New South Wales
Treasury Corporation

Liverpool City Council

Financial Assessment and Benchmarking Report

22 March 2013

Prepared by NSW Treasury Corporation as part of the Local Infrastructure Renewal Scheme

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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 as part of the Local Infrastructure Renewal Scheme (LIRS) announced by the NSW Government.

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.

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 whether the Council has reasonable capacity, based on the information provided to TCorp, to take on additional borrowings within prudent risk parameters and the limits of its financial projections.

The report has been prepared for Liverpool City Council, the LIRS Assessment Panel and the DLG. TCorp shall not be liable to Liverpool City 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 City Council's (the Council) financial capacity and its ability to undertake additional borrowings. 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.

The report is primarily focused on the financial capacity of the Council to undertake additional borrowings as part of the Local Infrastructure Renewal Scheme (LIRS).

Council has made two LIRS applications. One application is for the renewal of the Liverpool City Library Mechanical Services for $1.4m and the other is for Road Pavement Reconstruction and Rehabilitation for $8.19m. Both loans are to be repaid over 10 years.

TCorp's approach has been to:

- Review the most recent three years of Council's consolidated financial results
- Conduct a detailed review of the Council's 10 year financial forecasts. The review of the financial forecasts focused on the particular Council fund that was undertaking the proposed debt commitment. As the Council operates only one fund we focused our review on this General Fund

The Council's finances have been well managed over the review period based on the following observations:

- Council's underlying cash result (measured using EBITDA) has been increasing over the three year period
- Council's Interest Cover Ratio and DSCR have been well above benchmark over the three year period
- Council's Unrestricted Current Ratio has been above benchmark for the past two years indicating Council had sufficient liquidity

Council's reported infrastructure backlog of $262.8m in 2011 represents 24.3% of its infrastructure asset value of $1,081.9m. Other observations include:

- Council's infrastructure backlog has increased by 46.1% ($82.9m) since 2009
- Public road assets made up 55.0% of the infrastructure backlog and is being partly addressed in one of the two LIRS projects
- Council is not investing sufficient funds on asset renewals to maintain their assets in their current condition and this may cause the backlog to increase

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

- Council's Cash Expense Ratio is above benchmark indicating Council will have sufficient liquidity throughout the next 10 years to service short term liabilities and currently scheduled capital expenditure
- Council's own source revenue is above benchmark for the entire forecast period

In our view, the Council has the capacity to undertake the combined additional borrowings of $9.6m for the LIRS project. This is based on the following analysis:

- The DSCR remains above the benchmark of 2.00x in nine of the 10 years forecast
- The Interest Cover Ratio is above the benchmark of 4.00x for the entire forecast period

TCorp has conducted Benchmarking analysis to compare the Council's key ratios with other councils in DLG Group 7. The key observations are:

- Council's financial flexibility showed varied results, with Council's Operating Ratio outperforming benchmark and group average while Council's Own Source Operating Revenue Ratio result was generally below benchmark and the group average over the review period
- Council was in a sound liquidity position as indicated by a comparatively strong Cash Expense Ratio and above benchmark Unrestricted Current Ratio. Council's liquidity forecast in the medium term appears sound
- Council's debt servicing levels outperformed benchmark and group average over the review period
- Council's Infrastructure Backlog is high compared to the group average and benchmark
- Council's Capital Expenditure Ratio performed strongly over the review period. Council's Asset Maintenance Ratio remained above the group average but was marginally below benchmark level in 2010 and 2012. Council's Building and Infrastructure Ratio underperformed against benchmark in each year but performed marginally better than the group average in 2009, 2011 and 2012

Section 2 Introduction

2.1: Purpose of Report

This report provides the Council with an independent assessment of their financial capacity 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.

The report is to be provided to the LIRS Assessment Panel for its use in considering applications received under the LIRS.

The key areas focused on are:

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

2.2: Scope and Methodology

TCorp's approach was to:

- Review the most recent three 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 particular Council fund that was undertaking the proposed debt commitment. For example where a project is being funded from the General fund we focussed our review on the General fund
- Identify significant changes to future financial forecasts from existing financial performance and highlight risks associated with such forecasts
- 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
- Conduct a high level review of the Council's IP&R documents for factors which could impact the Council's financial capacity and performance

In undertaking its work, TCorp relied on:

- Council's audited financial statements (2008/09 to 2010/11)
- Council's financial forecast model
- Council's IP&R documents
- Discussions with Council officers
- Council's submissions to the DLG as part of their LIRS application
- Other publicly available information such as information published on the IPART website

Benchmark Ratios

In conducting our review of the Councils' financial performance and forecasts 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
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 City Council LGA	
Locality and Size	
Locality	Sydney Outer
Area	306km²
DLG Group No.	7
Demographics	
Population	180,143
% under 20	31%
% between 20 and 59	55%
% over 60	14%
Expected population in 2021	230,900
Operations	
Number of employees (FTE)	613
Annual revenue	$195m
Infrastructure	
Roads	809km
Bridges	97
Infrastructure backlog value	$263m
Total infrastructure value	$1,089m

Liverpool City Council Local Government Area (LGA) is located approximately 30km south west of the Sydney CBD. The city centre has been designated as one of three regional cities in metropolitan Sydney. It is one of the most culturally diverse cities in NSW, with one in three residents born overseas.

The main economic industries within the LGA are manufacturing, health care and social assistance, retail, education and training. Of the estimated 50,000 people working within the LGA, approximately 60% travel into the LGA to work.

Liverpool LGA's current population of 180,143 is expected to increase by 28% to 230,900 by 2021. Council had 613 full-time equivalent employees at the end of 2011.

2.4: LIRS Application

Council has made two LIRS applications.

Project 1: Liverpool City Library, Mechanical Services Renewal.

Description: The existing air conditioning system at Liverpool City Library is over 17 years old and coming to the end of its life cycle. In 2011 a one-off minor repair air balancing and re-calibration service was carried out costing approximately $0.3m with the intent to improve comfort and the short term extension in the life of the system. A renewal is required to limit the risk of system collapse. Major replacement work is proposed for January 2013

Amount of loan facility: $1.4m

Term of loan facility: 10 years

Project 2: Road Pavement Reconstruction and Rehabilitation

Description: The proposal involves the reconstruction of a number of Council's rapidly deteriorating local and regional road pavements. These roads have reached the end of their serviceable life and are generally in poor to very poor condition. They have already been identified in Council's 10 year capital works program. These roads are currently being patched until sufficient levels of funding become available and for some of these roads, extensive and regular maintenance patching is required due to the advanced state of deterioration.

Amount of loan facility: $8.19m

Term of loan facility: 10 years

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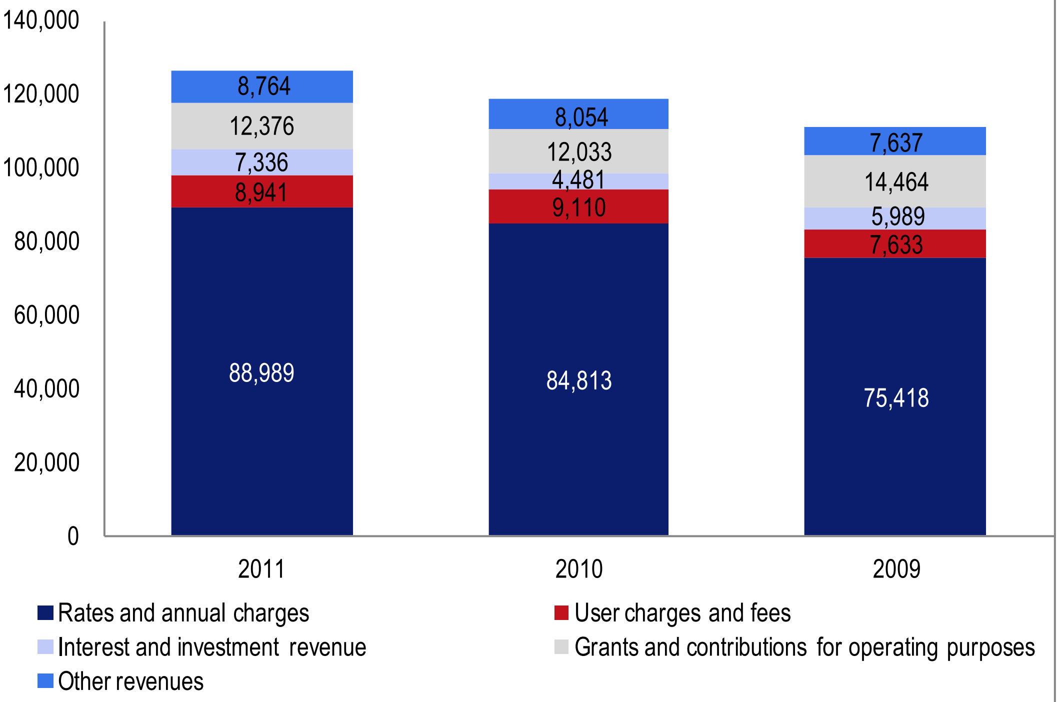
Section 3 Review of Financial Performance and Position

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 2010/11 ($'000s)



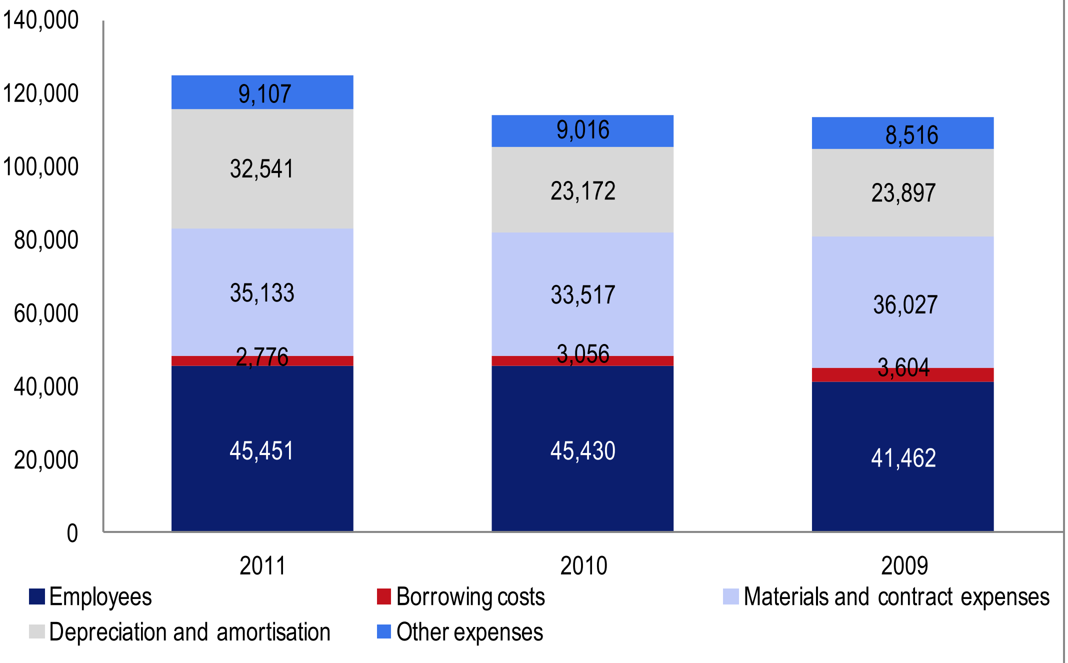
Key Observations

- Total operating revenues have increased by $15.3m over the period, representing an annual increase of 6.9% p.a.
- Rates and annual charges remain the largest revenue source at 70.4% of the total revenue in 2011. Rates and annual charges increased by 4.9% in 2011 and 12.5% in 2010. In 2010 Council were approved a Special Rate Variation (SRV) of 12.5% (including rate peg) the purpose of which was to increase Council's maintenance and capital works budget. This SRV was approved on the basis that Council will reduce its general income for the 2014/2015 financial year by $5.6m plus the equivalent cumulative proportion of this increase.
- User fees and charges revenue increased by 19.4% ($1.5m) in 2010 which was driven by a $1.3m increase in planning and building regulation fees. The marginal decrease in 2011 is related to the same category. Child care fees and parking fees also generate significant revenue for Council at $2.3m and $1.2m respectively in 2011.
- Other revenues increased each year due to an increase in parking fines revenue from $1.0m in 2009 to $2.2m in 2011. Council received $25.0m insurance following a successful claim for the fire that destroyed Council's administration building. This revenue has been excluded from the graph above.

- Operating grants and contributions spiked in 2009 due to a $1.6m increase in the financial assistance grant compared to 2008. This was reduced to $5.6m in 2010.

3.2: Expenses

Figure 2 - Expenses for 2008/09 to 2010/11 ($'000s)



Key Observations

- Total expenses have increased by $14.8m, representing an annual increase of 6.5% p.a.
- Employee costs remained static between 2010 and 2011 following an increase of 9.6% in 2010. The 2010 increase was driven by increased superannuation and workers compensation insurance.
- Materials and contract expenses increased by 4.8% ($1.6m) in 2011 due to increases in operating leases, domestic waste contracts and legal fees.
  Materials and contracts expenses for 2011 also included $3.3m in expenses accrued from the restoration of the Council's administration building. This revenue has been excluded from the graph above.
- Depreciation increased by 40.4% in 2011 following the 2010 Asset Revaluations of roads, bridges, footpaths and stormwater infrastructure assets. The $16.8m write-off of the old administration building following the fire has again been excluded from the graph above.
- Council's largest other expenses in 2011 were $2.4m for street lighting, $1.6m in insurance and $1.4m for the fire brigade levy.

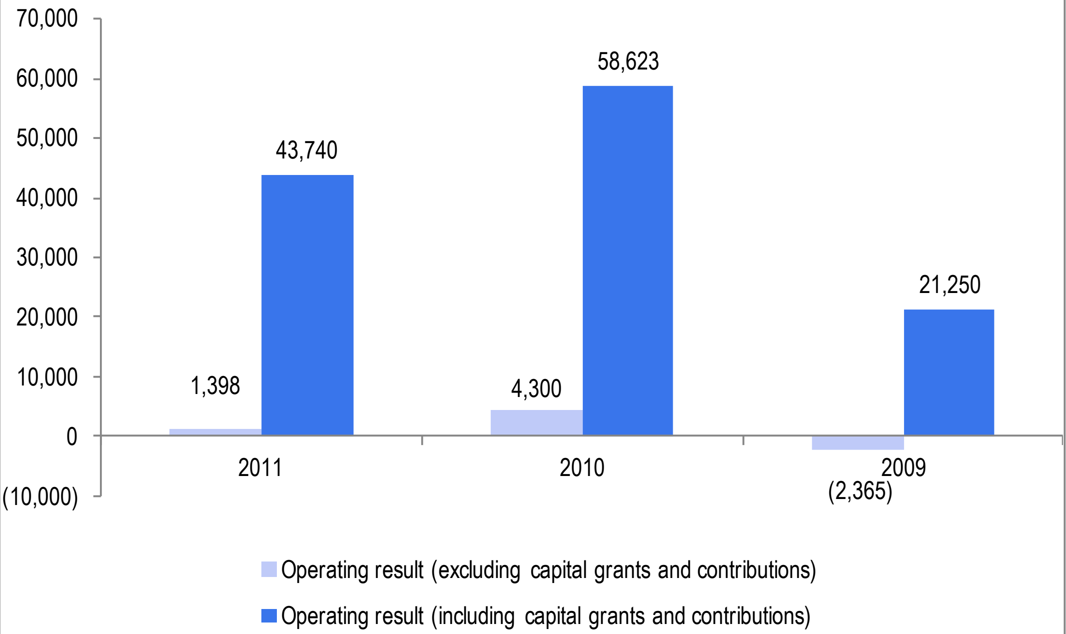
3.3: Operating Results

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 2010/11 ($'000s)



Key Observations

- Council's operating result (excluding capital grants and contributions) has fluctuated over the period and has reported a surplus in 2010 and 2011. The increase in materials and contract expenses and depreciation in 2011 contributed to the weaker result when compared to 2010.
- Council expenses include a large non-cash depreciation expense, ($32.5m in 2011), which has increased substantially by $18.6m over the past three years 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.
- Council have received considerable capital grants and contributions over the period, specifically in 2010 and 2011. This was due to the receipt of Section 94 contributions and other contributions received from external bodies. In 2011 these other contributions related to roads reserves dedicated by developers and in 2010 they related to land under roads also received from developers.

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3.4: Financial Management Indicators

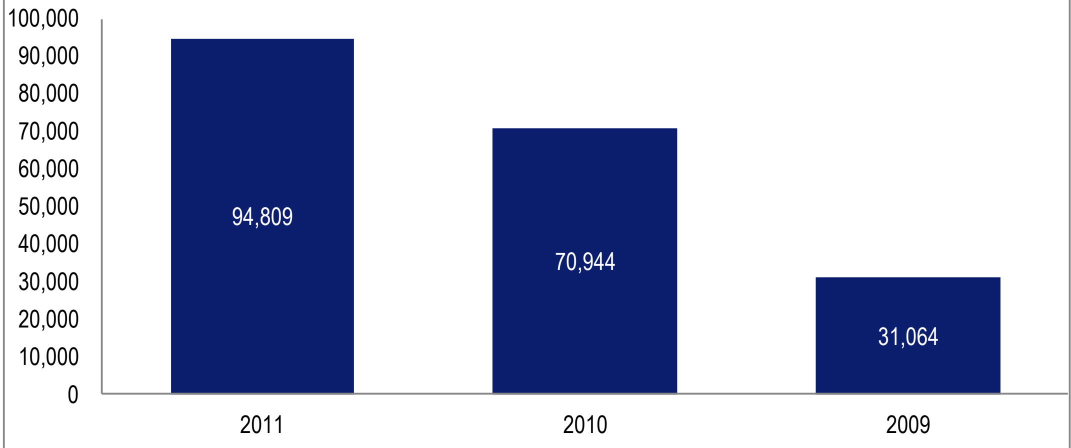
Performance Indicators	Year ended 30 June		
	2011	2010	2009
EBITDA ($'000s)	33,401	30,528	25,136
Operating Ratio	(1.5%)	3.6%	(2.1%)
Interest Cover Ratio	12.03x	9.99x	6.97x
Debt Service Cover Ratio (DSCR)	3.71x	3.52x	3.01x
Unrestricted Current Ratio	1.81x	1.70x	1.29x
Cash Expense Ratio	12.2 months	9.7 months	4.3 months
Own Source Operating Revenue Ratio	58.0%	54.3%	61.6%
Net assets ($'000s)	1,756,981	4,170,012	3,559,364

Key Observations

- Council's underlying performance (measured by EBITDA) has improved in each year.
- The Operating Ratio was above benchmark in all three years. The increased depreciation in 2011 caused the ratio to decrease from the 2010 result.
- Councils DSCR and Interest Cover Ratio were above their respective benchmarks in all three years indicating Council have flexibility in regard to carrying more debt. The improved EBITDA and the reduction in outstanding borrowings has enabled the Interest Cover Ratio and DSCR to improve each year.
- Council has total borrowings of $46.6m in 2011 which represents 2.7% of Net Assets.
- The Unrestricted Current Ratio has also improved each year with the ratio above benchmark in 2010 and 2011. The improving ratio is due to an increase in unrestricted current assets over the period.
- The Cash Expense Ratio was well above benchmark for all three years indicating Council have sound liquidity.
- The Own Source Operating Revenue Ratio has fallen below the benchmark in 2010 and 2011. The decrease in this ratio corresponds with the large capital contributions received in these years. In 2010 and 2011 Council had $19.9m and $16.9m respectively in Capital contributions relating to Land under roads received from developers.
- Net Assets decreased by $2,413.0m in 2011 following an increase of $610.6m in 2010 due to the Asset Revaluations process. The decrease in 2011 was due to a change in Councils accounting policy for Community Land valuation. 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. When Asset Revaluations are excluded Council has increased the IPP&E asset base over the review period with asset purchases being greater than the combined value of disposed assets and depreciation by $108.3m.

3.5: Statement of Cashflows

Figure 4 - Cash and Cash Equivalents for 2008/09 to 2010/11 ($'000s)



Key Observations

- Council's cash and cash equivalents have increased substantially over the period while investments have declined at a lesser rate.
- Overall cash and cash equivalents, and investments have increased from $52.7m in 2009 to $106.2m in 2011. Of the $106.2m, $82.5m is externally restricted, $22.8m is internally restricted and $0.9m is unrestricted.
- Of the $11.4m in Council's investment securities $8.5m is invested in NCD's and FRN's and $2.8m is held in mortgage backed securities.
- The levels of cash and investments combined along with the Unrestricted Current Ratio highlights an adequate liquidity position with Council likely to have the capacity to manage most irregular financial events that may impact the Council's cash position.

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 2010/11 ($'000s)

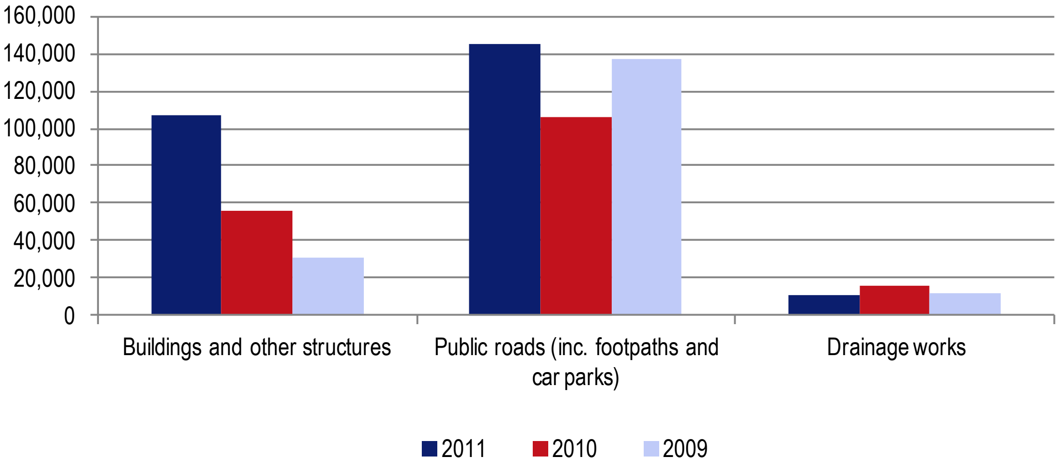
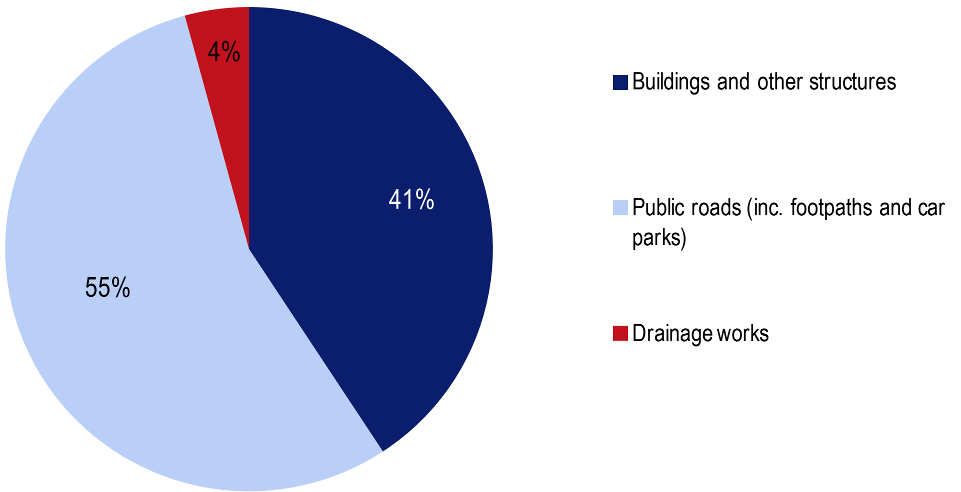


Figure 6 - Infrastructure Backlog Composition for 2010/11



Council reported $262.8m in infrastructure backlog in 2011, an increase of $83.9m since 2010 due to the Asset Revaluations. 55.0% ($144.6m) relates to public roads. Council is seeking to address part of their roads infrastructure backlog in one of their LIRS projects.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June		
	2011	2010	2009
Bring to satisfactory standard ($'000s)	262,787	178,880	179,820
Required annual maintenance ($'000s)	25,440	26,845	27,067
Actual annual maintenance ($'000s)	29,464	22,058	27,456
Total value of infrastructure assets ($'000s)	1,081,942	1,110,723	565,963
Total assets ($'000s)	1,833,050	4,251,313	3,636,795
Building and Infrastructure Backlog Ratio	0.24x	0.16x	0.32x
Asset Maintenance Ratio	1.16x	0.82x	1.01x
Building and Infrastructure Asset Renewals Ratio	0.67x	0.76x	0.98x
Capital Expenditure Ratio	1.52x	2.33x	3.18x

The Infrastructure Backlog Ratio has fluctuated since 2009 due to the changes in the total value of infrastructure assets following the Asset Revaluations. At 0.24x in 2011 the ratio is well below the benchmark of 0.02x, and will require a long term strategy in order to reduce the backlog close to the benchmark.

The Asset Maintenance Ratio has been near the benchmark of 1.0x each year.

The Building and Infrastructure Asset Renewals Ratio was below benchmark in all three years and is decreasing.

The Capital Expenditure Ratio which takes into account capital expenditure which improves performance or capacity has been above the benchmark in all three years.

Council currently have an SRV in place until 2014 the funds from which are to be used to increase their maintenance and capital works budgets.
Council completed their Asset Management Plan (AMP) for all infrastructure assets in April 2011 and as a result have a suite of strategic planning documents to guide and manage Councils infrastructure assets. The plans were based on asset data available at the time however Council also have an ongoing program of asset surveys as a basis for future reviews of the AMP.

Council have advised in their Asset Management Plan that they will continue to direct any operating surplus funds towards financing additional capital works and will continue to actively review its property portfolio to identify potential surplus assets and potential income generating activities that can be used to finance additional capital works.

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.

Capital Program ($'000s)	Year ended 30 June		
	2011	2010	2009
New capital works	33,669	13,325	23,201
Replacement/refurbishment of existing assets	22,967	20,713	46,805
Total	**56,636**	**34,038**	**70,006**

Capital Works increased by $19.8m due to the acquisition of 33 Moore Street which is the replacement of Councils administration building following a fire in 2010.

In 2011 Council spent a total of $12.6 million repairing and maintaining roads, which included road pavement renewal and rehabilitation works to a value of over $9.0m. Major intersections at North Liverpool Road, Green Valley and Governor Macquarie Drive, Chipping Norton were reconstructed and widened at a cost of over $3.0m. Council received 8km of new roads during the year as a result of new subdivisions.

Flood mitigation, creek rehabilitation and bank stabilisation works were also completed along Brickmakers Creek to improve flow capacities and mitigate flooding within northern parts of the city centre. More than 4.5km of the piped drainage system was relined and patched. The drainage system was upgraded at Clinches Pond to include a gross pollutant trap to remove pollutants from water entering the pond.

Council also spent almost $6.0m on parks and recreation facilities.

Major Future Capital Works Projects

First Avenue Site Upgrades	$3.3m
Peter Miller Reserve Cedar Road Site Improvements	$2.6m
Kurrajong Road Extension	$2.5m
Cabramatta Creek Bridge Upgrade	$3.7m
Flood Detention Basins – Cecil Hills, Strzelecki Drive and Carnes Hill	$1.7m

3.7: Specific Risks to Council

- Climate Change: With its extensive portfolio of natural and built assets, and serving a growing population, climate change poses a major strategic risk for Liverpool City Council, with implications for infrastructure assets, operations, service delivery and the welfare of residents. Council have completed their 2012 Climate Change Risk Assessment which identifies potential risks to Council's assets, operations and stakeholders arising from climate extremes. The risks have been assessed for their likelihood and consequences and ranked in priority order. Council's Climate Change Risk Assessment is a precursor to preparing a Climate Change Adaptation Plan that lists actions to mitigate these risks.
- Liverpool has an unemployment rate which is not significantly different than the Sydney average. That is, it does not have a general unemployment problem however unemployment is not distributed evenly across the population and is worse in the case of youth and recent immigrants. Council are working with TAFE to provide training with a focus on youth which should assist with youth unemployment.
- Council are also focusing on the economic viability of Council's small businesses. 90% of businesses in Liverpool City are classified as small business and Council recognise that it is important to maintain these businesses and encourage their expansion.
- There are more families in mortgage and rental stress in Liverpool than in other areas of Sydney. People on low incomes in the private rental market find it most difficult to secure affordable housing. Council has addressed this by rezoning areas for more medium and high density housing, like apartments and townhouses, so that different priced housing is available for families in Liverpool.
- Transport. Just over 11% of people in Liverpool travel to work using public transport compared to almost 18% in Sydney. As such, car parking, congestion and maintenance of the road system is of concern to the community, particularly within the City Centre. It takes 54 minutes to get to Central from Liverpool station by train in peak hour. Passenger numbers on the bus transitway to Parramatta has grown considerably since 2002 and it is now the highest frequency, single bus route in the South West. People with disabilities, young people, older people and people in the outer areas of Liverpool find it most difficult to access adequate transport in Liverpool. In the more remote areas of Liverpool LGA it is harder to get to places without a car as public transport is not practical.

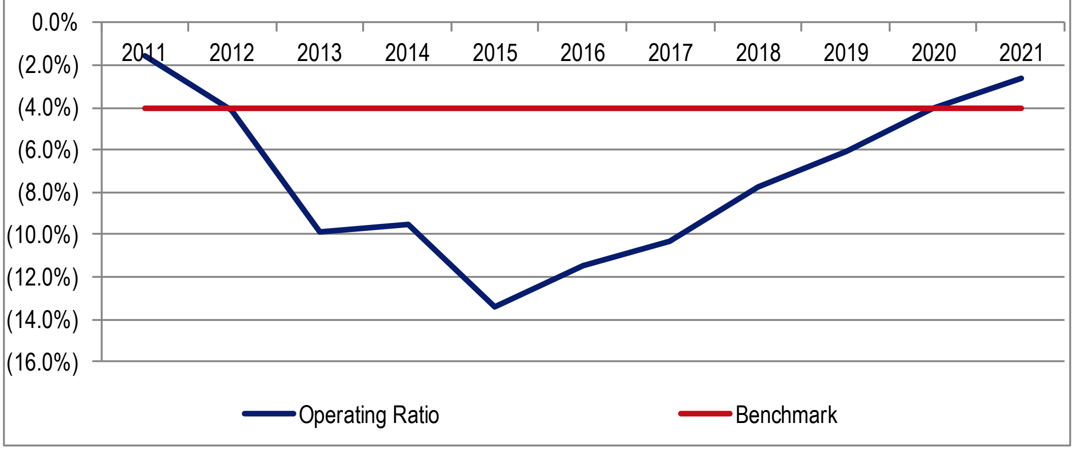
Section 4 Review of Financial Forecasts

The financial forecast model shows the projected financial statements and assumptions for the next 10 years. The model includes the $9.6m loan without any LIRS subsidy.

As Council only operates one General Fund our financial analysis is focused solely upon this Fund.

4.1: Operating Results

Figure 7- Operating Ratio



Council's operating ratio (excluding capital grants and contributions) is below benchmark in nine of the 10 years forecast. The decrease in 2013 is driven by a $5.5m increase in materials and contracts expenses due to new initiatives in 2013 which include sports amenities maintenance and road pavement assessment, building maintenance and domestic waste legal contingencies relating to the new domestic waste contract.

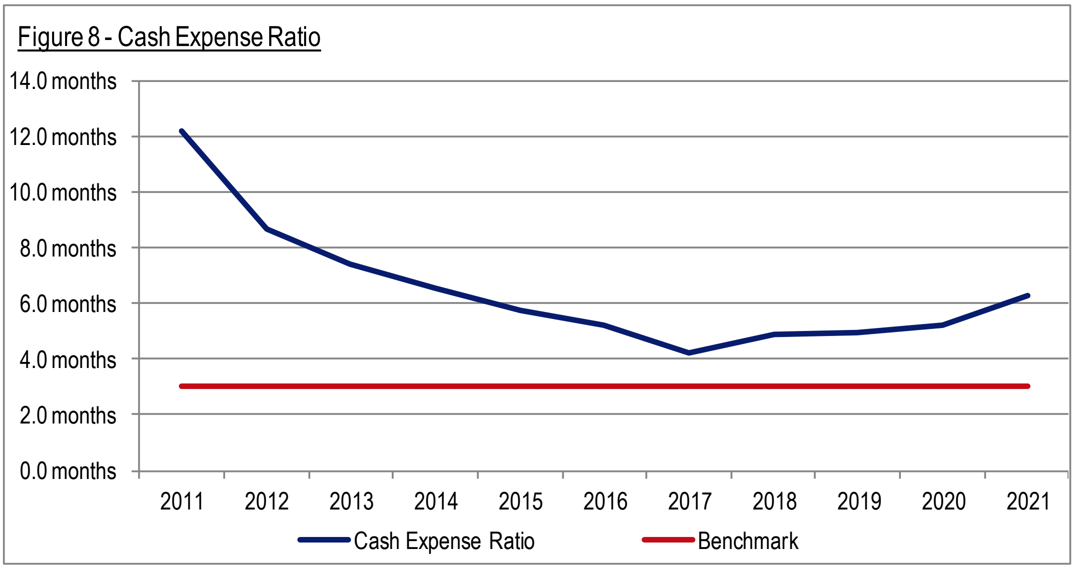
In 2015 the decrease in rates in accordance with the existing IPART SRV approval is adversely affecting this ratio.

Council have land development in progress and expect that 14,800 new lots will be released over the 10 year period. The increase in revenue is in line with the expected new lots to be released each year which increases over the forecast period causing the ratio to increase again from 2015 for the remainder of the period.

4.2: Financial Management Indicators

The financial management indicators are linked to the utilisation of debt in early years and improve over time as the amortising debt reduces and operating deficits also improve.

Liquidity Ratios



The Cash Expense Ratio is above benchmark for the term of the forecast and indicates that Council will have sufficient liquidity.

In 2017 cash balance decreases due to a projected decrease of $7.0m in capital contributions of Land Under roads for Edmondson Park with fewer lots for Edmondson Park being released that year.

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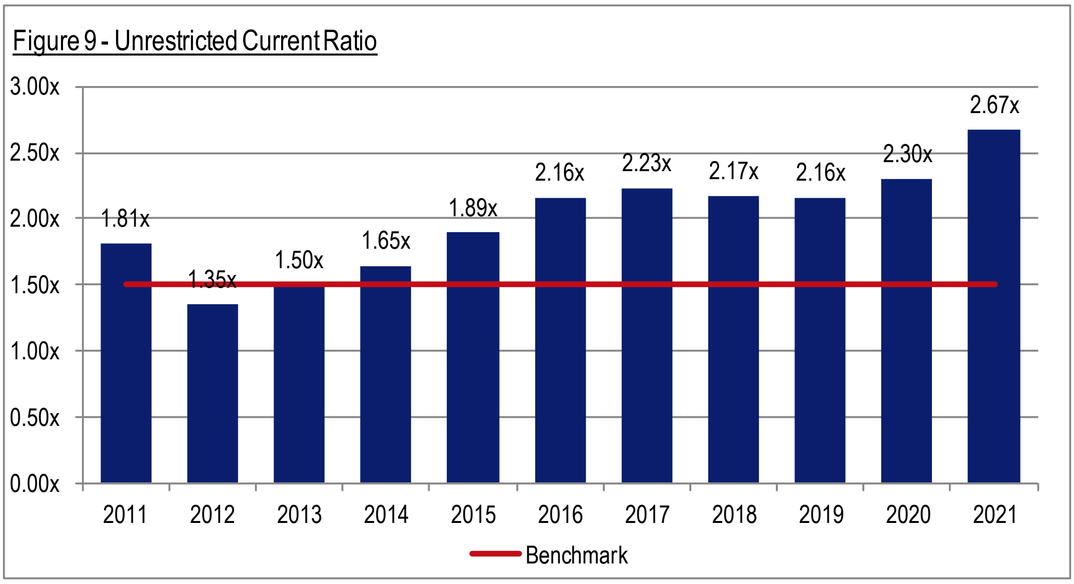
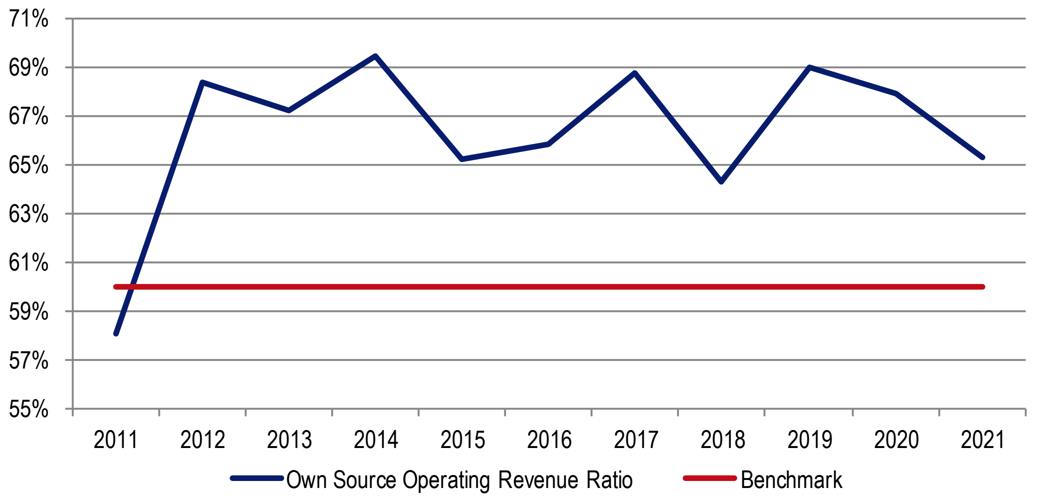


The unrestricted current ratio is above benchmark in nine of the 10 years forecast. It falls slightly below benchmark in 2012 due to Council spending unrestricted general funds on the acquisition of a property at 52 Scott Street for $10.2m. This property comprises of office space and parking which will be marketed to small businesses with the leasing costs being based on commercial viability and market conditions as part of Council's strategy to encourage small business in the area.

Fiscal Flexibility Ratios

Figure 10 - Own Source Operating Revenue Ratio

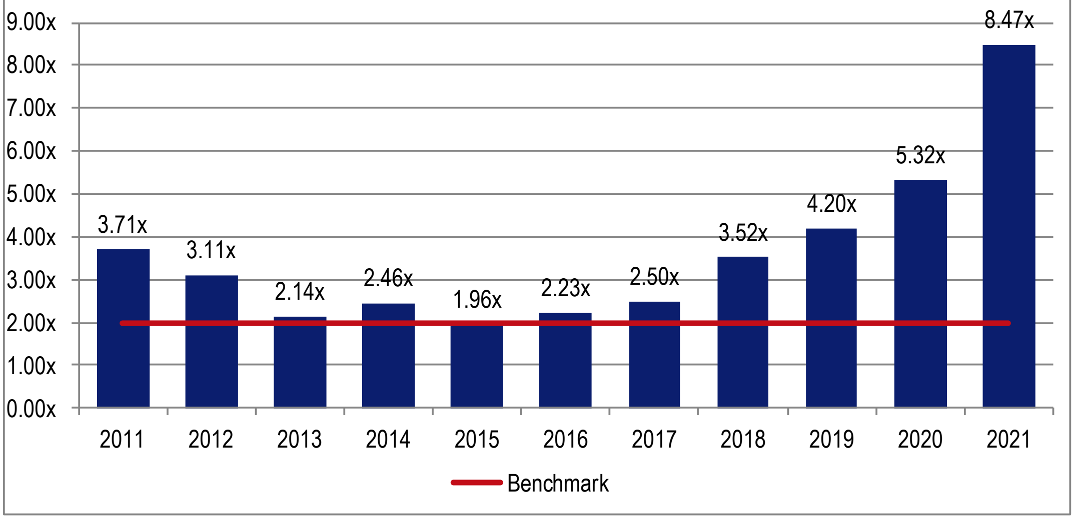


Council's Own Source Operating Revenue is above benchmark for the forecast period. The ratio rises sharply in 2012 following a $25.5m reduction in capital grants. In 2011 Council received a non-cash capital contribution of $20.3m for Land Under Roads from developers at West Hoxton, Carnes Hill, Middleton Grange, Moorebank, Edmondson Park and Voyager Point which did not recur in 2012.

The ratio fluctuates over the remainder of the forecast period and this is due to fluctuating capital grants and contributions.

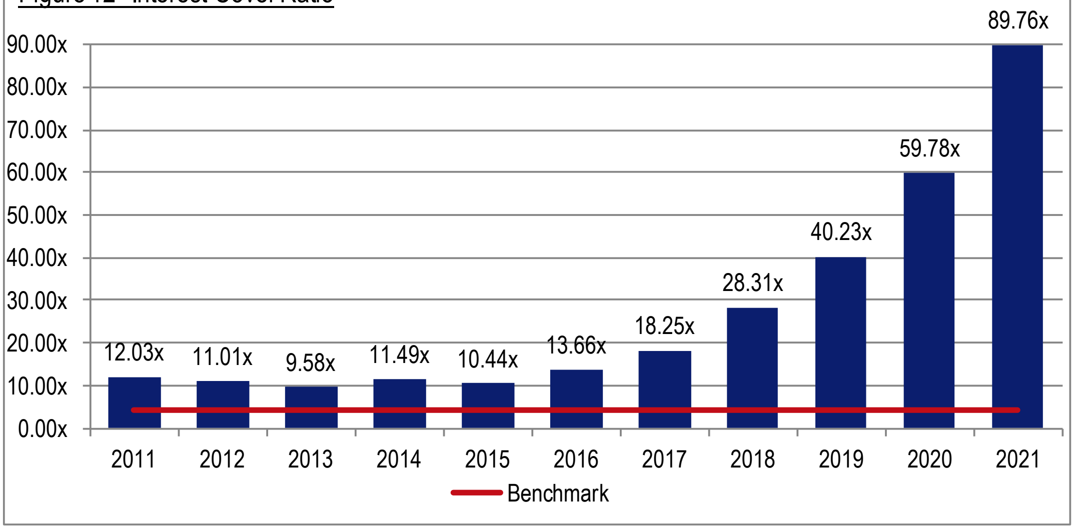
The capital contributions forecast were based on the timing and release of developments and the fluctuations occur due to the timing of the contributions received. Some projects were projected to receive contributions in the next five years while others were projected to receive contributions in the last five years of the ten-year forecast model.

Figure 11 - DSCR



Council's DSCR is above benchmark in nine of the 10 years forecast. This indicates that Council has the capacity to manage the additional debt cost that the LIRS application relates to. Decreased EBITDA in 2015 due to the decrease in rates revenue is causing the DSCR to drop marginally below benchmark in 2015.

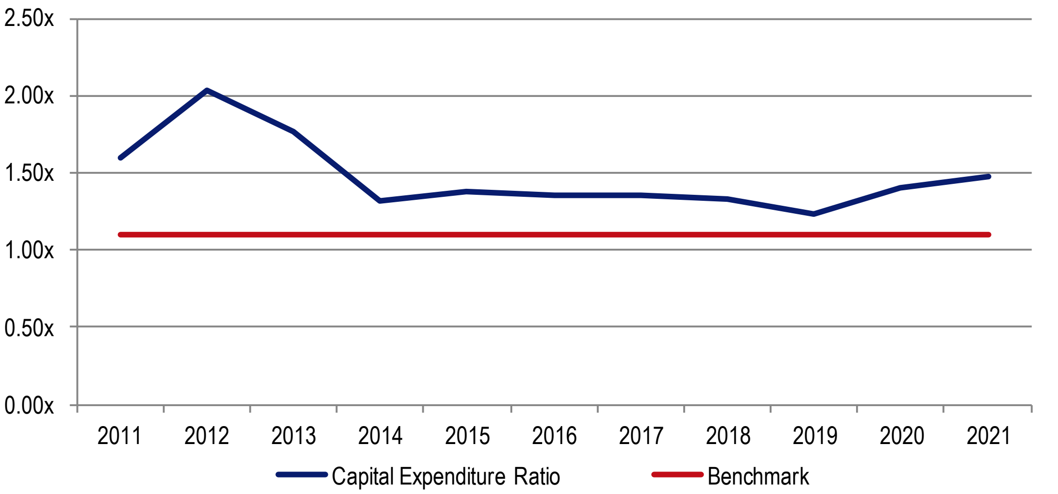
Figure 12 - Interest Cover Ratio



The Interest Cover Ratio, similarly to the DSCR indicates the Council has sufficient capacity to service additional debt commitments, including LIRS. The ratio rises over the life of the forecast as Council pays down its debts.

4.3: Capital Expenditure

Figure 13 - Capital Expenditure Ratio



The Capital Expenditure Ratio is above benchmark for the forecast period. Capital expenditure is forecast to decrease by $31.6m between 2011 and 2014. This is mainly due to the expected completion of flood mitigation projects on Edmondson Park and projected completion of road works.

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%
- 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%

<u>Key Observations and Risks</u>

- The LTFP forecast rates and annual charges to increase by 3.8% until 2014 and up to 4.5% from 2016 for the remainder of the forecast period. Council expect an additional 14,800 residences over the forecast period which is causing the forecast increases in rates revenue.
- User fees and charges are forecast to increase by between 3.5% and 4.2% for the forecast period. Council have based this forecast on anticipated future growth in Liverpool LGA.
- Employee costs have been forecast to increase by up to 5.5% until 2014 which reduces to 3.6% by 2019. The forecast has included the 3.25% increase as per Local Government Award for the next two years. Over the latter half of the forecast period Council are expecting an increased number of retirements and they hope to replace these employees with new employees on a lower salary base. Employee costs are forecast to increase at rates above our benchmarks and need to be carefully controlled.
- Materials and contracts are forecast to increase by 13.9% (5.4m) in 2013. This is due to forecast new initiatives of over $2.0m, domestic waste legal contingencies which relate to a domestic waste contract. From 2014 the materials and contracts are forecast to increase by between 1.8% and 4.5% in line with the timing of future Capital projects.
- Overall we feel Councils assumptions are reasonable.

4.5: Borrowing Capacity

When analysing the financial capacity of the Council we believe Council will not be able to incorporate additional loan funding in addition to the LIRS loan facilities and other proposed borrowings already included in Council's financial forecasts.

New South Wales
Treasury Corporation

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 7. There are 8 councils in this group and at the time of preparing this report, we have data for all of these councils.

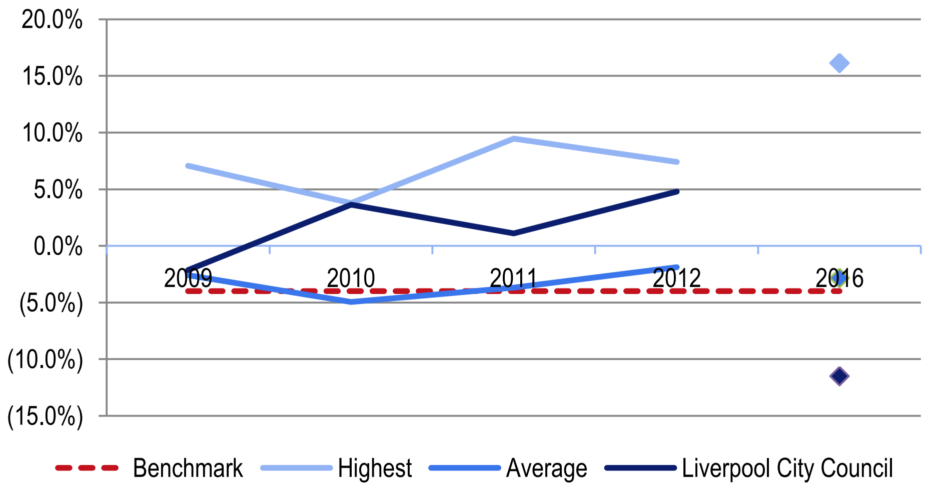
In Figure 14 to Figure 23, the graphs compare the historical performance of Council with the benchmark for that ratio, with the average for the Group, with the highest performance (or lowest performance in the case of the Infrastructure Backlog Ratio where a low ratio is an indicator of strong performance), and with the forecast position of the Council as at 2016 (as per Council's LTFP). Figures 21 to 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.

<u>Financial Flexibility</u>

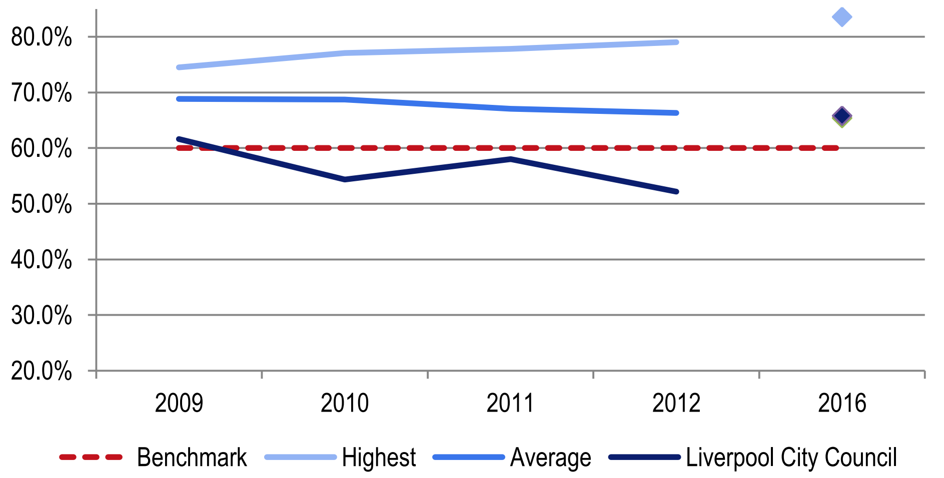
<u>Figure 14 - Operating Ratio Comparison</u>



Council's Operating Ratio performed above benchmark and group average over the review period. The results are forecast to deteriorate in the medium term to below benchmark.

New South Wales
Treasury Corporation

Figure 15 - Own Source Operating Revenue Ratio Comparison



Council's Own Source Operating Revenue Ratio underperformed against benchmark from 2010 till 2012 and consistently underperformed against group average over the review period. Council is forecasting an improved result for this Ratio in the medium term.

Liquidity

Figure 16 - Cash Expense Ratio Comparison

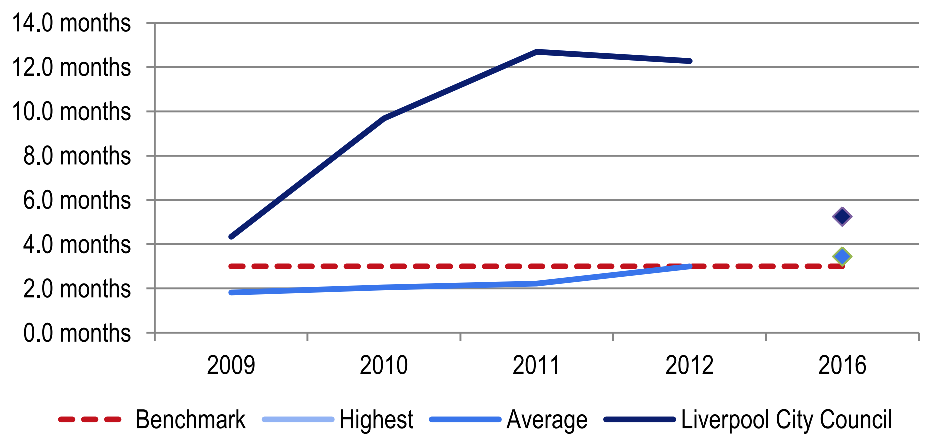
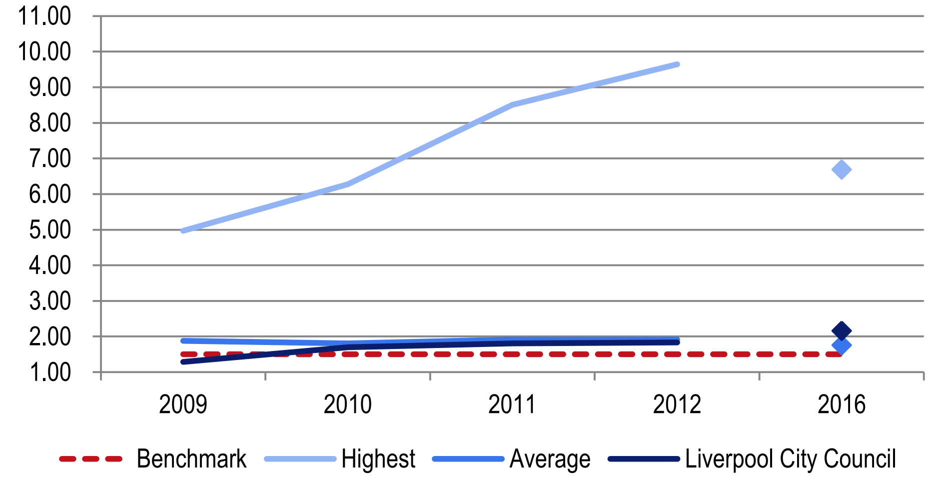


Figure 17 - Unrestricted Current Ratio Comparison



Council's Cash Expense Ratio performed strongly over the review period and is forecast in the medium term to remain above benchmark and the group average. Council's Unrestricted Current Ratio performed below benchmark in 2009 but has steadily improved outperforming benchmark since 2010.

Overall, Council's liquidity appears sound in the medium term.

Debt Servicing

Figure 18 - Debt Service Cover Ratio Comparison

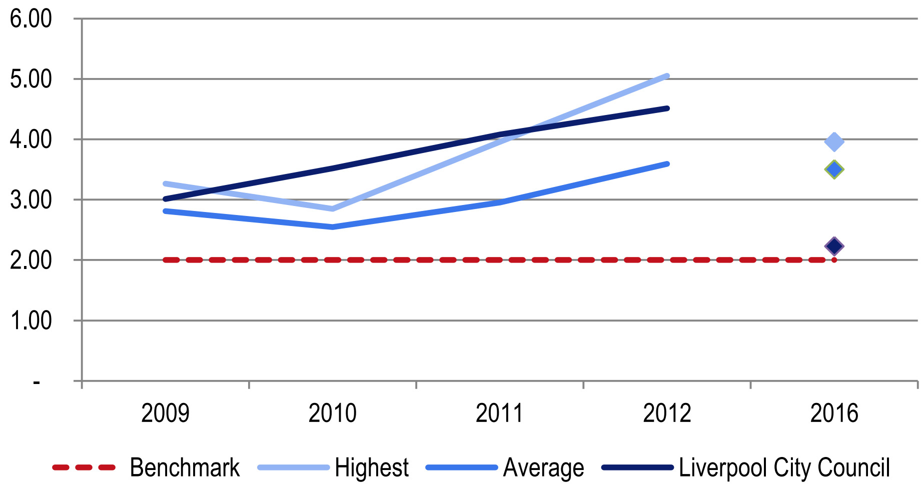
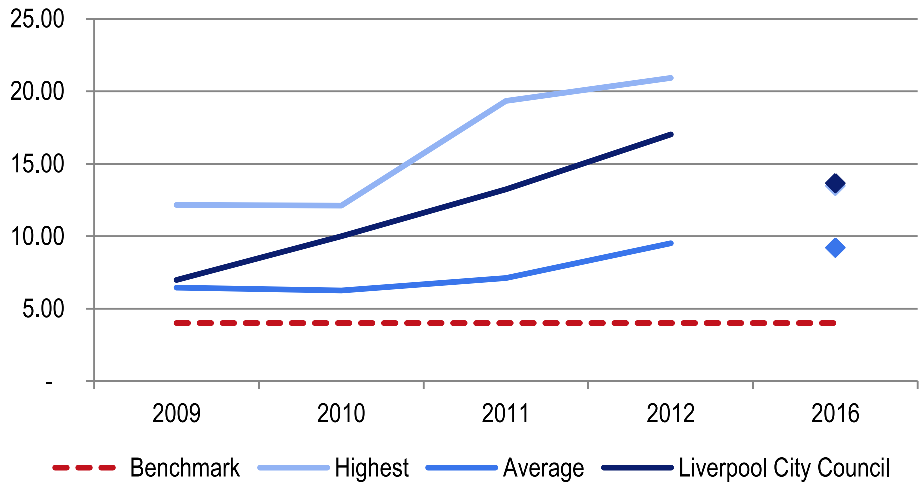


Figure 19 - Interest Cover Ratio Comparison



Council's Debt Service Cover Ratio outperformed benchmark and group average over the review period. Council's Interest Cover Ratio also performed comparatively strong, consistently outperforming benchmark and group average over the review period.

Overall, Council's debt servicing capacity was strong over the review period and is forecast to remain strong in the medium term.

Asset Renewal and Capital Works

Figure 20 - Capital Expenditure Ratio Comparison

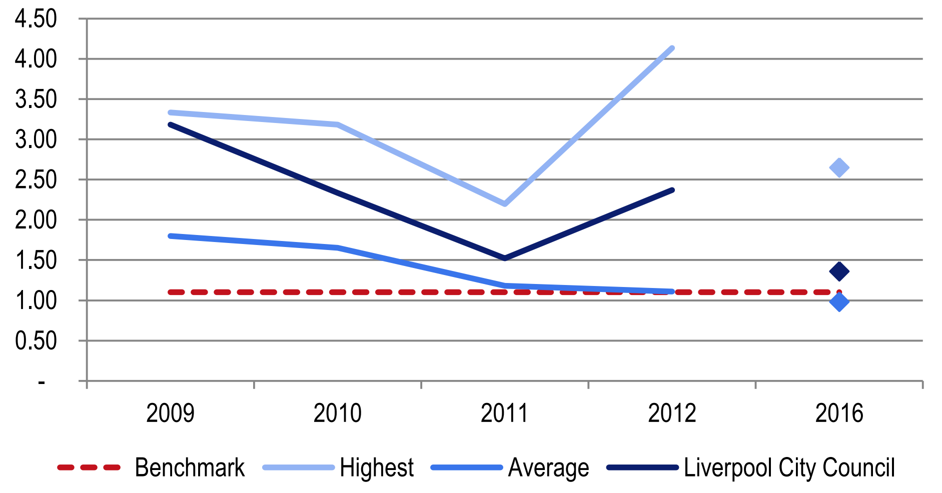


Figure 21 - Asset Maintenance Ratio Comparison

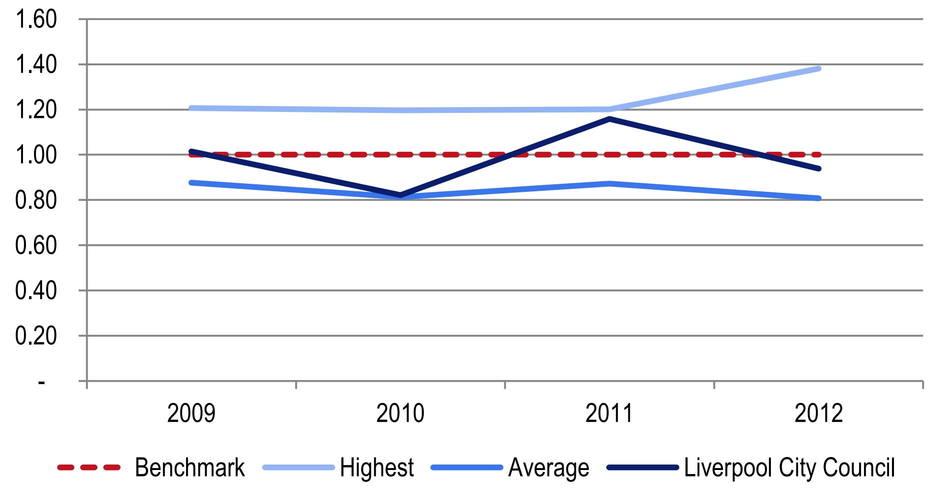


Figure 22 - Infrastructure Backlog Ratio Comparison

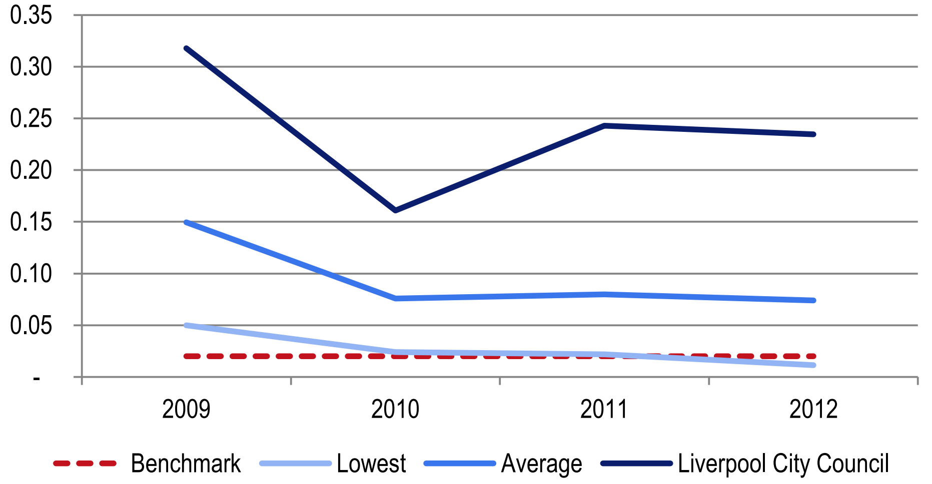
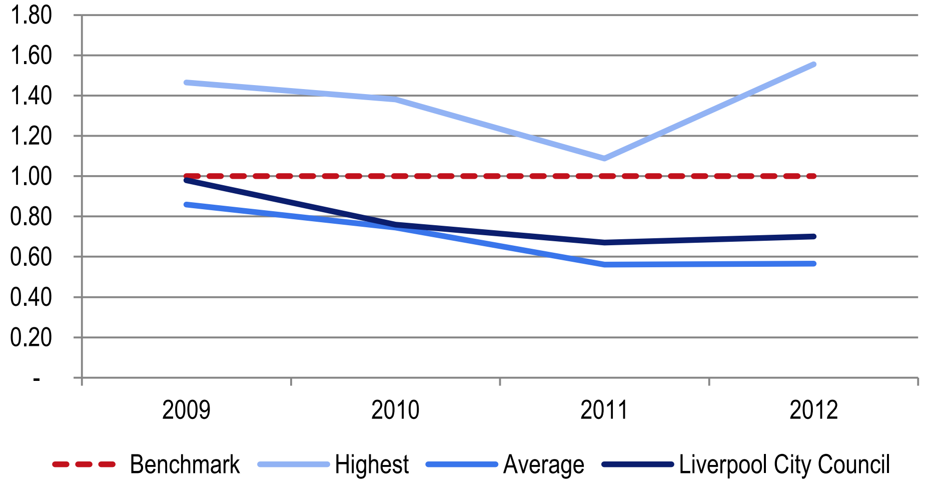


Figure 23 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog Ratio significantly underperformed over the review period and is at a level well above the group average.

Council's Asset Maintenance Ratio dropped marginally in 2010 and again in 2012 below the benchmark level. Council's Building and Infrastructure Ratio underperformed against benchmark in each year but performed marginally better than the group average in 2009, 2011 and 2012. Council's Capital Expenditure Ratio performed above the group average and benchmark over the review period.

Despite consistently weak Infrastructure Backlog performance over the review period, the other ratios showed improved results in 2012.

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 in a satisfactory financial position in terms of their operating performance. Both past performance and the financial forecasts support our findings that Council has sufficient financial capacity to service the additional borrowings proposed under its LIRS application.

We base our recommendation on the following key points:

- Council has sufficient financial capacity to manage the additional $9.6m debt highlighted by a DSCR above benchmark in nine of the 10 years forecast and Interest Cover Ratio well above the benchmark in all 10 years of its financial forecast
- Council has an infrastructure backlog of $262.7m with buildings and public roads comprising of the majority of the backlog. Council are seeking to address these asset classes in its LIRS projects
- Council has maintained control of its primary expense of employee costs over the past two years and need to maintain strong control over these costs in future years

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

- As Council's SRV is only in place until 2014 Council needs to develop strategies replace this revenue to continue their infrastructure maintenance
- While Council are spending sufficient to maintain most existing assets they appear unable to significantly reduce the current level of backlog. Council need to continue to monitor their backlog and maintenance closely so the backlog does not increase further and consider ways of raising additional funds to use towards the reduction of the backlog

Appendix A Historical Financial Information Tables

Table 1- Income Statement

Income Statement ($'000s)	Year ended 30 June			% annual change	
	2011	2010	2009	2011	2010
Revenue					
Rates and annual charges	88,989	84,813	75,415	4.9%	12.5%
User charges and fees	8,941	9,110	7,633	(1.9%)	19.4%
Interest and investment revenue	7,336	4,481	5,989	63.7%	(25.2%)
Grants and contributions for operating purposes	12,376	12,033	14,464	2.9%	(16.8%)
Other revenues	8,764	8,054	7,637	8.8%	5.5%
Total revenue	**126,406**	**118,491**	**111,141**	**6.7%**	**6.6%**
Employees	45,451	45,430	41,462	0.0%	9.6%
Borrowing costs	2,776	3,056	3,604	(9.2%)	(15.2%)
Materials and contract expenses	35,133	33,517	36,027	14.7%	(7.0%)
Depreciation and amortisation	32,541	23,172	23,897	40.4%	(3.0%)
Other expenses	9,107	9,016	8,516	1.0%	5.9%
Total expenses	**128,322**	**114,191**	**113,506**	**12.4%**	**0.6%**
Operating result	**(1,916)**	**4,300**	**(2,365)**	**(144.6%)**	**(281.8%)**

Table 2 - Items excluded from Income Statement

Excluded items ($'000s)			
	2011	2010	2009
Grants and contributions for capital purposes	42,342	54,323	23,615
Gain on recognition of interest-free loan	0	3,909	0
Amortisation of discount on interest free loans	503	0	0
Increase (Decrease) in the fair value of investments	400	3084	(1,889)
Insurance Claim Recoveries	25,040	0	0
Materials and contracts expenses attributed to Council administration building	3,314	0	0
Net share of interests in joint ventures and associates using equity method	494	730	0
Gain on disposal of assets	709	322	2711
Depreciation write-off of admin building and other assets	16,782	0	0

Table 3 - Balance Sheet

Balance Sheet ($'000s)	Year Ended 30 June			% annual change	
	2011	2010	2009	2011	2010
Current assets					
Cash and equivalents	94,809	70,944	31,064	33.6%	128.4%
Investments	4,489	14,547	21,591	(69.1%)	32.6%)
Receivables	20,532	11,206	12,984	83.2%	(13.7%)
Inventories	81	51	44	58.8%	15.9%
Other	201	225	392	(10.7%)	(42.6%)
Total current assets	120,112	96,973	66,075	23.9%	46.8%
Non-current assets					
Investments	6,881	11,560	0	(40.5%)	0
Receivables	242	80	80	202.5%	0.0%
Infrastructure, property, plant & equipment	1,701,815	4,139,327	3,567,934	(58.9%)	16.0%
Investments accounted for using the equity method	3,653	3,040	2,327	20.2%	30.6%
Intangible assets	347	333	379	4.2%	(12.1%)
Total non-current assets	1,712,938	4,154,340	3,570,720	(58.8%)	16.3%
Total assets	**1,833,050**	**4,251,313**	**3,636,759**	**(56.9%)**	**16.9%**
Current liabilities					
Payables	13,603	12,726	12,108	6.9%	5.1%
Borrowings	6,947	5,827	5,413	19.2%	7.6%
Provisions	12,994	13,429	12,471	(3.2%)	7.7%
Total current liabilities	33,544	31,982	29,992	4.9%	6.6%
Non-current liabilities					
Borrowings	36,641	46,477	46,012	(14.7%)	1.0%
Provisions	2,884	2,842	1,427	1.5%	99.2%
Total non-current liabilities	42,525	49,319	47,439	(13.8%)	4.0%
Total liabilities	**76,069**	**81,301**	**77,431**	**(6.4%)**	**5.0%**
Net assets	**1,756,981**	**4,170,012**	**3,559,364**	**(57.9%)**	**17.2%**

Table 4-Cashflow

Cashflow Statement ($'000s)	Year ended 30 June		
	2011	**2010**	**2009**
Cashflows from operating activities	65,845	63,709	39,040
Cashflows from investing activities	(35,761)	(28,617)	(25,805)
Proceeds from borrowings and advances	0	10,400	6,500
Repayment of borrowings and advances	(6,219)	(5,612)	(4,747)
Cashflows from financing activities	(6,219)	4,788	1,753
Net increase/(decrease) in cash and equivalents	**23,865**	**39,880**	**11,988**
Cash and equivalents	94,809	70,944	31,064

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.

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

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

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.

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

Infrastructure Backlog Ratio

Benchmark = Less than 0.02x

Ratio = estimated cost to bring assets to a satisfactory condition (from Special Schedule 7) / total infrastructure, building, other structures and depreciable land improvement assets (from note 9a)

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.