New South Wales
Treasury Corporation

Liverpool Plains Shire Council

Financial Assessment, Sustainability and Benchmarking Report

22 March 2013

Prepared by NSW Treasury Corporation for Liverpool Plains Shire Council, the Division of Local Government and the Independent Local Government Review Panel.

New South Wales Treasury Corporation

Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by the Division of Local Government (DLG) as detailed in TCorp's letters of 22 December 2011 and 28 May 2012. The report has been prepared to assist the DLG and the Independent Local Government Review Panel in its consideration of the Sustainability of each local government area in NSW.

The report has been prepared based on information provided to TCorp as set out in Section 2.2 of this report. 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.

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The report has been prepared for Liverpool Plains Shire Council, the DLG and the Independent Local Government Review Panel. TCorp shall not be liable to Liverpool Plains Shire 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.

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Section 1 Executive Summary

This report provides an independent assessment of Liverpool Plains Shire Council's (the Council) financial capacity and its future Sustainability. The analysis is based on a review of the historical performance, current financial position, and long term financial forecasts. It also benchmarks the Council against its peers using key ratios.

TCorp's approach has been to:

- Review the most recent four years of Council's consolidated financial results
- Conduct a detailed review of the Council's 10 year financial forecasts, with a particular focus on a council's General Fund. Where a council operates a Water or other Fund the financial capacity of these other Funds may be reviewed where considered necessary.

Council's financial position has been deteriorating over the review period, although improved operating results were achieved in 2012. Council has been unable to achieve operating surpluses when capital grants and contributions are excluded during the review period. Some other observations include:

- Council's underlying operating performance, measured by EBITDA, has marginally decreased from $4.2m in 2009 to $3.9m in 2012
- Council relies on grants and contributions to boost revenues, as indicated by an Own Source Operating Revenue Ratio below the benchmark throughout the review period, highlighting their limited financial flexibility
- Council's liquidity has remained adequate to meet their short term liabilities throughout the review period
- Council has had adequate capacity to manage their ongoing debt commitments as indicated by a DSCR and Interest Cover Ratio above their respective benchmarks
- The operating performance in 2011 and 2012 have been impacted by increased materials and contract expenses following additional RMS State road works and maintenance repairs to flood damaged roads

The Council reported $7.7m of Infrastructure Backlog in 2012 which represents 1.7% of its infrastructure asset value of $444.4m. Other observations include:

- Council currently has a relatively small backlog that has reduced from $9.1m in 2009, after increasing to $14.6m in 2011
- Council's Asset Maintenance, Buildings and Infrastructure Renewals and Capital Expenditure Ratios have all been on a downward trend and have not met their respective benchmarks in 2011 and 2012 indicating that Council has not been able to invest adequate funds in these years to maintain, renew or expand their asset base. Council needs to address this trend so that it does not impact on Council's long term Sustainability and increase the Infrastructure Backlog

The key observations from our review of Council's 10 year forecasts for its General Fund are:

- Council's adopted scenario proposes to extend the existing SRV of 6.5% above the rate peg, that is due to expire in 2014 and also apply for an additional SRV of 5.0% (making a combined SRV of 11.5% above the rate peg)

- If the SRVs are approved as projected, operating deficits are still projected to continue until 2019 with marginal surpluses forecast in the final four years of the forecast period
- Council's liquidity is forecast to remain adequate with their Unrestricted Current Ratio expected to be above the benchmark in nine of the 10 years
- Council's Own Source Operating Revenue Ratio is forecast to remain at 50% or below for the full review period highlighting Council's ongoing reliance on grants and contributions to meet their operations
- Council will adequately spend on capital expenditure throughout the forecast period as indicated by the Capital Expenditure Ratio being above benchmark in each year

In our view, if Council is successful with the SRV applications then they may have the capacity to undertake additional borrowings. Until the details of any approved SRVs are available we do not believe it is considered prudent to recommend any additional borrowings.

In the short to medium term, Council's financial position is weak and its long term performance is highly dependent on being able to achieve its desired outcomes in respect of its proposed SRV's. Our key observations are:

- If current service levels are to remain, Council will require the SRVs as detailed within their adopted scenario to be approved in full
- Any variation below the proposed SRVs will lead to Council needing to investigate further options to increase revenues, rationalise assets or reduce expenses if they are to be Sustainable in the long term
- Council is reliant on the continuing provision of grants from other levels of government. Any reduction in the level of these grants could adversely affect Council's financial position although it is expected that Council would reduce its expenditure on services by the same amount as the decrease in grant revenue
- Council has a relatively low level of Infrastructure Backlog
- Once the full financial implication of the proposed BHP Billiton coal mine at Caroona are determined, the impacts on Council need to be factored into the LTFP

In respect of the Benchmarking analysis, TCorp has compared the Council's key ratios on a consolidated basis, with other councils in DLG Group 10. The key observations are:

- Council's financial flexibility position was weak over the review period as indicated by the results compared to both benchmark and the group averages for the Operating Ratio and Own Source Operating Revenue Ratio
- Council's liquidity position was comparatively sound. Council's Unrestricted Current Ratio performed strongly over the review period while Council's Cash Expense Ratio performed at near benchmark levels but below group average in 2011 and 2012
- Council's debt servicing capacity was strong over the review period and is forecast to perform at above benchmark levels in the medium term
- Council's asset renewal and capital works underperformed over the review period. Despite strong early results in Council's Capital Expenditure Ratio and Asset Maintenance Ratio, all ratios fell to either benchmark levels or below benchmark levels in 2012. However, Council's Capital Expenditure Ratio is forecast to perform at above benchmark levels in the medium term and the Infrastructure Backlog Ratio below the group average

Section 2 Introduction

2.1: Purpose of Report

This report provides the Council with an independent assessment of their financial capacity, Sustainability and performance measured against a peer group of councils which will complement their internal due diligence, and the IP&R system of the Council and the DLG, together with the work being undertaken by the Independent Local Government Review Panel.

The report is to be provided to the DLG and the Independent Local Government Review Panel.

The key areas focused on are:

- The financial capacity of the Council
- The long term Sustainability of the Council
- The financial performance of the Council in comparison to a range of similar councils and measured against prudent benchmarks

2.2: Scope and Methodology

TCorp's approach was to:

- Review the most recent four years of the Council's consolidated audited accounts using financial ratio analysis. In undertaking the ratio analysis TCorp has utilised ratio's substantially consistent with those used by Queensland Treasury Corporation (QTC) initially in its review of Queensland Local Government (2008), and subsequently updated in 2011
- Conduct a detailed review of the Council's 10 year financial forecasts including a review of the key assumptions that underpin the financial forecasts. The review of the financial forecasts focused on the Council's General Fund
- Identify significant changes to future financial forecasts from existing financial performance and highlight risks associated with such forecasts, including those that could impact Council's Sustainability
- Conduct a benchmark review of a Council's performance against its peer group
- Prepare a report that provides an overview of the Council's existing and forecast financial position and its capacity to meet increased debt commitments and achieve long term Sustainability
- Conduct a high level review of the Council's IP&R documents for factors which could impact the Council's financial capacity, performance and Sustainability

In undertaking its work, TCorp relied on:

- Council's audited financial statements (2008/09 to 2011/12)
- Council's financial forecast model
- Council's IP&R documents
- Discussions with Council officers
- Other publicly available information such as information published on the IPART website

Definition of Sustainability

In conducting our reviews, TCorp has relied upon the following definition of sustainability to provide guidance:

"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."

Benchmark Ratios

In conducting our review of the Councils' financial performance, forecasts and Sustainability we have measured performance against a set of benchmarks. These benchmarks are listed below.

Benchmarks do not necessarily represent a pass or fail in respect of any particular area. One-off projects or events can impact a council's performance against a benchmark for a short period. Other factors such as the trends in results against the benchmarks are critical as well as the overall performance against all the benchmarks.

As councils can have significant differences in their size and population densities, it is important to note that one benchmark does not fit all. For example, the Cash Expense Ratio should be greater for smaller councils than larger councils as a protection against variation in performance and financial shocks. Therefore these benchmarks are intended as a guide to performance.

The Glossary attached to this report explains how each ratio is calculated.

Ratio	Benchmark
Operating Ratio	> (4.0%)
Cash Expense Ratio	> 3.0 months
Unrestricted Current Ratio	> 1.50x
Own Source Operating Revenue Ratio	> 60.0%
Debt Service Cover Ratio (DSCR)	> 2.00x
Interest Cover Ratio	> 4.00x
Building and Infrastructure Backlog Ratio	< 0.02x
Asset Maintenance Ratio	> 1.00x
Building and Infrastructure Asset Renewal Ratio	> 1.00x
Capital Expenditure Ratio	> 1.10x

2.3: Overview of the Local Government Area

Liverpool Plains Shire Council	
Locality and Size	
Locality	Northern
Area	5,087 km²
DLG Group No.	10
Demographics	
Population as at 30 June 2011	7,480
% under 20	26%
% between 20 and 59	47%
% over 60	27%
Expected population in 2021	7,400
Operations	
Number of employees (FTE)	124
Annual revenue	$19.7m
Infrastructure	
Roads	1,425 km
Bridges and culverts	81
Infrastructure backlog value	$7.7m
Total infrastructure value	$444.4m

Liverpool Plains Shire Council Local Government Area (LGA) is located in the north-west slopes and plains region and is surrounded by Warrumbungle Shire LGA to the west, Gunnedah Shire LGA to the north, Tamworth Regional LGA to the east and Upper Hunter Shire LGA to the south.

Quirindi is the main town within the LGA and is approximately 330 km north of Sydney or a four and a half hour drive. The predominant industry in the LGA is agriculture with emerging mining and mining support industries expected to be the main employers in the next 10 years. Similar to other rural LGAs, it has been affected by floods recently. It was classified as a natural disaster area on more than one occasion in the past four years.

Within Council's Infrastructure, Property, Plant and Equipment (IPP&E) at 30 June 2012 there was:

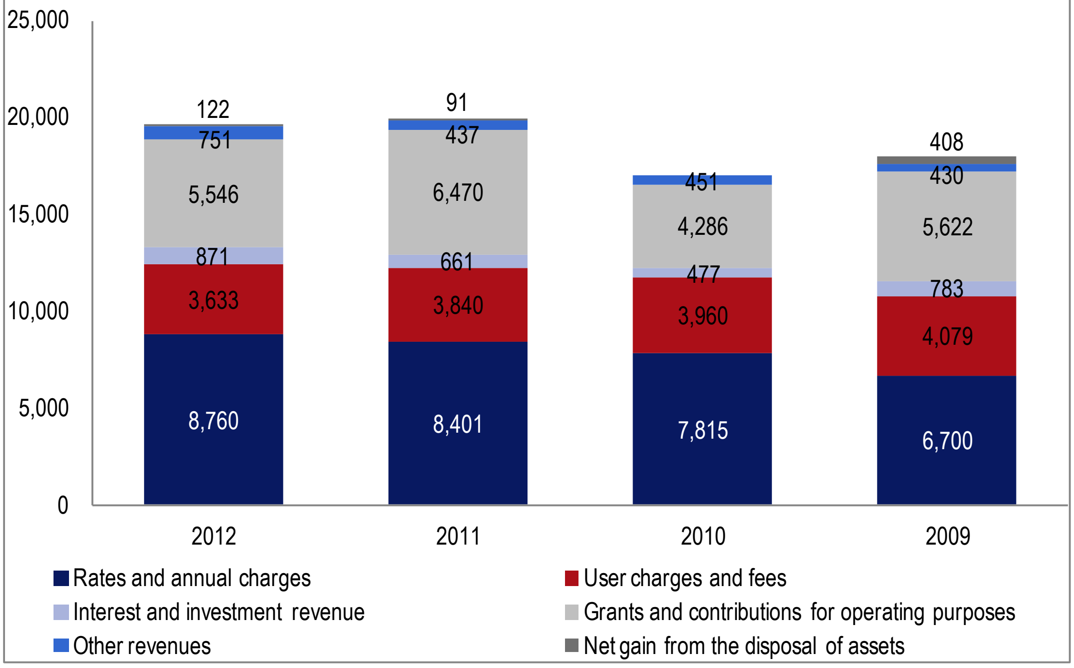
- $337.3m of roads, bridges and footpaths
- $34.4m of water supply infrastructure
- $28.1m of non specialised buildings
- $25.9m of sewerage network
- $15.8m of stormwater drainage
- $1.7m of other structures
- $1.2m of depreciable land improvements

Section 3 Review of Financial Performance and Position

In reviewing the financial performance of the Council, TCorp has based its review on the annual audited accounts of the Council unless otherwise stated.

3.1: Revenue

Figure 1 - Revenue Sources for 2008/09 to 2011/12 ($'000s)



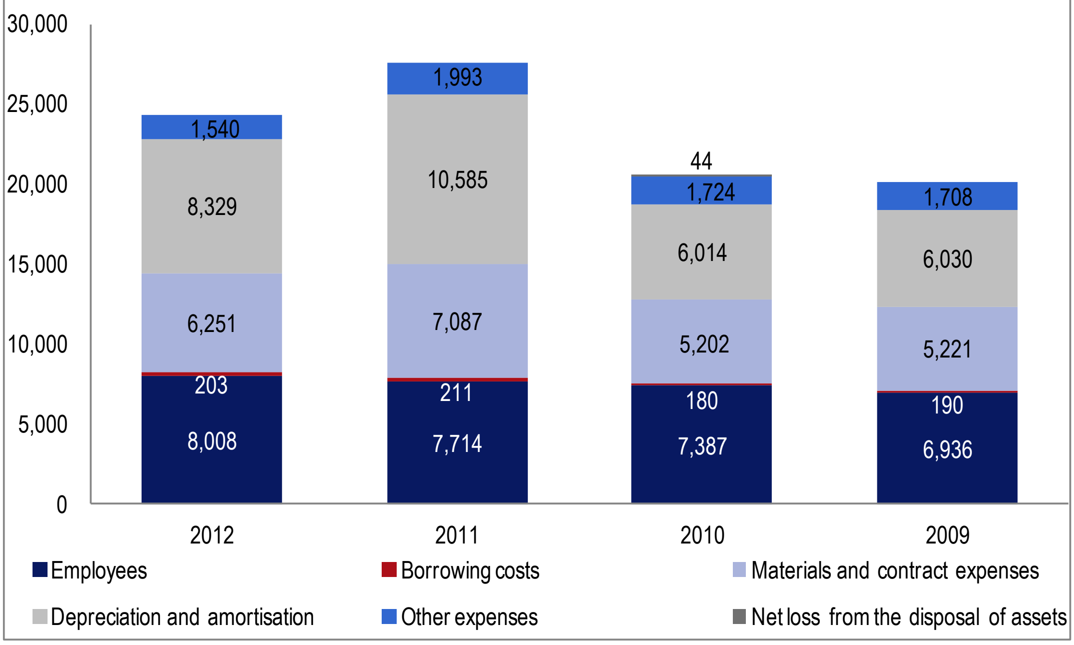
Key Observations

- Total operating revenues have increased by $1.7m (9.4%) over the review period to $19.7m in 2012.
- Rates and annual charges have been on an upward trend however the year on year increase has reduced each year, down to 4.3% in 2012 from 16.6% in 2010. Council received approval for a SRV of 6.5% above the rate peg for a period of five years from 2010 for road maintenance. There was also a 30.7% increase in annual charges in 2010 predominantly due to increases in domestic and other waste management charges. Council receives the majority of its rates revenue from farmland ($3.4m in 2012) with water supply the largest annual charge ($1.2m in 2012).
- User charges and fees have been on a downward trend each year with private works being the main factor, reducing from $0.7m in 2009 to $0.04m in 2012.
- Operating grants and contributions have fluctuated over the four years with the largest movement being upward between 2010 and 2011 due to a $1.0m housing and amenities grant that was received in 2011 only. The largest grant received in 2012 was $1.8m for roads and bridges.
- Council also received an advance payment of half the 2013 Financial Assistance Grants in 2012. This amounted to an additional $1.6m in 2012.

- Council recovered legal fees of $0.2m in 2012, while miscellaneous sales also contributed $0.2m that resulted in a 73.0% increase in other revenues to $0.8m in 2012.
- Council has made a gain in three of the four years from the disposal of assets with the main reason for the gains being property in 2009 and 2012, and infrastructure, plant and equipment in 2010. We have included this source of revenue within our analysis because it appears to be a part of Council's regular operations and it has projected an annual gain from the disposal of assets within each year of the LTFP forecast.

3.2: Expenses

Figure 2 - Expenses for 2008/09 to 2011/12 ($'000s)



Key Observations

- Total operating expenses have increased by $4.1m (20.4%) over the review period to $24.2m in 2012, although they reduced by $3.4m in 2012.
- While employee costs have been increasing, the rate of increase has decreased from 6.5% in 2010 to 3.8% in 2012. Equivalent full time employees have reduced from 135 in 2009 to 124 in 2012.
- Materials and contract expense have increased since 2009 but reduced in 2012 from the 2011 high. The higher totals in 2011 and 2012 were predominantly due to increased road maintenance completed for the RMS and the related costs involved along with roads repaired following the floods.
- Depreciation has been Council's largest expense in 2011 and 2012 but decreased in 2012 from the 2011 high. The increase of $4.6m in 2011 was predominantly due to the Asset Revaluations of roads, bridges and footpaths that increased annual depreciation expense to $7.6m. Following the reassessment of the useful lives of road assets annual depreciation on these assets decreased to $5.2m in 2012 with total annual depreciation decreasing to $8.3m.

- Other expenses have decreased to their lowest level of the review period in 2012 with insurances reducing by $0.1m and 2011 affected by a $0.1m one-off carbon project contribution.

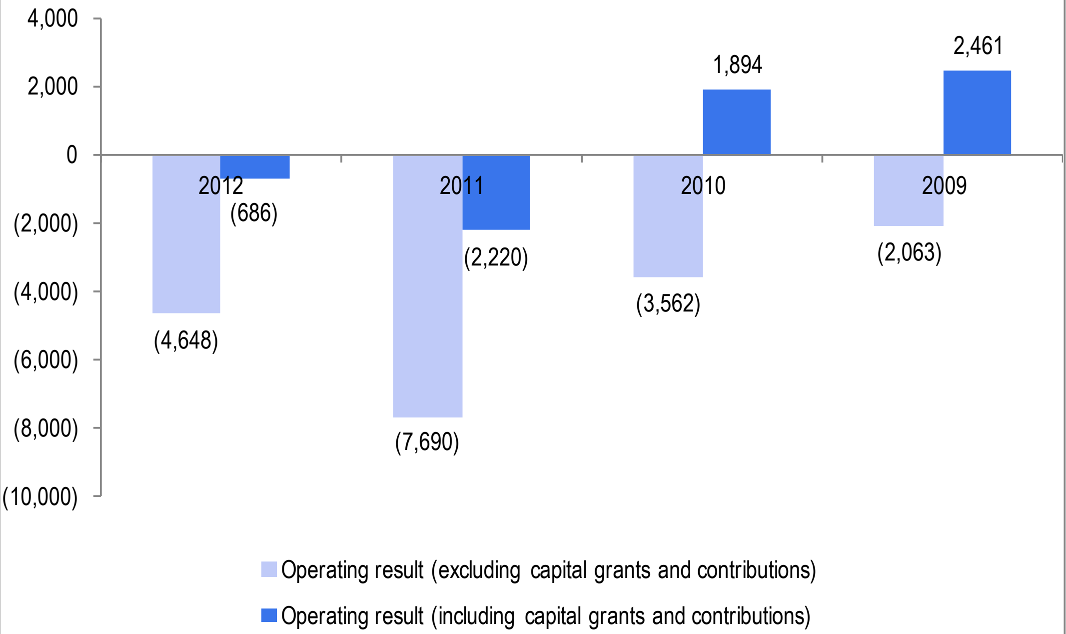
3.3: Operating Results

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 2011/12 ($'000s)



Key Observations

- Council has posted consecutive operating deficits when capital grants and contributions are excluded. The 2012 result shows an improvement following reductions in expenses.
- Council expenses include a non-cash depreciation expense, ($8.3m in 2012), which has increased by $2.3m between 2009 and 2012 following the Asset Revaluations process. Whilst the non cash nature of depreciation can favourably impact on ratios such as EBITDA that focus on cash, depreciation is an important expense as it represents the allocation of the value of an asset over its useful life.

- The operating deficits have also been impacted in 2011 and 2012 from the higher materials and contracts expenses that have been due to increased costs to repair flood damaged roads and increased State road works.

3.4: Financial Management Indicators

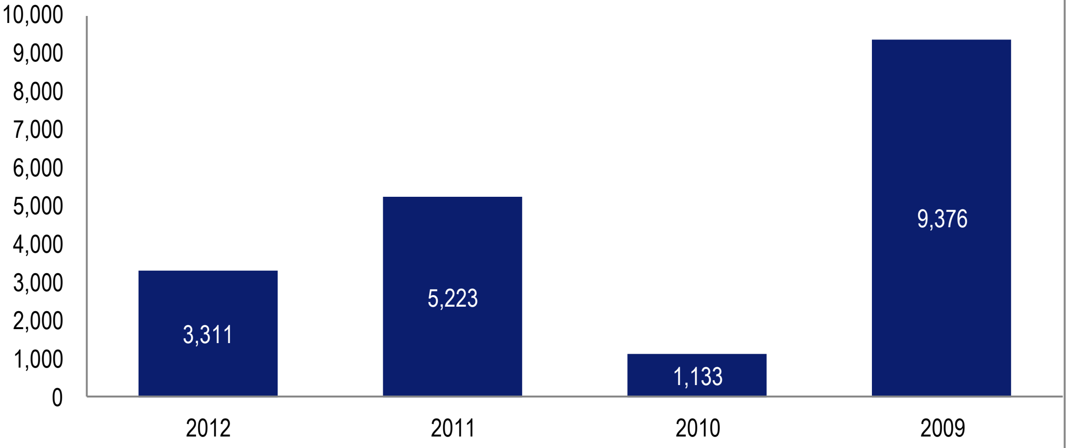
Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA ($'000s)	3,884	3,106	2,632	4,157
Operating Ratio	(23.6%)	(38.6%)	(21.0%)	(11.4%)
Interest Cover Ratio	19.13x	14.72x	14.62x	21.88x
Debt Service Cover Ratio	7.81x	6.30x	5.40x	9.43x
Unrestricted Current Ratio	1.82x	2.02x	2.42x	5.92x
Own Source Operating Revenue Ratio	52.4%	48.2%	52.5%	47.8%
Cash Expense Ratio	2.5 months	3.7 months	0.9 months	8.1 months
Net assets ($'000s)	539,894	516,857	516,447	152,816

Key Observations

- Council's underlying operating performance (measured using EBITDA) has been variable over the four year period, but has been on an upward trend since 2010.
- The Operating Ratio has been significantly below the benchmark of negative 4% in each year due to the large operating deficits posted.
- Council has a strong DSCR and Interest Cover Ratio across the four years. This indicates that Council had sufficient capacity to manage their outstanding borrowings.
- Council's total borrowings stand at $3.6m in 2012, an increase from $1.3m in 2009. This equates to 0.7% of Net Assets in 2012.
- The Unrestricted Current Ratio has been above the 1.50x benchmark in all four years.
- The Own Source Operating Revenue Ratio has been below the benchmark in each year, highlighting Council's reliance on grants and contributions to assist with meeting their expenses.
- The Cash Expense Ratio has varied over the period but has reduced from 2009 due to Council utilising term deposit accounts to maximise investment returns as detailed in Section 3.5.
- Net Assets have been on an upward trend over the period due to the Asset Revaluations. In 2010 Council revalued all infrastructure assets which increased the value of these assets by $270.0m. There was also a $91.8m positive adjustment on the road, bridge and footpath assets recognition from previous years in 2010. In 2012 there was a further $22.6m Revaluation of water and sewerage infrastructure assets.
- When the Asset Revaluations are excluded there has been a $2.3m decrease in the IPP&E asset base over the three year period, compared to the written down value of disposed assets and depreciation.

3.5: Statement of Cashflows

Figure 4 - Cash and Cash Equivalents for 2008/09 to 2011/12 ($'000s)



Key Observations

- Council's cash and cash equivalents have varied over the four year period. Council began utilising investment products in 2010, hence the large decrease in cash and cash equivalents in that year.
- Total cash, cash equivalents, and investments have increased from $9.4m in 2009 to $14.8m in 2012. Of the $14.8m, $10.1m is externally restricted, $3.9m is internally restricted and $0.8m is unrestricted.
- Within the investments portfolio of $11.5m valued at 30 June 2012, $7.0m is in current term deposits and $4.5m in non current term deposits.
- The level of cash and investments along with the Unrestricted Current Ratio above the benchmark indicates Council has had sufficient liquidity throughout the review period.

3.6: 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.

3.6(a): Infrastructure Backlog

Figure 5 - Infrastructure Backlog for 2008/09 to 2011/12($'000s)

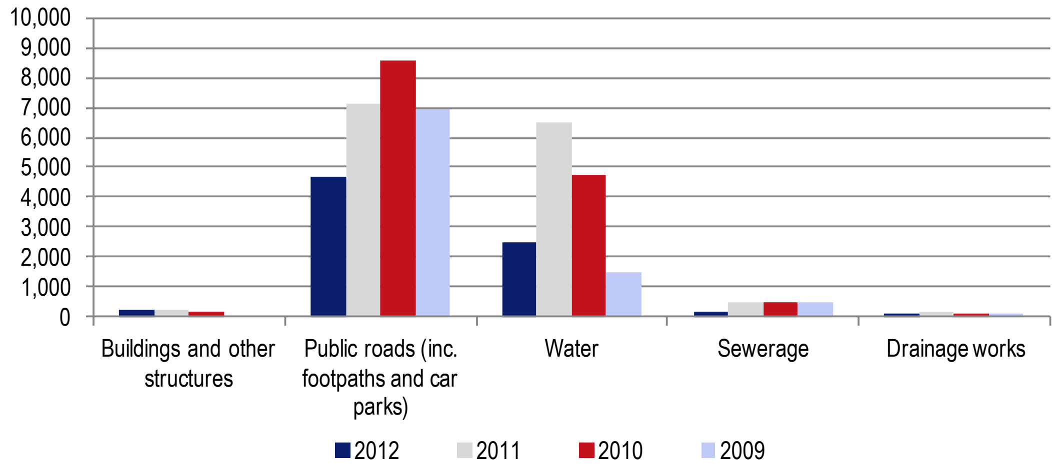
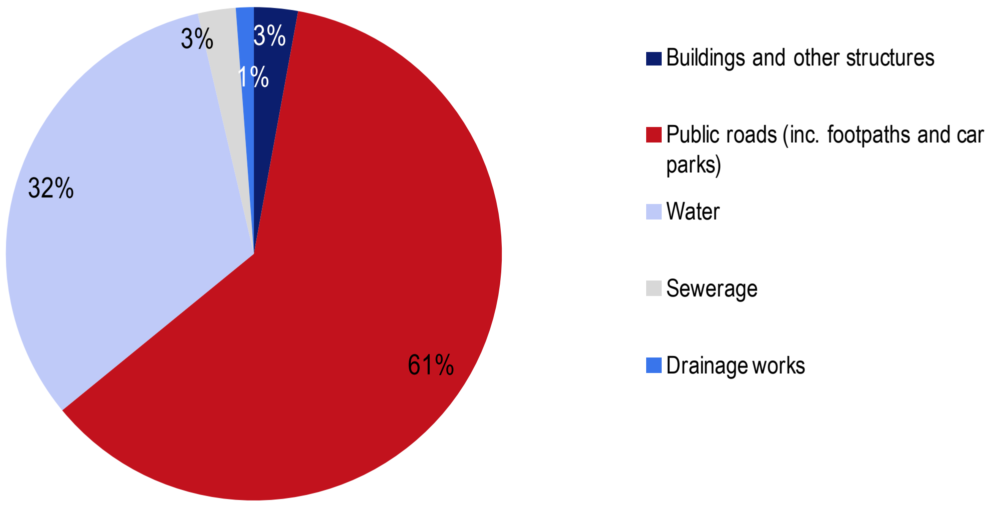


Figure 6 - Infrastructure Backlog Composition for 2011/12



Council's Infrastructure Backlog of $7.7m in 2012 is at its lowest level throughout the review period. At $4.7m, public roads is the largest backlog category but has reduced from $8.6m in 2010. The public roads Infrastructure Backlog decrease is due to both ongoing road rehabilitation and also an asset condition data exercise that resulted in an extension of the useful life of these assets.

The total backlog rose to $14.6m in 2011 but an extensive asset condition data exercise on water and sewer assets indicated that these assets are in better condition than previously thought and this contributed to the decrease to the 2012 total.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	7,672	14,555	14,181	9,056
Required annual maintenance ($'000s)	5,251	5,251	2,768	2,676
Actual annual maintenance ($'000s)	4,804	4,805	5,274	4,210
Total value of infrastructure assets ($'000s)	444,404	423,013	426,086	123,215
Total assets ($'000s)	548,150	524,173	522,688	158,553
Building and Infrastructure Backlog Ratio	0.02x	0.03x	0.03x	0.07x
Asset Maintenance Ratio	0.91x	0.92x	1.91x	1.57x
Building and Infrastructure Renewals Ratio	0.72x	0.24x	1.20x	0.38x
Capital Expenditure Ratio	0.82x	0.59x	1.52x	1.06x

The Building and Infrastructure Backlog Ratio has reduced to the benchmark level in 2012, both due to the Asset Revaluation process increasing the total value of infrastructure assets by over $300m in 2010, and the revisions made to the backlog data following the asset condition data exercises conducted in 2012.

The Asset Maintenance Ratio has reduced marginally below the 1.00x benchmark in 2011 and 2012 highlighting a downward trend. The annual required maintenance has doubled in 2011 compared to 2010 therefore Council will have to provide additional funding in future years to meet the benchmark.

The Building and Infrastructure Renewals Ratio has been inconsistent over the period and has been below the benchmark in three of the four years indicating that Council did not invest enough to renew assets to their original standard.

Council's Capital Expenditure Ratio, which takes into account assets which improve performance or capacity, has fluctuated from year to year and reduced below the benchmark in 2011 and 2012. The negative trend confirms that the Council has not expanded their Net Assets over the period and if this trend continues then Council's Net Assets will decrease over time.

3.6(c): 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.

Within 2011 Council's major capital works program included:

- $1.5m spent on stormwater drainage at Werris Creek
- $2.4m spent on roads, drainage and footpaths rehabilitation

Within 2012 Council's major capital works program included:

- $2.9m spent on roads, drainage and footpaths rehabilitation
- $0.8m spent on upgrade of stormwater drainage at Werris Creek
- $0.8m spent on Quipolly dam flood upgrade and expansion

3.7: Specific Risks to Council

- Loss of water supply/water contamination. Council has identified that a major risk relates to the possible breakdown or contamination of the water supply that supplies the LGA's main towns and villages. In 2007 Council adopted a long term water strategy to drought proof the communities of Quirindi and Werris Creek, a project costing $22m in total, financed by way of grants, borrowings and increased user charges and fees. The implementation of this project will continue over the next 10 year period.
- Natural disasters. The LGA has been impacted by floods on more than one occasion in the last few years. The impact on infrastructure has led to Council having to prioritise repair work at the expense of other projects which are subsequently deferred in Council's delivery program. While Council receives grant assistance in this regard, the grants do not cover the full cost of the infrastructure rehabilitation.
- Impact on road infrastructure from ongoing mining/quarry traffic. Council manages 16 operational quarries within the LGA while the large mining company, BHP Billiton, and oil exploratory company, Santos, both have sites within the LGA which are expected to become revenue generating within the next few years. Whitehaven Coal Ltd also received authorisation in September 2011 to expand their existing mine within the LGA. All of these operations have an impact on the road and bridge infrastructure due to the heavy vehicle use on these assets. Council negotiates ongoing road funding contributions from these companies to offset the impact on their infrastructure assets.
- Potential loss of SRV revenues after 2014. Council has an ongoing SRV that is currently due to expire in 2014. If this SRV is not extended or replaced, Council will lose these specific funds, further impacting their financial position. As detailed within Section 4 of this report, as part of their adopted LTFP scenario, Council plans to apply for an extension of the existing SRV while also applying for a new additional SRV to assist with the funding of the Infrastructure Backlog reduction and ongoing asset maintenance.

Section 4 Review of Financial Forecasts

The financial forecast model shows the projected financial statements and assumptions for the next 10 years.

We have focused our financial analysis upon the General Fund as although Council's consolidated position includes both a Water and Sewer Fund these are operated as independent entities, which unlike the General Fund are more able to adjust the appropriate fees and charges to meet all future operating and investing expenses.

Council has produced three separate scenarios as follows:

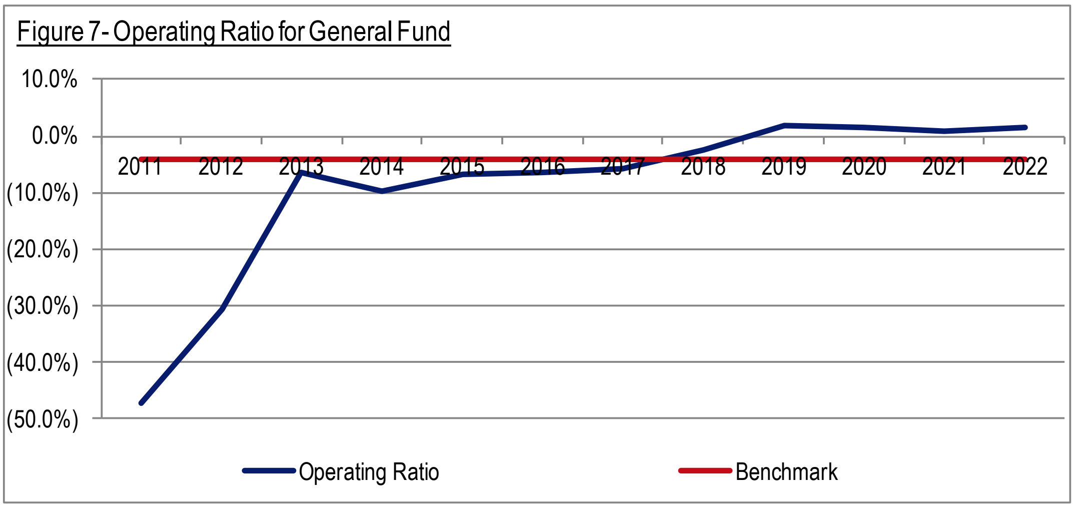
1. A 'base case' scenario based on current operating conditions with the existing SRV to expire as scheduled in 2014 resulting in the continued deterioration of Council's infrastructure assets
2. A scenario where the existing SRV of 6.5% above the rate peg due to expire in 2014 is permanently extended alongside an additional SRV of 5.0% proposed to begin in 2015. Council will apply for this new combined SRV of 11.5% above the rate peg to be permanently included within the rate base to assist the maintenance and renewals of the infrastructure assets
3. A scenario where a SRV is modelled and borrowings proposed up to a level that would allow Council to reduce the Infrastructure Backlog and maintain the infrastructure assets at a satisfactory standard

Council has chosen to adopt the second scenario as this will allow funds to be available for asset maintenance and renewal while not imposing a significant financial burden on rate payers. TCorp has therefore reviewed this forecast scenario, notwithstanding the fact that the proposed new SRV and the existing SRV extension have not yet been approved.

While not included within the LTFP analysed, Council has also detailed the possible additional rates revenue following the proposed opening of the BHP Billiton Caroona coal mine. If the development of this mine proceeds in accordance with current plans then Council will receive estimated additional rates of $1.2m p.a. that will further improve their operating position.

If the mine proceeds, Council will allocate approximately 50% of revenues to meeting operating expenses and capital expenditure to reduce the Infrastructure Backlog. The remaining 50% will be retained within working capital.

4.1: Operating Results



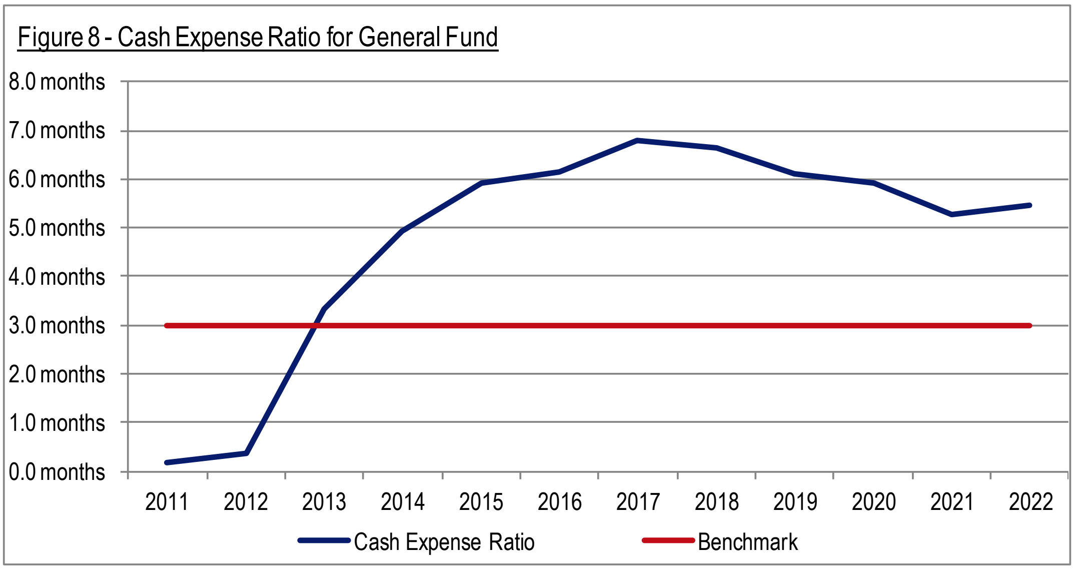
Council is forecasting that the General Fund will gradually improve from 2014 and will be in surplus from 2019 onwards. The Operating Ratio is forecast to improve from historical results due to the proposed SRVs improving revenues and also a refinement of the infrastructure asset lives that has recently been completed which has reduced depreciation expenses in each year.

The improved forecast position if the SRVs are approved show that Council should be in a Sustainable position to continue to provide current service levels over the long term.

The improved position in 2013 is due to reduced depreciation expenses from $7.2m in 2012 to $5.6m p.a. following a refinement of the AMP. A reduction in material and contract expenses is also forecast following the completion of the flood related works.

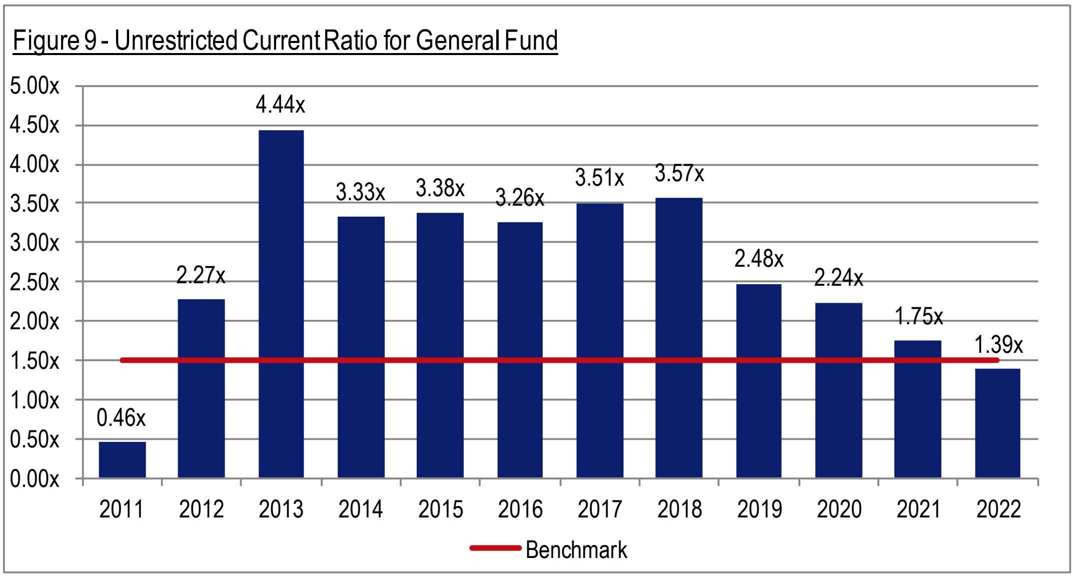
4.2: Financial Management Indicators

Liquidity Ratios



The Cash Expense Ratio is projected to improve above the benchmark in 2013 and remain above the benchmark for the forecast period. The ratio improvement is forecast due to cash and cash equivalents increasing from a low of $0.2m in 2011 and 2012 to a high of $8.3m in 2017 and 2018. The cash and cash equivalents remain above $7.0m from 2016 onwards.

The increase is because of a projected reduction in the annual materials and contracts expenses that reduce from $5.5m in 2012 to $3.3m in 2013 following the completion of the flood related works and also the increased rates revenue that is forecast to be received following the SRV approvals.

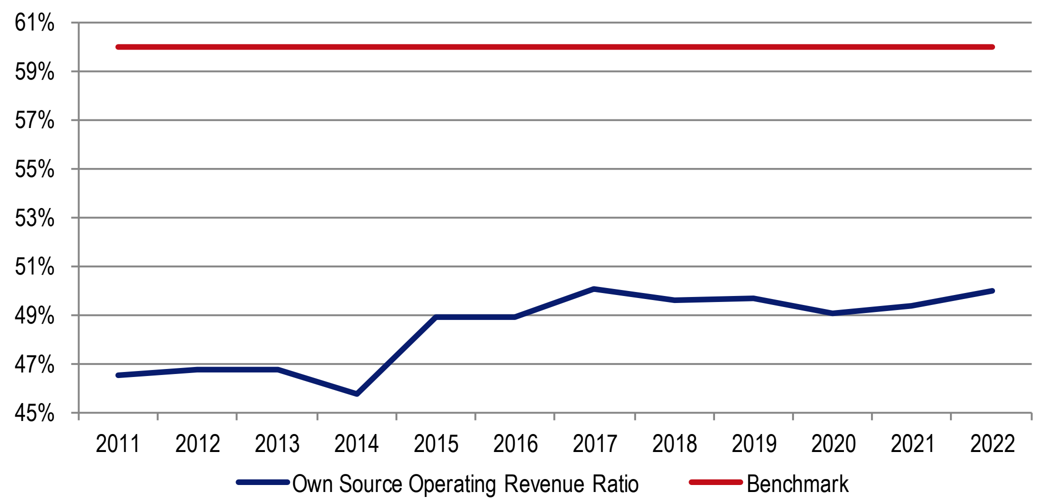


The Unrestricted Current Ratio is forecast to be higher than the historic results for the majority of the review period but decreases below the 1.5x benchmark in 2022.

Both of the above two ratios indicate that Council should have sufficient liquidity over the review period.

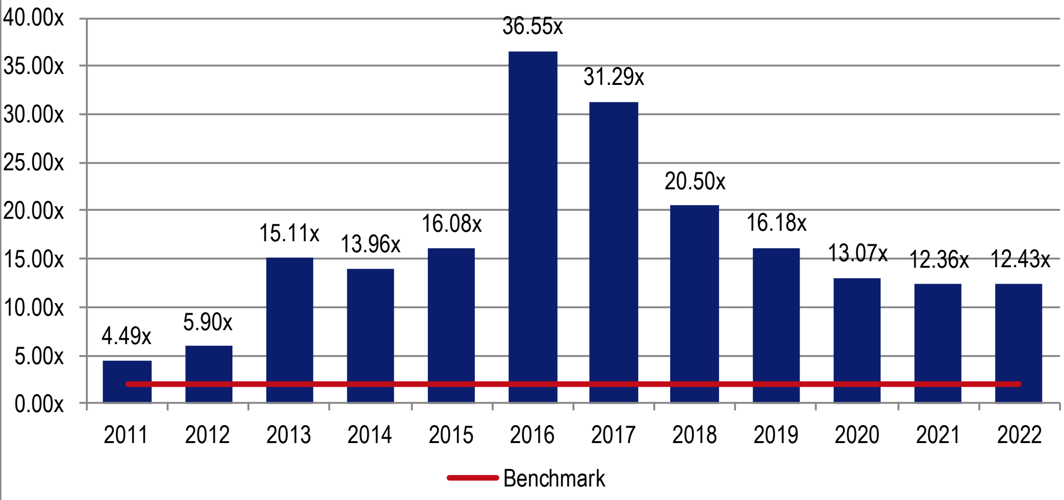
Fiscal Flexibility Ratios

Figure 10 - Own Source Operating Revenue Ratio for General Fund



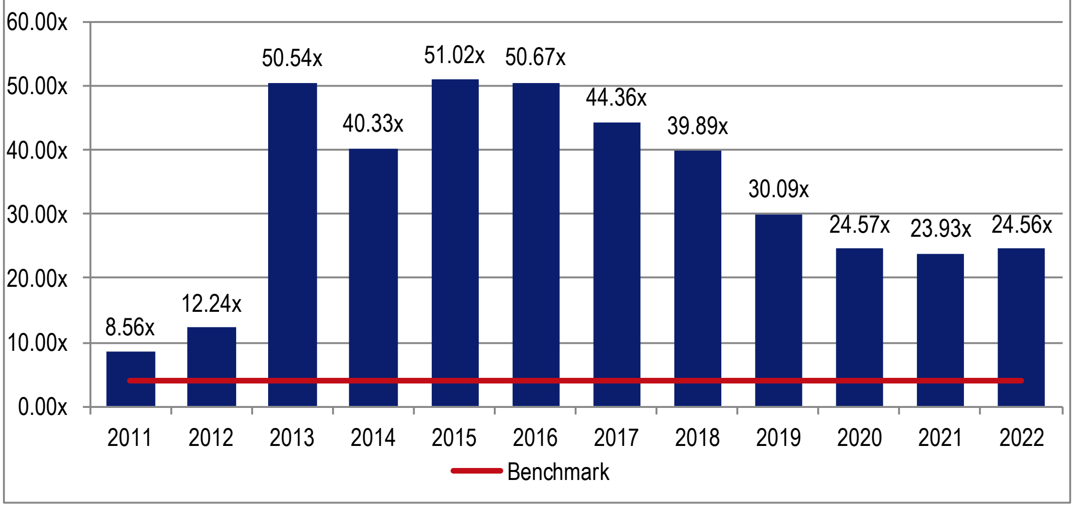
Council's Own Source Operating Revenue Ratio is projected to remain below the 60% benchmark for the duration of the forecast. This highlights Council's expected continuing reliance on grants and contributions to boost revenues to cover their ongoing operating expenses.

Figure 11 - DSCR for General Fund



Council's DSCR is forecast to improve as Council repays its debt until 2016. Council's debt repayments begin to increase again from 2017 as Council forecasts the utilisation of additional borrowings in each year from 2017 to 2021 with a cumulative total of $2.9m. A portion of these new borrowings are to be utilised to assist the expansion of the Eastside childcare centre and an upgrade for the administration centre in Quirindi.

Figure 12 - Interest Cover Ratio for General Fund

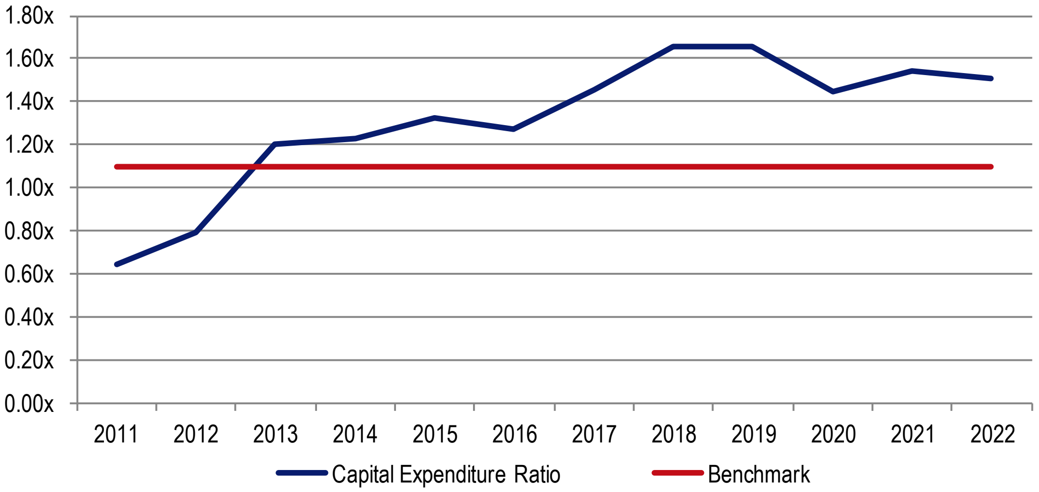


The Interest Cover Ratio is also forecast to follow a similar pattern as the DSCR and remains higher than the historical results.

With both the DSCR and Interest Cover Ratio projected to remain above the benchmark this indicates that Council would be able to utilise further borrowings before both ratios reduce to their respective benchmarks of 2.00x and 4.00x.

4.3: Capital Expenditure

Figure 13 - Capital Expenditure Ratio for General Fund



Council's Capital Expenditure Ratio is forecast to improve over the review period and be above the benchmark in each year of the forecast period.

The cumulative capital expenditure is projected to be $79.6m over the forecast period against the estimated cumulative depreciation expense in the same period of $55.7m, indicating that Council should be in a position to maintain the Net Asset base at a similar level with additional funds being available to reduce the Infrastructure Backlog to zero.

4.4: Financial Model Assumption Review

Councils have used their 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 LGCI increased by 3.4% in the year to September 2011, and in December 2011, IPART announced that the rate peg to apply in the 2012/13 financial year will be 3.6%. Beyond 2013 TCorp has assessed a general benchmark for rates and annual charges to increase by mid-range LGCI annual increases of 3.0%
- Interest and investment revenue: annual return of 5.0%
- All other revenue items: the estimated annual CPI increase of 2.5%
- Employee costs: 3.5% (estimated CPI+1.0%)
- All other expenses: the estimated annual CPI increase of 2.5%

<u>Key Observations and Risks</u>

- All three scenarios assume retaining the current range of services.
- The adopted scenario is reliant on the approval of extension and new application of SRVs. If these are not approved then the scheduled capital works program and/or service levels will have to be reviewed.
- Rates and annual charges are forecast to increase by 3.9% in 2013 with the proposed SRVs increasing the annual increase to 6.8% in 2015. This is followed by a 0.5% decrease in 2016 and a 3.0% increase p.a. thereafter.
- User charges and fees are projected to increase by $0.5m in 2017 due to fees being received from a new child care centre. These fees are forecast in each subsequent year of the LTFP.
- Council has projected a gain from the disposal of assets of $0.1m p.a. in each year consistent with historical results.
- Employee costs are forecast to increase by 3.0% p.a., slightly below the TCorp benchmark.
- Materials and contracts expenses are forecast to decrease by 33.7% to $3.6m in 2013 before increasing at varying amounts and climbing to $5.2m by 2022. The materials and contracts costs decrease is due to less work on roads being forecast following the significant increase required to repair flood damaged roads and higher State road works.
- While taking the above comments into consideration, TCorp believes Council's key assumptions within the forecast are deemed to be reasonable.

4.5: Borrowing Capacity

In our view, if Council is successful with the SRV applications then they may have the capacity to undertake additional borrowings. Until the details of any approved SRVs are available we do not believe it to be considered prudent to recommend any additional borrowings.

4.6. Sustainability

General

As part of Council's CSP, the community was surveyed to ascertain what was most important to them in relation to increasing, maintaining or reducing current service levels. Over the course of two separate telephone surveys conducted in 2011 with random samples of residents, an online survey available on the Council website and meetings with community stakeholders, the underlying priority that was identified was an improvement of the road network.

In order to provide the additional resources to improve the road network, Council has identified an increase in the revenue base and/or a reallocation of resources as the available options. The reallocation of resources would come from the areas that have been identified by the community as not as important. An increase in the revenue base would be provided as proposed from the LTFP scenario 2 with the permanent extension of the existing SRV of 6.5% above the rate peg that currently expires in 2014 alongside a new SRV of a further 5.0% above the rate peg from 2015, combining to a 11.5% increase above the rate peg from 2015.

Financial

In the short to medium term, Council's financial position is weak._In considering the longer term financial Sustainability of the Council we make the following comments:

- Council's current LTFP shows operating surpluses will be achievable during the forecast period if the SRVs are approved as detailed above
- Operating grants make up a significant portion of Council's operating revenue. While no change is anticipated, any adverse change to this revenue source would negatively impact Council's ability to be Sustainable when continuing to provide the existing service levels
- Renewal capital expenditure is forecast to be above what is required to maintain assets at an acceptable standard over the forecast period
- Council has a relatively low Infrastructure Backlog and therefore has a relatively low funding requirement and Council should be able to improve their assets to a satisfactory standard and reduce the Infrastructure Backlog to zero
- If the BHP Billiton Caroona coal mine becomes operational in 2016 then Council will be boosted by additional rates revenue that should increase their ability to remain Sustainable in the long term
- Any variation below the proposed SRVs will lead to Council needing to investigate further options to increase revenues, rationalise assets or reduce expenses if they are to be Sustainable in the long term.

Section 5 Benchmarking and Comparisons with Other Councils

Each council's performance has been assessed against ten key benchmark ratios. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 10. There are 25 councils in this group and at the time of preparing this report, we have data for all of these councils.

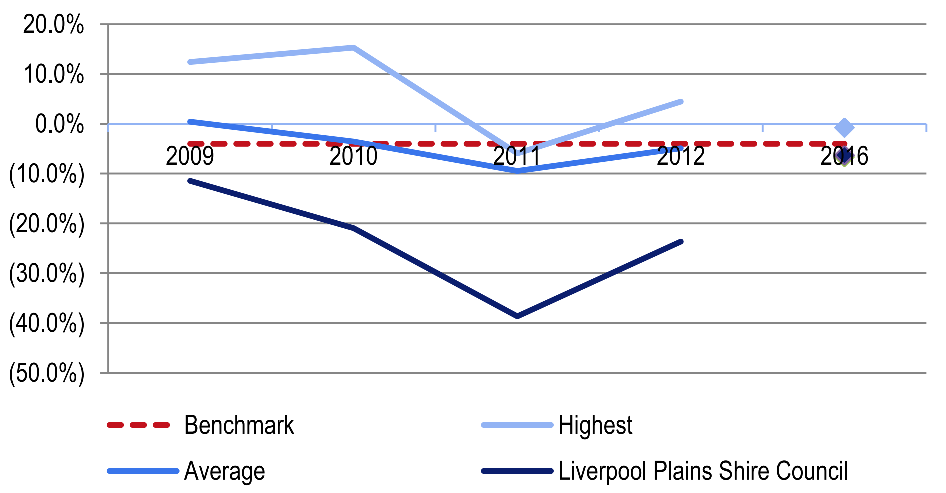
In Figure 14 to Figure 23, the graphs compare the historical performance of Council with the benchmark for that ratio, with the average for the Group, with the highest performance (or lowest performance in the case of the Infrastructure Backlog Ratio where a low ratio is an indicator of strong performance), and with the forecast position of the Council as at 2016 (as per Council's LTFP). Figures 21 to Figure 23 do not include the 2016 forecast position as those numbers are not available.

Where no highest line is shown on the graph, this means that Council is the best performer in its group for that ratio. For the Interest Cover Ratio and Debt Service Cover Ratio, we have excluded from the calculations, councils with very high ratios which are a result of low debt levels that skew the ratios.

Please note that this section of the report has been prepared separately to the LIRS financial assessment and includes the latest information at the time of preparation which includes data from the 2012 financial year.

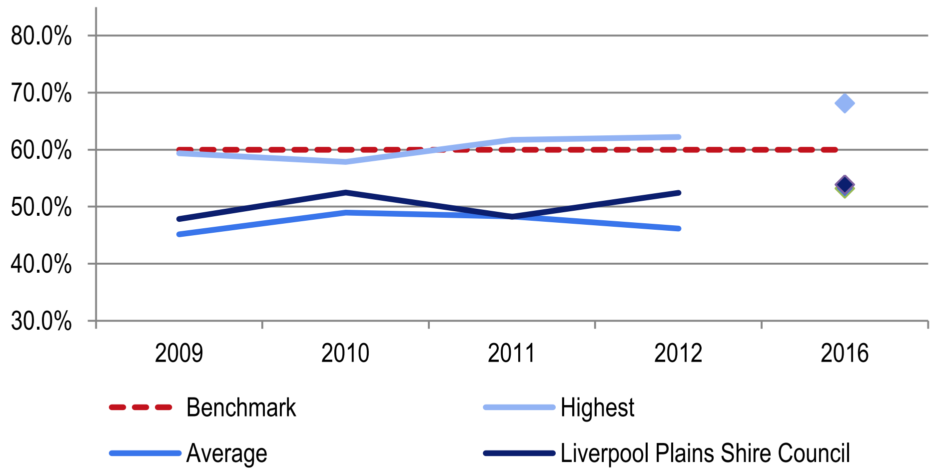
Financial Flexibility

Figure 14 - Operating Ratio Comparison



Council's Operating Ratio significantly underperformed against benchmark and group average over the review period. Council's Ratio forecast appears to improve in the medium term to just below benchmark levels.

Figure 15- Own Source Operating Revenue Ratio Comparison

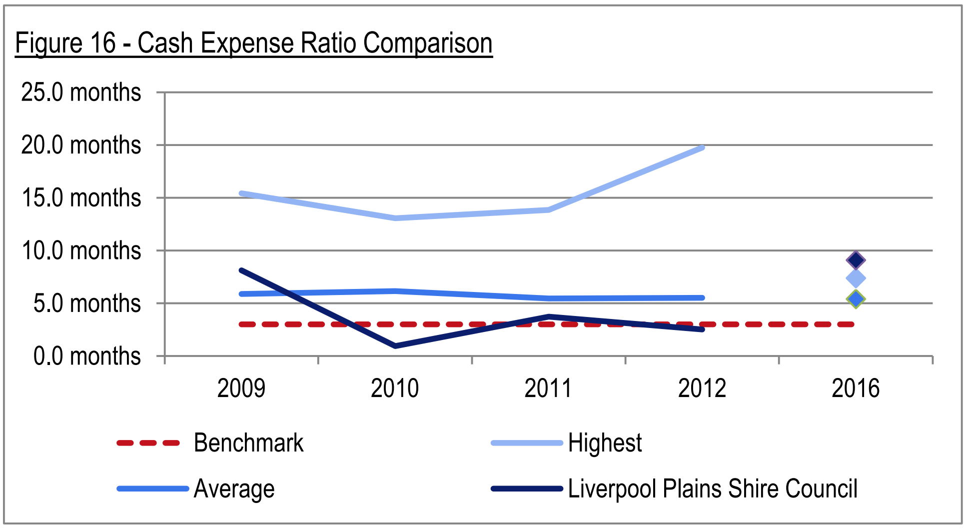


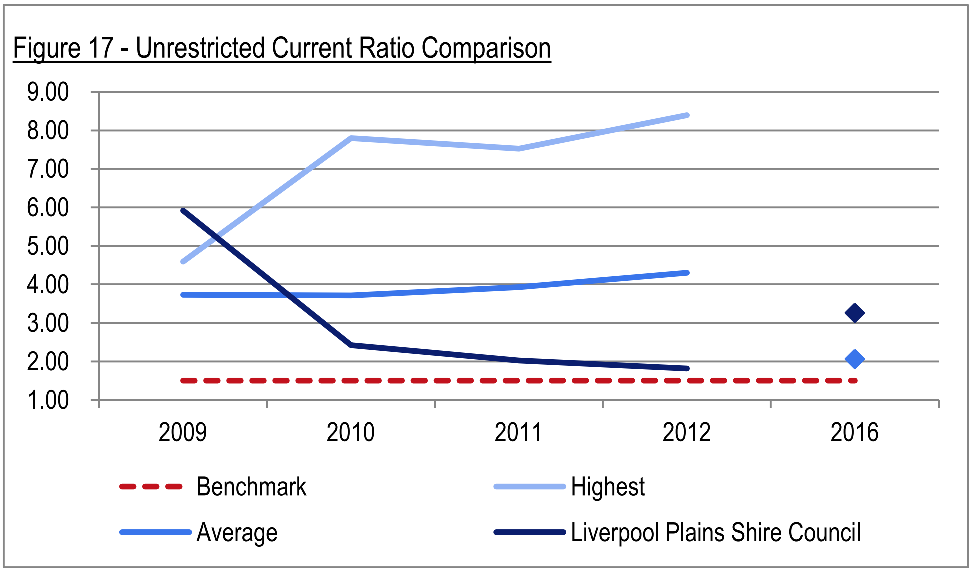
Council's Own Source Operating Revenue Ratio consistently underperformed against benchmark over the review period. The forecast for Council's Own Source Operating Revenue is forecast below benchmark levels in the medium term.

Overall, Council's financial flexibility was weak over the review period with a weak, but improving medium term outlook.

New South Wales Treasury Corporation

Liquidity





Council's Cash Expense Ratio fell in 2010 to below benchmark and group average levels before improving in 2011. The medium term forecast for Council's Cash Expense Ratio is strong. Council's Unrestricted Current Ratio performed above benchmark over the review period.

Overall, Council's liquidity showed mixed results over the review period although the Cash Expense Ratio does not take into account funds classified as investments that Council has correctly utilised to improve their return on investment. Medium term forecasts for both liquidity Ratios appear sound.

Debt Servicing

Figure 18- Debt Service Cover Ratio Comparison

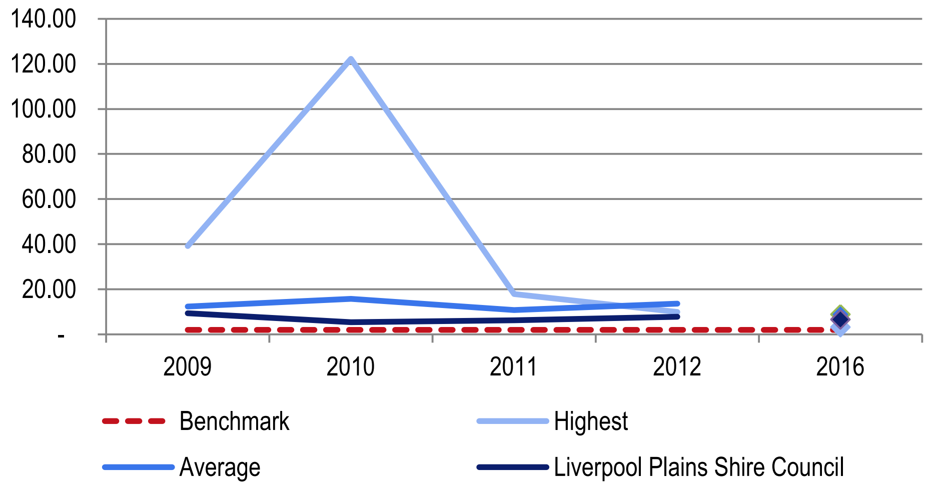
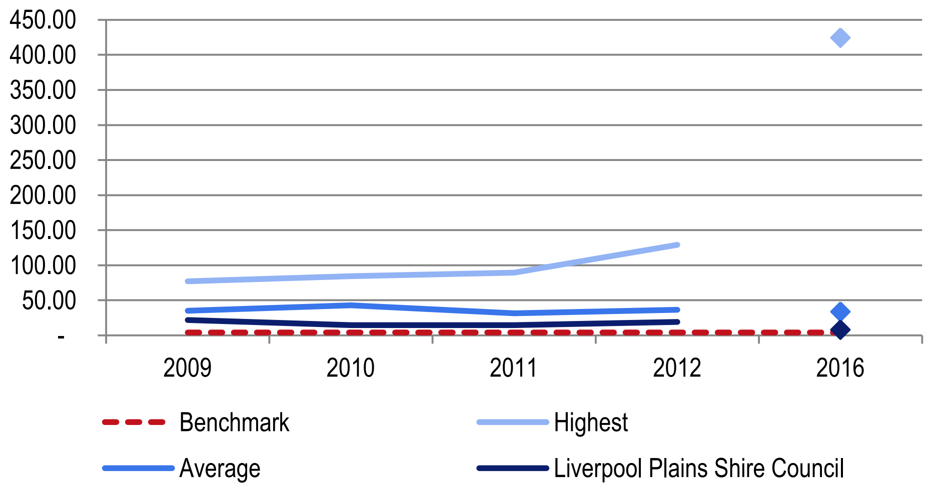
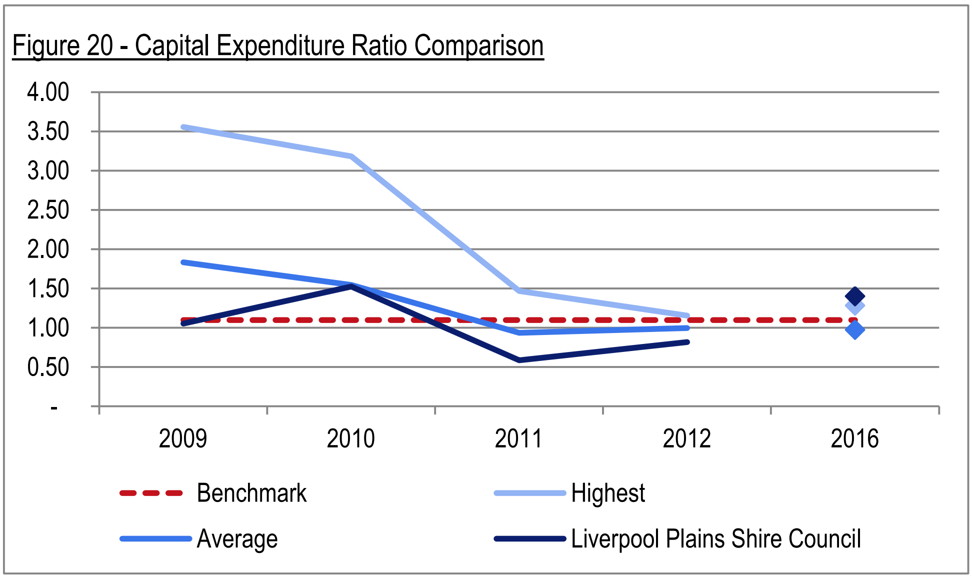


Figure 19 - Interest Cover Ratio Comparison



Council' debt servicing capacity was strong over the review period as indicated by Council's Debt Service Cover Ratio and Interest Cover Ratio outperforming benchmark over the review period.

Asset Renewal and Capital Works



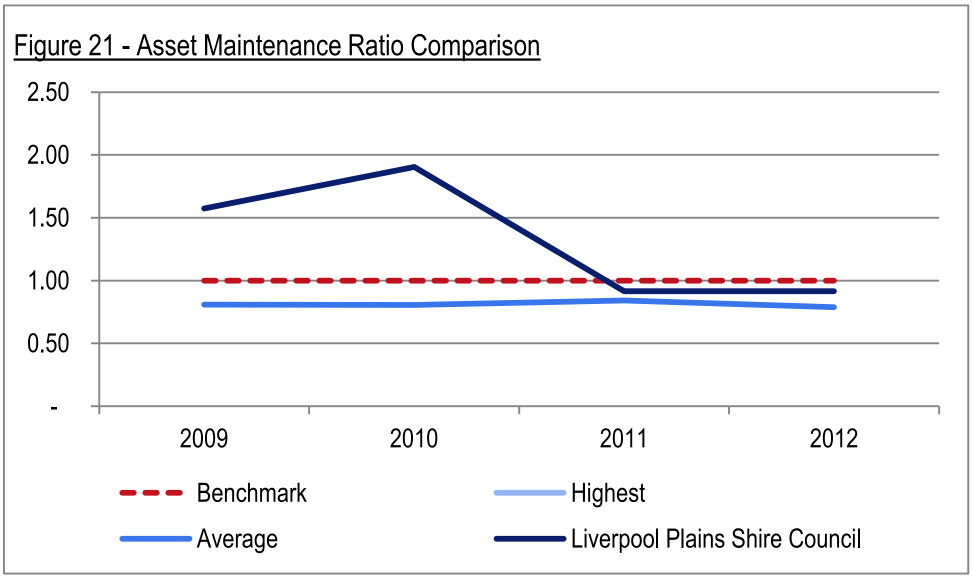


Figure 22 - Infrastructure Backlog Ratio Comparison

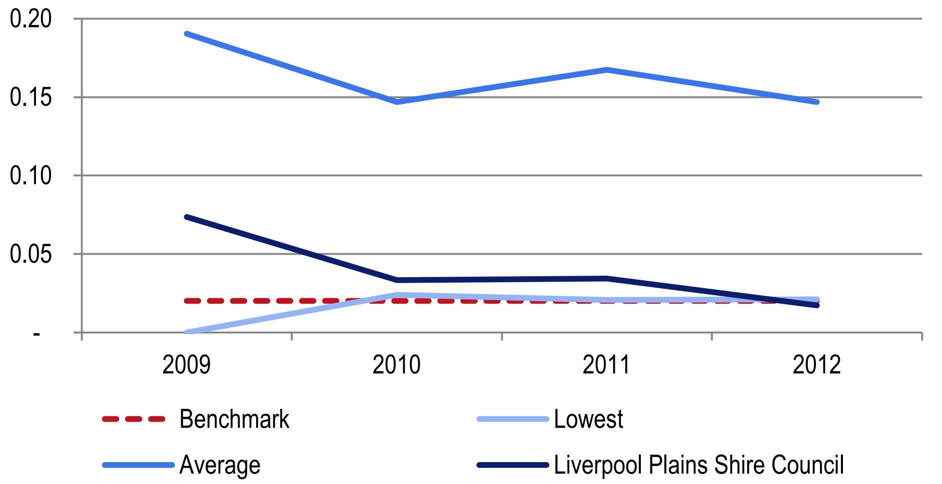
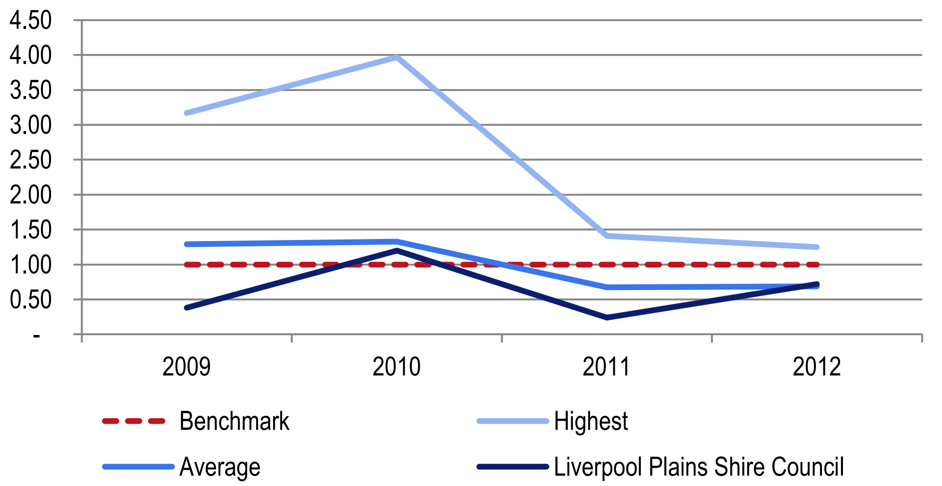


Figure 23 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog underperformed in 2009, but steadily improved to just below benchmark levels in 2012. Council's Asset Maintenance Ratio and Building and Infrastructure Asset Renewal Ratio have underperformed against benchmark from 2011 onwards. Council's Capital Expenditure Ratio performed strongly in 2010 before falling to below benchmark levels in 2011 and 2012. Council's medium term forecast for Capital Expenditure Ratio appears moderate.

Section 6 Conclusion and Recommendations

Based on our review of both the historic financial information and the 10 year financial forecast within Council's LTFP we consider Council to be marginally sustainable in the short term. In respect of Council's long term Sustainability we believe this to be uncertain at the present time as it is highly dependent on the approval of its proposed SRV applications.

We base our recommendation on the following key points:

- Council has posted consecutive operating deficits in each year of the review period when capital grants and contributions are excluded
- Council has sufficient cashflow and liquidity to maintain its operations but service levels and/or infrastructure assets may deteriorate as operating deficits are forecast to continue throughout the LTFP
- The Sustainability of Council continuing to operate at current service levels is reliant on the successful application of the proposed SRV and extension of the existing SRV that are included within the LTFP adopted scenario. Any amendments to these proposed SRVs will result in Council having to review service levels and/or the scheduled capital works program
- Council will remain dependent on grants and contributions as a significant revenue source and would not be Sustainable at current service levels without the continued provision of these revenues

However we would also recommend that the following points be considered:

- If Council is successful with the SRVs as stated within the adopted LTFP scenario they will improve their financial operating position and achieve operating surpluses within the next 10 year period, improving towards a Sustainable future
- Council has a relatively low level of Infrastructure Backlog that should be able to be reduced to zero if the SRVs are approved as proposed

Appendix A Historical Financial Information Tables

Table 1- Income Statement

Income Statement ($'000s)	Year ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Revenue							
Rates and annual charges	8,760	8,401	7,815	6,700	4.3%	7.5%	16.6%
User charges and fees	3,633	3,840	3,960	4,079	(5.4%)	(3.0%)	(2.9%)
Interest and investment revenue	871	661	477	783	31.8%	38.6%	(39.1%)
Grants and contributions for operating purposes	5,546	6,470	4,286	5,622	(14.3%)	51.0%	(23.8%)
Other revenues	751	437	451	430	71.9%	(3.1%)	4.9%
Gain on the disposal of assets	122	91	0	408	34.1%	N/A	(100.0%)
Total revenue	**19,683**	**19,900**	**16,989**	**18,022**	**(1.1%)**	**17.1%**	**(5.7%)**
Expenses							
Employees	8,008	7,714	7,387	6,936	3.8%	4.4%	6.5%
Borrowing costs	203	211	180	190	(3.8%)	17.2%	(5.3%)
Materials and contract expenses	6,251	7,087	5,202	5,221	(11.8%)	36.2%	(0.4%)
Depreciation and amortisation	8,329	10,585	6,014	6,030	(21.3%)	76.0%	(0.3%)
Other expenses	1,540	1,993	1,724	1,708	(22.7%)	15.6%	0.9%
Loss on the disposal of assets	0	0	44	0	N/A	(100.0%)	N/A
Total expenses	**24,331**	**27,590**	**20,551**	**20,085**	**(11.8%)**	**34.3%**	**2.3%**
Operating result	**(4,648)**	**(7,690)**	**(3,562)**	**(2,063)**	**39.6%**	**(115.9%)**	**(72.7%)**

Table 2 - Items excluded from Income Statement

Excluded items ($'000s)				
	2012	2011	2010	2009
Grants and contributions for capital purposes	3,962	5,470	5,456	4,524

Table 3 - Balance Sheet

Balance Sheet ($'000s)	Year Ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Current assets							
Cash and equivalents	3,311	5,223	1,133	9,376	(36.6%)	361.0%	(87.9%)
Investments	7,000	5,750	7,750	0	21.7%	(25.8%)	N/A
Receivables	3,788	3,753	3,250	3,398	0.9%	15.5%	(4.4%)
Inventories	1,084	574	835	1,007	88.9%	(31.3%)	(17.1%)
Other	30	0	0	0	N/A	N/A	N/A
Total current assets	15,213	15,300	12,968	13,781	(0.6%)	18.0%	(5.9%)
Non-current assets							
Investments	4,500	1,000	0	0	350.0%	N/A	N/A
Receivables	0	56	77	98	(100.0%)	(27.3%)	(21.4%)
Inventories	0	800	1,100	1,100	(100.0%)	(27.3%)	0.0%
Infrastructure, property, plant & equipment	528,437	507,017	508,543	143,574	4.2%	(0.3%)	254.2%
Total non-current assets	532,937	508,873	509,720	144,772	4.7%	(0.2%)	252.1%
Total assets	**548,150**	**524,173**	**522,688**	**158,553**	**4.6%**	**0.3%**	**229.7%**
Current liabilities							
Payables	875	1,319	1,338	755	(33.7%)	(1.4%)	77.2%
Borrowings	276	284	262	303	(2.8%)	8.4%	(13.5%)
Provisions	2,399	1,933	1,665	1,571	24.1%	16.1%	6.0%
Total current liabilities	3,550	3,536	3,265	2,629	0.4%	8.3%	24.2%
Non-current liabilities							
Borrowings	3,287	1,561	765	1,031	110.6%	104.1%	(25.8%)
Provisions	1,419	2,219	2,211	2,077	(36.1%)	0.4%	6.5%
Total non-current liabilities	4,706	3,780	2,976	3,108	24.5%	27.0%	(4.2%)
Total liabilities	**8,256**	**7,316**	**6,241**	**5,737**	**12.8%**	**17.2%**	**8.8%**
Net assets	**539,894**	**516,857**	**516,447**	**152,816**	**4.5%**	**0.1%**	**238.0%**

Table 4-Cashflow

Cashflow Statement ($'000s)	Year ended 30 June			
	2012	**2011**	**2010**	**2009**
Cashflows from operating activities	7,284	7,967	8,650	6,370
Cashflows from investing activities	(10,902)	(4,695)	(16,586)	(6,861)
Proceeds from borrowings and advances	2,000	1,100	0	0
Repayment of borrowings and advances	(294)	(282)	(307)	(251)
Cashflows from financing activities	1,706	818	(307)	(251)
Net increase/(decrease) in cash and equivalents	**(1,912)**	**4,090**	**(8,243)**	**(742)**
Cash and equivalents	3,311	5,223	1,133	9,376

New South Wales
Treasury Corporation

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 with representatives from the Department of Premier and Cabinet and NSW Treasury.

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

Division of Local Government (DLG)

DLG is a division of the NSW Department of Premier and Cabinet and is responsible for local government across NSW. DLG'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 DLG has a policy, legislative, investigative and program focus in matters ranging from local government finance, infrastructure, governance, performance, collaboration and community engagement. DLG 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.

[1] IPART "Revenue Framework for Local Government" December 2009 p.83

[2] DLG "Recognition of certain assets at fair value" March 2009

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.

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).

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.

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.