released by the DLG (now OLG) on 18 August 2008 in response to the review, suspending investments in CDOs, with transitional provisions to provide for existing investments.

Office of Local Government (OLG)

OLG is a division of the NSW Department of Premier and Cabinet and is responsible for local government across NSW. OLG's organisational purpose is "to strengthen the local government sector" and its organisational outcome is "successful councils engaging and supporting their communities". Operating within several strategic objectives OLG has a policy, legislative, investigative and program focus in matters ranging from local government finance, infrastructure, governance, performance, collaboration and community engagement. OLG strives to work collaboratively with the local government sector and is the key adviser to the NSW Government on local government matters.

Depreciation of Infrastructure Assets

Linked to the asset revaluations process stated above, IPART's analysis of case study councils found that this revaluation process resulted in sharp increases in the value of some council's assets. In some cases this has led to significantly higher depreciation charges, and will contribute to higher reported operating deficits.

EBITDA

EBITDA is an acronym for "earnings before interest, taxes, depreciation, and amortisation". It is often used to measure the cash earnings that can be used to pay interest and repay principal.

[1] IPART "Revenue Framework for Local Government" December 2009 p.83
[2] DLG "Recognition of certain assets at fair value" March 2009

Financial Sustainability Rating (FSR)
The FSR is an assessment of a council's capacity to meet its financial commitments in the short, medium and long term. The FSR for each Council has been determined based on the review and consideration of a Council's historical performance against a set of benchmark indicators. The rating methodology consists of seven FSR categories. The FSR is calculated using weighted benchmarks according to the relative importance of each benchmark in terms of a Council's financial capacity and sustainability.

Grants and Contributions for Capital Purposes

Councils receive various capital grants and contributions that are nearly always 100% specific in nature. Due to the fact that they are specifically allocated in respect of capital expenditure they are excluded from the operational result for a council in TCorp's analysis of a council's financial position.

Grants and Contributions for Operating Purposes

General purpose grants are distributed through the NSW Local Government Grants Commission. When distributing the general component each council receives a minimum amount, which would be the amount if 30% of all funds were allocated on a per capita basis. When distributing the other 70%, the Grants Commission attempts to assess the extent of relative disadvantage between councils. The approach taken considers cost disadvantage in the provision of services on the one hand and an assessment of revenue raising capacity on the other.

Councils also receive specific operating grants for one-off specific projects that are distributed to be spent directly on the project that the funding was allocated to.

Independent Commission Against Corruption (ICAC)

ICAC was established by the NSW Government in 1989 in response to growing community concern about the integrity of public administration in NSW.

The jurisdiction of the ICAC extends to all NSW public sector agencies (except the NSW Police Force) and employees, including government departments, local councils, members of Parliament, ministers, the judiciary and the governor. The ICAC's jurisdiction also extends to those performing public official functions.

Independent Pricing and Regulatory Tribunal (IPART)

IPART has four main functions relating to the 152 local councils in NSW. Each year, IPART determines the rate peg, or the allowable annual increase in general income for councils. They also review and determine council applications for increases in general income above the rate peg, known as "Special Rate Variations". They approve increases in council minimum rates.

They also review council development contributions plans that propose contribution levels that exceed caps set by the Government.

Infrastructure Backlog

Infrastructure backlog is defined as the estimated cost to bring infrastructure, building, other structures and depreciable land improvements to a satisfactory standard, measured at a particular point in time. It is unaudited and stated within Special Schedule 7 that accompanies the council's audited annual financial statements.

Integrated Planning and Reporting (IP&R) Framework

As part of the NSW Government's commitment to a strong and sustainable local government system, the Local Government Amendment (Planning and Reporting) Act 2009 was assented on 1 October 2009. From this legislative reform the IP&R framework was devised to replace the former Management Plan and Social Plan with an integrated framework. It also includes a new requirement to prepare a long-term Community Strategic Plan and Resourcing Strategy. The other essential elements of the new framework are a Long-Term Financial Plan (LTFP), Operational Plan and Delivery Program and an Asset Management Plan.

Local Government Cost Index (LGCI)

The LGCI is a measure of movements in the unit costs incurred by NSW councils for ordinary council activities funded from general rate revenue. The LGCI is designed to measure how much the price of a fixed "basket" of inputs acquired by councils in a given period compares with the price of the same set of inputs in the base period. The LGCI is measured by IPART.

Net Assets

Net Assets is measured as total assets less total liabilities. The Asset Revaluations over the past years have resulted in a high level of volatility in many councils' Net Assets figure. Consequently, in the short term the value of Net Assets is not necessarily an informative indicator of performance. In the medium to long term however, this is a key indicator of a council's capacity to add value to its operations. Over time, Net Assets should increase at least in line with inflation plus an allowance for increased population and/or improved or increased services. Declining Net Assets is a key indicator of the council's assets not being able to sustain ongoing operations.

Roads and Maritime Services (RMS)

The NSW State Government agency with responsibility for roads and maritime services, formerly the Roads and Traffic Authority (RTA).

Outlook

The Outlook assigned to Council is TCorp's assessment of the potential movement of Council's FSR within the next three years. The outlook methodology consists of three categories. A positive Outlook indicates that a Council's FSR is likely to improve in the short term, whilst a Neutral Outlook indicates that the FSR is likely to remain unchanged. A Negative Outlook indicates that a Council's FSR is more likely to deteriorate and is a sign of a general weakening in performance and sustainability.

Section 64 Contribution

Development Servicing Plans (DSPs) are made under the provisions of Section 64 of the Local Government Act 1993 and Sections 305 to 307 of the Water Management Act 2000.

DSPs outline the developer charges applicable to developments for Water, Sewer and Stormwater within each Local Government Area.

Section 94 Contribution

Section 94 of the Environmental Planning and Assessment Act 1979 allows councils to collect contributions from the development of land in order to help meet the additional demand for community and open space facilities generated by that development.

It is a monetary contribution levied on developers at the development application stage to help pay for additional community facilities and/or infrastructure such as provision of libraries; community facilities; open space; roads; drainage; and the provision of car parking in commercial areas.

The contribution is determined based on a formula which should be contained in each council's Section 94 Contribution Plan, which also identifies the basis for levying the contributions and the works to be undertaken with the funds raised.

Special Rate Variation (SRV)

A SRV allows councils to increase general income above the rate peg, under the provisions of the Local Government Act 1993. There are two types of special rate variations that a council may apply for:

- a single year variation (section 508(2)) or
- a multi-year variation for between two to seven years (section 508A).

The applications are reviewed and approved by IPART.

Sustainability

A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.

Ratio Explanations

Asset Maintenance Ratio

Benchmark = Greater than 1.0x

Ratio = actual asset maintenance / required asset maintenance

This ratio compares actual versus required annual asset maintenance, as detailed in Special Schedule 7. A ratio of above 1.0x indicates that the council is investing enough funds within the year to stop the Infrastructure Backlog from growing.

Building and Infrastructure Renewals Ratio

Benchmark = Greater than 1.0x

Ratio = Asset renewals / depreciation of building and infrastructure assets

This ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation. Asset renewal represents the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance.

Cash Expense Cover Ratio

Benchmark = Greater than 3.0 months

Ratio = current year's cash and cash equivalents / (total expenses – depreciation – interest costs)*12

This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow.

Capital Expenditure Ratio

Benchmark = Greater than 1.1x

Ratio = annual capital expenditure / annual depreciation

This indicates the extent to which a council is forecasting to expand its asset base with capital expenditure spent on both new assets, and replacement and renewal of existing assets.

Debt Service Cover Ratio (DSCR)

Benchmark = Greater than 2.0x

Ratio = operating results before interest and depreciation (EBITDA) / principal repayments (from the statement of cash flows) + borrowing interest costs (from the income statement)

This ratio measures the availability of cash to service debt including interest, principal and lease payments

Building and Infrastructure Backlog Ratio

Benchmark = Less than 0.02x

Ratio = estimated cost to bring assets to a satisfactory condition (from Special Schedule 7) / total infrastructure assets (from Special Schedule 7)

This ratio shows what proportion the backlog is against total value of a council's infrastructure.

Interest Cover Ratio

Benchmark = Greater than 4.0x

Ratio = EBITDA / interest expense (from the income statement)

This ratio indicates the extent to which a council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon a council's operating cash.

Operating Ratio

Benchmark = Better than negative 4%

Ratio = (operating revenue excluding capital grants and contributions – operating expenses) / operating revenue excluding capital grants and contributions

This ratio measures a council's ability to contain operating expenditure within operating revenue.

Own Source Operating Revenue Ratio

Benchmark = Greater than 60%

Ratio = rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)

This ratio measures the level of a council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue.

Unrestricted Current Ratio

Benchmark = 1.5x (taken from the IPART December 2009 Revenue Framework for Local Government report)

Ratio = Current assets less all external restrictions / current liabilities less specific purpose liabilities

Restrictions placed on various funding sources (e.g. Section 94 developer contributions, RMS contributions) complicate the traditional current ratio because cash allocated to specific projects are restricted and cannot be used to meet a council's other operating and borrowing costs. The Unrestricted Current Ratio is specific to local government and is designed to represent a council's ability to meet debt payments as they fall due.

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