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City of Ryde Council

Financial Assessment, Sustainability and Benchmarking Report

13 March 2013

Prepared by NSW Treasury Corporation for City of Ryde Council, the Division of Local Government and the Independent Local Government Review Panel.

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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 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 City of Ryde Council, the DLG and the Independent Local Government Review Panel. TCorp shall not be liable to City of Ryde 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 City of Ryde 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 demonstrated a sound albeit deteriorating operating performance over the review period based on the following observations:

- Council's underlying operating performance, measured by EBITDA, improved over the review period from $16.6m in 2009 to $18.2m in 2012
- Council's Own Source Operating Revenue Ratio has been above the benchmark in the last three years indicating Council's financial flexibility
- Council has had adequate liquidity as identified by an Unrestricted Current Ratio above benchmark

The Council reported $78.9m of Infrastructure Backlog in 2012 which represents 8.8% of its infrastructure asset value of $896.6m. Other observations include:

- Council's reported backlog has remained at a similar level since 2009
- Council appears to have concentrated its capital expenditure on the purchase of new assets as opposed to asset renewals or maintenance as indicated by a Capital Expenditure Ratio above benchmark and, the Asset Maintenance Ratio and Building and Infrastructure Asset Renewals Ratio below the benchmarks in both 2011 and 2012
- Council has advised that the cancellation of the Civic Centre redevelopment will add a further $39.2m to the Infrastructure Backlog total as the upgrade costs of the Civic Centre were not included in the Backlog total in 2012 on the assumption that the Civic Centre was to be replaced

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

- The version of the LTFP analysed is now out of date due to the Civic Centre redevelopment not proceeding and Council now deciding against applying for an SRV at the present time

- Council is likely to forecast continuing operating deficits when capital grants and contributions are excluded for all 10 years when a SRV is not utilised. Council will not be able to fully fund their asset renewals, leading to the Infrastructure Backlog continuing to increase

- Council's liquidity was forecast to become tighter with funds being utilised for the redevelopment. These funds are likely to be reassigned for maintenance of the existing Civic Centre however funds may not decrease at the rate previously forecast

As the LTFP analysed is now out of date TCorp is not in a position to analyse if Council has the capacity to undertake additional borrowings.

In terms of financial Sustainability, TCorp believes Council has historically been in a sound operating position however their position has been deteriorating and they have not been able to reduce their Infrastructure Backlog. TCorp assumes Council will forecast operating deficits in each of the next 10 years with an inadequate level of capital expenditure forecast when compared to benchmark.

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

- The ongoing dispute between senior management and certain councillors is likely to impact the efficiency of the Council to work effectively towards a Sustainable future. TCorp understands that the General Manager has resigned on 8 February 2013

- If Council continues to provide the same level of services there will be an ongoing annual shortfall which over the long term will deplete cash reserves and result in Council becoming financially unsustainable

- The Infrastructure Backlog is approximately $120m because Council did not include the Civic Centre upgrade costs of $39.2m within the Backlog total in 2012

- The assumed ongoing operating deficits will further impact this position with Council unable to fund the necessary renewal works against annual depreciation

- Council has postponed the possible SRV application in 2014 following the 2012 elections however it is important that the new Council explore the options available to reduce the projected funding gap

- If Council is unable to raise additional revenues then they will have to explore reducing service levels or operate with a reduced quality of assets so as to become Sustainable

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 Own Source Operating Revenue Ratio is generally in line with the group average

- Council has more relative capacity to utilise further borrowings than the group average as it has a stronger DSCR and Interest Cover Ratio

- Council was in a sufficient liquidity position and was above the group average liquidity level with all their funds held within cash and cash equivalents as opposed to investments

- Council's Capital Expenditure Ratio is marginally above the group average however they have a comparatively high level of Infrastructure Backlog

- Asset maintenance funding has been on a downward trend, decreasing below the benchmark and group average in 2012. Asset renewals have been below benchmark since 2010 but increased above the group average in 2012

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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 and has acknowledged....]

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.

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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

City of Ryde Council	
Locality and Size	
Locality	Sydney Outer
Area	40.5 km
DLG Group No.	3
Demographics	
Population as at 30 June 2011	103,038
% under 20	22%
% between 20 and 59	59%
% over 60	19%
Expected population in 2021	117,200
Operations	
Number of employees (FTE)	427
Annual revenue	$90.0m
Infrastructure	
Roads	321 km
Bridges	26
Infrastructure backlog value	$78.9m
Total infrastructure value	$896.6m

City of Ryde Council Local Government Area (LGA) is located 12 km North West of central Sydney and occupies most of the divide between the Parramatta and Lane Cove rivers. There are 16 suburbs within the LGA, with a mix of residential living and business, retail and educational centres. There is also a wide range of natural landscapes, parks, waterways and areas of historical significance.

Educational and health facilities within the LGA include Macquarie University, Ryde and Meadowbank Colleges of TAFE, the CSIRO, Ryde Hospital, the Gladesville Macquarie Hospital, the Royal Rehabilitation Centre, Macquarie University Hospital and the Children's Cochlear Implant Centre.

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

- $469.1m of roads, bridges and footpaths
- $250.7m of stormwater drainage
- $75.3m of non specialised buildings
- $57.6m of other structures
- $29.0m of specialised buildings
- $2.8m of depreciable land improvements

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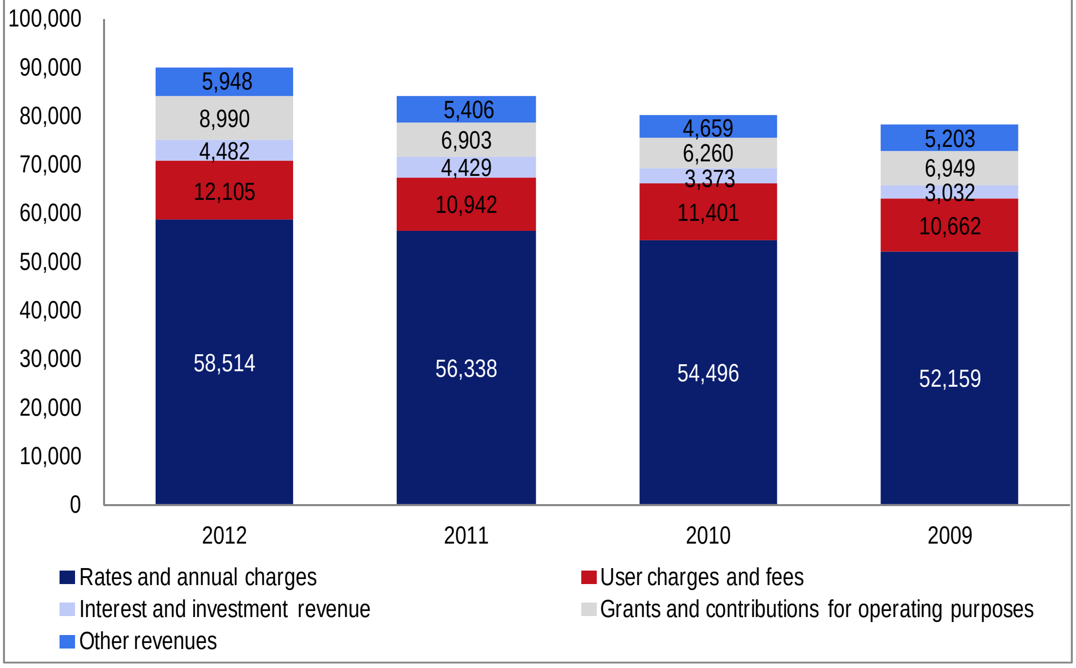
Section 3 Review of Financial Performance and Position

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 2011/12 ($'000s)



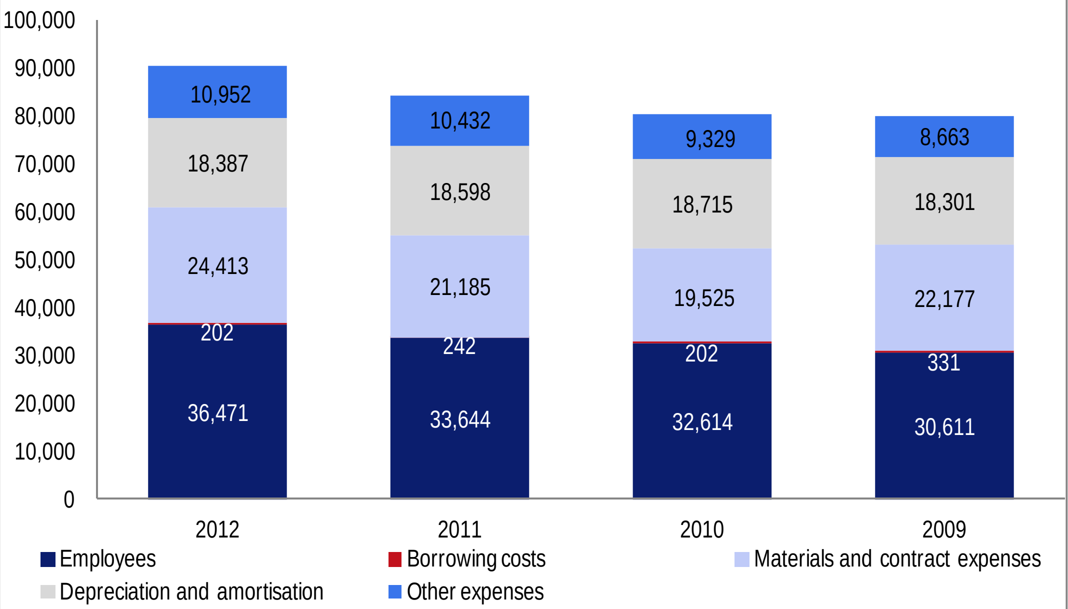
Key Observations

- Total operating revenues have increased by $12.0m (15.4%) over the review period to $90.0m in 2012.
- Rates and annual charges have increased steadily over the four year period and are the main operational revenue generator at 65.0% of the total in 2012. Domestic waste management services and residential ordinary rates were the main contributors in 2012. Council has received a special rate across the four year period relating specifically to business rates at Macquarie Park that has provided just over $1m p.a. for additional infrastructure costs in that area.
- User charges and fees have been on an upward trend over the review period and were highest in 2012. The main contributors are the aquatic centre at $4.5m, regulatory/statutory fees of $1.7m and road restorations of $1.5m in 2012 which experienced a $0.7m increase.
- Operating grants and contributions increased by $2.0m in 2012 due to an RMS contribution in relation to roads and bridges and the increased general purpose Financial Assistance Grant (FAG) due to the prepayment of half of the 2013 payment of $1.5m.

- Within other revenues, parking fines provide over 50% of the revenues with $3.1m received in 2012 while property rental income brought in $1.2m.

3.2: Expenses

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



Key Observations

- Total operating expenses have increased by $10.3m (12.9%) over the review period to $90.4m in 2012.

- Employee costs have consistently increased with the largest annual increase in 2012 of 8.4% due to a $2.7m increase in employee leave entitlements (ELE). The ELE increase was due to a transfer of liabilities from employees that transferred to Council and also the change in the discount factor related to the liability calculation.

- Materials and contracts have been on an upward trend since 2010 and increased 15.2% in 2012. Contractor and consultancy costs increased by $3.0m to $22.6m due to various additional works including footpath restorations and non-domestic waste management.

- Depreciation has remained relatively consistent over the four years and marginally decreased in 2011 and 2012. This is due to the fact that Council completed the Asset Revaluation process in 2009 but that since then, the total value of infrastructure assets has declined marginally.

- Other expenses have been on an upward trend over the four years with the waste levy of $2.3m and street lighting of $1.8m being the largest contributors in 2012.

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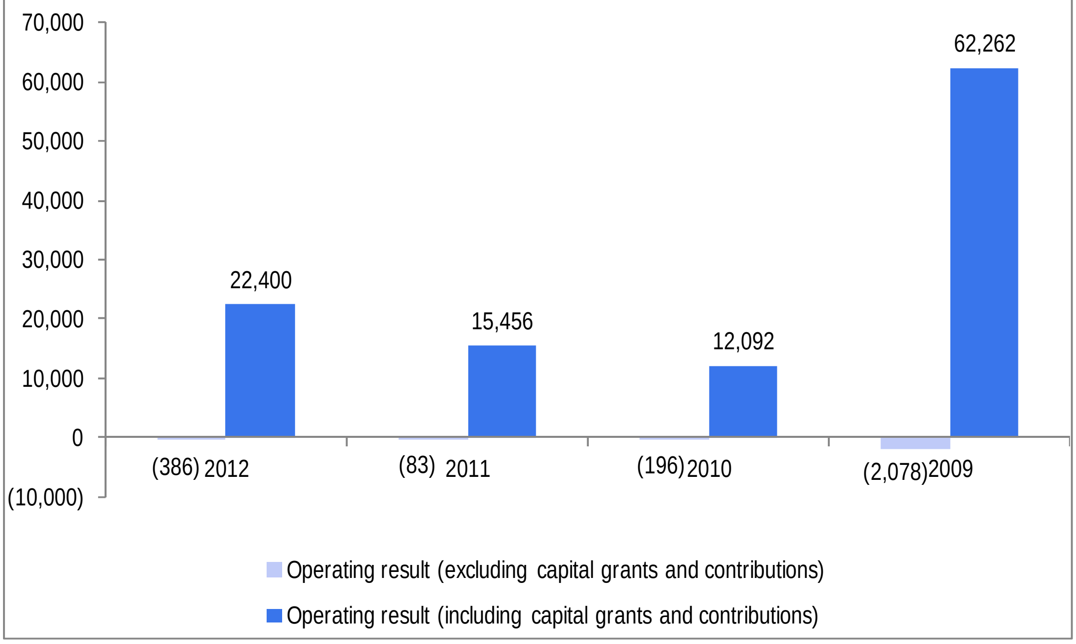
3.3: Operating Results

TCorp has made some standard adjustments to focus the analysis on core operating council results. Grants and contributions for capital purposes, realised and unrealised gains on investments and other assets are excluded, as well as one-off items which Council have no control over (e.g. impairments).

TCorp believes that the exclusion of these items will assist in normalising the measurement of key performance indicators, and the measurement of Council's performance against its peers.

All items excluded from the income statement and further historical financial information is detailed in Appendix A.

Figure 3 - Operating Results for 2008/09 to 2011/12 ($'000s)



Key Observations

- Council has posted operating deficits in all four years excluding capital grants and contributions although they have been only marginally negative in the last three years.
- The advance payment of half the 2013 FAG improved the 2012 operating deficit result.
- The 8.4% increase in employee costs and 15.2% increase in materials and contracts were the main drivers in expense increases in 2012 that Council needs to manage going forward.

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3.4: Financial Management Indicators

Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA ($'000s)	18,203	18,757	18,721	17,231
Operating Ratio	(0.4%)	(0.1%)	(0.2%)	(1.8%)
Interest Cover Ratio	90.11x	77.51x	92.68x	52.06x
Debt Service Cover Ratio	28.27x	28.04x	29.76x	16.09x
Unrestricted Current Ratio	3.72x	4.79x	4.67x	3.45x
Own Source Operating Revenue Ratio	62.6%	67.6%	71.3%	43.9%
Cash Expense Ratio	2.3 months	1.6 months	5.4 months	8.8 months
Net assets ($'000s)	2,231,511	2,208,265	2,192,278	2,214,394

Key Observations

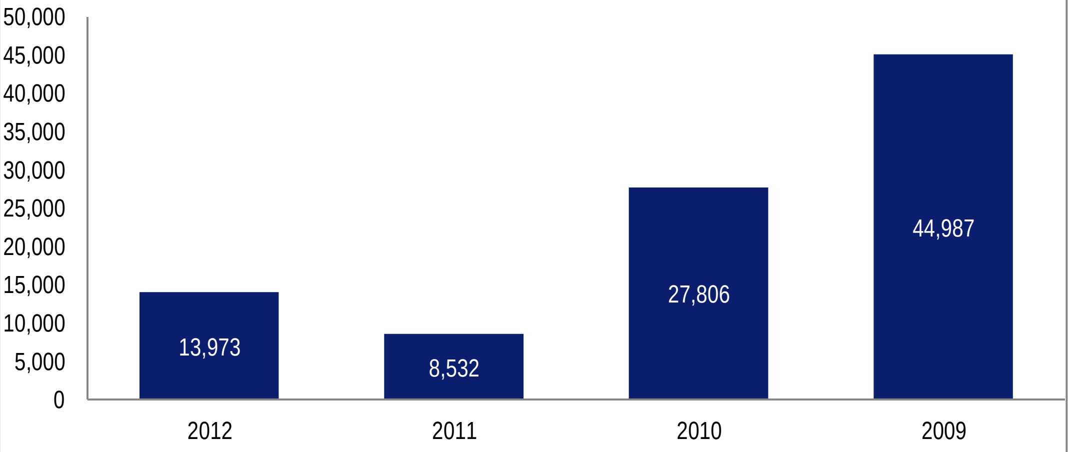
- Council's underlying operating performance (measured using EBITDA) has been relatively consistent over the four year period, but has marginally decreased in 2012 compared to 2010 and 2011 despite the advance payment of the FAG.
- The Operating Ratio has been above the benchmark of negative 4% in each year and has improved from the weakest result in 2009.
- Council has a strong DSCR and Interest Cover Ratio across the four years, and both ratios are significantly above the relative benchmarks of 2.0x and 4.0x. This indicates that Council had sufficient capacity to manage their borrowings and have the ability to utilise additional borrowings if required.
- Council's total borrowings stand at $3.9m in 2012, a decrease from $5.2m in 2009. This equates to 0.2% of Net Assets in 2012.
- The Unrestricted Current Ratio fluctuated but has been above the 1.50x benchmark in each year of the review period.
- The Own Source Operating Revenue Ratio has been above the benchmark in each of the last three years, with Council's receipt of a large level of capital grants and contributions in 2009 impacting the ratio in that year.
- The Cash Expense Ratio has also varied in each year but has reduced from 2009 and 2010 due to Council utilising additional investment securities to maximise investment returns as detailed in Section 3.5.
- Net Assets have remained fairly consistent over the period, unlike the majority of councils who have seen significant amendments due to the Asset Revaluations process. Council did not see significant changes in their asset values over the review period as their Asset

Revaluations were completed by 2009. The only impact was an $8.6m decrease in the value of roads, bridges and footpaths in 2009.

- When the Asset Revaluations are excluded there has been a $81.2m increase in the IPP&E asset base over the three year period, compared to the written down value of disposed assets and depreciation.

3.5: Statement of Cashflows

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



Key Observations

- Council's cash and cash equivalents have varied over the four year period. Council's funds are mainly held in investment products and the decrease in cash and cash equivalents since 2009 is due to a higher level of investments.

- Overall cash, cash equivalents, and investments have increased from $66.4m in 2009 to $79.1m in 2012. Of the $79.1m, $20.9m is externally restricted, $50.9m is internally restricted and $7.3m is unrestricted.

- Within the investments portfolio of $65.1m valued at 30 June 2012, $44.2m is invested in term deposit accounts and bank bills, $18.9m in FRNs and $2.0m in fixed bonds.

- The level of cash and investments along with the Unrestricted Current Ratio above the benchmark indicates Council had sufficient liquidity during the review period.

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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)

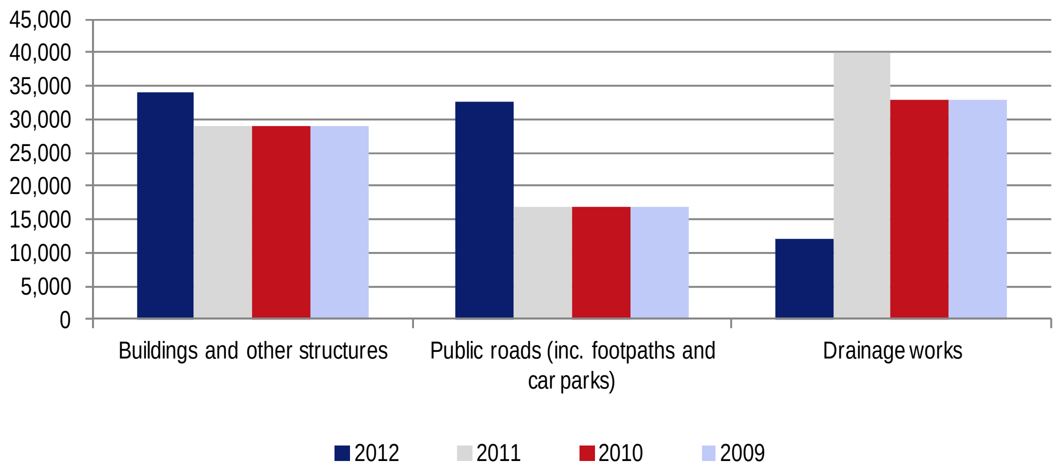
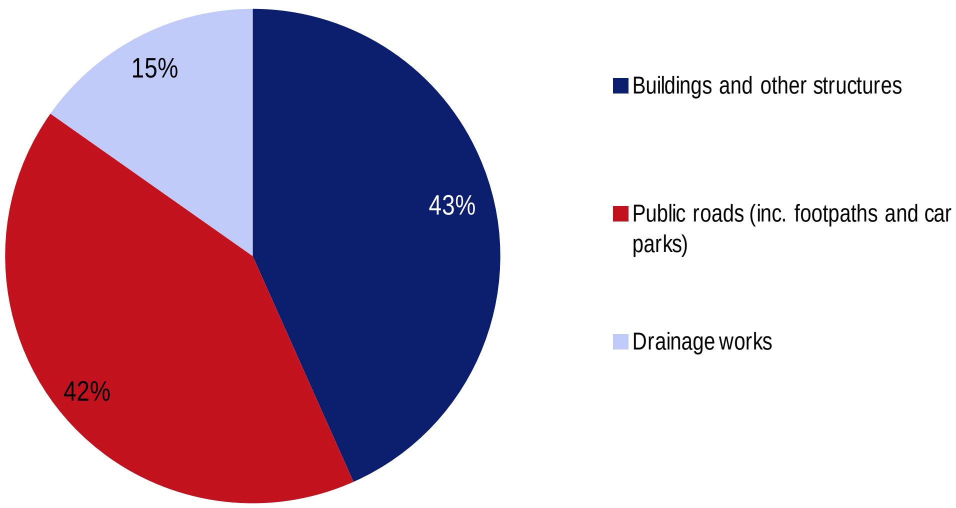


Figure 6 - Infrastructure Backlog Composition for 2011/12



Council's reported Infrastructure Backlog, at $78.9m in 2012, is the same level as in 2009 but with variations between the distributions of the Backlog value between the different categories of assets. In 2012 an increase in the Backlog value of buildings and other structures ($34.2m), and public roads ($32.7m) was offset by a decrease in the Backlog value of drainage works ($12.0m).

The reason for these changes in the different asset categories was a refinement of the AMP and the update of the condition ratings used to measure the standard of the assets.

Council have stated that following the recent cancellation of the proposed Civic Centre redevelopment, the Backlog value for buildings and other structures is likely to increase by approximately $39.2m. This indicates that Council has been under reporting its level of Infrastructure Backlog.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	78,887	85,936	78,936	78,936
Required annual maintenance ($'000s)	21,864	15,598	15,598	15,213
Actual annual maintenance ($'000s)	15,191	15,272	15,659	20,664
Total value of infrastructure assets ($'000s)	896,611	889,809	914,666	866,810
Total assets ($'000s)	2,261,153	2,235,961	2,219,857	2,242,732
Building and Infrastructure Backlog Ratio	0.09x	0.10x	0.09x	0.09x
Asset Maintenance Ratio	0.69x	0.98x	1.00x	1.36x
Building and Infrastructure Renewals Ratio	0.80x	0.48x	0.49x	1.23x
Capital Expenditure Ratio	1.82x	1.58x	1.99x	4.92x

The Building and Infrastructure Backlog Ratio has remained consistent between 0.09x and 0.10x due to the fact that the backlog has remained at a similar level and Council's total value of infrastructure assets has not been significantly impacted by the Asset Revaluations process during the period.

The Asset Maintenance Ratio has been on a downward trend resulting in it being below the benchmark in 2011 and 2012. Council needs to attempt to reverse this trend if they are going to adequately provide investment for maintaining the operating standard of their assets going forward. The required annual maintenance increased in 2012 due to an updated AMP that provided up to date data.

The Building and Infrastructure Renewals Ratio has been below the benchmark for the last three years but did improve towards the benchmark in 2012. This indicates that Council has not invested enough to renew assets to their satisfactory standard in the last three years.

Council's Capital Expenditure Ratio, which takes into account assets which improve performance or capacity, has been above the benchmark in all four years. This indicates that the Council is expanding their Net Assets by a sufficient amount each year to manage the growth of the LGA and the related increase in asset utilisation.

Based on the ratios in comparison to their benchmarks, it appears that Council is focussing their capital expenditure on new assets more so than the maintenance or renewals of existing assets.

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3.6(c): Capital Program

Council's capital works program in 2011 and 2012 included:

- Completion of the new Top Ryde library
- Completion of the Ryde Community Sports Hall
- Completion of the Ryde Planning and Business Centre
- Completion of the West Ryde Community Hub
- Stormwater management projects
- Ryde Aquatic Centre renewal
- Town centre upgrades

3.7: Specific Risks to Council

- Civic Precinct Redevelopment. The redevelopment of Council's Civic Centre is an issue that has under consideration by Council from 1995 until September 2012. The redevelopment of the Ryde Town Centre shopping centre between 2004 and 2010 increased the potential of redeveloping the Civic Precinct site.

  Council received expert advice that indicated that the Council's Civic Centre and Hall were obsolete in terms of current building, accessibility and safety standards. Initial Quantity Surveyor advice estimates that to remediate the existing buildings to Building Code of Australia (BCA) standards would cost $39.2m and would extend the buildings life by 20 years. Without the improvements to BCA standards, an estimated $20m would be required to make the necessary improvements to keep the building in an operational condition for the next 10 years. In addition the current operating costs of the building, costs Council an additional $0.2m p.a. more compared to a similar modern building while there is an anticipated $0.5m p.a. capital cost to keep the building functioning.

  Since 2010, Council resolved to pursue the redevelopment of the site to renew its aging assets at minimal cost to Council. Council concluded tender negotiations with its preferred tenderer Lend Lease shortly after the recent Council elections. This arrangement would have given development rights for residential apartments which would have added value to Council's balance sheet in addition to the new civic centre and administration buildings.

  In September 2012, the incoming Council resolved not to proceed with the redevelopment proposal. This will expose Council to significant potential upgrade and ongoing costs mentioned above that are currently not reflected in the LTFP.

- Inability to reduce the Infrastructure Backlog. Council's current reported backlog total is the same in 2012 as it was in 2009. TCorp understands that the reported backlog did not include sufficient allowance for the works required on the Civic centre as Council was proposing to replace the building. With the decision to not proceed with the building replacement the Backlog value will increase by $39.2m. Council recognises the challenges in relation to the Infrastructure Backlog and has arranged a series of workshops with the recently elected Council for them to fully understand the issue with Council forecasting future shortfalls in asset maintenance and renewals funding that is likely to further impact the Backlog total.

- Increasing population. With Council located within the Sydney Metropolitan Area it is forecast to increase in population over the next 10 years at rates higher than the majority of LGAs. Council has to manage the projected growth while providing the additional services required by the growing population. With this also comes a higher expectation from the community as detailed within the Community Strategic Plan that will result in Council's operating budget coming under additional pressure. The additional costs involved in providing these services are currently estimated to be higher than the additional revenues received from the growing population.

Section 4 Review of Financial Forecasts

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

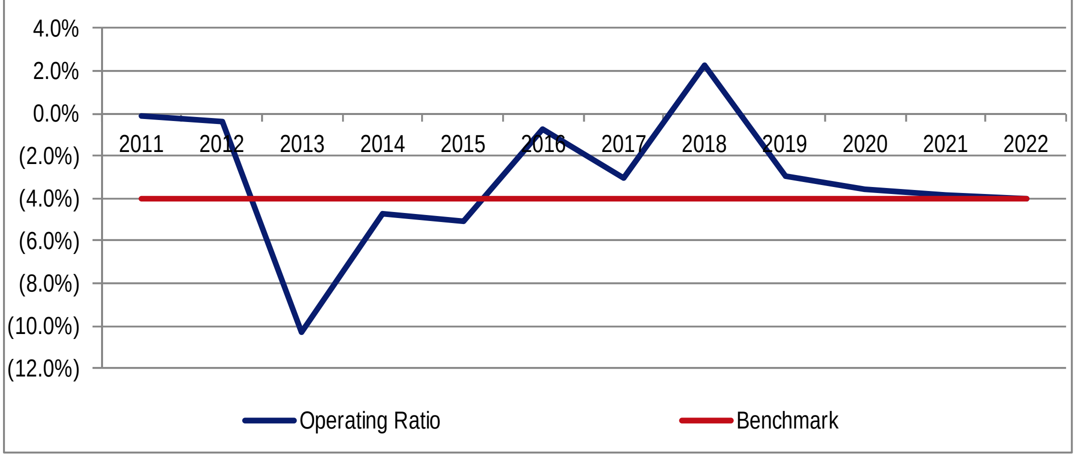
Council completed their Resourcing Strategy for the first time in 2012 and this version of the LTFP is not integrated with the Asset Management Plan (AMP) or Workforce Plan (WP). Council hope to have these three documents fully integrated after public consultation of the AMP and WP along with the Community Strategic Plan (CSP) following the Council elections recently completed in September 2012.

At this time the LTFP only has a ‘current state’ scenario and this is what our analysis has focussed upon. In future versions of the LTFP it is proposed to add three further scenarios to reflect the requirements of the AMP, the WP, and the AMP and WP combined.

Within the LTFP there are total borrowings forecast to be utilised between 2014 and 2018 of $52.6m that predominantly relate to the redevelopment of the Civic Centre. This development was at the centre of disagreement within the previous Council and as previously stated, the newly elected Council has decided against progressing with this development at the present time. The LTFP also includes a 5% SRV that was proposed to commence in 2014 that has now been postponed. The SRV did not relate to the redevelopment of the Civic Centre.

4.1: Operating Results

Figure 7- Operating Ratio for General Fund



Council is projecting operating deficits excluding capital grants and contributions in nine of the 10 years to 2022, hence the negative Operating Ratio in every year except 2018.

With the exception of 2018, Council is expecting the operating deficit to be larger than the marginal deficits of 2011 and 2012. This highlights Council’s concerns that continuing to offer the existing level of services will impact Council’s ability to achieve a break even position. The two spikes in 2016 and 2018 will now not occur as they related to forecast increases in interest and investment revenues with Council benefitting from having higher cash balances for a period following the drawdown of borrowings in relation to the Civic Centre redevelopment.

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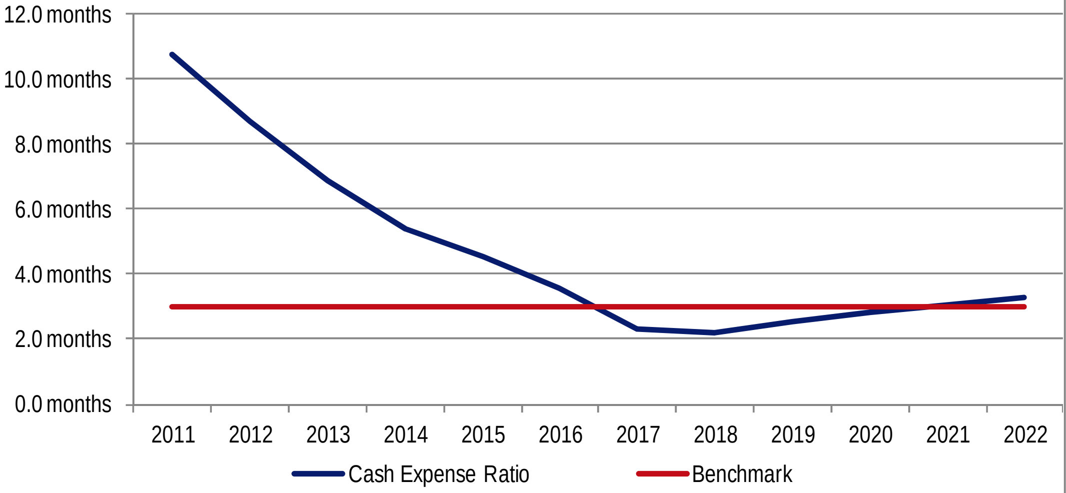
The forecast improves in 2014 due to a proposed 5% SRV in that year but as this has been postponed for the present time, the forecast for the 'current state' scenario is likely to appear worse than this Operating Ratio figure. The new Council will be meeting during this financial year to discuss the options to meet the annual shortfall of funding, including consideration of the need for applying for a SRV in the future.

4.2: Financial Management Indicators

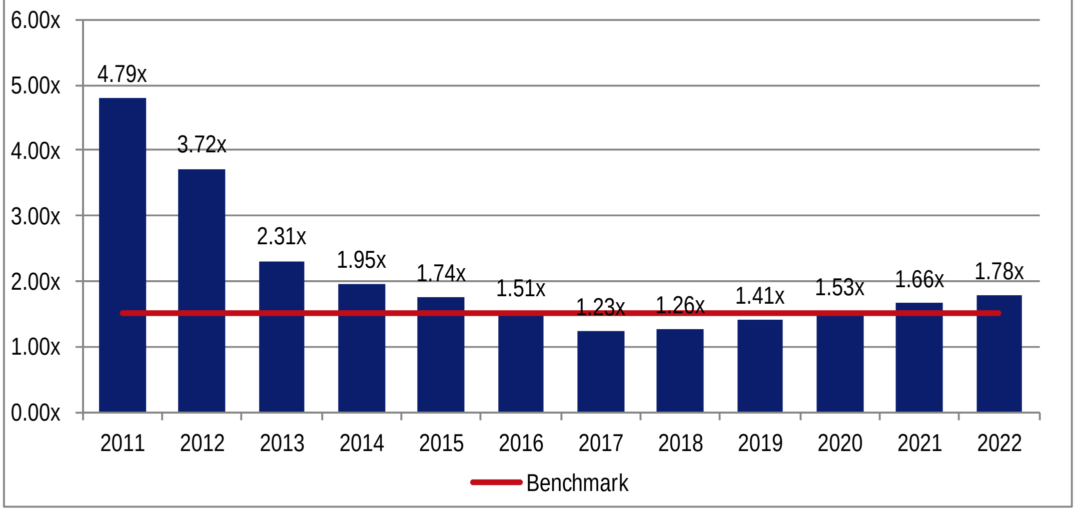
Liquidity Ratios

Figure 8 - Cash Expense Ratio for General Fund inc. current investments



Council holds the majority of its current funds in investments and these have been included in the above figures for our analysis. The Cash Expense Ratio will reduce to below the benchmark in 2017 before gradually improving above the benchmark again in 2022. The proposed Civic Centre redevelopment and the annual shortfall in asset maintenance and renewal funding is the main reason for the scheduled decrease in cash and investments. A portion of the funds to be utilised for the Civic Centre redevelopment will have to be re-allocated to the maintenance costs of the existing building.

Figure 9 - Unrestricted Current Ratio for General Fund

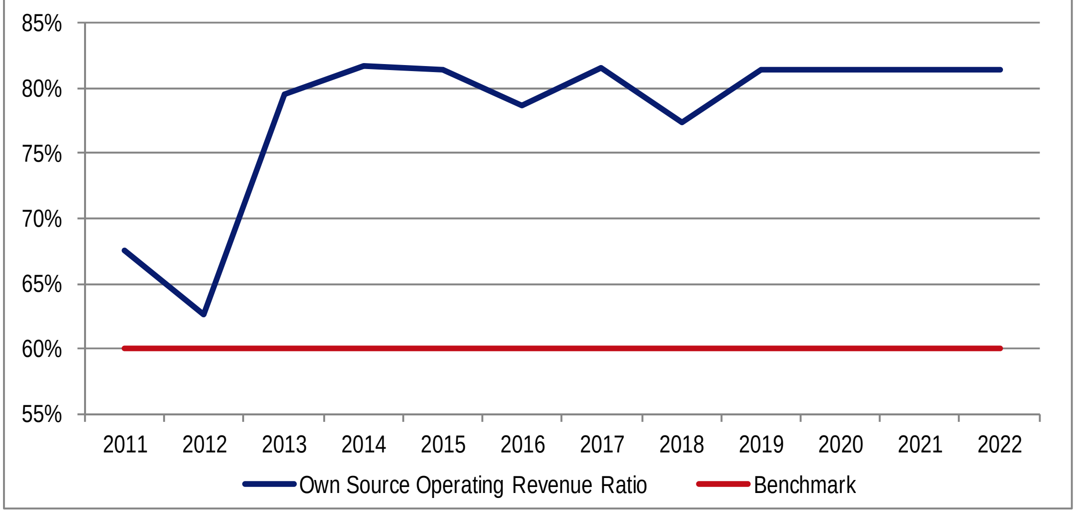


The Unrestricted Current Ratio is forecast to decrease below the benchmark in 2017 before rebounding back above by 2020. This is due to Council projecting a decrease in their cash and investments through to 2018 before they begin to marginally increase. The current liabilities are static over the 10 year period as Council has stated that this part of their LTFP has not been fully developed yet. This may impact this ratio in future versions of the LTFP.

In reviewing the current LTFP, Council's liquidity position appears to become more restricted during the forecast period although staying above a ratio of 1.00x indicates that they would remain liquid.

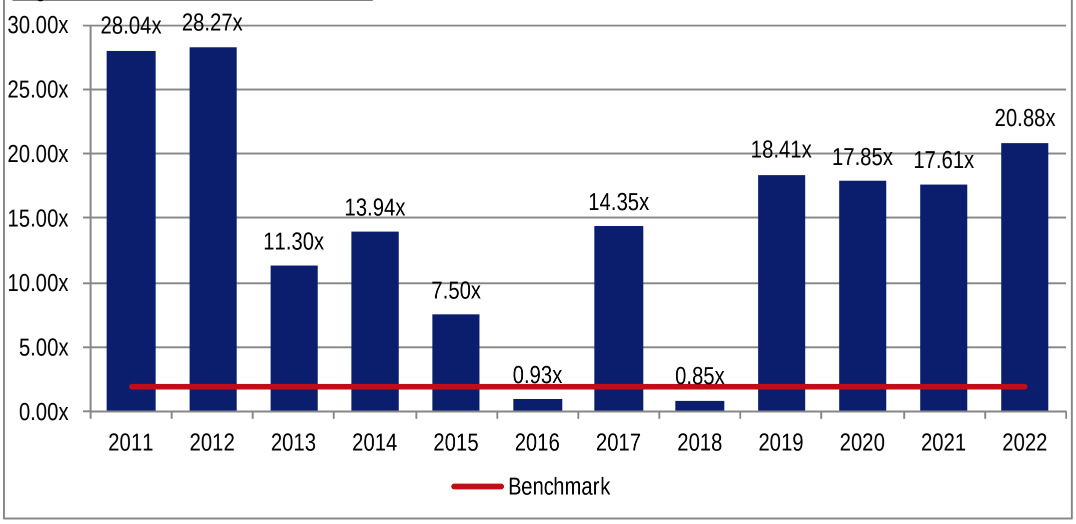
Fiscal Flexibility Ratios

Figure 10 - Own Source Operating Revenue Ratio for General Fund



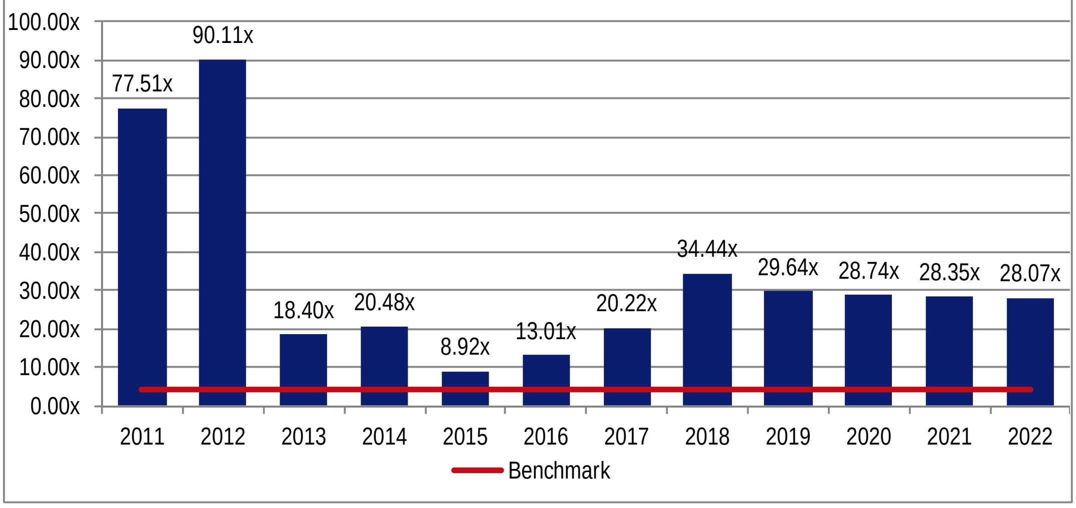
Council's Own Source Operating Revenue Ratio is forecast to increase further above the benchmark for all 10 years due to Council not forecasting capital grants and contributions unless they are already known. This means that capital grants and contributions are forecast at zero from 2015 onwards. This therefore skews the ratio upwards.

Figure 11 - DSCR for General Fund



The forecast DSCR is expected to be below the historic results in some years because of the forecast utilisation of borrowings of $52.6m. In these two years it was forecast that debt repayments of $22.3m and $29.4m respectively would be made in relation to the Ryde Civic Centre development. With this project currently not going ahead, Council will be above the 2.00x benchmark for all 10 years.

Figure 12 - Interest Cover Ratio for General Fund

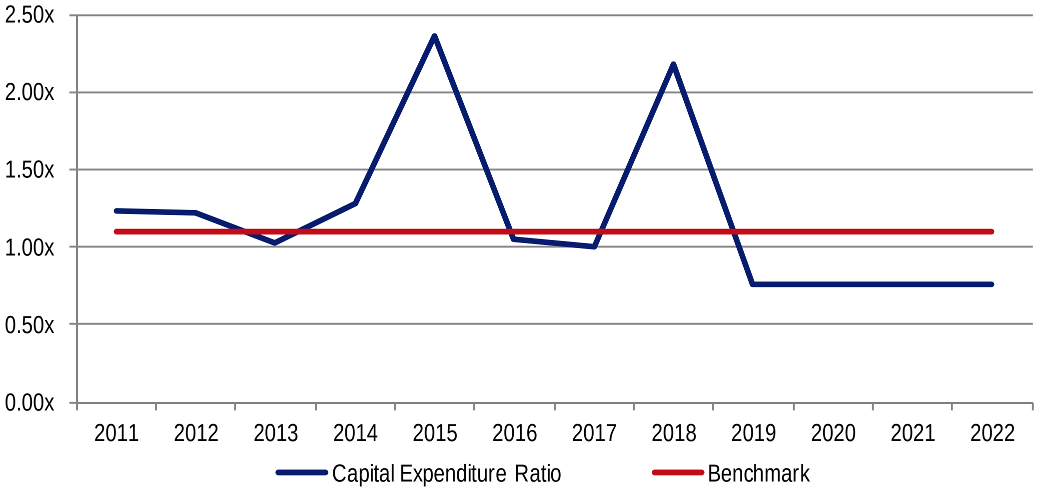


The Interest Cover Ratio is again forecast to be below historic results but is expected to remain over twice the 4.00x benchmark over the 10 year period. Again this ratio is linked to the scheduled $52.6m borrowings that will not now be fully utilised therefore the actual ratio results will likely be stronger than stated above.

Once the updated LTFP has been completed, TCorp would be in a position to comment accurately on Council's ability to service additional borrowings.

4.3: Capital Expenditure

Figure 13 - Capital Expenditure Ratio for General Fund



The forecast Capital Expenditure Ratio has two spikes in 2015 and 2018 linked to the previously scheduled capital expenditure for the Civic Centre redevelopment. As this is not proceeding it is likely that the Capital Expenditure Ratio will be on a downward trend to the lowest level of 0.76x from 2019 to 2022.This would be in line with Council's deteriorating Operating Ratio position with Council unable to fund their annual depreciation expense, leading to a lower level of capital expenditure being spent than is needed to maintain, renew or grow the Net Asset base. The forecast balance sheet also indicates a decrease of approximately $62m for IPP&E over the 10 year period.

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%

Key Observations and Risks

- Council's LTFP has been completed with service levels to remain as they are currently with underspending on existing infrastructure assets to continue.
- The forecast analysed includes a proposed 5% SRV to begin in 2014 that Council has subsequently decided not to apply for at the present time. This will now be included as a separate scenario in the next LTFP for the new Council to consider.
- The LTFP includes $52.6m of scheduled borrowings that will not be required due to the decision not to proceed with the Civic Centre redevelopment.
- Rates and annual charges are forecast to increase by 3.6% in 2013, 8.0% in 2014 (inclusive of the now postponed 5% SRV), and 2.6% p.a. thereafter.
- The Macquarie Park Special Rate, a permanent rate increase applicable for businesses with the Macquarie Park corridor, is forecast to increase at the same annual rates as rates and annual charges however the SRV was going to include an 83% increase in 2014 to raise an additional $1m for additional works beyond the original scope of the special rate.
- User fees and charges are forecast to increase by 3.8% in 2013, 3.0% in 2014 and 2.6% p.a. thereafter.
- Employee costs are forecast to increase by 3.25% in 2013 and 2014 and 2.6% p.a. thereafter.
- Depreciation has been calculated on a straight line basis with assets depreciated over a period of 5 to 100 years.
- The majority of other revenue and expense categories are forecast to increase by 3.0% in 2013 and 2014 and 2.6% p.a. thereafter unless specifics are known or expected (for example electricity costs have 15% increases in 2014, 2017 and 2020).
- Taking the above points into consideration, we believe the majority of Council's underlying assumptions to be reasonable but they require updating to reflect a more accurate capital expenditure program, debt forecast and removal of the SRV which is now not proceeding.

4.5: Borrowing Capacity

As the LTFP analysed does not include up to date data following the decision not to proceed with the Civic Centre redevelopment and the proposed SRV in 2014, TCorp is not able to analyse whether we believe Council has the capacity to incorporate additional loan funding in addition to its existing debt facilities. Once the LTFP has been updated with the proposed SRV and Civic Centre redevelopment funding removed, we will be in a position to provide a more accurate assessment on Council's borrowing capacity.

4.6: Sustainability

General

Council has focussed on the issue of Sustainability within their IP&R documentation. The CSP, WP, AMP and LTFP all comment in various sections of the documents with Council well aware of the challenges that they face to become Sustainable in the long term.

The CSP focuses on Sustainable design and planning to ensure that the suburb and neighbourhood expansions are managed appropriately. It also plans to promote Macquarie Park as a Sustainable high technology centre of regional excellence. Other areas include sustaining the local environment and ensuring the transport options within the LGA are appropriately Sustainable.

The WP highlights the need to achieve the correct workforce levels to ensure Sustainability while including other initiatives including possible partnerships with Macquarie University to forge long term benefits for both parties.

The AMP is being developed to consider the service levels and funding so that asset management becomes Sustainable and affordable.

Financial Sustainability

In terms of financial Sustainability, TCorp believes Council has historically been in a satisfactory operating position however they have not been able to reduce their Infrastructure Backlog. Council is expected to report operating deficits in the next 10 years with an inadequate level of capital expenditure forecast when compared to benchmark.

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

- The dispute between senior management and certain councillors over the past 12 months may impact the efficiency of the Council to work effectively towards a Sustainable future. TCorp understands that the General Manager has resigned on 08 February 2013
- It is projected that Council will have an ongoing annual shortfall when providing the 'current state' level of services which over the long term will deplete cash reserves and adversely impact the financial Sustainability of Council
- The Infrastructure Backlog is under reported and will increase to approximately $120m following the cancellation of the Civic Centre redevelopment, making it even harder for Council to eradicate the backlog

- The ongoing operating deficits that TCorp assume will occur will further impact this position with Council unable to fund the necessary renewals works against annual depreciation
- Council has postponed the possible SRV application in 2014 following the 2012 elections. The new councillors should also explore the benefits of a SRV to help reduce the projected funding gap
- If Council is unable to raise additional revenues then they may have to review expected service levels or consider other options such as operating with a reduced quality of assets to be Sustainable

Section 5 Benchmarking and Comparisons with Other Councils

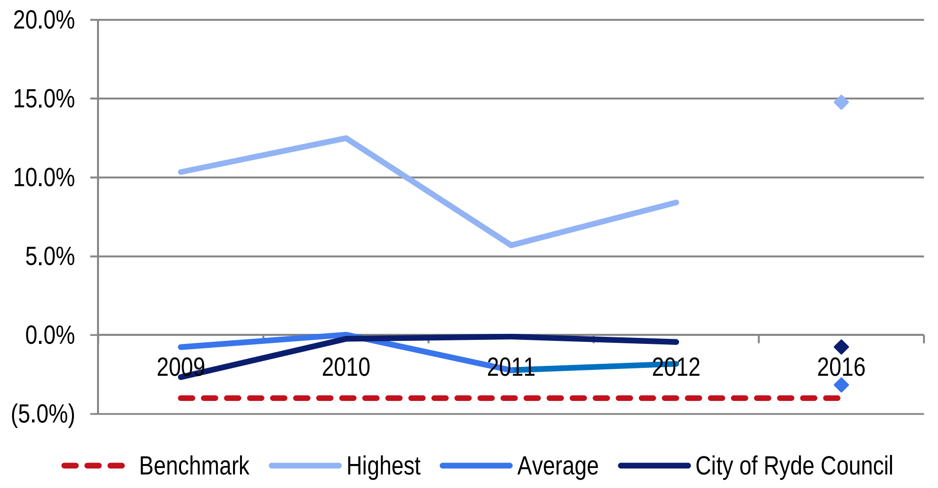
Each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis for councils operating more than one fund. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council 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 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.

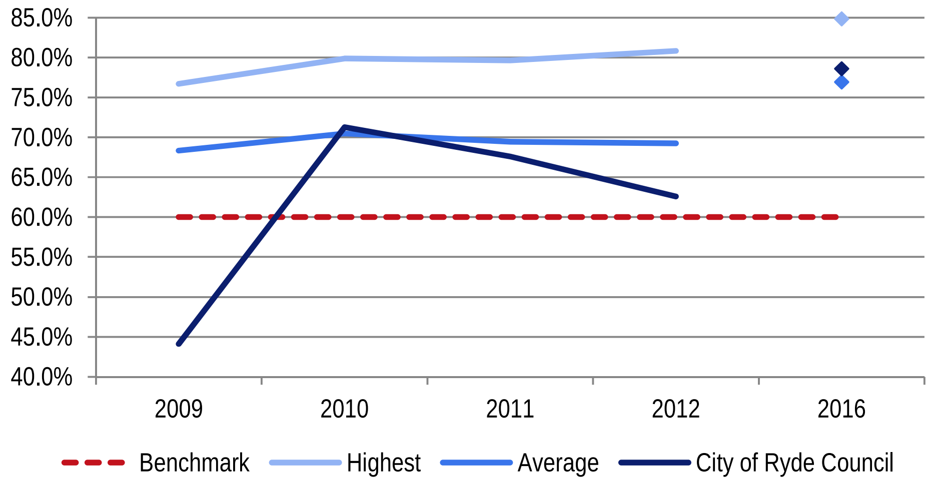
Financial Flexibility

Figure 14 - Operating Ratio Comparison



Council's Operating Ratio has been above the benchmark in each year and also the group average since 2011. It is forecast to remain above both indicators in 2016 while posting a marginal deficit.

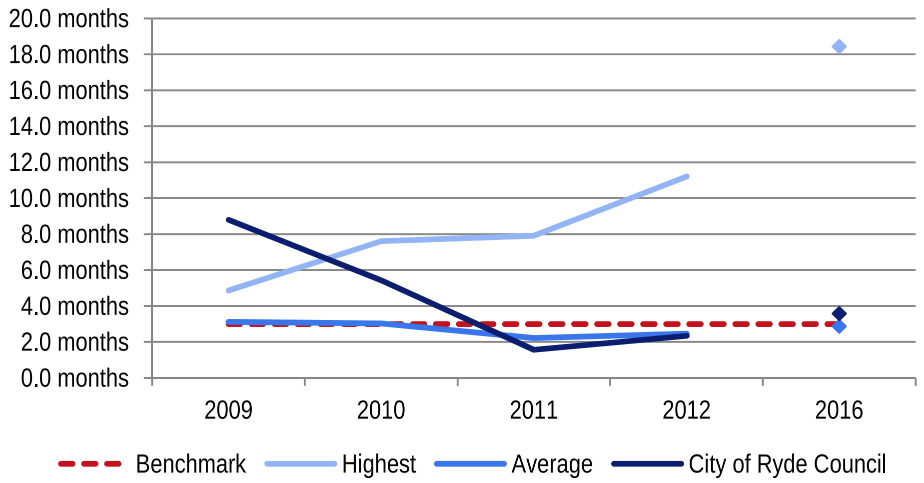
Figure 15 - Own Source Operating Revenue Ratio Comparison



Council has been below the group average in three of the four years but above the benchmark since 2010. It is forecast to increase further above the benchmark and also the group average although the reduction in forecast grants and contributions skews the ratio upwards in 2016.

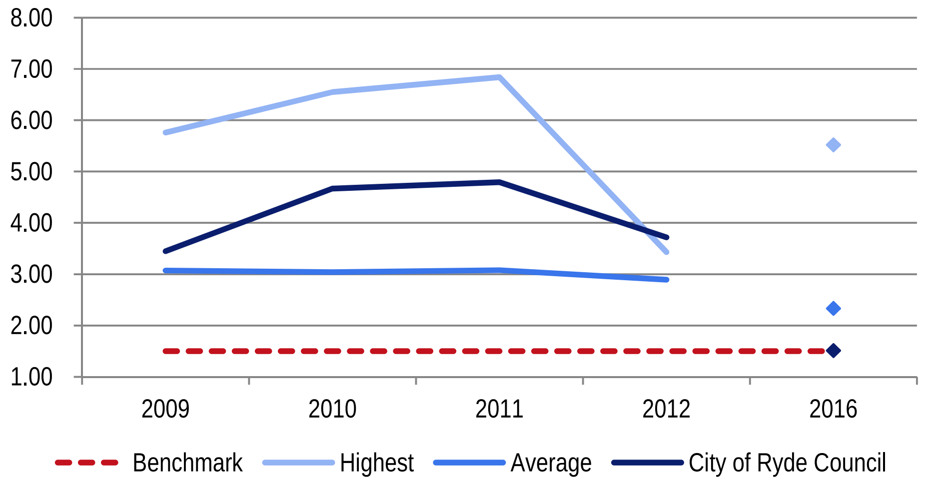
Liquidity

Figure 16 - Cash Expense Ratio Comparison



New South Wales Treasury Corporation

Figure 17 - Unrestricted Current Ratio Comparison



Council's Cash Expense Ratio has decreased below the benchmark and group average since 2011 but is forecast to increase marginally above both indicators in 2016.

Council's Unrestricted Current Ratio has been above both the group average and benchmark in each year but is forecast to reduce below the group average to be in line with the benchmark in 2016.

Debt Servicing

Figure 18 - Debt Service Cover Ratio Comparison

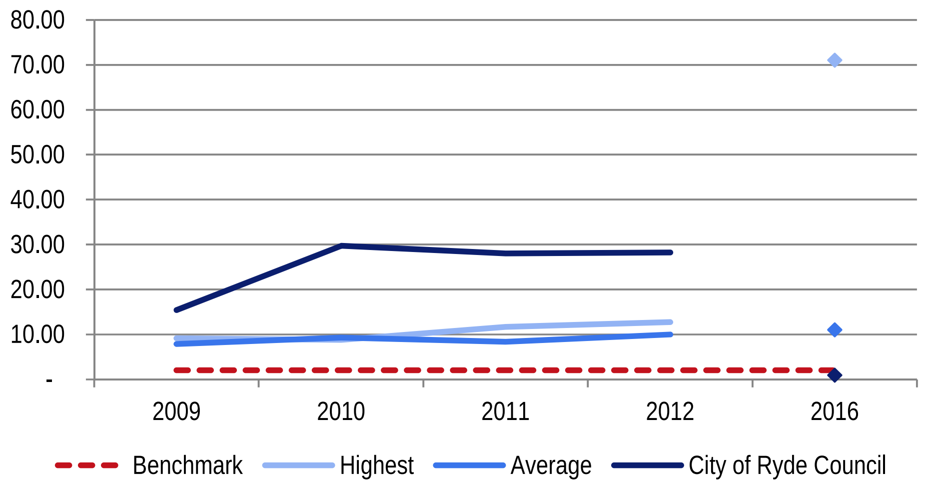
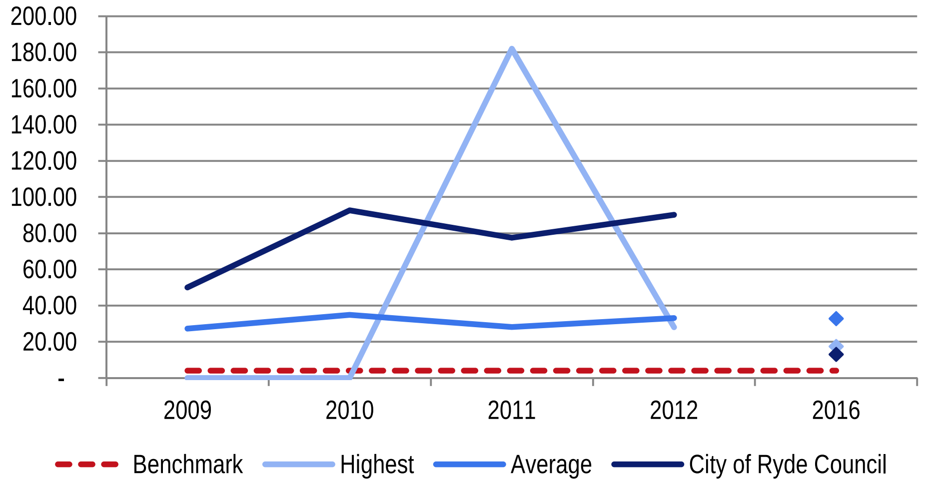


Figure 19 - Interest Cover Ratio Comparison



Council's DSCR and Interest Cover Ratio have been above the benchmark and group average in all four years and while the graph indicated that they are forecast to decrease in 2016, this decrease is related to the Civic Centre redevelopment that is no longer proceeding.

Asset Renewal and Capital Works

Figure 20 - Capital Expenditure Ratio Comparison

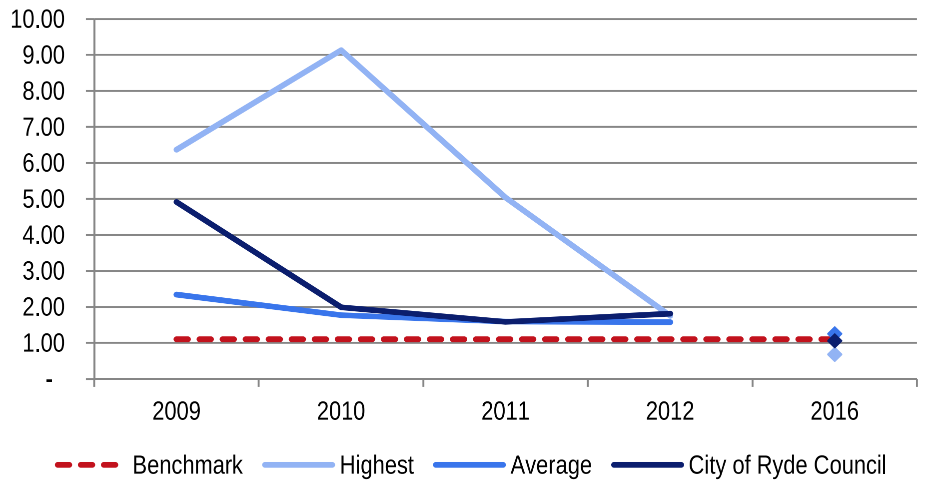
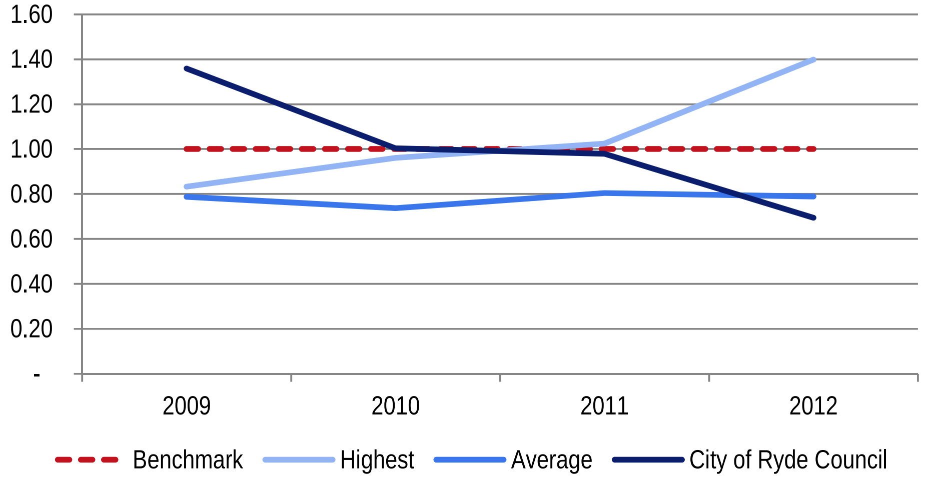


Figure 21 - Asset Maintenance Ratio Comparison



Council's Capital Expenditure Ratio has been above the benchmark and group average in each year but is forecast to decrease to the benchmark and be below the group average in 2016.

Council's Asset Maintenance Ratio has been on a downward trend and decreased below the group average in 2012.

Figure 22- Infrastructure Backlog Ratio Comparison

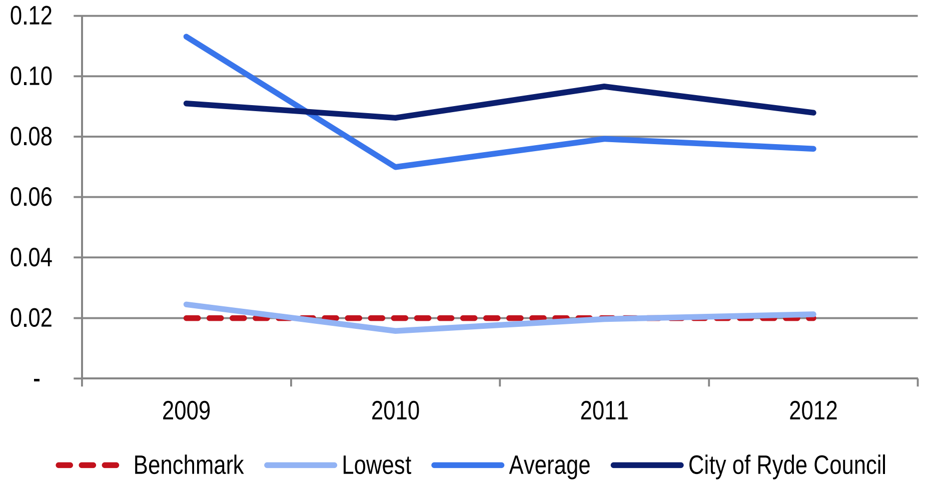
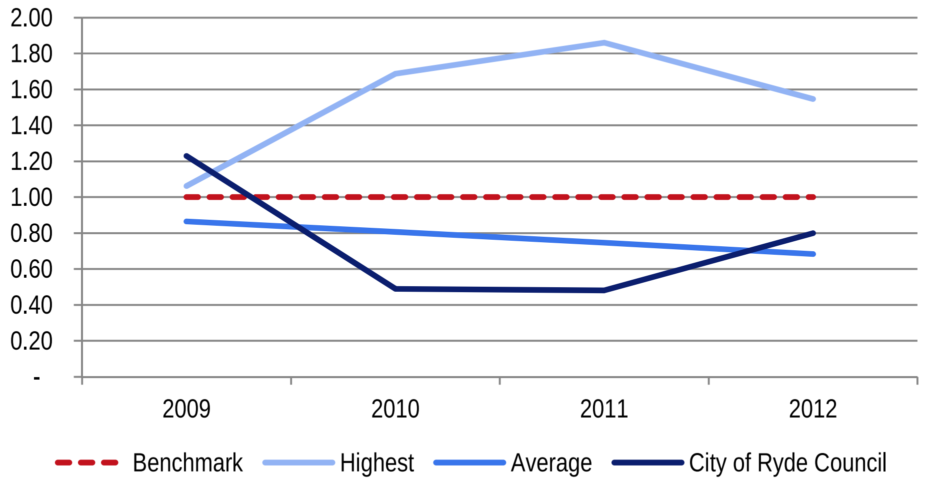


Figure 23 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog has been above the benchmark in each year and above the group average since 2010. It is likely to increase further once Council's Civic Centre upgrade works are added to the total in 2013.

Council's Building and Infrastructure Asset Renewal Ratio decreased below the group average and benchmark in 2010 but climbed back above the group average in 2012.

New South Wales
Treasury Corporation

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 sound financial position in the short term however, their position has been deteriorating. With the current LTFP not an up to date document, following the Civic Centre redevelopment cancellation and postponement of a proposed SRV, we have made assumptions for our expected LTFP forecast position and believe that Council needs to address a number of issues to achieve a Sustainable operating position at current service levels.

We base our recommendation on the following key points:

- Council is forecast to post consistent operating deficits when capital grants and contributions are excluded, with these likely in each year of the 10 year forecast with the SRV removed
- The Infrastructure Backlog has not reduced over the review period and will increase once the upgrade costs of $39.2m for the existing Civic Centre are added to this. The ongoing inability of Council to fund the annual costs needed to renew its assets will likely result in an increase in the Infrastructure Backlog
- Council's liquidity is expected to reduce over the forecast period as funds are utilised to fund the annual shortfall in asset maintenance and renewals funding

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

- Due to the fact that the current LTFP is now out of date, we have analysed the underlying assumptions but also estimated how the stated changes above will likely impact Council's position
- It is important that the new Council finalise a new LTFP that states the current position with the proposed SRV and Civic Centre redevelopment removed, but with the maintenance and upgrade costs of the existing Civic Centre added to illustrate the current operating position and outlook
- This is the first time Council has completed the full suite of IP&R documents although Council began utilising an asset based LTFP in 2006. The new LTFP is not fully integrated with the AMP and WP. Once the full integration has been completed and the documentation has been revised it is likely that the accuracy of the data will improve
- Council needs to consider its options for reducing the projected annual operating deficits and providing funding for asset renewals which may include options such as an SRV

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	58,514	56,338	54,496	52,159	3.9%	3.4%	4.5%
User charges and fees	12,105	10,942	11,401	10,662	10.6%	(4.0%)	6.9%
Interest and investment revenue	4,482	4,429	3,373	3,032	1.2%	31.3%	11.2%
Grants and contributions for operating purposes	8,990	6,903	6,260	6,949	30.2%	10.3%	(9.9%)
Other revenues	5,948	5,406	4,659	5,880	10.0%	16.0%	(20.8%)
Total revenue	90,039	84,018	80,189	78,682	7.2%	4.8%	1.9%
Expenses							
Employees	36,471	33,644	32,614	30,611	8.4%	3.2%	6.5%
Borrowing costs	202	242	202	331	(16.5%)	19.8%	(39.0%)
Materials and contract expenses	24,413	21,185	19,525	22,177	15.2%	8.5%	(12.0%)
Depreciation and amortisation	18,387	18,598	18,715	18,301	(1.1%)	(0.6%)	2.3%
Other expenses	10,952	10,432	9,329	8,663	5.0%	11.8%	7.7%
Total expenses	90,425	84,101	80,385	80,083	7.5%	4.6%	0.4%
Operating result	(386)	(83)	(196)	(1,401)	(365.1%)	57.7%	86.0%

Table 2 - Items excluded from Income Statement

Excluded items ($'000s)				
	2012	2011	2010	2009
Grants and contributions for capital purposes	22,786	15,539	12,288	64,340
Impairment losses - investments	0	0	(4,000)	0
Fair value adjustments - investment properties	75	0	0	0
Net gain/(loss) from the disposal of assets	771	531	(19)	(4,096)

Table 3 - Balance Sheet

Balance Sheet ($'000s)	Year Ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Current assets							
Cash and equivalents	13,973	8,532	27,806	44,987	63.8%	(69.3%)	(38.2%)
Investments	38,000	50,030	28,250	5,885	(24.0%)	77.1%	380.0%
Receivables	6,379	5,792	6,158	6,288	10.1%	(5.9%)	(2.1%)
Inventories	330	420	467	570	(21.4%)	(10.1%)	(18.1%)
Other	231	969	405	330	(76.2%)	139.3%	22.7%
Non-current assets classified as held for sale	0	0	971	0	N/A	(100.0%)	N/A
Total current assets	58,913	65,743	64,057	58,060	(10.4%)	2.6%	10.3%
Non-current assets							
Investments	27,109	10,502	6,995	15,494	158.1%	50.1%	(54.9%)
Receivables	1,023	938	933	488	9.1%	0.5%	91.2%
Infrastructure, property, plant & equipment	2,171,833	2,156,578	2,145,672	0	0.7%	0.5%	N/A
Investments accounted for using equity method	0	0	0	2,166,375	N/A	N/A	(100.0%)
Intangible assets	2,275	0	0	2,315	N/A	N/A	(100.0%)
Investment property	0	2,200	2,200	0	(100.0%)	0.0%	N/A
Total non-current assets	2,202,240	2,170,218	2,155,800	2,184,672	1.5%	0.7%	(1.3%)
Total assets	2,261,153	2,235,961	2,219,857	2,242,732	1.1%	0.7%	(1.0%)
Current liabilities							
Payables	16,387	15,393	15,437	16,068	6.5%	(0.3%)	(3.9%)
Borrowings	492	775	434	453	(36.5%)	78.6%	(4.2%)
Provisions	9,130	7,455	7,205	6,820	22.5%	3.5%	5.6%
Total current liabilities	26,009	23,623	23,076	23,341	10.1%	2.4%	(1.1%)
Non-current liabilities							
Borrowings	3,412	3,899	4,339	4,747	(12.5%)	(10.1%)	(8.6%)
Provisions	221	174	164	250	27.0%	6.1%	(34.4%)
Total non-current liabilities	3,633	4,073	4,503	4,997	(10.8%)	(9.5%)	(9.9%)
Total liabilities	29,642	27,696	27,579	28,338	7.0%	0.4%	(2.7%)
Net assets	2,231,511	2,208,265	2,192,278	2,214,394	1.1%	0.7%	(1.0%)

Table 4-Cashflow

Cashflow Statement ($'000s)	Year ended 30 June			
	2012	2011	2010	2009
Cashflows from operating activities	31,102	26,174	26,886	24,429
Cashflows from investing activities	(24,891)	(45,349)	(43,640)	(13,218)
Proceeds from borrowings and advances	0	0	0	0
Repayment of borrowings and advances	(442)	(427)	(427)	(740)
Cashflows from financing activities	(442)	(427)	(427)	(740)
Net increase/(decrease) in cash and equivalents	5,769	(19,602)	(17,181)	10,471
Cash and equivalents	13,973	8,532	27,806	44,987

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

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

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

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

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.