Woollahra Municipal Council

Fit for the Future
NSW Treasury Corporation Financial Assessment & Sustainability Report
February 2015

Annexure 5

Woollahra Municipal Council

Financial Assessment and Sustainability Report

Date:	16 February 2015

Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by Woollahra Municipal Council (the Council) as detailed in TCorp's letter of 22 December 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.

The report has been prepared for Woollahra Municipal Council. TCorp shall not be liable to Woollahra Municipal Council or have any liability to any third party under the law of contract, tort and the principles of restitution or unjust enrichment or otherwise for any loss, expense or damage which may arise from or be incurred or suffered as a result of reliance on anything contained in this report.

Contents

1 Executive Summary

In March 2013 TCorp provided Woollahra Municipal 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:

- Council's underlying results (measured using EBITDA) marginally increased over the review period.
- Council had spent at below benchmark levels in asset renewals during the review period.
- Council's revenues were boosted by the receipt of two SRVs granted for environmental and infrastructure renewal purposes. They were due to expire in 2012 and 2013 respectively however were recently renewed and are to be retained permanently in the rating base.
- Council's Infrastructure Backlog decreased by $13.6m between 2009 and 2012 due to increased expenditure on infrastructure renewal mainly funded by the existing SRV.

TCorp's report stated that "based on our review of both the historic financial information and the 10 year forecast within Council's LTFP we consider Council to be in a satisfactory financial position in the medium term. Both past performance and the financial forecast support our findings that Council is moderately sustainable but its current LTFP highlights some issues that need to be addressed."

Council then requested that TCorp undertake an updated Financial Assessment and this was completed in February 2014. This update occurred following Council completing a detailed review of the functionality of their LTFP model and their 10 year financial forecast.

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

The Base Case scenario was based on maintaining existing services and levels of service and did not provide for increased or improved services.

The "Sustainability" scenario incorporated a four year SRV of 3.0% per annum (above rate peg), which was to be retained permanently. This SRV was not applied for or approved. The Sustainability scenario was based on improved services and service levels as well as improving their key sustainability factors.

Council contacted TCorp in December 2014 to complete an update of their Financial Assessment following a further update to their LTFP that brings forward the sale of two property assets, the old Council depot in Waterloo and land at 9a Cooper Park Road, Bellevue Hill.

As with the previous update, Council has provided TCorp with two scenarios, Base Case and Sustainability in line with the previous LTFP and included the revenue and expenses relating to the Kiaora Lands Redevelopment/Woolworths PPP. These two scenarios were adopted by Council at its 15 December 2014 meeting.

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

- Council is forecasting to return to a surplus position in 2017 (when capital grants and contributions are excluded) and the operating result is forecast to continue to improve for the remainder of the forecast period.
- Council's Own Source Operating Revenue Ratio is forecast above benchmark for the entire forecast period which indicates Council is not heavily reliant on external sources of revenue, as expected for a metropolitan council.
- Council's Unrestricted Current Ratio remains above benchmark over the entire forecast period.
- When current term deposits are included, Council's Cash Expense Ratio remains above the benchmark for the entire forecast period indicating a satisfactory cash management strategy.
- Council's DSCR is marginally below benchmark in two of the 10 years forecast while the Interest Cover Ratio is below benchmark in each of the 10 years forecast, although the ratio improves each year. These ratios are significantly impacted by the Kiaora Lands Redevelopment loan facilities utilised via the Woolworths PPP. The off-set agreement with Woolworths negates the repayment risk for the related borrowings as Council does not have to pay any loan repayments to Woolworths if Woolworths does not meet its rental schedule payments to Council as they fall due.

Council is currently assessed to have a FSR of Moderate. Based on the revised information provided to TCorp for the Base Case scenario, the Outlook for Council for the next three years is currently Positive, which means that Council is likely to improve to an FSR of Sound over the next three years.

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

- While Council is forecasting an improved operating performance with consistent surplus results from 2017, over the long term Council has insufficient funds to allocate to asset renewals and therefore the Asset Renewal Ratio forecast is below benchmark from 2021 forward. As a result this will likely impact Council's Infrastructure Backlog in the long term and their Sustainability.

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

- Council is forecasting to return to a surplus position in 2017 (when capital grants and contributions are excluded) and the operating result is forecast to continue to improve at a faster rate than the Base Case scenario for the remainder of the forecast period.
- Council's Own Source Operating Revenue Ratio, Unrestricted Current Ratio and Cash Expense Ratio follow a similar trend to the Base Case but at an improved level.
- Council's DSCR is marginally below benchmark in 2016 only while the Interest Cover Ratio is below benchmark for the first five years of the forecast. As stated in the Base Case, these ratios are significantly impacted by the Kiaora Lands Redevelopment loan facilities utilised via the Woolworths PPP, however Council's improved EBITDA in this scenario improves the ratios at a faster rate.

Based on the revised information provided to TCorp for the Sustainability scenario, the Outlook for Council for the next three years is currently Positive, which means that Council's FSR is likely to improve to Sound over the next three years.

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

- Council's Infrastructure Asset Renewals Ratio and Capital Expenditure Ratio are above benchmark for the entire forecast period enabling Council to sustain its asset base over the long term.

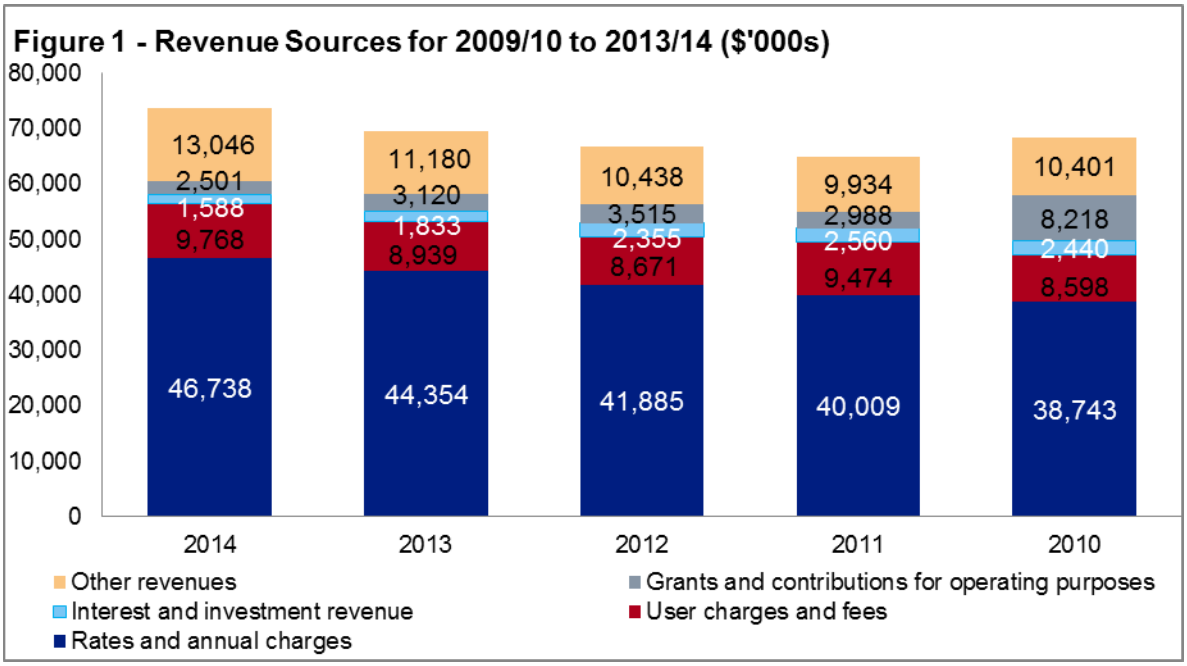
TCorp notes that losses from the sale of assets are forecast in each year of the LTFP within both scenarios. This trend of losses follows similar losses in the past five year historic results. TCorp has excluded these losses from the operating result as per the historical analysis but has discussed this issue with Council.

A continuous loss on the disposal of infrastructure assets indicates that Council are possibly under-depreciating or over estimating the useful lives of their assets prior to their replacement. TCorp acknowledges that it isn't always possible to depreciate assets down to their written down value prior to their replacement and Council management continue to review the procedures used as Council plans to implement a new asset management system in the near future.

2 Review of Financial Performance and Position

TCorp has updated its review based on the 2014 annual audited accounts of the Council

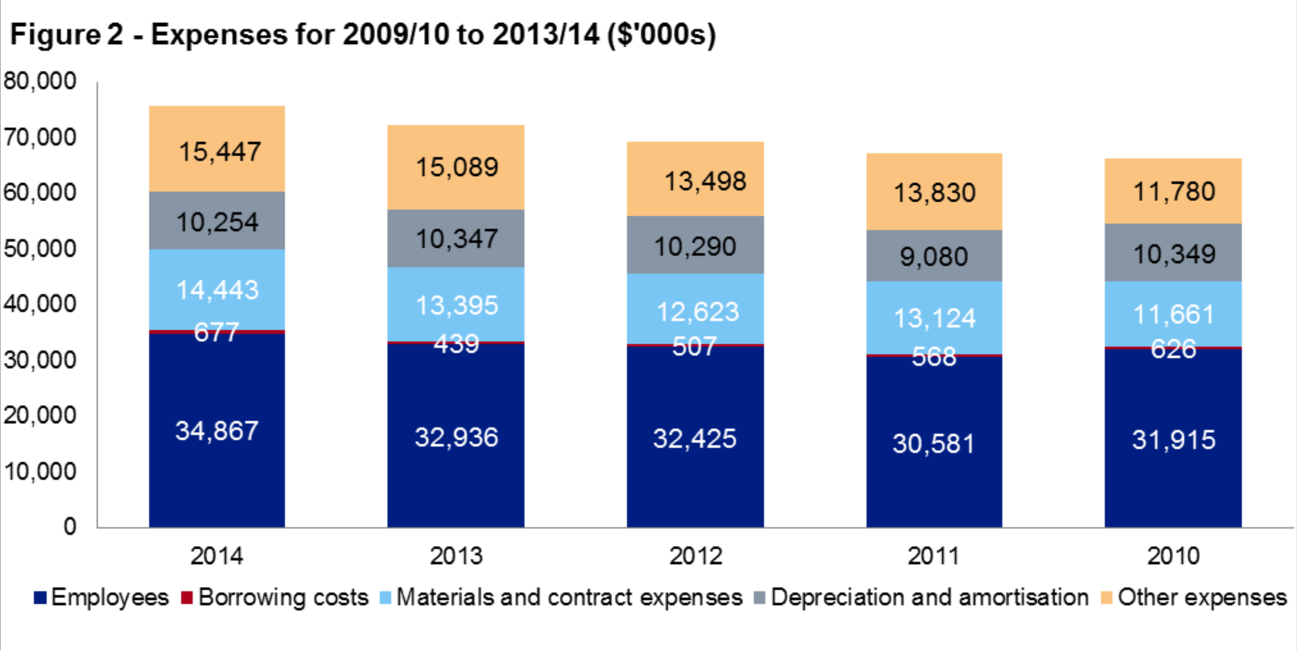
2.1 Revenue



Key Observations

- Total revenue excluding capital grants and contributions has increased by $4.2m (6.1%) in 2014 to $73.6m.
- Rates and annual charges increased by $2.4m (5.4%) in 2014 with a $0.9m (3.6%) increase in residential rates and a $1.2m (12.2%) increase in domestic waste management annual charges.
- User charges and fees increased by $0.8m (9.3%) in 2014 with numerous line items contributing to the increase with a $0.2m increase in restoration charges being the largest increase.
- Interest and investment revenue continued to reduce for the third consecutive year and fell in line with the reduction of the RBA cash rate reducing the investment returns from 6.1% in 2012 to 4.0% in 2014.
- Operating grants and contributions have reduced due to the prepayment of a portion of the Financial Assistance Grant (FAG) ending in 2014. This meant that only 50% of the 2014 FAG was received in 2014 with the first 50% received in 2013. In 2015 the FAG payments should regularise and be received within the year that they relate to.
- Other revenues increased by $1.9m (16.7%) in 2014 when fair value adjustments for investment properties are excluded. The increase was driven by an increase in rental income from both investment properties ($0.5m) and other council properties ($0.8m), along with a $0.4m increase in parking fines. The property rental income relates to the opening of the Kiaora Lands Redevelopment/Woolworths PPP.

2.2 Expenses



Key Observations

- Total operating expenses have increased by $3.5m (4.8%) in 2014 to $75.7m.
- Employee expenses increased by $1.9m (5.9%) in 2014 with salaries and wages increasing by $1.5m (6.1%). Employee leave entitlements also increased by $0.4m (9.6%). This is in part due to the equivalent full time employees increasing from 360 in 2013 to 376 in 2014 as vacancies were filled and council had a lower staff turnover than previous years.
- Borrowing costs have increased in 2014 and will increase further in line with the $60.4m debt taken on in 2014 to complete Stage 1 of the Kiaora Lands Redevelopment/Woolworths PPP and the $32.1m forecast to be utilised in 2015 on Stage 2 of the development which includes the development of the new library.
- Materials and contract expenses have increased for the second consecutive year. The 2014 increase was in line with an increase in asset maintenance and asset renewals - general contractor and consultancy costs increased by $0.4m while raw materials and consumables increased by $0.3m.
- Depreciation remained consistent in 2014, in line with the previous two years with all items at a similar level to 2013 with the exception a $159k decrease in other open spaces/recreational assets.
- The increase in other expenses by 2.4% was lower than 2013 when these items increased by 11.8%. Waste disposal costs remain the largest item and increased by $0.2m to $4.8m in 2014.

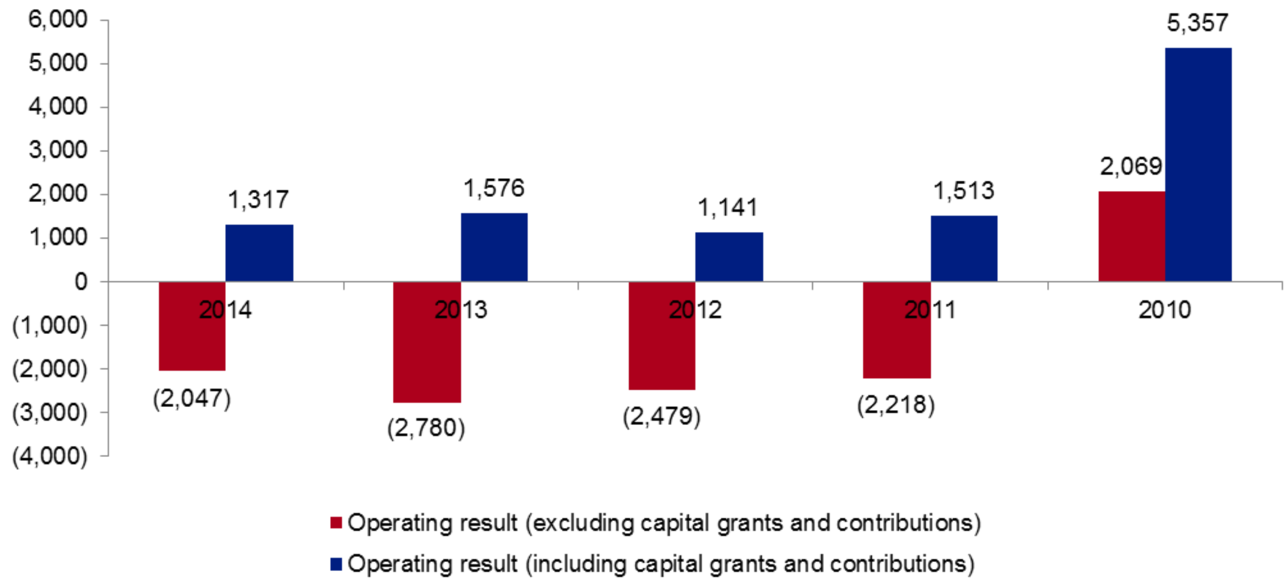
2.3 Operating Results

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 2009/10 to 2013/14 ($'000s)



Key Observations

- Council has posted an operating deficit, excluding capital grants and contributions, in the past four years. The operating result has improved in 2014 with as strong increase in user charges and fees along with revenues from rental income offsetting a decrease in the FAG and the overall increase in expenses.

2.4 Financial Management Indicators

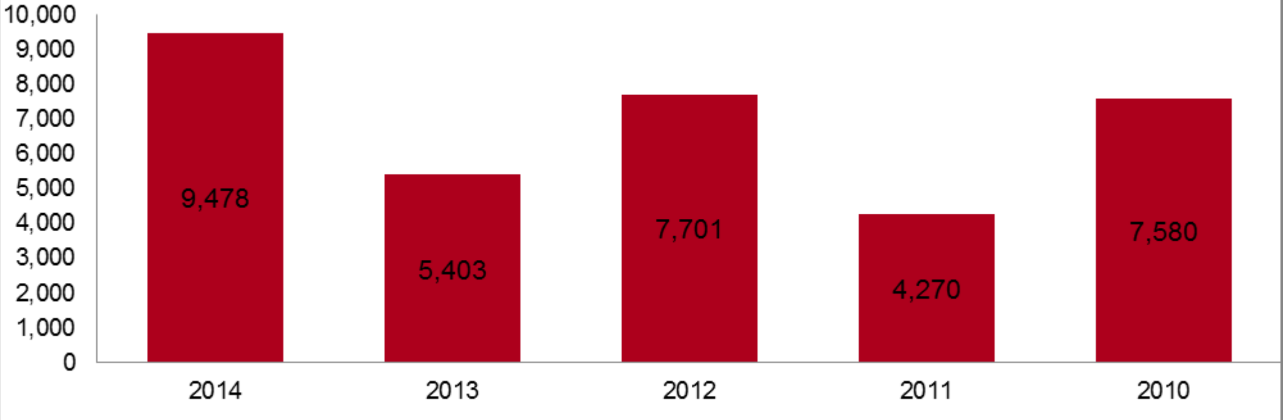
Performance Indicators	Year ended 30 June				
	2014	2013	2012	2011	2010
EBITDA ($'000s)	8,884	8,006	8,318	7,430	13,044
Operating Ratio	(2.8%)	(4.0%)	(3.7%)	(3.4%)	3.0%
Interest Cover Ratio	13.12x	18.24x	16.41x	13.08x	20.84x
Debt Service Cover Ratio	5.25x	5.79x	6.03x	5.38x	9.43x
Unrestricted Current Ratio	7.12x	2.74x	2.54x	2.28x	2.25x
Own sourced revenue	73.4%	72.2%	71.7%	72.0%	66.0%
Cash expense ratio	5.9 months	1.1 months	1.6 months	0.9 months	1.6 months
Net assets ($'000s)	669,231	655,518	610,016	609,592	553,099

Key Observations

- Council's EBITDA increased in 2014 in line with Council's improved operating result.
- The Interest Cover and Debt Service Cover Ratio both remained well above their respective benchmarks over the review period, which reflects Council's historic low level of borrowing. During 2014 Council added significant borrowings of $60.4m relating to the Kiaora Lands Redevelopment/Woolworths PPP and this resulted in the reduction in both ratios. These ratios will reduce further as Council begins repaying this debt and paying interest on a full 12 months debt balance.
- Council's Own Source Operating Revenue has been above benchmark for the entire review period and remains on an upward trend. This indicates Council is not heavily reliant on external sources of funding. Operating grants made up an average 5.7% of Council's overall revenue over the past five years.
- Council's Cash Expense Ratio, excluding investments, has been below benchmark since 2009 but TCorp has decided that for the 2014 calculation and in future years, current term deposits should be included as councils manage their cash flows so that term deposits mature on different dates in line with liabilities due. This amendment improves the ratio above the benchmark in this year.
- Council's Net Assets increased by $13.7m in 2014 to $669.2m predominantly due to the net increase in the value of investment property against the related borrowings relating to Kiaora Lands. In 2014 when Asset Revaluations and transfers are excluded, Council's IPP&E asset base decreased by $2.3m.
- At $10.3m Council's annual depreciation expense in 2014 remains 1.6% of Council's IPP&E Assets.

2.5 Statement of Cashflows

Figure 4 - Cash and Cash Equivalents for 2009/10 to 2013/14 ($'000s)



Key Observations

- Council's cash and cash equivalents have fluctuated over the review period and have increased to their highest level in 2014 although the total inclusive of investments remained static at $33.6m. Of the $9.5m, $1.1m was cash on hand, $2.3m was in deposits at call and $6.0m in short term deposits.
- Of the $33.6m in cash, cash equivalents and investments, $7.4m was externally restricted, $23.3m was internally restricted and $2.9m was unrestricted.
- In 2014 Council held $22.5m in current term deposits, $1.0m in NCD's and FRN's and $0.7m in mortgage backed securities.

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 2009/10 to 2013/14($'000s)

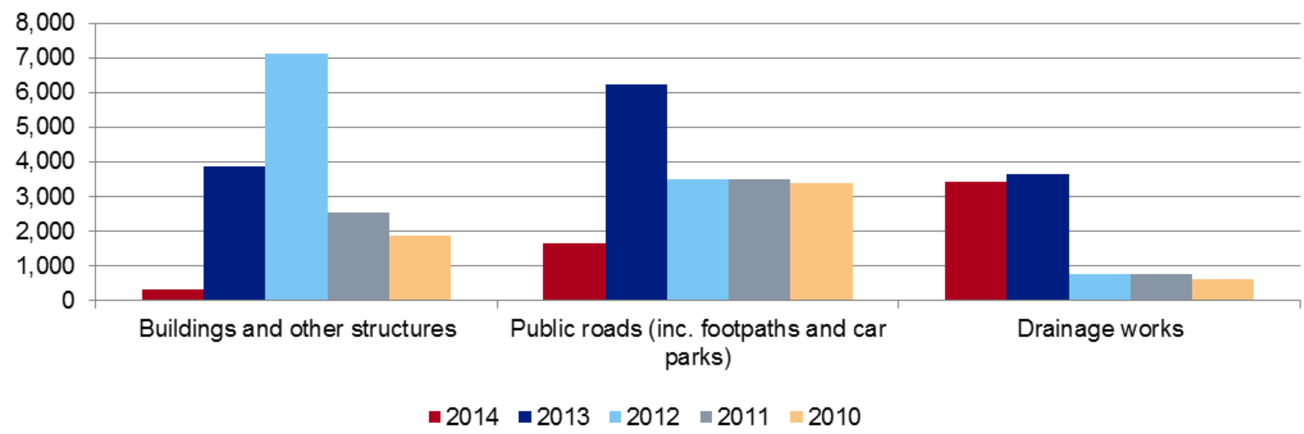
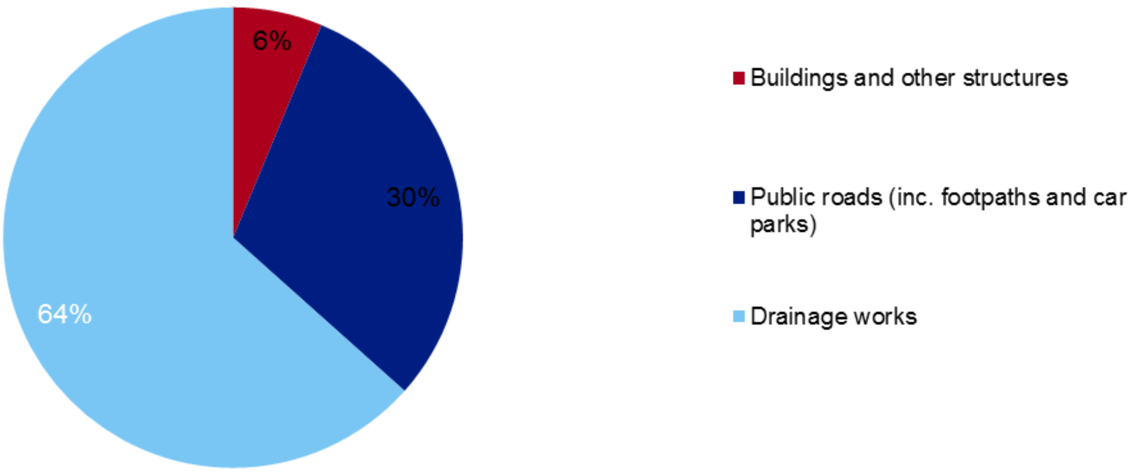


Figure 6 - Infrastructure Backlog Composition for 2013/14



Council's Infrastructure Backlog decreased by $8.3m in 2014 to $5.4m. All categories decreased however the buildings and other structures backlog decreased by over 90% to $0.3m from $3.9m in 2013. These changes occurred as Council has audited the asset management data and reviewed the accuracy of the asset conditions via visual inspection.

As figure 6 indicates, drainage works are now the dominant asset category that require improvements or replacements at $3.4m.

2.6.2 Infrastructure Status

Infrastructure status	Year ended 30 June				
	2014	2013	2012	2011	2010
Bring to satisfactory standard ($'000s)	5,395	13,742	11,410	6,830	5,909
Required annual maintenance ($'000s)	5,567	2,380	7,064	7,086	6,165
Actual annual maintenance ($'000s)	5,312	2,613	7,433	5,568	6,439
Total value infrastructure assets ($'000s)	225,779	230,556	228,949	231,753	229,126
Total assets ($'000s)	764,523	687,581	643,131	643,693	587,659
Infrastructure Backlog Ratio	0.02x	0.06x	0.05x	0.03x	0.03x
Asset Maintenance Ratio	0.95x	1.10x	1.05x	0.79x	1.04x
Building and infrastructure asset renewal ratio	0.90x	0.73x	0.57x	0.45x	0.74x
Capital Expenditure Ratio	0.89x	1.13x	0.95x	1.30x	1.39x

Council's Building and Infrastructure Backlog Ratio has reduced to the benchmark level in 2014, the lowest level over the five year period. The decrease has occurred following a restatement of the 2014 backlog figures as stated above.

The actual maintenance spent has more than doubled in 2014 however the Asset Maintenance Ratio has reduced below benchmark due to the actual required maintenance increasing by 233.9%. The higher maintenance in 2014 is due to the inclusion of open space assets in the ratio while the ratio included capital expenditure prior to 2013.

The Building and Infrastructure Asset Renewal Ratio has improved for the third consecutive year but remains below the 1.0x benchmark. The total spent in 2014 increased by $2.3m (43.1%) to $7.6m however the corresponding depreciation increased by $1.3m to $8.5m to partially offset the large increase.

The Capital Expenditure Ratio has decreased and is below the benchmark in 2014 with the net asset additions reducing from $11.7m to $9.1m.

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				
	2014	2013	2012	2011	2010
New capital works	58,250	0	0	0	4,498
Replacement/refurbishment of existing assets	14,168	14,712	12,138	0	11,622
Total	72,418	14,712	12,138	0	16,120

Aside from the Kiaora Lands redevelopment, in 2014 Council's main capital works included:

- Woollahra Senior Citizens Centre - Building Upgrade $785,603
- Gap Park Self Harm Minimisation - Stage 3 $514,850
- Bay St/Knox St - Drainage Works $447,886
- Redleaf Chiller Replacement Project $432,986
- New Beach Rd - Road Pavement and K&G renewal $358,372
- Elizabeth St – Road Pavement, K&G and Footpath renewal $309,524
- Glenmore Rd, Cascade St, Hampden St, Paddington – Roundabout $283,442
- Yarranabbe Park – Pathways $281,718
- Kambala Road – Road Pavement renewal $255,241
- New South Head Road (South) - Kent St to Rose Bay Ave – Footpath renewal $253,777

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.

Similar to TCorp's previous review of Council's LTFP in February 2014, Council has provided two separate scenarios for analysis, the "Base Case" and the "Sustainability" scenarios.

The Base Case scenario maintains existing services and levels of service and does not provide for increased or improved services.

The Sustainability scenario incorporates a four year SRV of 3.0% per annum (above rate peg) which is then retained permanently. This SRV has not been applied for or approved. The Sustainability scenario is based on improving services and service levels as well as key sustainability factors.

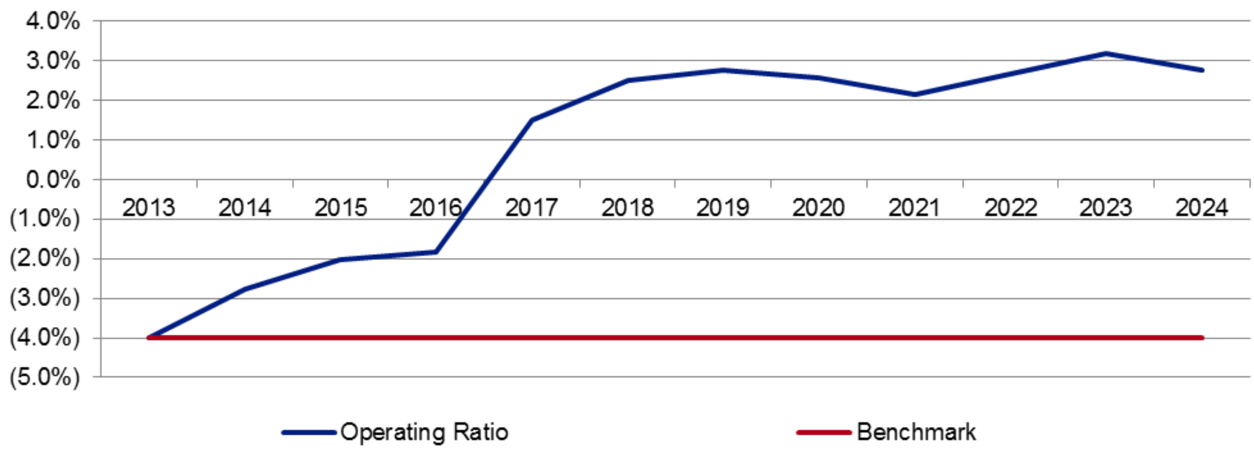
Section 3a analyses the Base Case scenario and section 3b analyses the Sustainability scenario.

3a Base Case Scenario

The Base Case scenario maintains existing services and levels of service and proposes the use of some of the $65m asset sale proceeds due in 2015 and 2016 to deal with Council's renewal backlog and ongoing asset renewal requirements.

3.1 Operating Results

Figure 7- Operating Ratio for General Fund



The operating result follows a similar upward trajectory as the previous Base Case scenario with 2017 being the first year that an operating surplus is projected to be achieved. The 2017 surplus is higher at $1.4m (1.5%) compared to $0.3m (0.3%) in the previous LTFP. The operating surpluses then range between $2.2m and $3.4m over the following seven years.

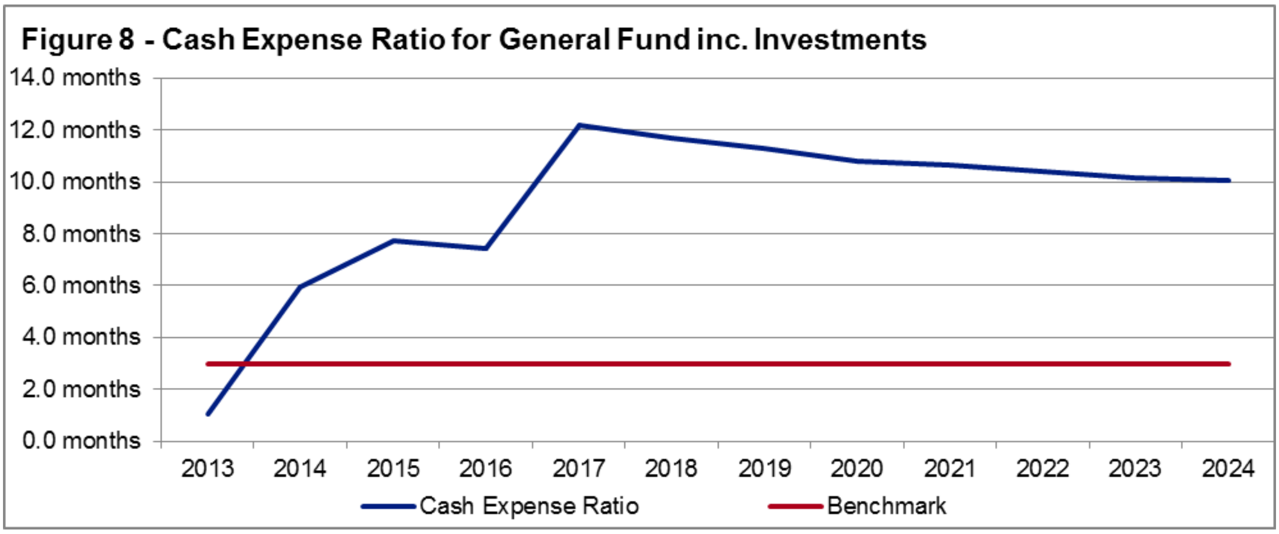
In 2015, other revenue is forecast to increase by $6.0m (53%) as Council receives a full year of the anticipated revenue from Stage I of the Kiaora Lands Redevelopment although this is largely offset by a $4.1m increase in borrowing expense.

The largest increase in 2017 is driven by an increase in interest and investment revenue by $1.1m (51%) and a $2.6m (14%) increase in other revenues. The increase in interest and investment revenue is related to receipt of the second tranche of the old depot asset sale monies that boost cash and investments while the increase in other revenues is in line with the first full year of expected revenue from the Stage 2 of the Kiaora Lands Redevelopment.

The Kiaora Lands Redevelopment is forecast to generate $99.0m in revenue across the 10 year forecast against an expenditure of $20.5m.

3.2 Financial Management Indicators

Liquidity Ratios



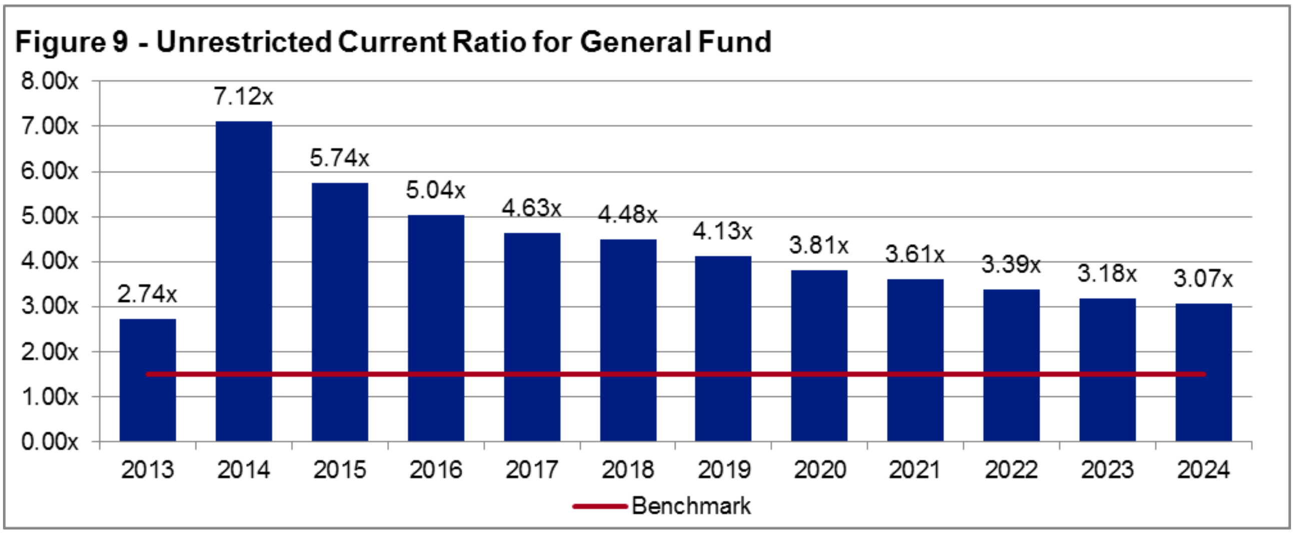
As stated in Section 2.4, TCorp has amended the calculation of this ratio to include current term deposits from 2014 forward. Council does not separate cash and cash equivalents and investments in their LTFP forecast or distinguish between investment categories however historically approximately 80% - 90% of their cash and investment portfolio would be held as cash and cash equivalents, and current term deposits.

TCorp has therefore utilised the cash and investments total within Council's LTFP as this total will not be significantly different to the total of cash and cash equivalents, and current term deposits, therefore it will not significantly impact the ratio result.

The ratio is above benchmark in each year and peaks in 2017 when $33.6m of the old Council depot sale monies are due to be received and marginally reduces year on year over the next seven years as the cash and investments grow at a smaller rate than the operating expenses over this period.

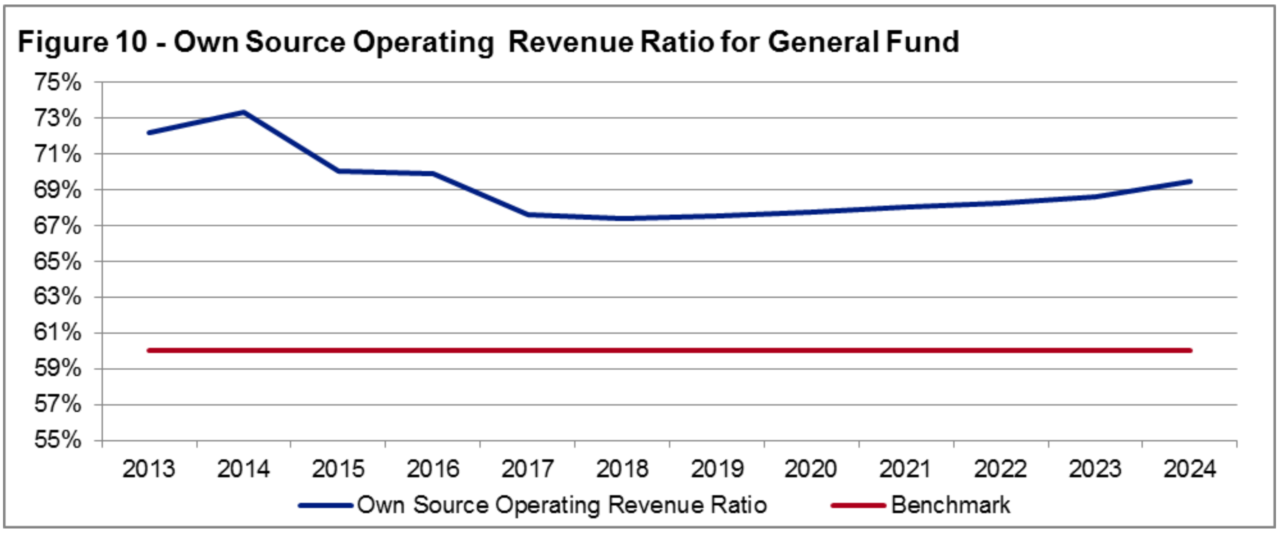
Council is due to receive $22.4m from the old Council depot sale monies in 2015 along with the $9.1m from the sale of land at 9a Cooper Park Road, Bellevue Hill. The receipt of these funds is offset by the funding of the Stage 2 at Kiaora Lands Redevelopment and the purchase of a new Council depot at $11.0m.

Council has a strong combined balance of cash and investments through their prudent cash management strategy.



Council's Unrestricted Current Ratio is above benchmark for the entire forecast period. The ratio is on a downward trend from the 2014 historic high when loan funds were drawn relating to the Kiaora Lands Redevelopment. Despite the downward trend the ratio is well above the benchmark indicating Council is forecasting adequate liquidity over the period.

Fiscal Flexibility Ratios

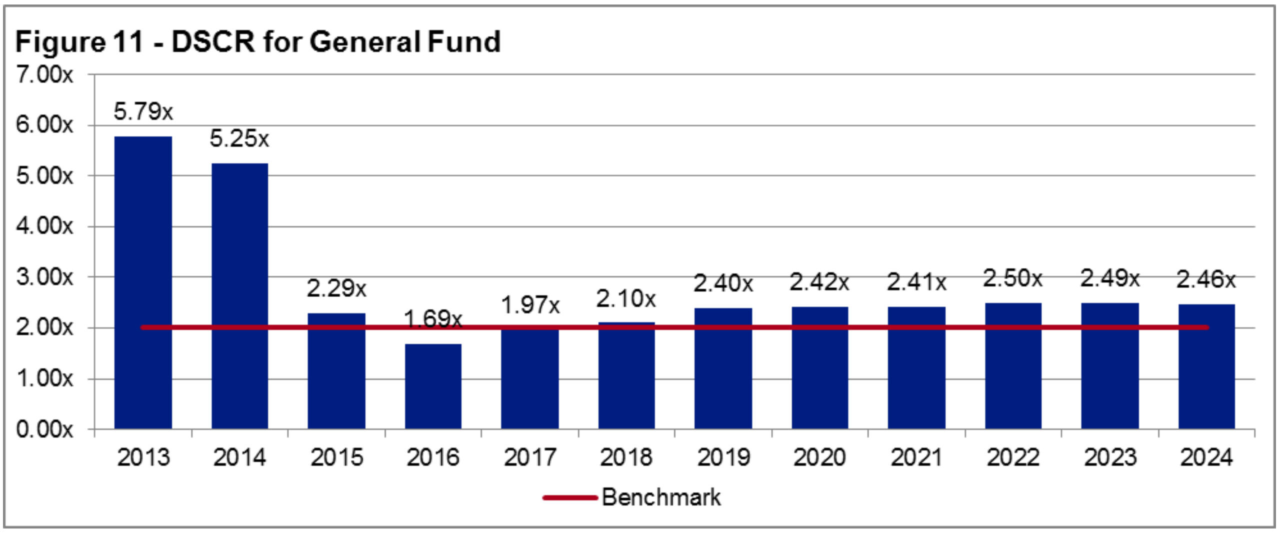


Council's Own Source Operating Revenue Ratio is above benchmark for the entire forecast period which is to be expected for a metropolitan council.

The driver of the decrease in this ratio between 2015 and 2017 is the property rental income that will be received from the Kiaora Lands Redevelopment that is classified under other revenues. The ratio marginally improves from 2018 with rates and user charges forecast to increase at 3% p.a. compared to 2% p.a. for operating grants and other revenues.

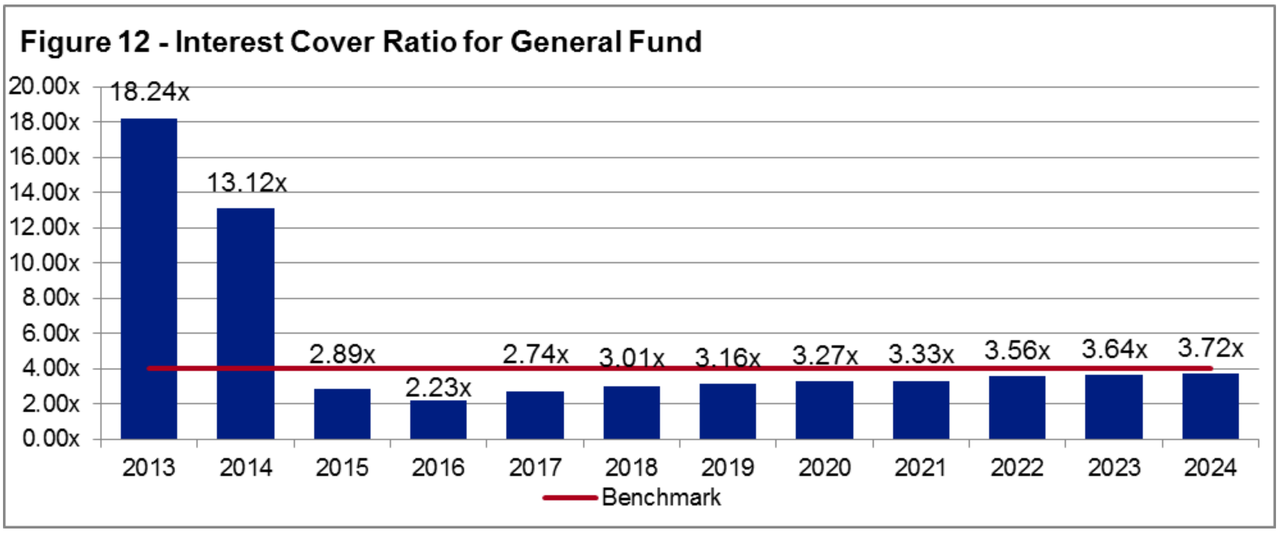
Operating grants and contributions are forecast to increase by 38% in 2015 as the FAG payment cycle regularises and this also contributes to the decrease in the ratio in this year.

Council has forecast capital grants between $1.7m and $1.8m in each year of the LTFP. Council has advised it has taken a conservative approach to its capital grant funding forecast and any additional funds received would supplement funding for capital expenditure.



Council's DSCR is above benchmark in eight of the 10 year forecast. The ratio falls marginally below benchmark between 2016 and 2017 following the drawdown of the Kiaora Lands Redevelopment loan. However, as noted in the February 2014 report, the contractual conditions of the Woolworths arrangement substantially protects Council from the risk of payment default on its debt obligations to Woolworths.

At 2014, Council has $64.4m of borrowings however these have not been held for the full financial year and have not fully impacted the ratio in this year. In 2015 Council expects to draw down a further $32.1m with 2016 being the first full year when these borrowings will be serviced. The ratio is on an upward trend from 2016 as the borrowings begin to be repaid and the interest expense reduces.

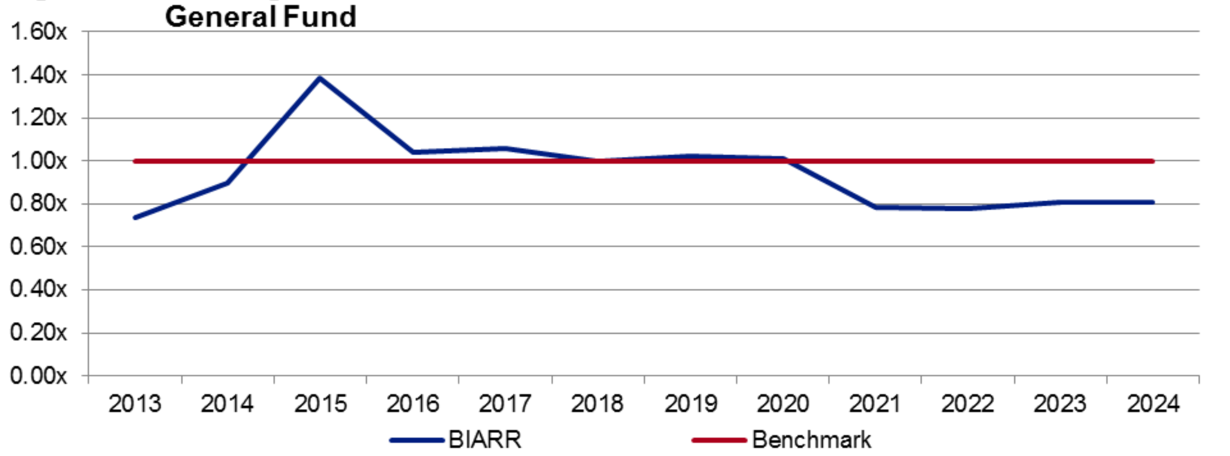


Council's Interest Cover Ratio falls below benchmark in 2015 when the interest cost impact of the Kiaora Lands Redevelopment is first recognised. While the ratio improves over the period as the total borrowings gradually reduces, it remains below benchmark for the entire forecast indicating

Council will have to monitor its cash reserves to ensure it has sufficient capacity to service their borrowings.

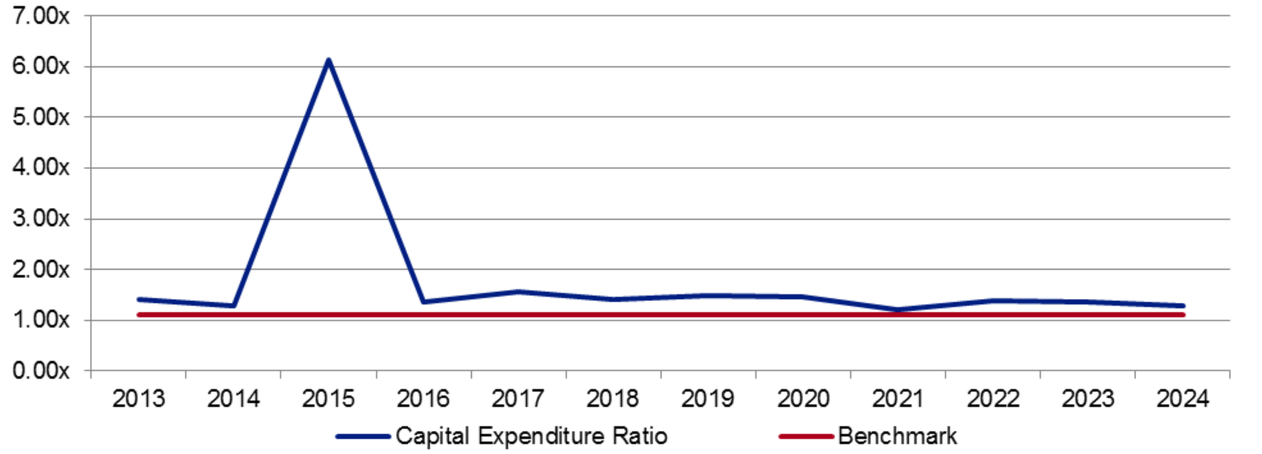
3.3 Capital Expenditure

Figure 13 - Buildings and Infrastructure Asset Renewal Ratio for General Fund



Council's Base Case BIARR forecast remains above the benchmark of 1.0x until 2020 when funding reduces to around the 0.80x for the following four years. In 2015 Council has allocated an additional $5.0m to building asset renewals following the sale of the Council Depot and this causes the ratio to peak that year. This increase relates to the building value of the forecast purchase of the new Council Depot.

Figure 14 - Capital Expenditure Ratio for General Fund



In line with the previous LTFP, under the Base Case scenario Council's Capital Expenditure Ratio is at benchmark level for the majority of the forecast period. The ratio peaks in 2015 due to the purchase of the new Council depot to replace the old depot that has been sold.

3.4 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.
- Rates and annual charges have been forecast to increase by 3.6% in 2015. From 2016 they are forecast to increase by 3.2% p.a. for the remainder of the forecast period. For 2015 IPART has set the rate peg at 2.3% and as a result the forecast increase of 3.2% may be overstated however TCorp is aware that items such as the domestic waste management services annual charges have historically increased at above CPI rates.
- User fees and charges have been forecast to increase by 4.2% in 2015 and then by 3.1% p.a. thereafter.
- Other revenue is forecast to increase by 53.4% in 2015, 10.2% in 2016 and 13.9% in 2017 as the property rental income from the Kiaora Lands Redevelopment/Woolworths PPP drives the increase in this revenue item. The annual increase slows significantly to 2.0% in 2018 and remains around this level for the remaining years as the rental income stabilises.
- Operating grants decreased in 2013 and 2014 but are forecast to increase by 37.7% in 2015 as the payments of the FAG regularise.
- Employee expenses are forecast to increase by an average of 3.0% p.a. over the forecast period. While employee expenses have fluctuated, historically they increased by an average of 2.3% p.a. over the period between 2010 and 2014 and therefore this assumption appears reasonable.
- Materials and contract expenses are forecast to increase by 7.2% in 2015, 1.0% in 2016 and around 3.0% p.a. thereafter. The 7.2% is in line with the 2013 and 2014 increases and would be expected given the ongoing development works being completed.

- Council's depreciation expense is maintained at relatively consistent levels until 2016 as per the previous Base Case scenario. Council has previously advised that as the non-Library component of the Kiaora Lands Redevelopment is treated as an Investment Property it does not incur any depreciation. From 2017 depreciation expense is forecast to increase by an average of 3.6% p.a. The increase in depreciation is due to increases from the annual capital expenditure as well as the annualised forecast of revaluations.
- Other expenses are forecast to increase by 10.3% in 2015 in line with Kiaora Lands Development becoming fully operational and annual increases average 3.0% p.a. for the remainder of the forecast.
- Council has forecast a loss from the sale of assets in each year of the LTFP between $1.2m and $1.7m p.a. This trend of losses is in line with the historic results. TCorp has excluded these losses from the operating result as per the historical analysis but has discussed this issue with Council. A continuous loss on the disposal of infrastructure assets indicates that Council are possibly under-depreciating or over estimating the useful lives of their assets prior to their replacement. TCorp notes that it isn't always possible to depreciate assets down to their written down value prior to their replacement and Council management continue to review the procedures used as Council plans to implement a new asset management system in the near future.
- Overall the assumptions in the Base Case scenario are considered reasonable.

3.5 Sustainability

Based on the information received and the revised LTFP for the Base Case scenario, TCorp believes Council remains in a Moderate Sustainability position. The Outlook for Council for the next three years is currently Positive, which means that Council is likely to improve to an FSR of Sound over the next three years.

In considering the longer term financial Sustainability of the Council we make the following additional comments:

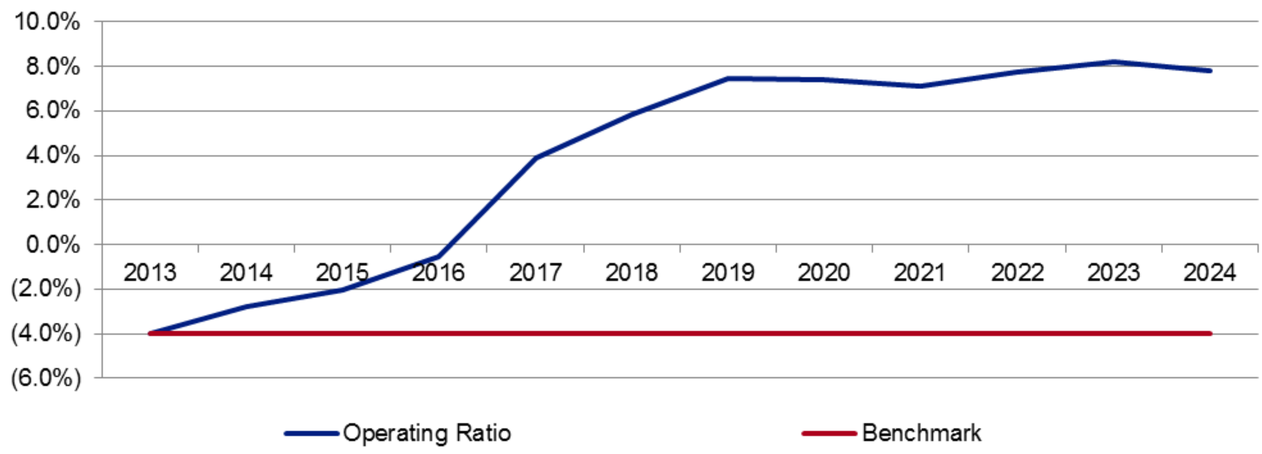
- Council is forecasting to return to a surplus position in 2017 (when capital grants and contributions are excluded) and the operating result is forecast to continue to improve for the remainder of the forecast period.
- Council's Own Source Operating Revenue Ratio is forecast above benchmark for the entire forecast period which indicates Council is not heavily reliant on external sources of revenue, as expected for a metropolitan council.
- Council's Unrestricted Current Ratio remains above benchmark over the entire forecast period.
- When current term deposits are included, Council's Cash Expense Ratio remains above the benchmark for the entire forecast period indicating a prudent cash management strategy.
- Council's DSCR is marginally below benchmark in two of the 10 years forecast while the Interest Cover Ratio is below benchmark in each of the 10 years forecast, although the ratio improves each year.
- Council has insufficient funds to allocate to asset renewals from 2021 and therefore the Asset Renewal Ratio forecast is below benchmark from this year forward. As a result this will likely impact Council's Infrastructure Backlog in the long term.

3b Sustainability Scenario

As with the February 2014 report, the Sustainability scenario incorporates a four year SRV of 3.0% p.a. (above rate peg) in the first four years of the forecast which is to be retained permanently. This SRV has not been applied for or approved. The Sustainability scenario is based on improving services and service levels as well as key sustainability factors.

3.6 Operating Results

Figure 15- Operating Ratio for General Fund

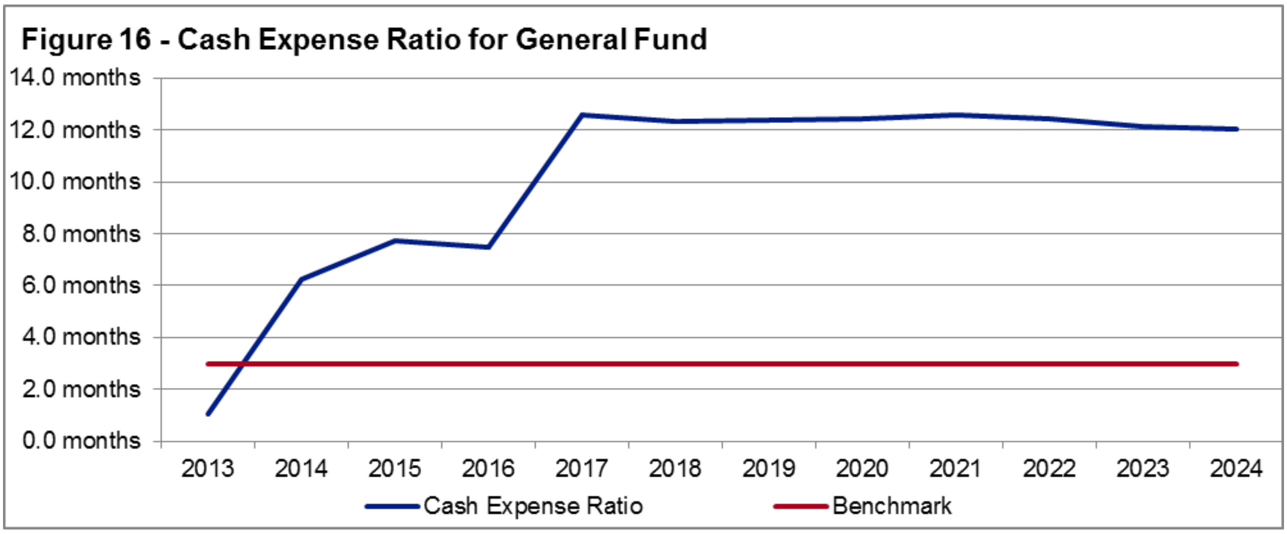


The Sustainability Scenario forecasts the Operating Ratio to continue to improve above benchmark and provide an operating surplus from 2017 onwards. The year on year improvements are forecast to stabilise from 2019 when the ratio is forecast to remain around 8.0% p.a. The Sustainability scenario forecasts an increase of $37.7m in rates income compared to the Base Case scenario over the forecast period.

The SRV is proposed to eradicate the Infrastructure Backlog along with provide sufficient funding to fund all maintenance and renewal expenses.

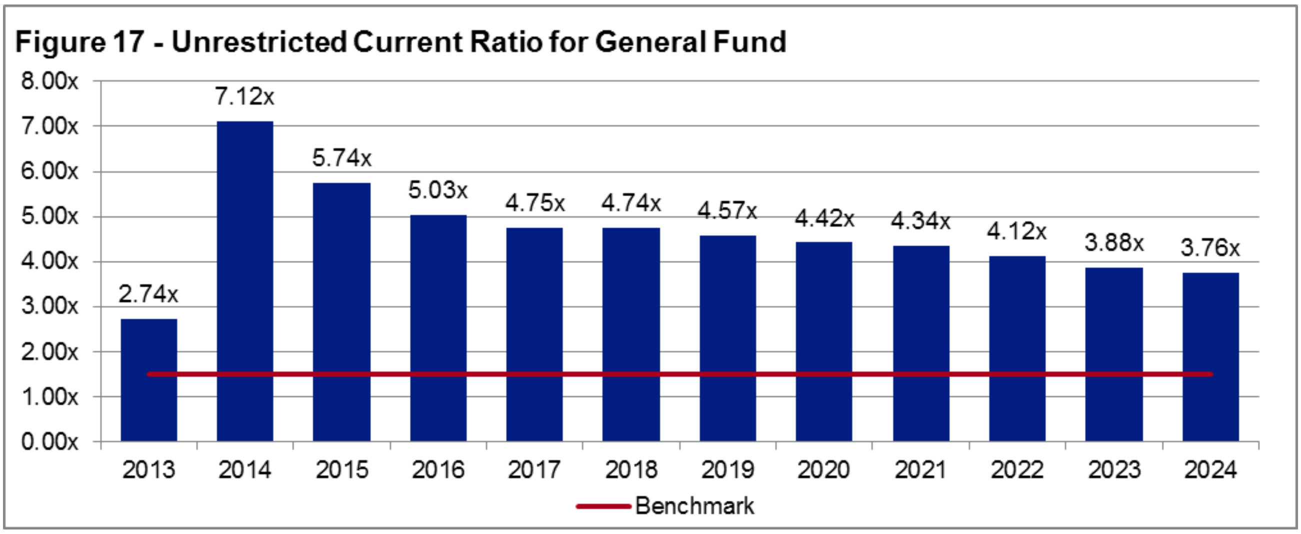
3.7 Financial Management Indicators

Liquidity Ratios



As noted in Section 3.2a, Council does not separate cash and cash equivalents and investments in their LTFP forecast however historically approximately 20.0% of their cash and investment portfolio would be held as cash and cash equivalents with the majority of the balance in term deposits.

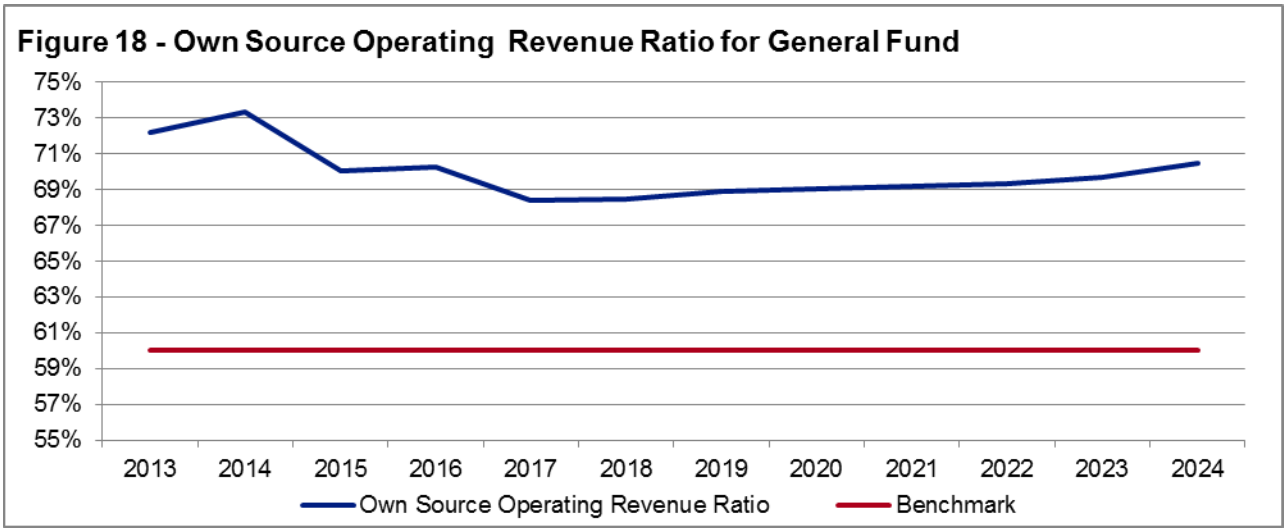
As with the Base Case, TCorp has utilised the cash and investments total across the 10 year forecast. The forecast is similar to the Base Case however the Sustainability scenario indicates that the ratio will be maintained at a higher level of approximately 12.0 months over the period compared to the decline to 10.0 months in the Base Case. Both scenario ratios indicate a strong liquidity position.



As with the Base Case, the Unrestricted Current Ratio is forecast to remain above the benchmark for the entire 10 year period and will also decrease over time. However the decline in the ratio from 2016 is not as aggressive with the 2024 ratio of 3.76x higher than the Base Case 2024 figure of 3.07x. This is due to a forecast improvement in the unrestricted current assets that equate to $80.4m in 2024 for the Sustainability scenario compared to $65.7m in the Base Case due to the additional funds held from the SRV.

The ratio indicates that Council should have adequate liquidity over the review period.

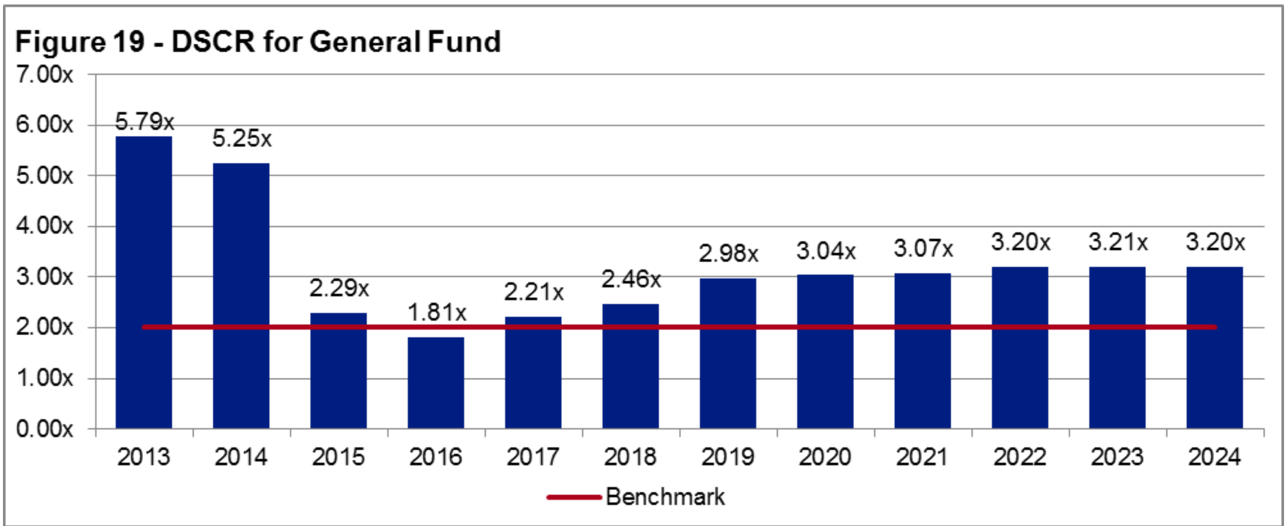
Fiscal Flexibility Ratios



Council's Own Source Operating Revenue Ratio is again forecast to remain well above benchmark over the forecast period indicating Council is not heavily reliant on external sources of revenue.

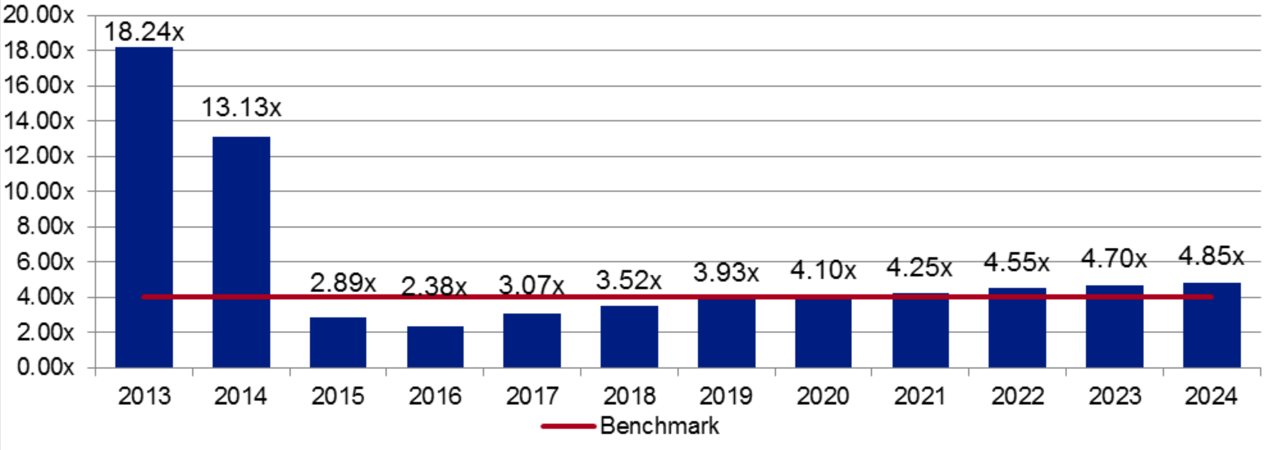
Again the decrease between 2015 and 2017 is driven by the property rental income that will be received from the Kiaora Lands Redevelopment that is classified under other revenues. The ratio marginally improves from 2017 with rates and user charges forecast to increase at 3% p.a. compared to 2% p.a. for operating grants and other revenues.

Similar to the Base Case, operating grants and contributions are forecast to increase by 38% in 2015 as the FAG payment cycle regularises and this also contributes to the decrease in the ratio in this year.



The DSCR is forecast to decrease below the benchmark for one year in 2016 before improving each year to 2022. The decrease in 2016 follows the full drawdown of the Kiaora Lands Redevelopment loan following completion of the library and New South Head Road stage of the project.

Figure 20 - Interest Cover Ratio for General Fund

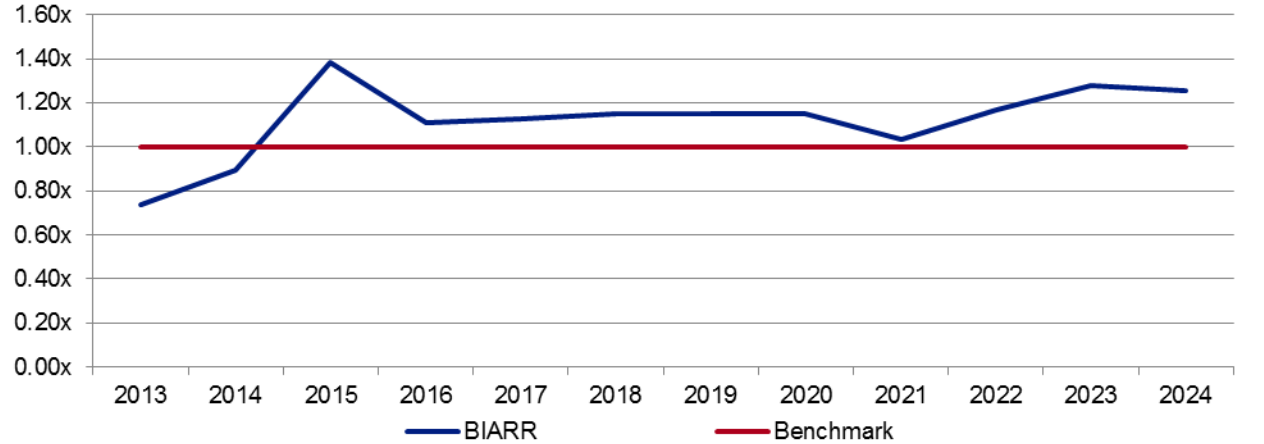


The Interest Cover Ratio also falls below benchmark between 2015 and 2019. However as previously noted the contractual conditions of the Woolworths arrangement substantially protect Council from the risk of payment default on its debt obligations to Woolworths.

Council has not forecast any additional borrowings after the $32.1m in 2015 and given the large loan facilities utilised to complete the Kiaora Land Redevelopment, TCorp believes that this is prudent to enable Council's borrowings to reduce and improve their Interest Cover Ratio above the benchmark.

3.8 Capital Expenditure

Figure 21 - BIARR for General Fund

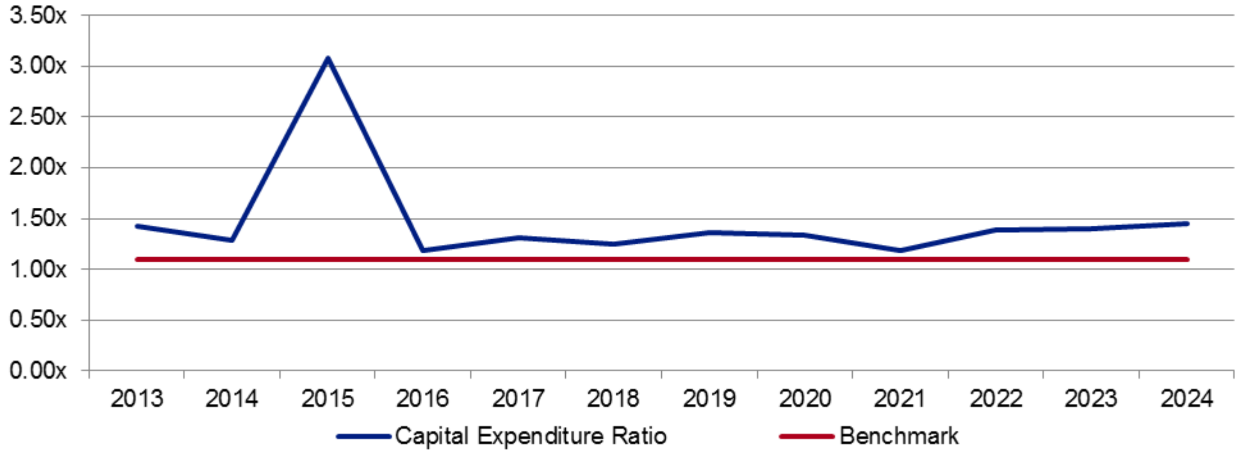


Under the Sustainability Scenario the forecast increase in revenue from the proposed SRV has enabled Council to allocate additional funds for asset renewals, and as a result their Buildings and Infrastructure Asset Renewal Ratio is above benchmark for the entire forecast period.

This forecast allows Council to clear their current Infrastructure Backlog and provide additional services.

As with the Base Case, in 2015 Council has allocated an additional $5.0m to building asset renewals relating to the forecast new Council Depot purchase following the sale of the old Council Depot and this causes the ratio to peak that year.

Figure 22 - Capital Expenditure Ratio for General Fund



Under the Sustainability scenario Council's Capital Expenditure Ratio remains above benchmark for the entire forecast period, at a higher level than the Base Case. The ratio peaks in 2015 due to the Kiaora Lands Redevelopment.

Under this scenario, between 2015 and 2024 Council has forecast an increase of $25.2m in IPP&E purchases when compared to the Base Case Scenario. The SRV is projected to also improve the employee leave entitlements reserve by $3.7m, deposit and bonds reserve by $2.3m and operational service delivery by $2.3m.

3.9 Financial Model Assumption Review

Key Observations and Risks

- The “Sustainability” scenario incorporates a permanent 4 year SRV of 3.0% (above rate peg). This SRV has not been applied for or approved.
- Rates and annual charges are forecast to increase by an average of 5.4% between 2016 and 2019. From 2020 they are forecast to increase by 3.2% p.a.
- With the exception of rates and annual charges 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.
- Overall the assumptions in the Sustainability scenario are considered reasonable.

3.10 Sustainability

Based on the information received and the revised LTFP for the Sustainability scenario, TCorp believes the Council to be currently in a Moderate Sustainability position. The Outlook for Council if this scenario was adopted is currently positive, indicating that the FSR would be expected to improve to Sound within three years.

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

- Council is forecasting to return to a surplus position in 2017 (when capital grants and contributions are excluded) and the operating result is forecast to continue to improve for the remainder of the forecast period.
- Council’s Own Source Operating Revenue Ratio is forecast above benchmark for the entire forecast period which indicates Council is not heavily reliant on external sources of revenue.
- Council’s Unrestricted Current Ratio is well above benchmark and improving over the entire forecast period.
- When current term deposits are included, Council’s Cash Expense Ratio remains above the benchmark for the entire forecast period indicating a satisfactory cash management strategy.
- Council’s Infrastructure Asset Renewals Ratio and Capital Expenditure Ratio are above benchmark for the entire forecast period.

4 Conclusion and Recommendations

Based on our review of both the historic financial information and the 10 year financial forecast within Council's long term financial plan for their Base Case scenario we consider Council to be Moderately Sustainable. Under this scenario Council is unable to completely reduce their backlog and/or provide new or improved services to the community.

We base our comments on the following key points:

- Council is forecasting to achieve an operating surplus from 2017 for the remainder of the forecast period, when capital grants and contributions are excluded.
- While Council's DSCR and Interest Cover Ratio decrease below benchmark during the period, the decrease relates to the Kiaora Lands Redevelopment loan facilities that Council advises have the specific off-set agreement with Woolworths that guarantees a suspension of Council's loan repayments to Woolworths should Woolworths not pay their rent as it falls due.
- Council's Capital Expenditure Ratio is at benchmark levels for the majority of the forecast period which indicates Council will be able to maintain their assets at the current levels. However under this scenario Council's Buildings and Infrastructure Asset Renewals Ratio deteriorates below the benchmark from 2021 indicating that Council will not have sufficient funds to renew their assets at a rate that will maintain the quality. This is likely to lead to an increase in the Infrastructure Backlog in the long term.
- Council's Unrestricted Current Ratio remains above the benchmark for the entire forecast period.

Based on our review of both the historic financial information and the 10 year financial forecast within Council's long term financial plan for their Sustainability scenario we consider Council to be Sustainable in the medium to long term as Council's performance metrics improve to be above benchmark in all indicators.

We base our comments on the following key points:

- Council is forecasting an operating surplus from 2017 for the remainder of the forecast period, when capital grants and contributions are excluded. These surpluses cumulatively equate to $39.0m compared to $20.4m within the Base Case scenario between 2017 and 2024.
- Council's Buildings and Infrastructure Asset Renewal Ratio and Capital Expenditure Ratio are above benchmark for the entire forecast period and Council anticipate that they will have their Infrastructure Backlog cleared in full by 2022. Council has also allocated funds for service provision of improved and/or additional services.
- The Sustainability scenario which includes additional revenue from a proposed SRV, highlights that with additional funding Council's long term sustainability will be improved. Under this scenario Council will be in a position to fully address their Infrastructure Backlog as well as provide additional services for the community.
- Council's Unrestricted Current Ratio is well above benchmark for the entire forecast period.

As stated in Section 3.4, TCorp notes that losses from the sale of assets are forecast in each year of the LTFP within both scenarios. This trend of losses follows similar losses in the past five year historic results. TCorp has excluded these losses from the operating result as per the historical analysis but has discussed this issue with Council. A continuous loss on the disposal of infrastructure assets indicates that Council are possibly under-depreciating or over estimating the useful lives of their assets prior to their replacement. TCorp acknowledges that it isn't always possible to depreciate assets down to their written down value prior to their replacement and Council management continue to review the procedures used as Council plans to implement a new asset management system in the near future.

Appendix A Historical Financial Information Tables

Table 1-Income Statement

Income statement	Year ended 30 June					% annual change			
	2014	2013	2012	2011	2010	2014	2013	2012	2011
Revenue									
Rates and annual charges	46,738	44,354	41,885	40,009	38,743	5.4%	5.9%	4.7%	3.3%
User charges and fees	9,768	8,939	8,671	9,474	8,598	9.3%	3.1%	(8.5%)	10.2%
Interest and investment revenue	1,588	1,833	2,355	2,560	2,440	(13.4%)	(22.2%)	(8.0%)	4.9%
Grants and contributions for operating purposes	2,501	3,120	3,515	2,988	8,218	(19.8%)	(11.2%)	17.6%	(63.6%)
Other revenues	13,046	11,180	10,438	9,934	10,401	16.7%	7.1%	5.1%	(4.5%)
Total revenue	46,738	44,354	41,885	40,009	38,743	5.4%	5.9%	4.7%	3.3%
Expenses									
Employees	34,867	32,936	32,425	30,581	31,915	5.9%	1.6%	6.0%	(4.2%)
Borrowing costs	677	439	507	568	626	54.2%	(13.4%)	(10.7%)	(9.3%)
Materials and contract expenses	14,443	13,395	12,623	13,124	11,661	7.8%	6.1%	(3.8%)	12.5%
Depreciation and amortisation	10,254	10,347	10,290	9,080	10,349	(0.9%)	0.6%	13.3%	(12.3%)
Other expenses	15,447	15,089	13,498	13,830	11,780	2.4%	11.8%	(2.4%)	17.4%
Total expenses	**75,688**	**72,206**	**69,343**	**67,183**	**66,331**	**4.8%**	**4.1%**	**3.2%**	**1.3%**
Operating result (excluding capital grants and contributions)	**(2,047)**	**(2,780)**	**(2,479)**	**(2,218)**	**2,069**	26.4%	(12.1%)	(11.8%)	(207.2%)
Operating result (including capital grants and contributions)	**1,317**	**1,576**	**1,141**	**1,513**	**5,357**	(16.4%)	38.1%	(24.6%)	(71.8%)

Table 2 - Items excluded from Income Statement

Excluded items	2014	2013	2012	2011	2010
Grants and contributions for capital purposes	3,364	4,356	3,620	3,731	3,288
Net losses from the disposal of assets	2,780	1,455	830	1,223	528
Fair valuation movements in Investments (at FV or Held for Trade)	478	1,941	577	(38)	636
Fair value adjustments- Investment Properties	(1,912)	850	0	6,540	0

Table 3 – Employee Numbers

	2014	2013	2012	2011	2010
Full Time Equivalent Employees at year end	376	360	367	367	362

Table 4 – Balance Sheet

Balance sheet ($'000s)	Year ended 30 June					% annual change			
	2014	2013	2012	2011	2010	2014	2013	2012	2011
Current assets									
Cash and cash equivalents	31,978	5,403	7,701	4,270	7,580	75.4%	(29.8%)	80.4%	(43.7%)
Investments	1,663	28,157	27,302	29,136	26,244	(14.2%)	3.1%	(6.3%)	11.0%
Receivables	12,548	6,660	5,630	5,751	6,018	88.4%	18.3%	(2.1%)	(4.4%)
Inventories	168	220	187	172	185	(23.6%)	17.6%	8.7%	(7.0%)
Other	175	941	846	918	903	(81.4%)	11.2%	(7.8%)	1.7%
Non-current assets classified as "held for sale"	65,100	0	0	0	0	N/A	N/A	N/A	N/A
Total current assets	111,632	41,381	41,666	40,247	40,930	169.8%	(0.7%)	3.5%	(1.7%)
Non-current assets									
Investments	0	0	0	1,000	3,000	N/A	N/A	(100.0%)	(66.7%)
Receivables	104	101	110	106	87	3.0%	(8.2%)	3.8%	21.8%
Infrastructure, property, plant & equipment	563,437	630,824	586,930	583,265	532,578	(10.7%)	7.5%	0.6%	9.5%
Investment property	89,350	15,275	14,425	19,075	11,064	484.9%	5.9%	(24.4%)	72.4%
Total non-current assets	652,891	646,200	601,465	603,446	546,729	1.0%	7.4%	(0.3%)	10.4%
Total assets	**764,523**	**687,581**	**643,131**	**643,693**	**587,659**	**11.2%**	**6.9%**	**(0.1%)**	**9.5%**

Balance sheet ($'000s)	Year ended 30 June					% annual change			
	2014	2013	2012	2011	2010	2014	2013	2012	2011
Current liabilities									
Payables	20,389	17,296	17,653	18,416	18,231	17.9%	(2.0%)	(4.1%)	1.0%
Borrowings	1,257	1,016	944	873	814	23.7%	7.6%	8.1%	7.2%
Provisions	10,330	9,519	9,232	8,617	8,444	8.5%	3.1%	7.1%	2.0%
Total current liabilities	31,976	27,831	27,829	27,906	27,489	14.9%	0.0%	(0.3%)	1.5%
Non-current liabilities									
Borrowings	63,113	4,019	5,035	5,979	6,852	1470.4%	(20.2%)	(15.8%)	(12.7%)
Provisions	203	213	251	216	219	(4.7%)	(15.1%)	16.2%	(1.4%)
Total non-current liabilities	63,316	4,232	5,286	6,195	7,071	1396.1%	(19.9%)	(14.7%)	(12.4%)
Total liabilities	**95,292**	**32,063**	**33,115**	**34,101**	**34,560**	**197.2%**	**(3.2%)**	**(2.9%)**	**(1.3%)**
Net assets	**669,231**	**655,518**	**610,016**	**609,592**	**553,099**	**2.1%**	**7.5%**	**0.1%**	**10.2%**

Table 5 - Cashflow

Cash Flow Statement ($'000s)	Year ended 30 June				
	2014	2013	2012	2011	2010
Cash flows from operating activities	9,234	11,712	11,689	11,623	17,246
Cash flows from investing activities	(64,494)	(13,066)	(7,385)	(14,119)	(17,239)
Proceeds from borrowings and advances	60,350	0	0	0	0
Repayment of borrowings and advances	(1,015)	(944)	(873)	(814)	(757)
Cash flows from financing activities	59,335	(944)	(873)	(814)	(757)
Net increase/(decrease) in cash and equivalents	**4,075**	**(2,298)**	**3,431**	**(3,310)**	**(750)**

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], DLG 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 (previously DLG) is an Office in the Planning and Environment cluster 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 + current term deposits / (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.

Level 22, Governor Phillip Tower, 1 Farrer Place
SYDNEY NSW 2000, AUSTRALIA

T: +61 2 9325 9325 **F:** +61 2 9325 9333
W: tcorp.nsw.gov.au **ABN:** 99 095 235 825

New South Wales
Treasury Corporation