

Attachment 4 : NSW Treasury Corporation report on financial sustainability



New South Wales
Treasury Corporation

10 April 2013

The General Manager
Ballina Shire Council
Cnr Tamar And Cherry Streets,
Ballina NSW 2478

Dear Sir/Madam,

Financial Assessment of NSW Councils – LIRS Applicants

As part of TCorp's work for the Independent Review Panel chaired by Professor Graham Sansom, New South Wales Treasury Corporation (TCorp) has undertaken an assessment of the financial capacity and sustainability of all 152 Councils in New South Wales. Each Council has received, or is about to receive, a report prepared by TCorp that provides an assessment of the following key areas:

- The financial capacity of the Council to undertake additional borrowings
- The financial performance of the Council in comparison to a range of similar councils and measured against prudent benchmarks

In addition, TCorp has also prepared a Financial Sustainability Rating (FSR) and Outlook for each Council. These FSRs and Outlooks have been developed by TCorp to provide an overall position of the sustainability of Councils when compared with each other Council within NSW.

The Appendix attached to this letter provides details of the seven FSR categories and the three Outlook categories that have been used in arriving at the assessed FSR and Outlook of each Council.

The Council has been assessed as:

FSR	Moderate
Outlook	Neutral

The FSR of each Council has been determined based on TCorp's review and consideration of the historical and forecast financial results and against a set of benchmark indicators. TCorp has categorised the benchmark ratios into four broad categories and then considered the relative importance of each category in terms of a Council's financial capacity and sustainability. The category of financial flexibility has been assigned a greater weighting because it measures two key measures for sustainability, the Council's revenue raising capacity, and its ability to sustain financial



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shocks, which are important factors for sustainability. As a Council's core servicing function and main asset is its infrastructure, its asset renewal and capital works program is an important factor in its long term sustainability. Debt servicing has been given the least weighting because most Councils are lowly geared.

The Outlook is TCorp's assessment of the potential movement of a Council's FSR within the next three years. 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.

For example, a Council with a FSR of Moderate and an Outlook of Negative, is assessed as being in a deteriorating position or at risk of being downgraded from Moderate to Weak. As TCorp considers a FSR of lower than Moderate to be at much greater risk of being unsustainable, Councils in this position need to be considering options for addressing the areas of poor performance that are contributing to Council's assessed FSR and Outlook.

The Outlook is TCorp's current assessment of the potential movement of a Council's FSR and will change as a Council undertakes actions to reduce perceived risks, such as completing Asset Management Plans, or obtaining approval for a special rate variation to increase investment in renewal capital expenditure.

TCorp's Report to the Independent Review Panel is expected to be released in mid-April and the FSR and Outlook for each Council will be included in TCorp's Report.

TCorp would be happy to discuss with you any questions that you may have in regard to the assessed FSR or Outlook for the Council.

Yours Sincerely
New South Wales Treasury Corporation

A handwritten signature in black ink, appearing to read 'K Pugh'.

Kevin Pugh
Senior Manager Corporate Finance



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Appendix 1 Ratings and Definitions

Table A1 - Financial Sustainability Ratings

Rating	Definition
Very Strong	<ul style="list-style-type: none">• A local government with a very strong capacity to meet its financial commitments in the short, medium and long term.• It has a record of reporting operating surpluses.• It is highly likely to be able to manage unforeseen financial shocks and any adverse changes in its business without revenue and/or expense adjustments.• Its capacity to manage core business risks is very strong.
Strong	<ul style="list-style-type: none">• A local government with a strong capacity to meet its financial commitments in the short, medium and long term.• It generally has a record of operating surpluses and may occasionally report minor operating deficits. It is able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business with minor revenue and/or expense adjustments.• The expense adjustments are likely to result in only minor changes to the range of and/or quality of services offered.• Its capacity to manage core business risks is strong.
Sound	<ul style="list-style-type: none">• A local government with an adequate capacity to meet its financial commitments in the short, medium and long term.• While it is likely that it may have a record of minor to moderate operating deficits, the local government is expected to regularly report operating surpluses. It is likely able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business with minor or moderate revenue and/or expense adjustments.• The expense adjustments are likely to result in some changes to the range of and/or quality of services offered.• Its capacity to manage core business risks is sound.



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Moderate	<ul style="list-style-type: none">• A local government with an adequate capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term.• While it has some record of reporting minor to moderate operating deficits the local government may also have recently reported a significant operating deficit.• It is likely able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business, with moderate revenue and/or expense adjustments. The expense adjustments are likely to result in a number of changes to the range of and/or quality of services offered.• Its capacity to manage core business risks is moderate.
Weak	<ul style="list-style-type: none">• A local government with an acceptable capacity to meet its financial commitments in the short to medium term and a limited capacity in the long term.• It has a record of reporting moderate to significant operating deficits with a recent operating deficit being significant. It is unlikely to be able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business, without the need for significant revenue and/or expense adjustments.• The expense adjustments would result in significant changes to the range of and/or quality of services offered.• It may experience difficulty in managing core business risks.
Very Weak	<ul style="list-style-type: none">• A local government with a limited capacity to meet its financial commitments in the short to medium term and a very limited capacity long term.• It has a record of reporting significant operating deficits. It is highly unlikely to be able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business without the need for structural reform and major revenue and/or expense adjustments.• The expense adjustments are likely to result in significant changes to the range of and/or quality of services offered and it may need the assistance from higher levels of government.• It has difficulty in managing its core business risks.
Distressed	<ul style="list-style-type: none">• A local government with a very limited capacity to meet its short term financial commitments and no capacity to meet its medium to long term financial commitments.• It has a record of reporting significant operating deficits.• To be able to address its operating deficits, meet its medium and long term obligations, manage unforeseen financial shocks and any adverse changes in its business, major revenue and expense adjustments and structural reform will be required.• The local government is unlikely to have the capacity to manage core business risks and may need assistance from higher levels of government.



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Table A2 – Outlook

Outlook	Definition
Positive	As a result of a foreseeable event or circumstance occurring, there is the potential for enhancement in the local government's capacity to meet its financial commitments (short and/or long term) and resulting change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.
Neutral	There are no known foreseeable events that would have a direct impact on the financial sustainability of the local government. It may be possible for a rating upgrade or downgrade to occur from a neutral outlook, if warranted by an event or circumstance.
Negative	As a result of a foreseeable event or circumstance occurring, there is the potential for deterioration in the local government's capacity to meet its financial commitments (short and/or long term) and resulting change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.