New South Wales
Treasury Corporation

Fairfield City Council

Financial Sustainability Assessment and Benchmarking Report

21 March 2013

Prepared by NSW Treasury Corporation for Fairfield City Council and the Division of Local Government.

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.

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, and Council's future Sustainability, within prudent risk parameters and the limits of its financial projections.

The report has been prepared for Fairfield City Council, the DLG and the Independent Review Panel. TCorp shall not be liable to Fairfield 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 Fairfield City 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

The Council has been well managed over the review period based on the following observations:

- Council has recorded operating surpluses from 2009 to 2012 and this trend is forecast to continue
- The majority of Council's performance indicators were above benchmark between 2009 and 2012
- Council is currently spending sufficiently to maintain their assets at an acceptable standard
- The quality of management plans, Asset Management Plans, and operating plans suggest that Council is well managed and adequately resourced

The Council reported $34.0m of Infrastructure Backlog in 2012 which represents 0.04x of its infrastructure asset value of $915.6m. Other observations include:

- 73.4% ($25.0m) of the Backlog related to public roads (inc. footpaths and car parks). The Backlog has remained relatively constant since 2009 in all asset areas but grew in value in 2012 in buildings and other structures
- Council's capital expenditure has been generally above benchmark and this is forecast to continue. This high level of capital expenditure is needed to meet the increasing urban development and population growth

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

- The forecast shows operating surplus positions are expected in all 10 years of the forecast when capital grants and contributions are excluded. The Operating Ratio is forecast to be stable at around 2.5%
- The Unrestricted Current Ratio is projected to be above benchmark for the majority of the LTFP, falling below in 2022.
- Own Source Operating Revenue Ratio fluctuates over the review period due to increases in forecast capital grants and contributions particularly from developer contributions

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In our view, the Council has the capacity to undertake additional borrowings of up to $77.0m. This is based on the following analysis:

- Based on a benchmark of DSCR>2.0x, $77.0m could be borrowed in addition to any existing borrowings subject to a further analysis on restricted cash and other cashflow constraints
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at a rate of 7.5% p.a.

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 Sustainable.

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

- Council's historical financial position has been strong with operating surpluses and ample cash reserves
- Council's current LTFP shows a positive financial position over the forecast period with consistently strong operating results, sound liquidity and sufficiently planned capital expenditure to maintain existing assets at an acceptable standard plus an allowance for growth
- Council demonstrated that it has begun integrating the cost of implementing the asset management plan with its LTFP

In respect of our Benchmarking analysis we have compared the Council's key ratios with other councils in DLG Group 3. Our key observations are:

- Council's financial flexibility as indicated by the Operating ratio and the Own Source Operating Revenue was sound and was above the peer group in 2012.
- Council's liquidity position has generally been below the group average
- Council's debt servicing position was sound and Council's DSCR was on par with the group average
- Council's performance in terms of level of Infrastructure Backlog, maintenance of assets and asset renewal was generally above the group average. Council's capital expenditure was in line with 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. It 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

In completing the report, TCorp worked closely with Council management to analyse and understand the information gathered. The Council was given a draft copy of the report for their review and comment. Based on our discussions with Council:

- Council agrees with the findings of the report

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

Fairfield City Council	
Locality and Size	
Locality	Sydney Outer
Area	101.6km²
DLG Group No.	3
Demographics	
Population	187,766
% under 20	28.0%
% between 20 and 59	48.6%
% over 60	23.4%
Expected population in 2021	202,500
Operations	
Number of employees (FTE)	733
Annual revenue	$140.4m
Infrastructure	
Roads, foot paths and cycle ways	1,445 km
Drainage pipelines	461 km
Infrastructure backlog value	$34.0m
Total infrastructure value	$915.6m

Fairfield City is located in Sydney's south western suburbs, 32 kilometres from Sydney. Fairfield City is bounded by Blacktown, Holroyd and Parramatta in the north, Bankstown in the east, Liverpool City in the south, and Penrith City in the west.

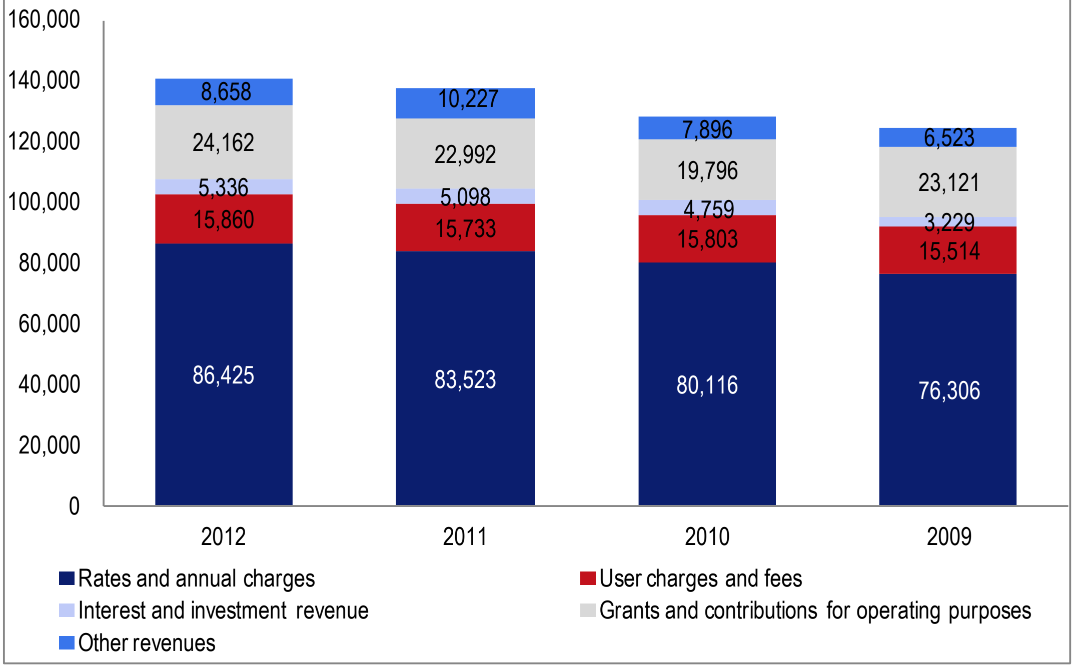
Fairfield City is home to approximately 197,000 people. It is one of the most culturally diverse cities in Australia with more than half of all residents having been born overseas, mostly in non-English speaking countries.

24,000 dwellings are expected to be added to Fairfield City by 2031, based on the dwelling target scenario of the NSW Government's Metropolitan Strategy.

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.

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



3.1: Revenue

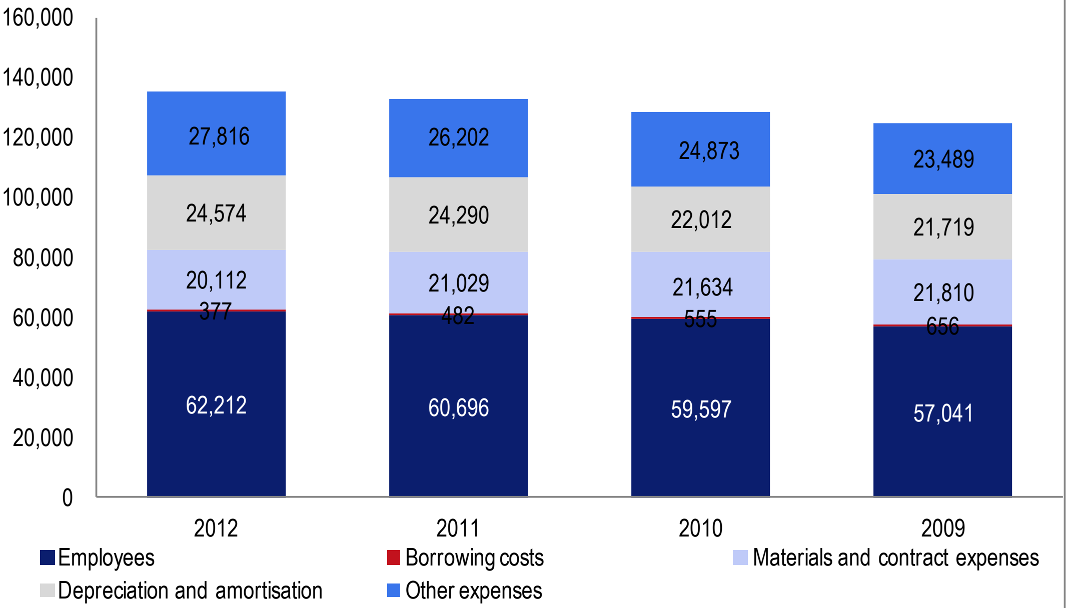
Key Observations

- Total revenue, excluding capital grants and contributions, increased by 12.6% over the four year period to $140.4m in 2012.
- Rates and annual charges have increased by 4.2% p.a. since 2009 (on a compounded annual growth basis). Growth above the standard rate pegs is the result of a SRV which has been in place since 2002. The SRV was for up to 5.0% p.a (inclusive of rate peg) and was applied to businesses in the LGA rather than residents. Business rates increased by an average of 15.8% p.a over the review period, while residential rates decreased by 3.0% p.a over the review period, as Council sought to change the composition of rates to 60/40 residential/business (from 75/25). Part of the SRV funding goes towards works to improve local and district parks. The Parks Improvement Program (PIP) has an emphasis on the provision of children's playgrounds, cycle ways and associated environmental improvements.
- User fees and charges have remained static over the four year period with an overall increase of 0.7%p.a. ($0.3m) since 2009.
- Grants and contributions increased in 2012 as all NSW councils received a prepayment of half the 2013 Financial Assistance Grant (FAG). Approximately 67.2% of Council's operating grants are FAG, and 8.2% comes from pensioner rate subsidies.

- Other revenues have increased from $6.5m to $8.7m (9.8% on a compound annual basis) since 2009. Council generally receives 40% of its other revenues ($3.6m to $3.8m p.a.) from fines, 25% ($2.0m to $2.4m p.a.) from rental income and 15% ($1.2m to $1.5m p.a.) from recycling.

3.2: Expenses

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



Key Observations

- Council's total expenses increased by 9.0% ($15.2m) from 2009 to $5.2m in 2012. On a compounded annual basis, growth was 2.9% p.a.
- FTEs decreased from 790 in 2009 to 718 in 2012. On a per employee basis, total employee costs increased by 7.8% on a compound annual basis since 2009. The growth rate was below CPI and reflects Council initiatives to control expenses over the review period.
- Borrowing costs have been declining since 2009 as Council moves towards a debt free status.
- Materials and contracts expenses decreased by 2.7% p.a. on a compound annual basis to 2012 as Council have reduced expenditure on contractor costs and consultancy costs, which reduced from a combined level of $3.8m to $1.4m over the review period.
- The Asset Revaluations process resulted in the value of Council's roads, bridges, footpaths and other structures increasing by $412.7m (20.7%) in 2010. This resulted in the depreciation charges increasing by 10.3% in the same year.

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- Other expenses have grown by 5.8% p.a. on a compounded annual basis, from $23.5m in 2009 to $27.8m in 2012. Growth has been driven by rising tipping fees and costs related to electricity and heating.

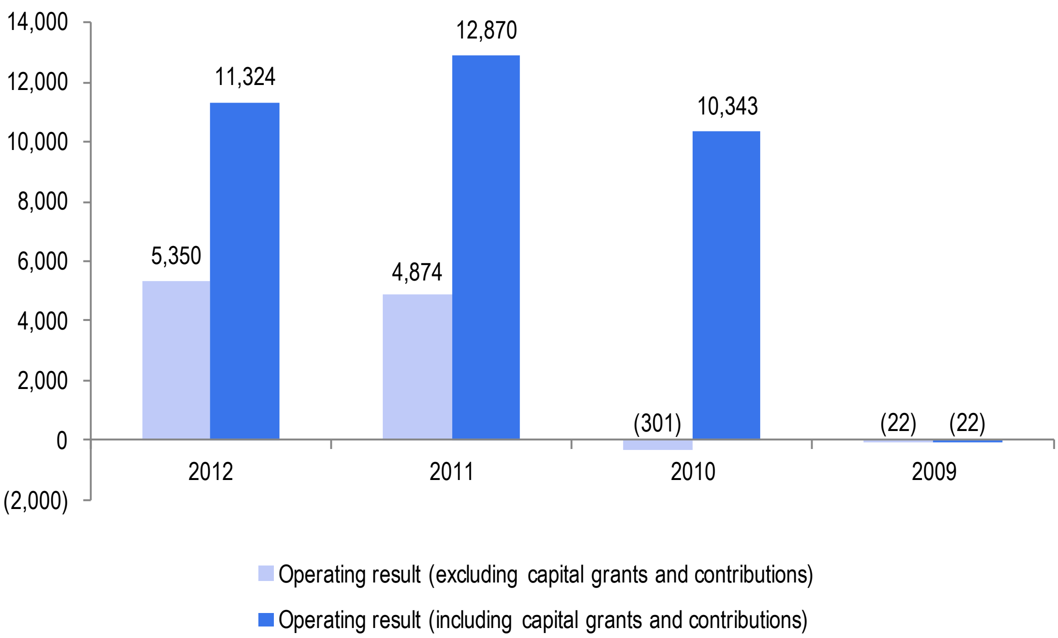
3.3: Operating Results

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 have recorded improving year on year operating results (excluding capital grants and contributions) in the previous three years. Council have been above benchmark of negative 4.0% for the past four years and had a surplus of 3.8% in 2012.
- Council expenses include a non-cash depreciation expense, ($24.6m in 2012), which has increased by $2.9m since 2009 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.

3.4: Financial Management Indicators

Performance Indicators	Year ended 30 June			
	2012	**2011**	**2010**	**2009**
EBITDA ($'000s)	30,301	29,646	22,266	22,353
Operating Ratio	3.8%	3.5%	(0.2%)	(0.0%)
Interest Cover Ratio	80.37x	61.51x	40.12x	34.07x
Debt Service Cover Ratio	12.74x	11.66x	8.81x	9.17x
Unrestricted Current Ratio	2.94x	2.24x	2.49x	3.50x
Own Sourced Revenue Ratio	69.9%	68.2%	69.0%	73.6%
Cash Expense Ratio	0.7 months	1.8 months	1.1 months	1.0 months
Net Assets ($'000s)	1,688,361	1,677,350	1,395,001	951,940

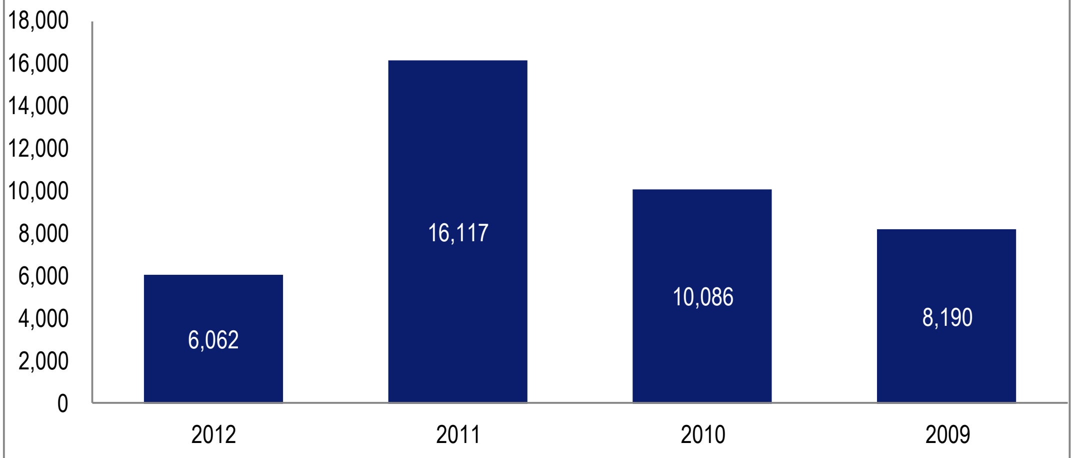
Key Observations

- EBITDA has increased consistently since 2009, growing at 10.6% p.a. on a compound annual growth basis. This growth is consistent with Council's operating trends and strong investment income growth
- Both the Interest Cover Ratio and Debt Service Cover Ratio have improved due to Council's decision to reduce borrowings
- The Unrestricted Current Ratio has been above the benchmark, indicating Council had satisfactory liquidity.
- Although the Cash Expense Ratio was below benchmark, Council has invested in long term deposits which can be used as liquidity.
- Own Sourced Operating Revenue Ratio has been above benchmark each year.
- The underlying trend in all four years has been a growing Net Asset base. Overall, the Infrastructure, Property, Plant and Equipment (IPP&E) asset base has increased with asset purchases being $47.6m greater than the combined value of disposed assets and annual depreciation.
- Council's total borrowings of $4.6m are less than 0.3% of Net Assets.

3.5: Statement of Cashflows

Key Observations

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



- Council's cash and cash equivalents decreased in 2012 following a transfer of short term deposits to long term deposits.
- In total, Council has cash and investments of $79.2m in 2012 of which $41.7m is externally restricted, $29.6m is internally restricted and $7.9m is unrestricted.
- Most of Council's investments are held in long term deposits.
- Overall the cash balances along with the Unrestricted Current Ratio indicate that Council had sufficient resources to meet their day to day obligations.

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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)

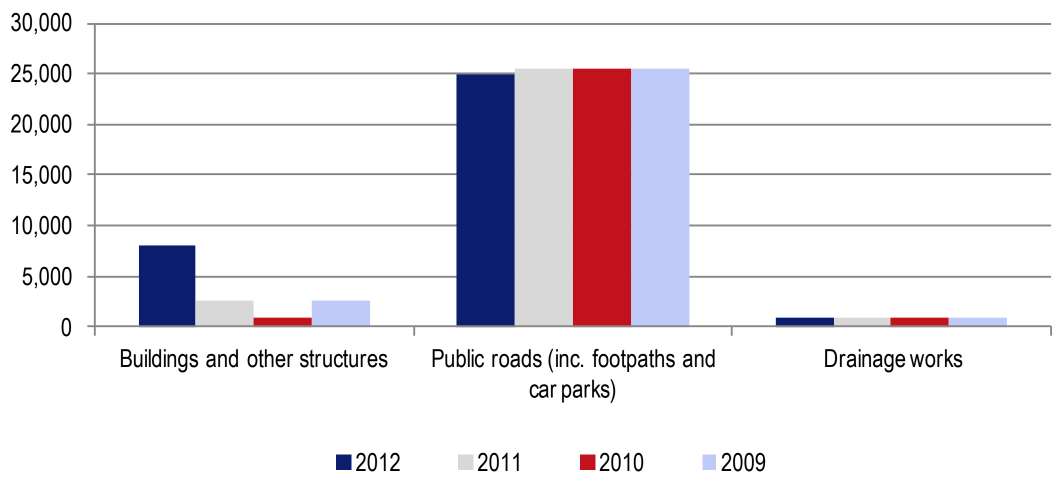
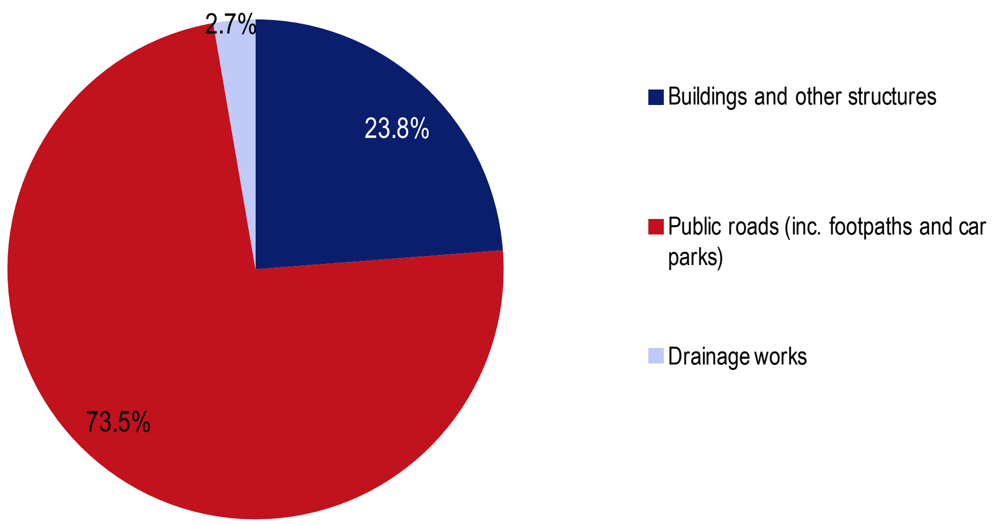


Figure 6 - Infrastructure Backlog Composition for 2011/12



Council reported a $34.0m Infrastructure Backlog in 2012, of which 73.4% ($25.0m) related to Public roads (inc. footpaths and car parks). The Backlog has remained relatively constant since 2009 in all composites but grew in value in 2012 in the buildings and other structures asset category.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	33,996	29,157	27,384	29,157
Required annual maintenance ($'000s)	24,821	22,255	20,311	22,255
Actual annual maintenance ($'000s)	20,825	19,324	16,997	19,324
Total value infrastructure assets ($'000s)	915,620	899,183	893,275	476,424
Total assets ($'000s)	1,736,662	1,731,849	1,452,011	1,004,615
Infrastructure Backlog Ratio	0.04x	0.03x	0.03x	0.06x
Asset Maintenance Ratio	0.84x	0.87x	0.84x	0.87x
Building and infrastructure asset renewal ratio	0.77x	0.89x	1.17x	1.11x
Capital Expenditure Ratio	1.28x	1.68x	1.94x	1.68x

The Infrastructure Backlog Ratio has been above the benchmark of 0.02x.

Council's Building and Infrastructure Renewals Ratio has been declining and is now below the benchmark of 1.0x. This indicates Council is now spending at levels below the required amount on asset renewal.

The Capital Expenditure Ratio, which takes into account assets which improve performance or capacity, has been on a downward trend over the past four years but remains above benchmark.

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			
	2012	2011	2010	2009
New capital works	14,291	15,872	15,165	15,872
Replacement/refurbishment of existing assets	12,107	17,666	19,865	17,666
Total	**26,398**	**33,538**	**35,030**	**33,538**

Capital works undertaken in 2012 are:

- The Canley Vale Link Road construction
- Fairfield Youth and Community Centre
- Planning for Fairfield Library
- Cabramatta Footpath upgrade
- Bonnyrigg Town Centre Car Park
- Establishment of Fairfield Town Centre Park

• Canley Heights Public Domain Works and Rumbriah Hall
• Whitlam Library Refurbishment
• 216 Sackville Street Refurbishment
• Bossley Park and Cabramatta Preschool Upgrades
• IT System Upgrades
• SRC Site Improvements
• Environmental Works – Restwell Road
• Property Development Fund Initiatives
• Libraries IT Upgrades
• Downey Lane and Nelson Street Car Park Lighting Upgrade

3.7: Specific Risks to Council

- Mortgage and rental stress. There are more families in mortgage and rental stress in Fairfield than most other areas of Sydney. People on low incomes in the private rental market find it most difficult to secure affordable housing. Whilst the LGA has some of the most affordable housing in Sydney, it is a major issue for a large number of residents who have very low incomes. As described in the executive summary of the LTFP, residents with very low incomes are more likely to experience mortgage and housing stress. The Australian Bureau of Statistics, through its Socio-Economic Indexes for Areas (SEIFA), provides comparison of social and economic conditions across Australia. One index for SEIFA is the Index of Relative Socio-Economic Disadvantage (IRSD) which contains indicators of disadvantage for low income, high unemployment and low levels of education. A low reading for an area means it has a higher level socio-economic disadvantage. Fairfield City scores only 876.07 which is the lowest within the Greater Sydney region.
- Transport. Car parking, congestion and maintenance of the road system are of concern to Council, particularly within the City Centre.
- Land development. Council is developing subdivisions in the LGA. Council is exposed to the cost of these subdivisions until such a time as a property developer acquires the land from Council. The risk is that Council will be left holding these assets for longer than anticipated. The projected population growth and dwelling increases in the LGA supports Council's land development dealings.

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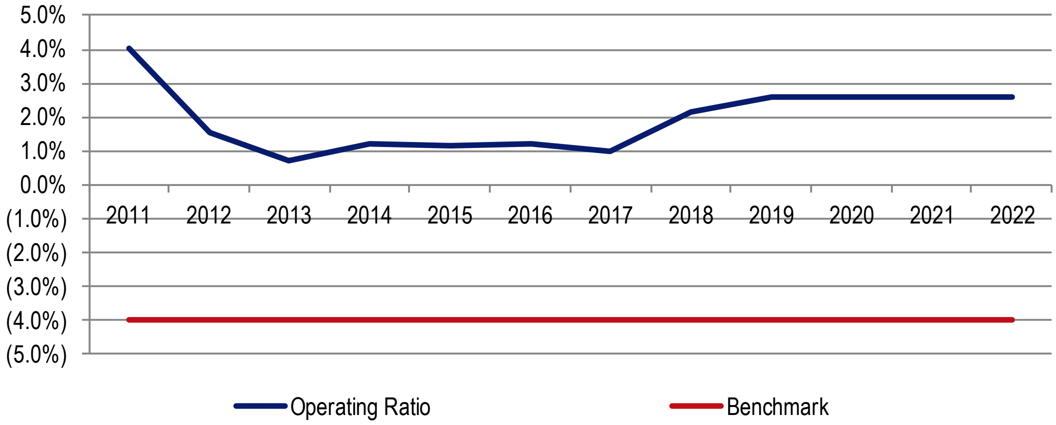
Section 4 Review of Financial Forecasts

The financial forecast model shows the projected financial statements and assumptions for the next 10 years. Council only operates one General Fund.

4.1: Operating Results

Figure 7 - Operating Ratio for General Fund



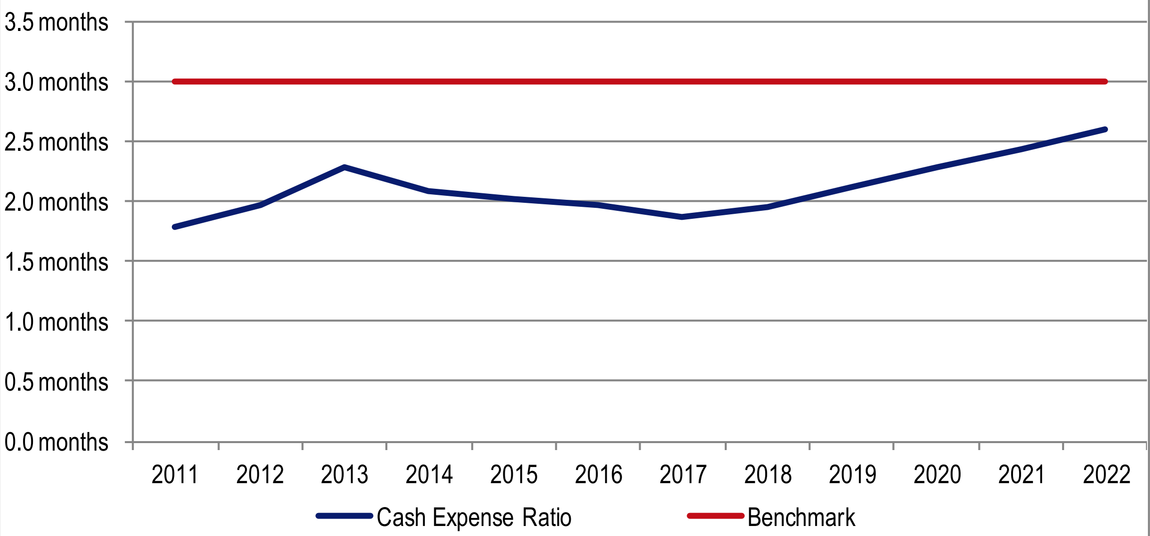
The Operating Ratio remains consistently above the benchmark indicating Council should be financially Sustainable. The decline in 2013 is largely due to the significant prepayment of Financial Assistance Grants by the Federal government in 2012 which is not forecast to re-occur in 2013. Thereafter grants are assumed to return to historical levels.

The growth in the Operating Ratio from 2017 is driven by Council's estimations of population growth and the associated rates and fees collected as a result. In addition Council forecast reducing borrowing expenses as they move towards a zero debt position by 2020.

4.2: Financial Management Indicators

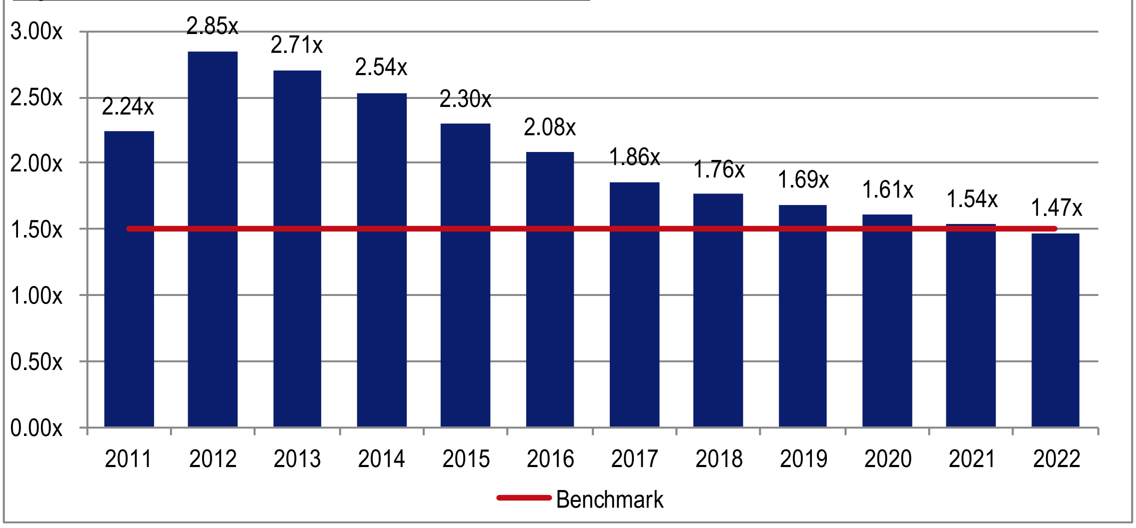
Liquidity Ratios

Figure 8 - Cash Expense Ratio for General Fund



The Cash Expense Ratio graph indicates that Council expects to have cash reserves of between one and a half to two month's cash expenses during LTFP. The ratio does not take into account Council's level of investments, and Council projects these assets to remain at the current level of $63.3m until 2022.

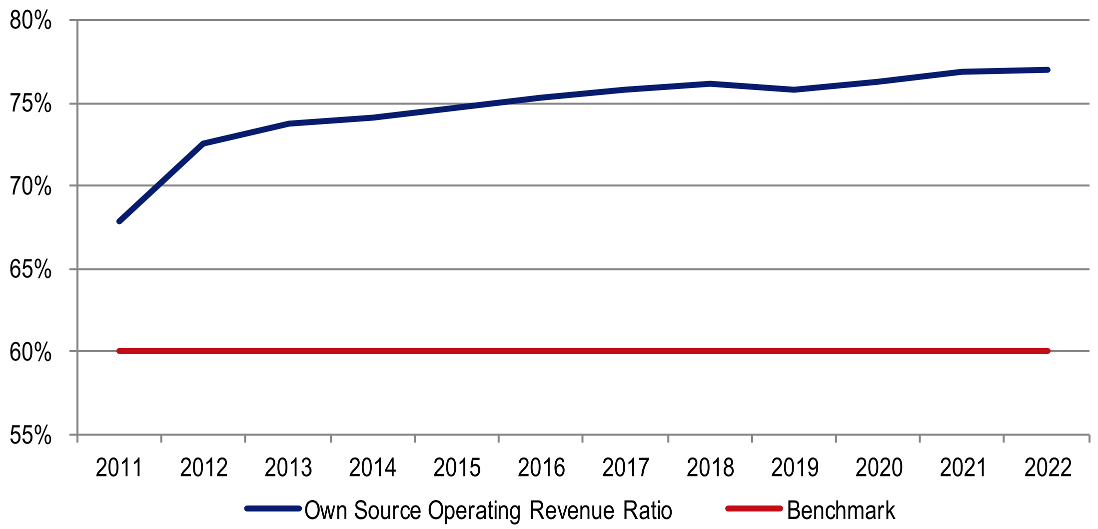
Figure 9 - Unrestricted Current Ratio for General Fund



The Unrestricted Current ratio is projected above benchmark for the majority of the LTFP, falling below benchmark in 2022. The decline in the Ratio is because the proportion of restricted assets is forecast to increase at a faster rate than unrestricted assets. This ratio indicates that Council will have sufficient liquidity to meet all of its short term obligations.

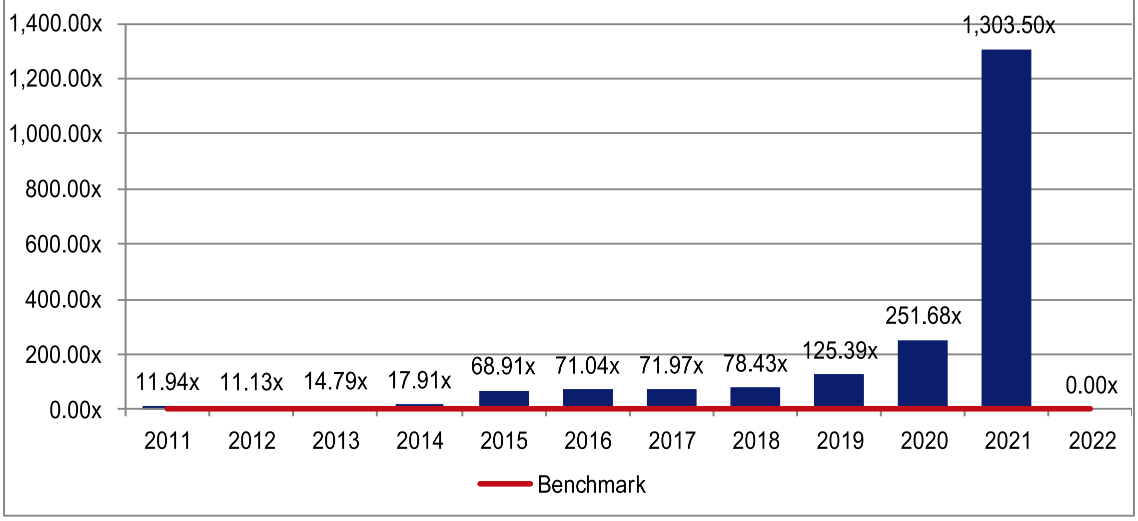
Fiscal Flexibility Ratios

Figure 10 - Own Source Operating Revenue Ratio for General Fund



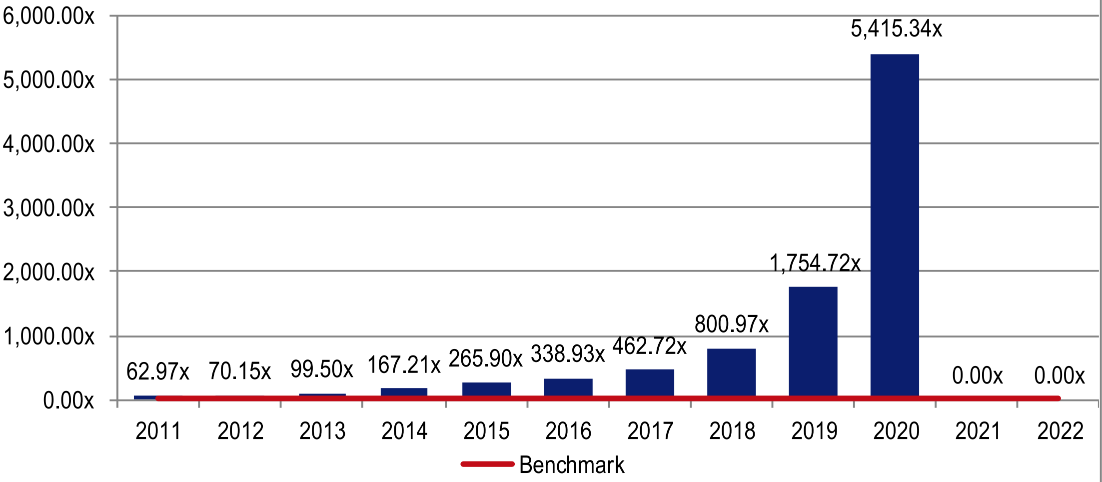
Council's Own Source Operating Revenue is above benchmark for the duration of the LTFP.

Figure 11 - DSCR for General Fund



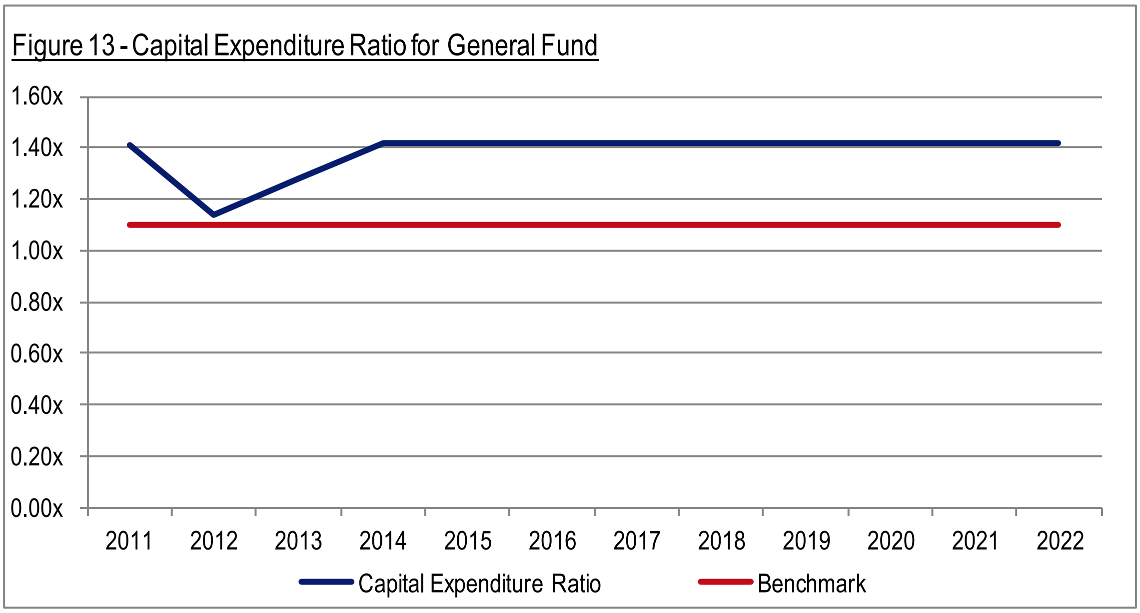
Council's DSCR is above benchmark until 2021 and falls to zero thereafter, as Council repays the final amount of outstanding debt.

Figure 12 - Interest Cover Ratio for General Fund



Council's Interest Cover Ratio is above benchmark until 2020 and falls to zero thereafter, as Council repays the final amount of outstanding debt.

4.3: Capital Expenditure



The Capital Expenditure Ratio is well above benchmark in all the forecast years.

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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%

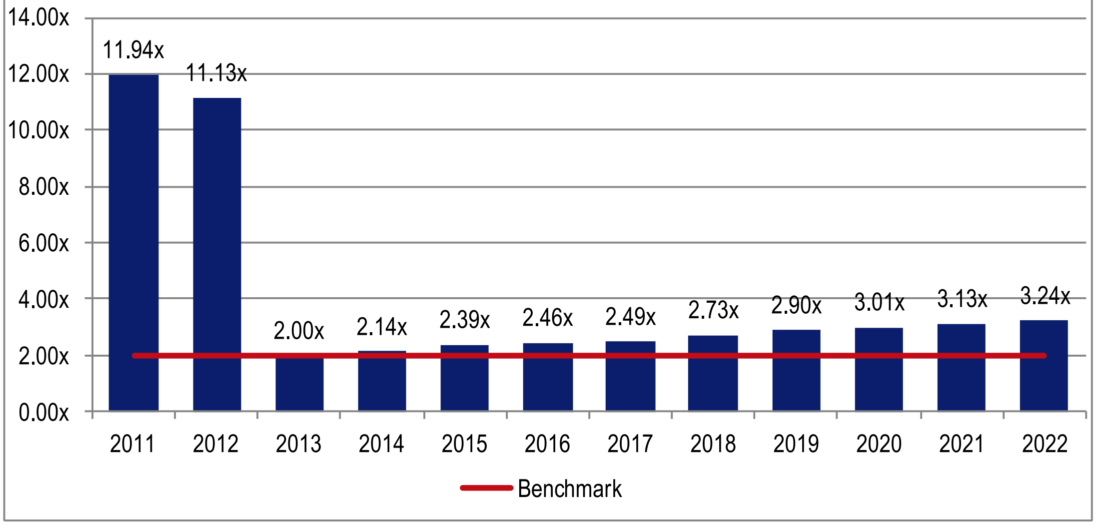
<u>Key Observations and Risks</u>

- The LTFP assumes that the current 5.0% Special Rate Variation (SRV) that concludes on 30 June 2014 will be replaced by an equivalent increase. This means that Council will be required to submit an application to IPART in early 2014.
- Total rates are forecast to increase by an average of 2.6% p.a. each year. This is a conservative assumption given the expected dwelling increase and is below the historical trends and statutory increases.
- Annual charges, which include domestic waste management services and stormwater management services, are forecast to increase by 9.9% p.a. These increases appear high when taking into account the historical trends (average 7.0% p.a growth over the review period)
- User fees and charges are forecast to increase by an average of 2.6% p.a.
- Council project an average 2.6% p.a increase in Capital Grants, which are approximately split 75% capital grants/ 25% developer contributions.
- Over the LTFP, salaries are forecast to increase at an average of 2.9% p.a. This is below our benchmark but could be attainable given Council's recent results in controlling employee expenses.
- Total employee expenses are forecast to increase by 3.2% p.a. due to increased superannuation costs.
- Materials and contracts expenses are forecast to increase by an average of 2.6% each year. This is in line with annual CPI increase estimates without an allowance for growth in services and could be considered achievable but marginally optimistic.
- Depreciation expense is forecast to increase by an average of 2.6% p.a.

4.5: Borrowing Capacity

When analysing the financial capacity of the Council we believe Council will be able to incorporate additional loan funding in addition to its existing debt facilities. Some comments and observations are:

Figure 14 - DSCR for General Fund



- Based on a benchmark of DSCR>2.0x, up to $77.0m could be borrowed in addition to any existing borrowings subject to further analysis on Council's unrestricted funds
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at a rate of 7.5% p.a.

4.6 Sustainability

Council drafted the 2020 Community Plan after extensive community consultation in 2010. This document details the community's aspirations for the LGA and creates a vision for the Council. This plan also incorporates the Metropolitan Strategy 'City of Cities A Plan for Sydney's Future', released by the Department of Planning in December 2005. These documents outline the broad vision for the future planning of Sydney and the North West subregion to 2031.

Of the key items from the Community Plan, crime, employment and transport were some of the areas that were highlighted. Council will need to work closely with other levels of government particularly on issues such as transport integration and urban development. Council recognised that the strategy plans are fluid documents which require updates and revisions through time. The cost of some of the future projects are currently incorporated in the LTFP with the assumption that capital grants and contributions, and proceeds from the sale of subdivisions will be received to fund the projects. These funding sources are not guaranteed so that there is a risk that the proposed capital projects may not proceed if funding is not secured.

The implementation of these strategies is closely linked to the future financial Sustainability of Council. While Council has a positive record of financial management, one of the biggest challenges is balancing the cost of building new infrastructure, providing services for new residents, renewing existing assets and reducing the Infrastructure Backlog. Failure to receive the forecast capital grants and contributions means that existing assets may deteriorate or backlog reduction works are delayed.

Council asset management planning has remained in a static state over the review period, with no progress on the clearing of the Backlog valued since 2009. Following further refinements to the plan, in particular in buildings and other structures, resulted in Backlog valuation growth in 2012.

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

- Council's historical financial position has been strong with operating surpluses and ample cash reserves
- Council's current LTFP shows a positive financial position over the forecast period with consistently strong operating results, sound liquidity and sufficiently planned capital expenditure to maintain existing assets at an acceptable standard plus an allowance for growth
- Council demonstrated that it has begun integrating the cost of implementing the asset management plan with its LTFP. Further refinements to asset valuation techniques and the asset management plan will continue to improve its LTFP

Section 5 Benchmarking and Comparisons with Other Councils

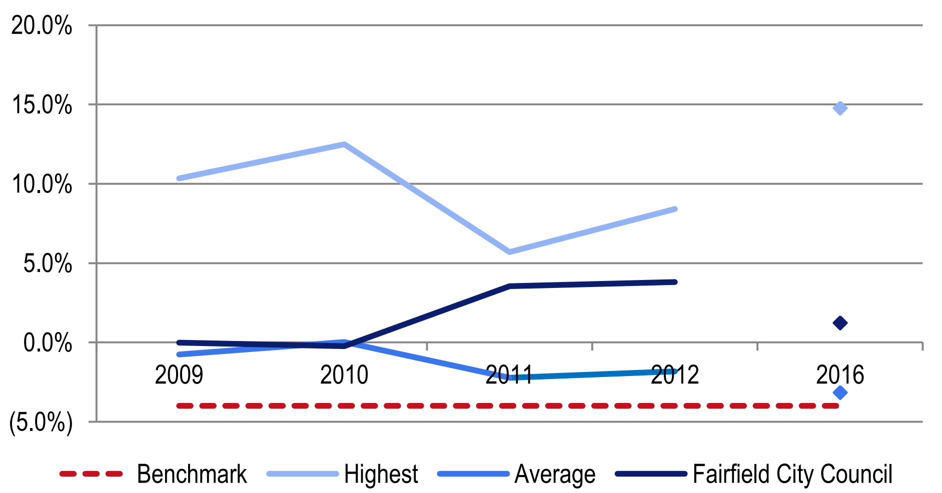
Each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis for councils operating more than one fund. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 3. There are 17 councils in this group and at the time of preparing this report, we have data for all of these councils.

In Figure 15 to Figure 24, 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 22 to 24 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.

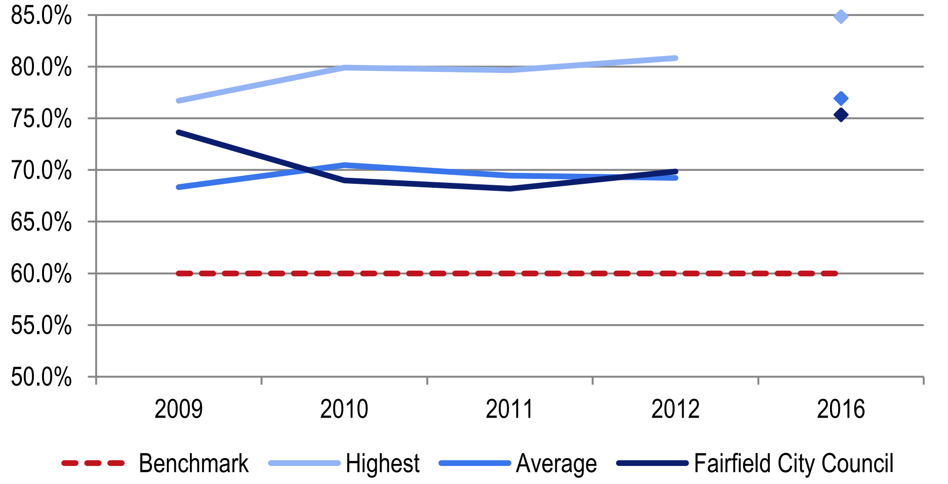
Financial Flexibility

Figure 15 - Operating Ratio Comparison



Council's Operating Ratio consistently outperformed the benchmark over the review period and was above the group average in three of the past four years. Over the medium term, Council's ratio is forecast to remain above the benchmark and the peer group.

Figure 16 - Own Source Operating Revenue Ratio Comparison



Council's Own Source Operating Revenue Ratio was consistently above the benchmark and outperformed the group average in two of the past four years. Over the medium term, Council's ratio is forecast to improve but be below the peer group.

Liquidity

Figure 17 - Cash Expense Ratio Comparison

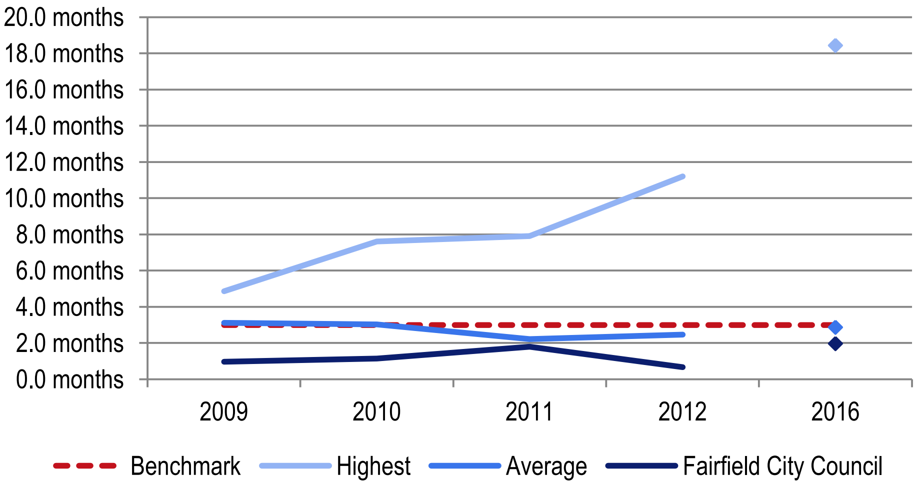
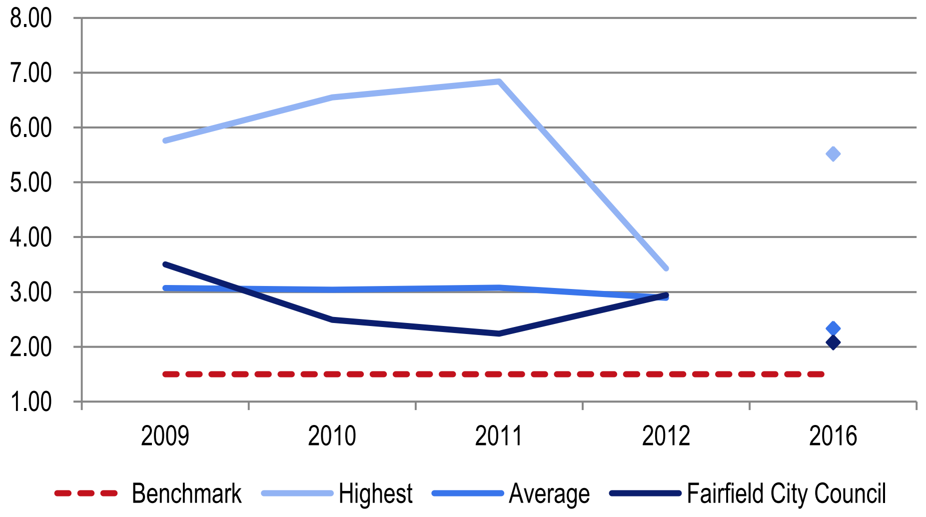


Figure 18 - Unrestricted Current Ratio Comparison



Council's Cash Expense Ratio was consistently below the group average over the review period, while Council's Unrestricted Current Ratio was slightly above the peer group in two of the past four years. Over the medium term, both of Council's liquidity ratios are forecast to be below the group average.

Debt Servicing

Figure 19 - Debt Service Cover Ratio Comparison

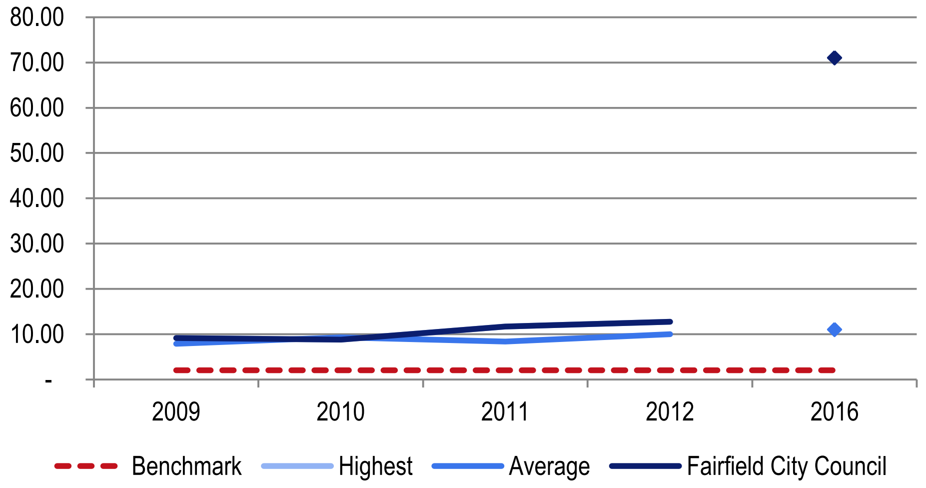
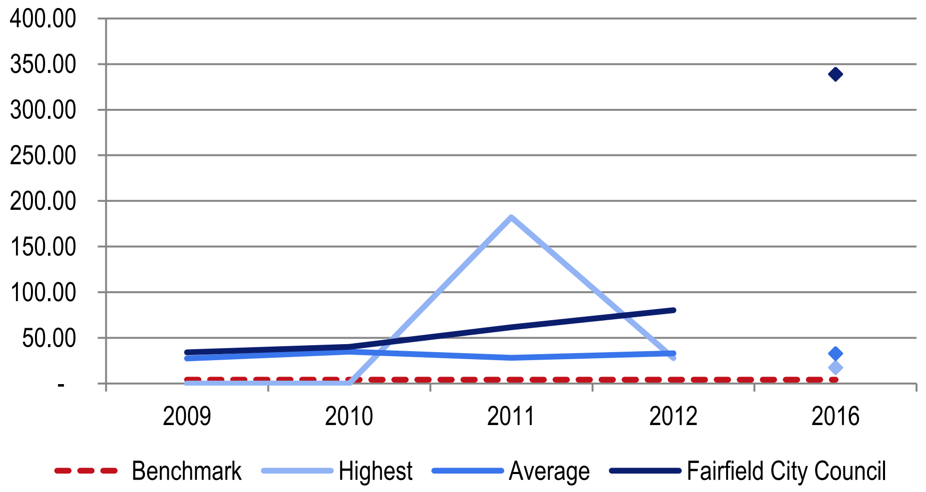


Figure 20 - Interest Cover Ratio Comparison



Council's debt servicing capacity has been sound with above benchmark DSCR and Interest Cover Ratio. Council's DSCR was generally on par with the peer group, while Council's Interest Cover Ratio was consistently above the group average. Over the medium term, Council's debt servicing capacity is forecast to remain sound and be above the peer group.

Asset Renewal and Capital Works

Figure 21 - Capital Expenditure Ratio Comparison

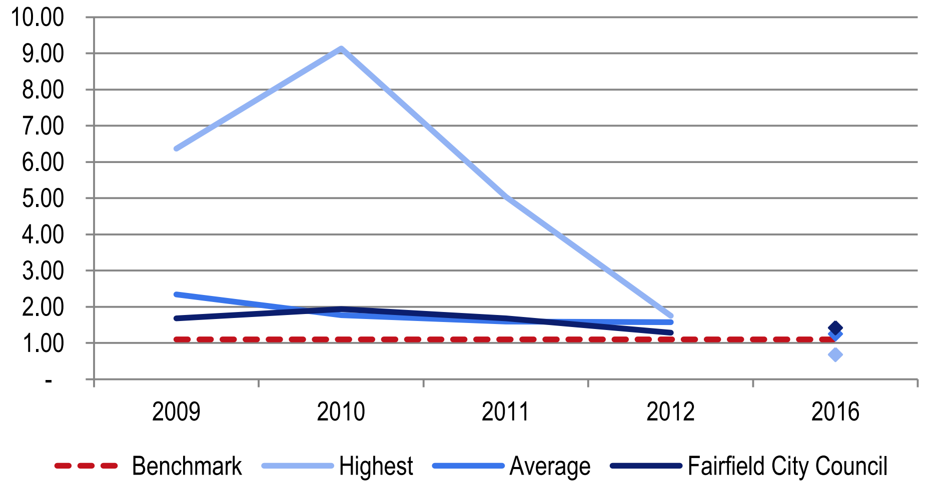


Figure 22 - Asset Maintenance Ratio Comparison

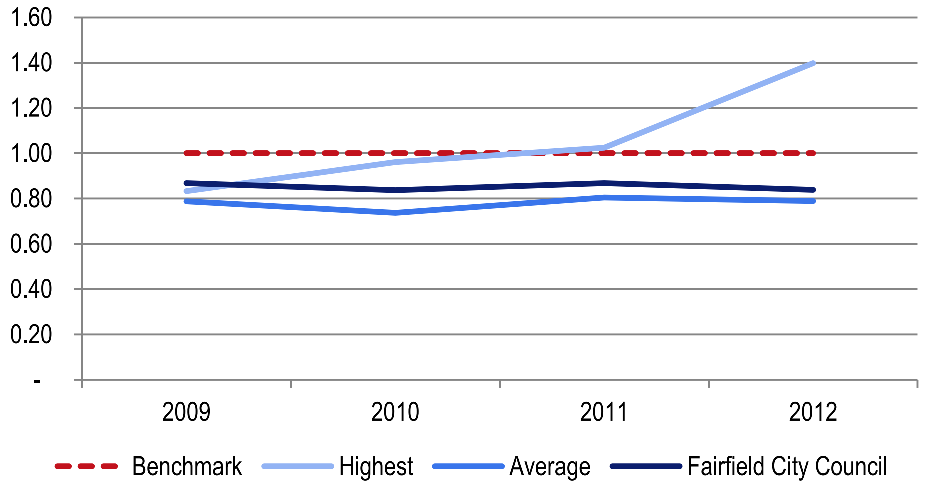


Figure 23- Infrastructure Backlog Ratio Comparison

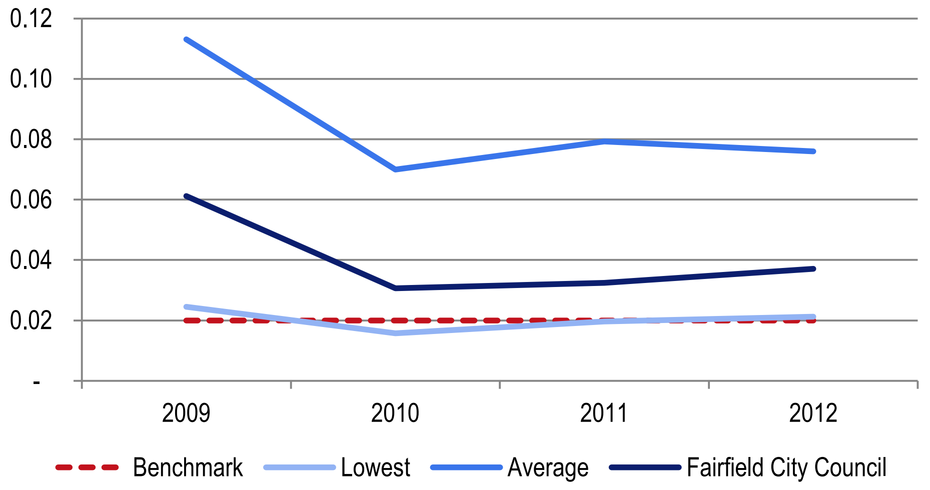
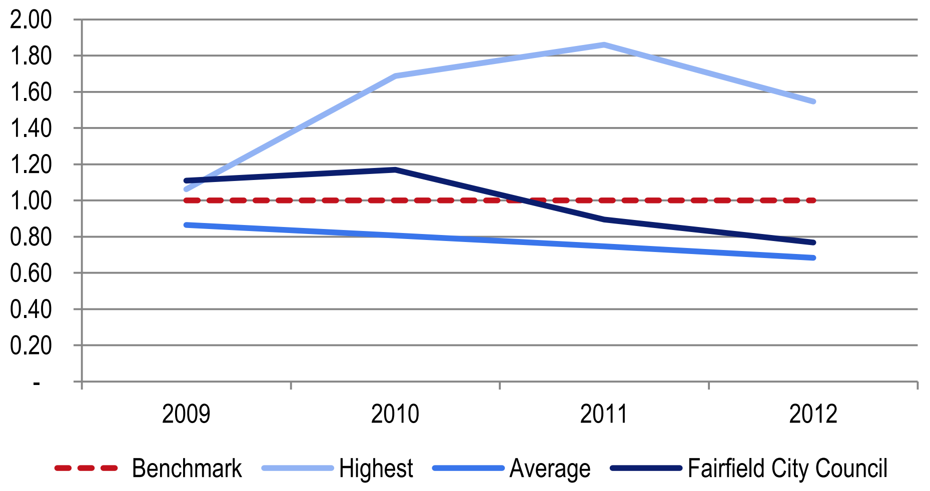


Figure 24 - Building and Infrastructure Asset Renewal Ratio



Council's level of Infrastructure Backlog was consistently above the benchmark and below the group average over the review period. Council's spending on maintenance of assets was consistently below the benchmark but above the peer group.

Council's Building and Asset Renewal Ratio declined over time but outperformed the group average in all four past years.

Council's Capital Expenditure Ratio was consistently above the benchmark and was generally in line with the peer group. This situation is forecast to remain unchanged over the medium term.

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 Sustainable.

We base our recommendation on the following key points:

- Council has recorded operating surpluses from 2009 to 2012 and this trend is forecast to continue
- The majority of Council's performance indicators were above benchmark between 2009 and 2012
- Council is currently spending sufficiently to maintain their assets at an acceptable standard
- The quality of management plans, asset management plans, and operating plans suggest that Council is well managed and adequately resourced
- Council's capital expenditure has been generally above benchmark and this is forecast to continue. This level of capital expenditure is needed to meet the increasing urban development and population growth

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

- Council has had an Infrastructure Backlog that has grown since 2009
- Council's financial position is at a sound level and it could support a moderate level of borrowings to eliminate its Infrastructure Backlog and improve intergenerational equity

New South Wales
Treasury Corporation

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	86,425	83,523	80,116	76,306	3.5%	4.3%	5.0%
User charges and fees	15,860	15,733	15,803	15,514	0.8%	(0.4%)	1.9%
Interest and investment revenue	5,336	5,098	4,759	3,229	4.7%	7.1%	47.4%
Grants and contributions for operating purposes	24,162	22,992	19,796	23,121	5.1%	16.1%	(14.4%)
Other revenues	8,658	10,227	7,896	6,523	(15.3%)	29.5%	21.0%
Total revenue	**140,441**	**137,573**	**128,370**	**124,693**	**2.1%**	**7.2%**	**2.9%**
Expenses							
Employees	62,212	60,696	59,597	57,041	2.5%	1.8%	4.5%
Borrowing costs	377	482	555	656	(21.8%)	(13.2%)	(15.4%)
Materials and contract expenses	20,112	21,029	21,634	21,810	(4.4%)	(2.8%)	(0.8%)
Depreciation and amortisation	24,574	24,290	22,012	21,719	1.2%	10.3%	1.3%
Other expenses	27,816	26,202	24,873	23,489	6.2%	5.3%	5.9%
Total expenses	**135,091**	**132,699**	**128,671**	**124,715**	**1.8%**	**3.1%**	**3.2%**
Operating result (excluding capital grants and contributions)	**5,350**	**4,874**	**(301)**	**(22)**	**9.8%**	**1719.3%**	**(1268.2%)**
Operating result (including capital grants and contributions)	**11,324**	**12,870**	**10,343**	**(22)**	**(12.0%)**	**24.4%**	**47113.6%**

Table 2 - Items excluded from Income Statement

Excluded items	2012	2011	2010	2009
Grants and contributions for capital purposes	5,974	7,996	10,644	0
Entities using the equity method	175	502	670	(13)
Net gain (loss) from the disposal of assets	86	202	(40)	61

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Table 3 - Balance Sheet

Balance Sheet ($'000s)	Year Ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Current assets							
Cash and cash equivalents	6,062	16,117	10,086	8,190	(62.4%)	59.8%	23.2%
Investments	43,351	44,832	50,255	48,483	(3.3%)	(10.8%)	3.7%
Receivables	8,181	10,397	8,901	7,153	(21.3%)	16.8%	24.4%
Inventories	591	528	613	710	11.9%	(13.9%)	(13.7%)
Other	884	611	649	754	44.7%	(5.9%)	(13.9%)
Total current assets	59,069	72,485	70,504	65,290	(18.5%)	2.8%	8.0%
Non-current assets							
Investments	29,790	18,500	24,500	34,500	61.0%	(24.5%)	(29.0%)
Receivables	940	807	777	826	16.5%	3.9%	(5.9%)
Investments accounted for using the equity method	3,461	3,285	2,783	2,113	5.4%	18.0%	31.7%
Infrastructure, property, plant & equipment	1,626,045	1,620,992	1,343,355	896,216	0.3%	20.7%	49.9%
Investment property	17,357	15,780	10,092	5,670	10.0%	56.4%	78.0%
Total non-current assets	1,677,593	1,659,364	1,381,507	939,325	1.1%	20.1%	47.1%
Total assets	**1,736,662**	**1,731,849**	**1,452,011**	**1,004,615**	**0.3%**	**19.3%**	**44.5%**
Current liabilities							
Payables	12,947	16,661	18,383	13,083	(22.3%)	(9.4%)	40.5%
Borrowings	1,497	2,001	2,360	1,972	(25.2%)	(15.2%)	19.7%
Provisions	27,613	27,884	27,810	27,607	(1.0%)	0.3%	0.7%
Total current liabilities	42,057	46,546	48,553	42,662	(9.6%)	(4.1%)	13.8%
Non-current liabilities							
Borrowings	3,076	4,573	5,774	7,634	(32.7%)	(20.8%)	(24.4%)
Provisions	3,168	3,380	2,683	2,379	(6.3%)	26.0%	12.8%
Total non-current liabilities	6,244	7,953	8,457	10,013	(21.5%)	(6.0%)	(15.5%)
Total liabilities	**48,301**	**54,499**	**57,010**	**52,675**	**(11.4%)**	**(4.4%)**	**8.2%**
Net assets	**1,688,361**	**1,677,350**	**1,395,001**	**951,940**	**0.7%**	**20.2%**	**46.5%**

Table 4-Cashflow

Cash Flow Statement ($'000s)	Year ended 30 June			
	2012	**2011**	**2010**	**2009**
Cash flows from operating activities	31,992	33,011	36,204	43,093
Cash flows from investing activities	(40,046)	(25,420)	(32,836)	(34,300)
Proceeds from borrowings and advances	0	500	500	1,000
Repayment of borrowings and advances	(2,001)	(2,060)	(1,972)	(1,781)
Cash flows from financing activities	(2,001)	(1,560)	(1,472)	(781)
Net increase/(decrease) in cash and equivalents	**(10,055)**	**6,031**	**1,896**	**8,012**
Cash and equivalents	6,062	16,117	10,086	8,190

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.

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[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.