

# Supporting Document 3



## Financial Modelling

### **a) Sustainability (Section 2.3)**

- Operating Performance Ratio
- Own Source Revenue Ratio
- Own Source Revenue Ratio – Excluding Non-Cash Income
- Building and Infrastructure Asset Renewal Ratio

### **b) Infrastructure and Service Management (Section 2.3)**

- Infrastructure Backlog Ratio
- Asset Maintenance Ratio
- Debt Service Ratio

### **c) Efficiency (Section 2.3)**

- Real Operating Expenditure per Capita – 2014 NSW Local Government Area Population Projections
- Real Operating Expenditure per Capita – Council's Long-Term Financial Plan Projections

### **d) Council's Plan to Improve Performance (Section 4) – Summary of Projections and Adjusted Benchmarks to 2019/20**

**a) Sustainability**

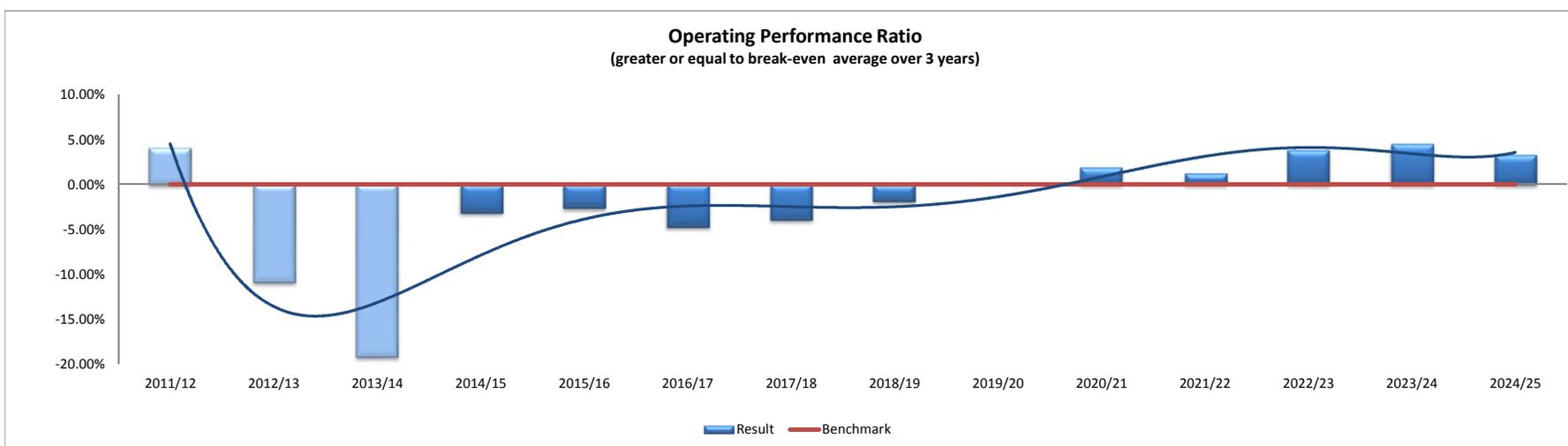
## OPERATING PERFORMANCE RATIO

Benchmark:- Greater or equal to break-even average over 3 years

*Total continuing operating revenue (exc. capital grants and contributions) less operating expenses*  
*Total continuing operating revenue (exc. capital grants and contributions)*

Purpose:- This ratio measures Council's ability to fund operations now and into the future

	Historical			Projections										
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Result</b>	4.1%	-10.9%	-19.2%	-3.12%	-2.62%	-4.72%	-3.91%	-1.87%	0.02%	1.88%	1.20%	3.80%	4.53%	3.23%
Result - Meets the FFTF benchmark			NO	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES	YES
<b>Average over 3 years</b>			-8.7%	-11.1%	-8.3%	-3.5%	-3.7%	-3.5%	-1.9%	0.0%	1.0%	2.3%	3.2%	3.9%
Average - Meets the FFTF benchmark			NO			NO			NO			YES		



### Fit for the Future Benchmark

**Annual Result** - Projections indicate Council will meet the benchmark for this ratio in 2019/20.

**3 Year Average** - Projections indicate Council will meet the benchmark for this ratio in 2020/21.

### Comments

The Camden LGA is one of the fastest growing areas in NSW. This brings the challenges of planning and delivering service demand and infrastructure sometimes years before additional income is realised through growth. Rates and annual charges income is expected to more than double over the next 10 years to over \$116 million p.a., providing greater economies of scale in the later years of the long term financial plan.

The Operating Performance Ratio improves over the life of Council's LTFP predominately through growth and a reduction in depreciation expense which historically has been too high. It should be noted that a reduction in depreciation expense has no impact on services or service delivery. A measure of sustainability is the ability to fund the maintenance and renewal of the asset base, this submission demonstrates Council's ability to address asset management over the life of its LTFP. To further support this in late 2014 Council created a dedicated Asset Management function to review the delivery and management of assets throughout the LGA. This includes the review and adoption of a consumption based depreciation model which has improved a number of FFTF ratios. Importantly, over 40% of Council's asset base is new or less than 10 years old, so the adoption of this depreciation model will see a significant reduction in the current level of depreciation expense.

It should also be noted that Council historically adopts a balanced cash budget and 10 year long-term financial plan. Council is in a strong cash position, utilising projected income, reserves and borrowings to plan and provide for the future.

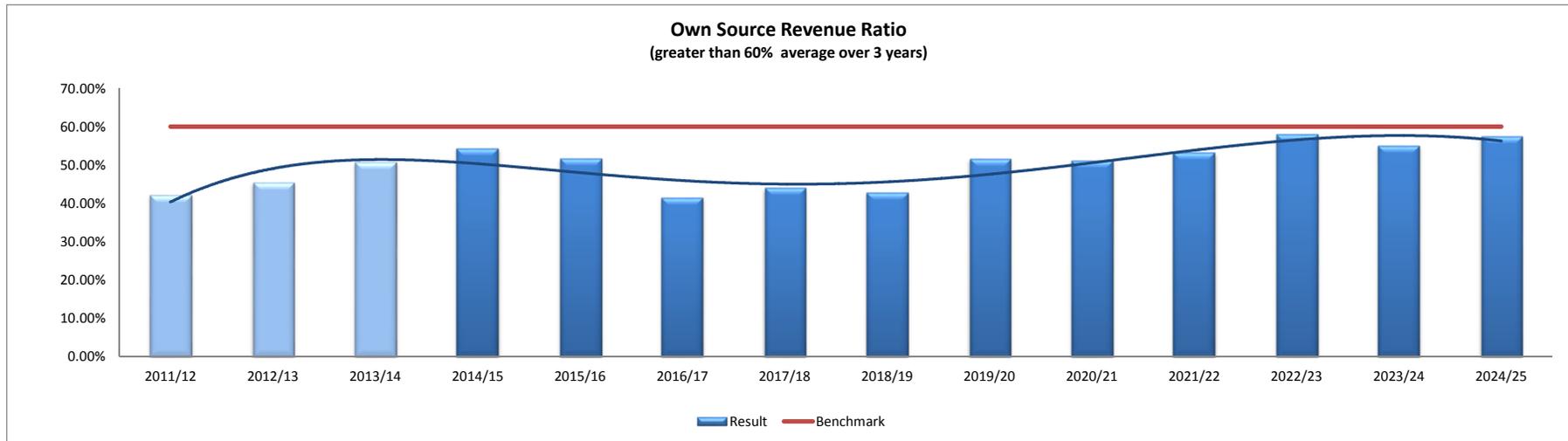
# OWN SOURCE REVENUE RATIO

Benchmark:- Greater than 60% average over 3 years

Total continuing operating revenue less all grants and contributions  
Total continuing operating revenue inclusive of capital grants and contributions

Purpose:- This ratio measures Council's reliance on external funding (fiscal flexibility)

	Historical													
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Result</b>	42.0%	45.2%	50.7%	54.2%	51.6%	41.4%	44.0%	42.8%	51.5%	51.1%	53.2%	57.8%	55.1%	57.3%
Result - Meets the FFTF benchmark			NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
<b>Average over 3 years</b>			46.0%	50.1%	52.2%	49.1%	45.6%	42.7%	46.1%	48.5%	51.9%	54.1%	55.4%	56.7%
Average - Meets the FFTF benchmark			NO			NO			NO			NO		



### Fit for the Future Benchmark

**Annual Result** - Projections indicate Council does not meet the benchmark for this ratio.  
**3 Year Average** - Projections indicate Council does not meet the benchmark for this ratio.

### Comments

Camden Council receives a significant amount of non-cash capital income which distorts this ratio. The non-cash capital income is due to the high level of development infrastructure delivered through Works In-Kind Agreements or Voluntary Planning Agreements. As required by the accounting standards Council brought to account \$36.9 million in 2014 (\$48.7 million in 2013) of non-cash income relating to the dedication of assets.

It is unlikely Council will meet this benchmark in the future. If Council removes the non-cash income for dedicated assets from this ratio calculation, Council meets the FFTF benchmark now. Council has provided an adjusted ratio in Supporting Document 3 to demonstrate the impact non-cash capital income has on this ratio.

## OWN SOURCE REVENUE RATIO - EXCLUDING NON-CASH INCOME

Benchmark:- Greater than 60% average over 3 years

*Total continuing operating revenue less all grants and contributions*

*Total continuing operating revenue inclusive of capital grants and contributions (excluding non-cash WIK income)*

Purpose:- This ratio measures Council's reliance on external funding (fiscal flexibility)

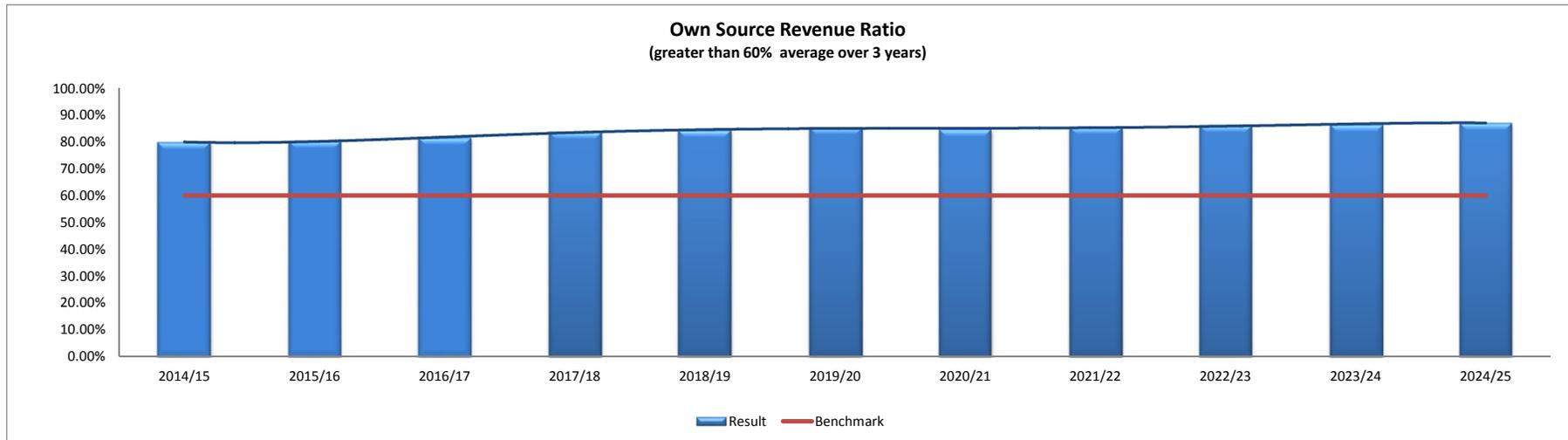
### Result

Result - Meets the FFTF benchmark

### Average over 3 years

Average - Meets the FFTF benchmark

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
79.9%	80.3%	81.5%	83.7%	84.4%	85.4%	84.7%	85.4%	86.0%	86.6%	87.1%
YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
79.4%	78.1%	80.6%	81.8%	83.2%	84.5%	84.8%	85.1%	85.4%	86.0%	86.6%
		YES			YES			YES		



### Fit for the Future Benchmark

**Annual Result** - Projections indicate Council meets the benchmark for this ratio once non-cash capital income is excluded from the calculation.

**3 Year Average** - Projections indicate Council meets the benchmark for this ratio once non-cash capital income is excluded from the calculation.

### Comments

As discussed on the previous page, Council receives significant amounts of non-cash capital income which distorts this ratio. Non-cash capital income is due to the large development in the LGA area being delivered via Section 94 Works in Kind Agreements and Voluntary Planning Agreements. All Councils with significant non-cash capital income will find it difficult to meet this benchmark without removing the non-cash capital income component from the denominator.

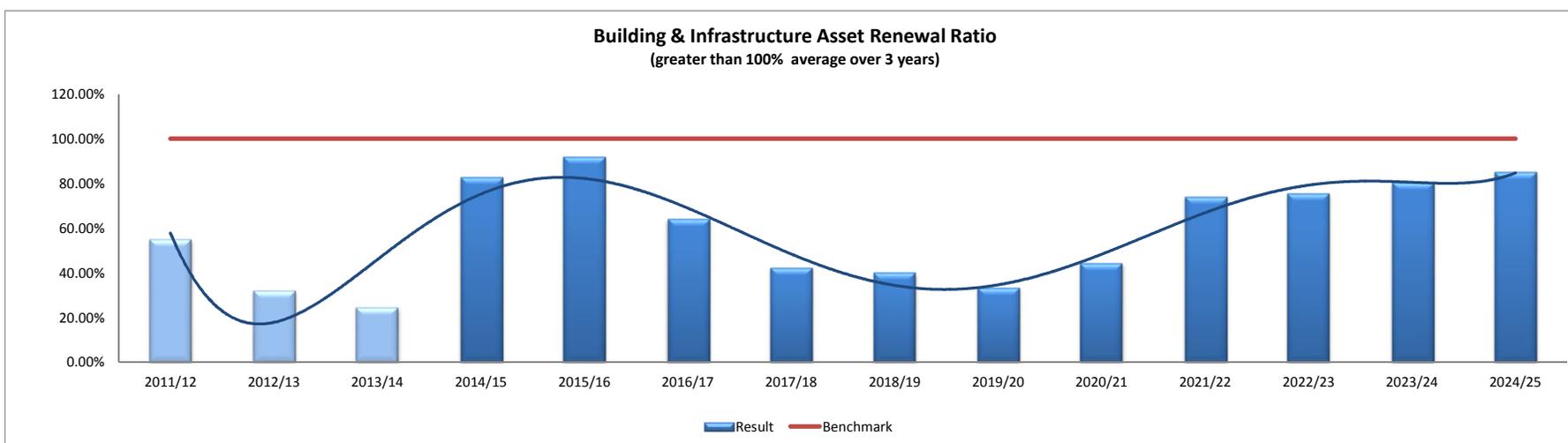
## BUILDING AND INFRASTRUCTURE ASSET RENEWAL RATIO

Benchmark:- Greater than 100% average over 3 years

Asset renewals (building and infrastructure)  
Depreciation, amortisation and impairment (building and infrastructure)

Purpose:- This ratio measures the rate at which assets are being renewed relative to the rate at which they are being consumed (depreciated)

	Historical													
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Result</b>	54.7%	31.7%	24.4%	82.7%	91.9%	64.2%	42.2%	39.9%	33.2%	44.1%	74.0%	75.4%	80.6%	85.0%
Result - Meets the FFTF benchmark			NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
<b>Average over 3 years</b>			36.9%	46.3%	66.3%	79.6%	66.1%	48.8%	38.4%	39.1%	50.4%	64.5%	76.7%	80.3%
Average - Meets the FFTF benchmark			NO			NO			NO			NO		



### Fit for the Future Benchmark

**Annual Result** - Projections indicate Council does not meet the benchmark for this ratio.

**3 Year Average** - Projections indicate Council does not meet the benchmark for this ratio.

### Comments

It is important to note that this ratio is impacted by the large level of development and infrastructure assets expected to be constructed over the next 10 years. As previously discussed over 40% of Council's total infrastructure assets are new or less than 10 years old, and this proportion is expected to grow over the next 10 years. Council will therefore not be required to renew these assets in the near future. The Camden LGA's unique growth in infrastructure assets means Council will find it difficult to meet this renewal ratio.

In preparation for future renewal expense Council has created an Asset Renewal Reserve (June 2014) and continues to allocate funds to this reserve. It should be noted that the transfer of funds to reserve cannot be included as an expense in this ratio. This transfer does reflect prudent forward financial planning and acknowledgement that asset renewal will be required in the longer term. The work currently being undertaken to reduce Council's depreciation expense will further improve this ratio. Council has also adopted a number of renewal programs accessing an interest free loan from the NSW State Government, has successfully received two Local Infrastructure Renewal Scheme loans and currently has a Special Rate Variation in place for infrastructure renewal.

**b) Infrastructure and Service  
Management**

# INFRASTRUCTURE BACKLOG RATIO

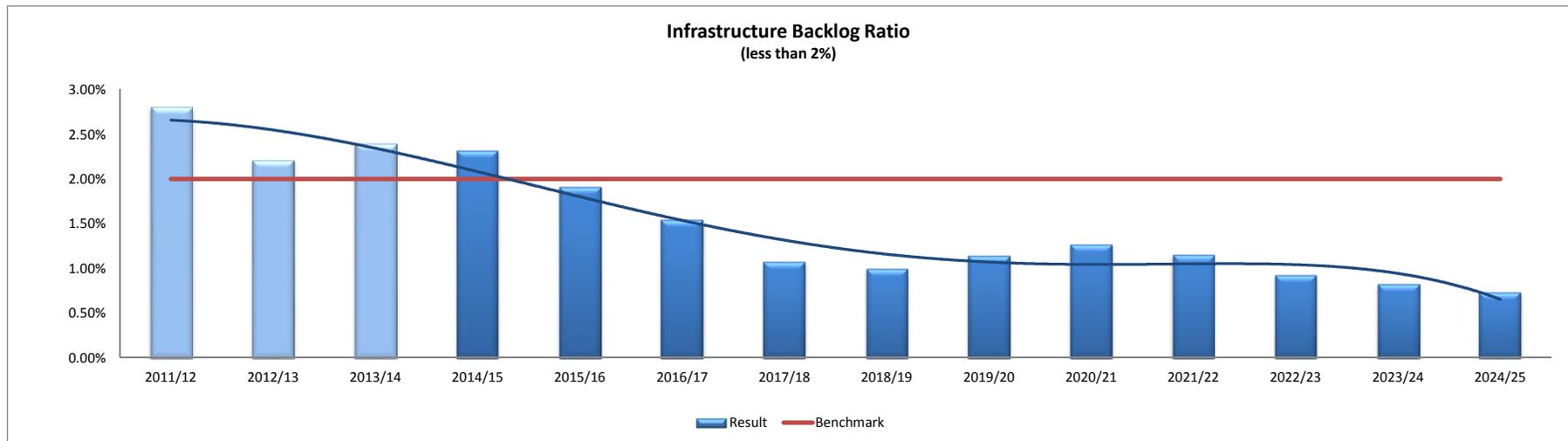
Benchmark:- Less than 2%

Estimated cost to bring assets to a satisfactory condition

Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets

Purpose:- This ratio measures the proportion of the infrastructure backlog against the total value of Council's infrastructure asset base

	Historical			2011-12 to 2024-25										
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Result</b>	2.8%	2.2%	2.4%	2.3%	1.9%	1.5%	1.1%	1.0%	1.1%	1.3%	1.1%	0.9%	0.8%	0.7%
Result - Meets the FFTF benchmark			NO	NO	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES



### Fit for the Future Benchmark

Projections indicate Council will meet the benchmark for this ratio from 2015/16 onwards.

### Comments

The Camden LGA's rapid growth forecasts result in a significant proportion of new assets constructed each year. This ratio improves as a result of the magnitude of new assets being received through development and renewal/maintenance programs Council already has in place.

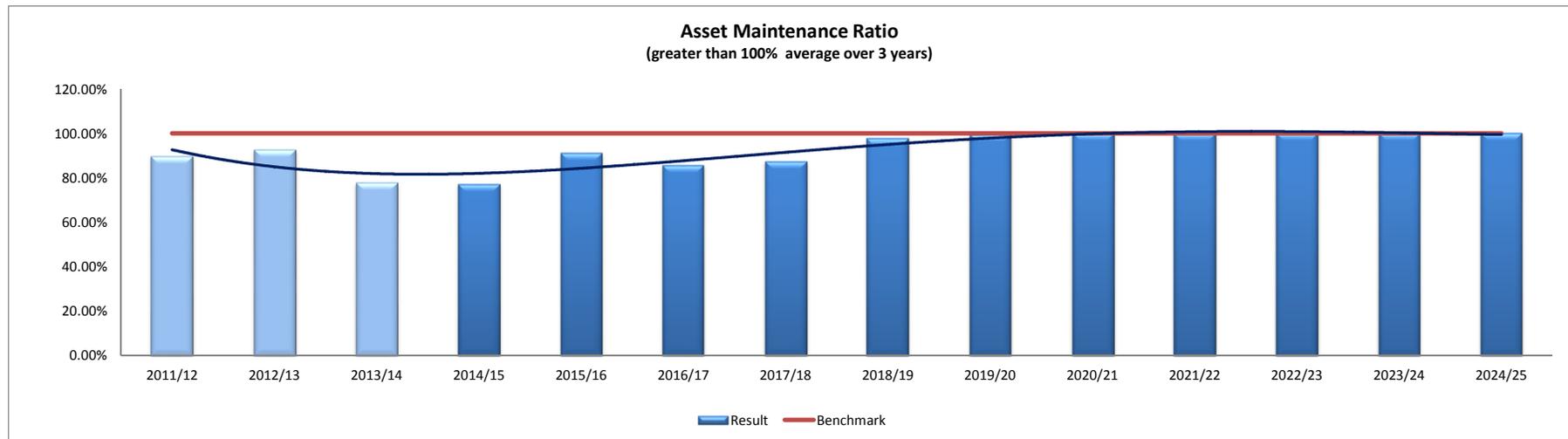
# ASSET MAINTENANCE RATIO

Benchmark:- Greater than 100% average over 3 years

Actual asset maintenance  
Required asset maintenance

Purpose:- This ratio compares the actual versus required annual asset maintenance

	Historical													
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Result</b>	89.8%	92.5%	78.0%	77.1%	91.0%	85.8%	87.5%	97.7%	99.6%	100.0%	100.0%	100.0%	100.0%	100.0%
Result - Meets the FFTF benchmark			NO	NO	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES
<b>Average over 3 years</b>			86.8%	82.5%	82.0%	84.6%	88.1%	90.3%	94.9%	99.1%	99.9%	100.0%	100.0%	100.0%
Average - Meets the FFTF benchmark			NO			NO			NO			YES		



## Fit for the Future Benchmark

**Annual Result** - Projections indicate Council will meet this benchmark by 2020/21.

**3 Year Average** - Projections indicate Council will meet this benchmark by 2022/23.

**Improving Average** - Projections indicate Council will meet the IPART assessment criteria by 2016/17.

## Comments

While Council has good asset management practices and policy framework receiving a “strong rating” as part of the Local Government Infrastructure audit, June 2013, the rate of growth within the LGA quickly identified the need for a dedicated asset management function. This team is required not only to understand Council’s asset management needs in the future but to ensure there is a co-ordinated approach to how Council constructs and accepts new assets. It is also accepted that an audit of the condition of the entire asset base will take time, this review is not expected to be completed until 2016.

The completion of the review of the asset base may also identify a need for additional funds to be allocated to asset maintenance. Council has completed all asset management ratios including a conservative reduction in depreciation expense (consumption based model), on the basis of what is currently known about the asset base.

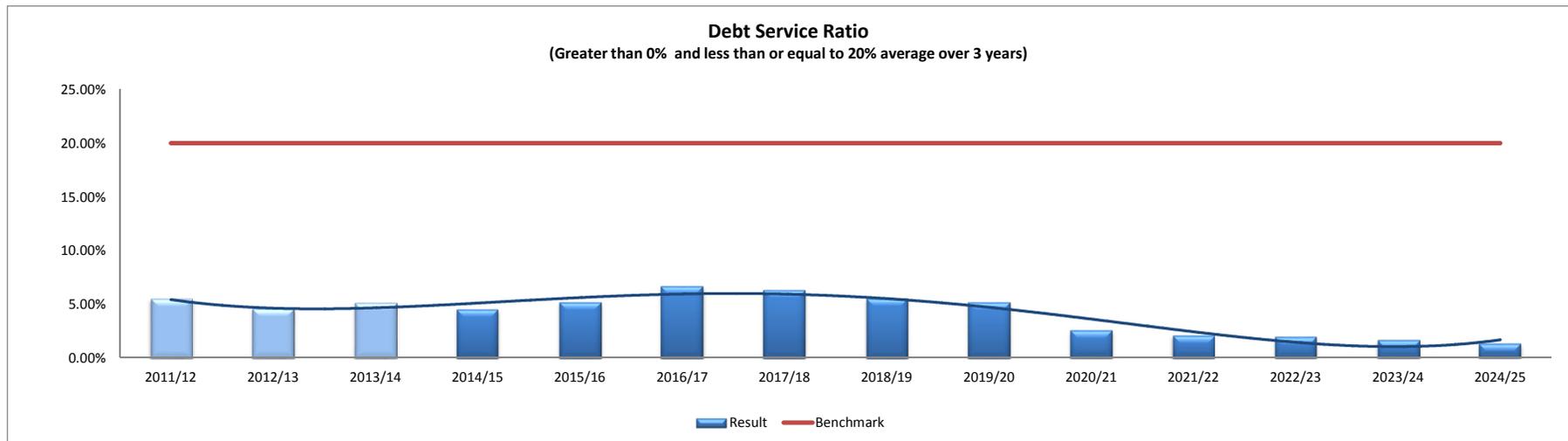
## DEBT SERVICE RATIO

Benchmark:- Greater than 0 and less than or equal to 20% average over 3 years

*Cost of debt service (interest expense & principal repayments)*  
*Total continuing operating revenue (exc. capital grants and contributions)*

Purpose:- This ratio indicates whether Council is using debt wisely to share the life-long cost of assets and avoid excessive rate increases

	Historical													
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>Result</b>	5.4%	4.5%	5.1%	4.5%	5.1%	6.6%	6.3%	5.5%	5.1%	2.5%	2.1%	1.9%	1.6%	1.3%
Result - Meets the FFTF benchmark		YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
<b>Average over 3 years</b>		5.0%	4.7%	4.9%	5.4%	6.0%	6.1%	5.6%	4.4%	3.2%	2.2%	1.9%	1.6%	
Average - Meets the FFTF benchmark		YES			YES			YES			YES			



### Fit for the Future Benchmark

**Annual Result** - Council currently meets this benchmark and projections indicate this will continue over the next 10 years.

**3 Year Average** - Council currently meets this benchmark and projections indicate this will continue over the next 10 years.

### Comments

Council continues to use debt wisely, balancing the level of debt, capacity to borrow and the opportunity cost of borrowing to ensure inter-generational equity in a rapidly growing environment.

## **c) Efficiency**

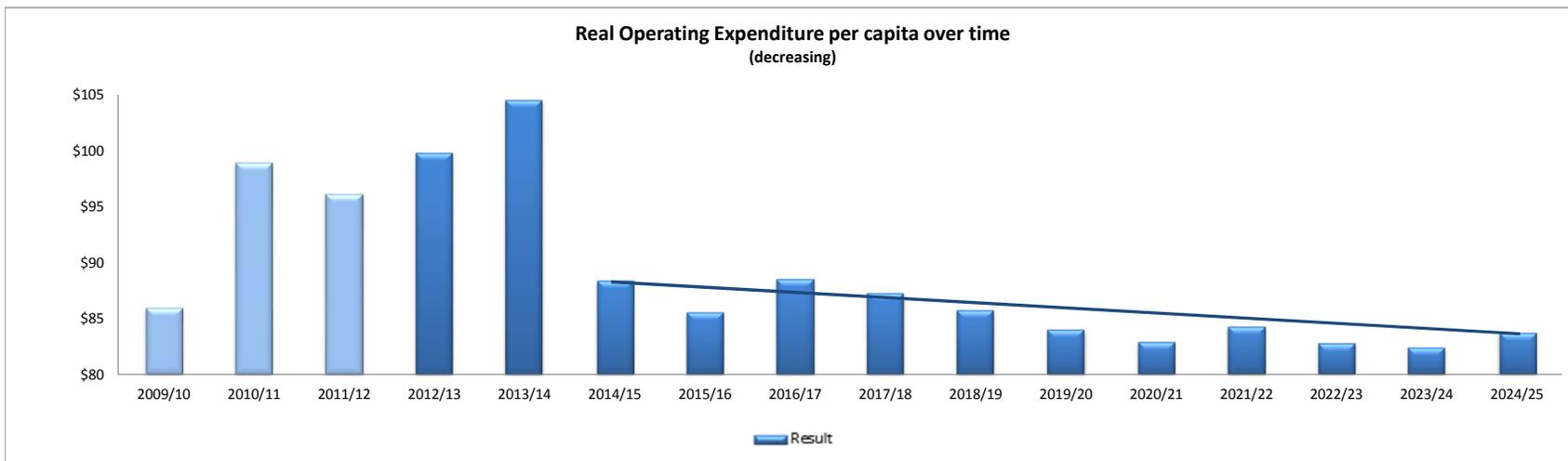
## REAL OPERATING EXPENDITURE PER CAPITA - NSW PLANNING POPULATIONS FORECASTS

Benchmark:- A decrease in Real Operating Expenditure per capita over time

*Expenditure deflated by CPI*  
*Population*

Purpose:- This ratio indicates how well Council is utilising economies of scale and managing service levels to the community to achieve efficiencies

	Historical					Forecast											
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	
<b>Result</b>	\$85.94	\$98.91	\$96.08	\$99.80	\$104.51	\$88.31	\$85.49	\$88.51	\$87.22	\$85.70	\$83.96	\$82.87	\$84.24	\$82.71	\$82.39	\$83.66	
Result - Meets the FFTF benchmark						NO	YES										



### Fit for the Future Benchmark

Council does not currently meet this benchmark, however projections indicate that Council meets this benchmark by 2014/15.

### Comments

The rapid population growth that Camden LGA is experiencing impacts this ratio. It is important that population projections are accurate in order to provide a realistic estimate of achieving this ratio. Council has used the required population growth figures as published by NSW Planning and Environment, the 2014 NSW Local Government Area Population Projections. Council has also provided an additional model (next page) which uses different population forecasts. The work currently being undertaken to reduce Council's depreciation expense will further improve this ratio.

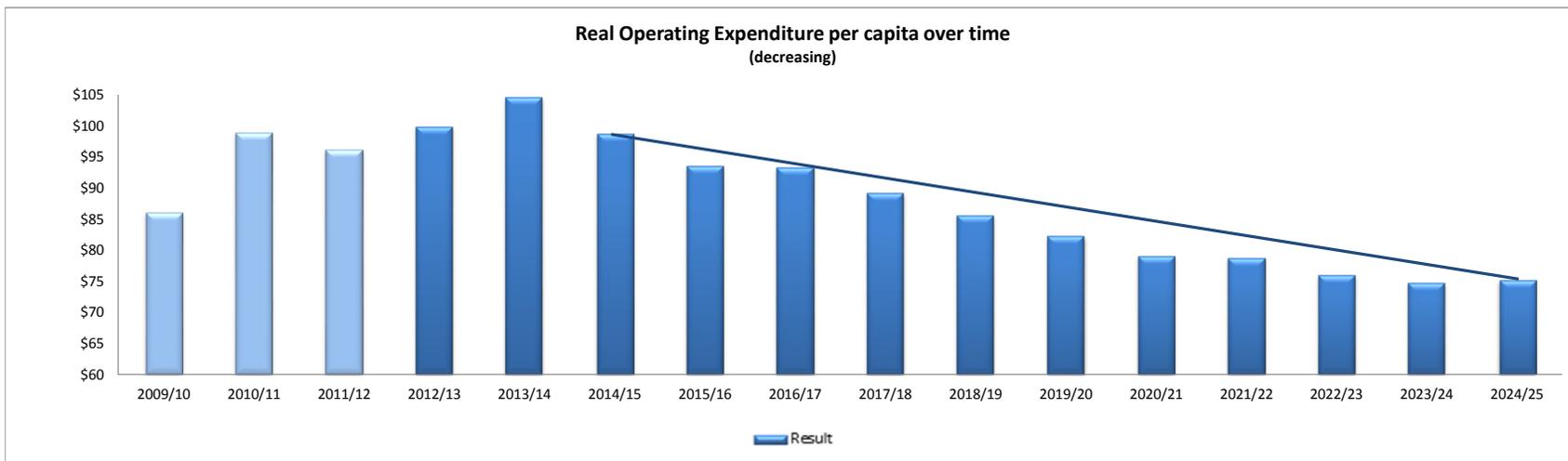
## REAL OPERATING EXPENDITURE PER CAPITA - CAMDEN'S LTFP POPULATION PROJECTIONS

Benchmark:- A decrease in Real Operating Expenditure per capita over time

$$\frac{\text{Expenditure deflated by CPI}}{\text{Population}}$$

Purpose:- This ratio indicates how well Council is utilising economies of scale and managing service levels to the community to achieve efficiencies

	Historical					Projections											
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	
<b>Result</b>	\$85.94	\$98.91	\$96.08	\$99.80	\$104.51	\$98.78	\$93.48	\$93.29	\$89.22	\$85.58	\$82.27	\$79.05	\$78.66	\$75.95	\$74.71	\$75.19	
Result - Meets the FFTF benchmark						NO	YES										



### Fit for the Future Benchmark

Council does not currently meet this benchmark, however projections indicate that Council meets this benchmark by 2014/15.

### Comments

As discussed on the previous page, this model is currently used to inform Council's LTFP using lot projections and average household sizes which Council believes is a better indication of growth in a rapidly changing environment. The work currently being undertaken to reduce Council's depreciation expense will further improve this ratio.

**d) Council's Plan to Improve Performance**

## Council's Plan to Improve Performance (Section 4) – Summary of Projections and Adjusted Benchmarks to 2019/20

Council's expected improvement in performance							
Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark?
<b>Operating Performance Ratio **</b> (not average over 3 years)	-3.12%	-2.62%	-4.72%	-3.91%	-1.87%	0.02%	Yes
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-11.07%	-8.31%	-3.49%	-3.75%	-3.50%	-1.92%	No
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)	50.05%	52.17%	49.05%	45.64%	42.70%	46.07%	No
<b>Own Source Revenue ** Ratio – Excluding Non-Cash Income</b>	79.44%	78.07%	80.57%	81.84%	83.20%	84.50%	Yes
<b>Building and Infrastructure Asset Renewal Ratio</b> (Greater than 100% average over 3 years)	46.27%	66.35%	79.62%	66.10%	48.77%	38.44%	No
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	2.31%	1.91%	1.54%	1.07%	0.99%	1.14%	Yes
<b>Asset Maintenance Ratio ***</b> (Greater than 100% average over 3 years)	82.54%	82.03%	84.62%	88.08%	90.33%	94.95%	Yes
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	4.70%	4.89%	5.40%	5.99%	6.13%	5.63%	Yes
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	\$88.31	\$85.49	\$88.51	\$87.22	\$85.70	\$83.96	Yes

\*\* The financial modelling provides a detailed analysis

\*\*\* Asset Maintenance Ratio – improving meets IPART's assessment criteria for FFTF