Attachment # 4

New South Wales
Treasury Corporation

Jerilderie Shire Council

Financial Assessment, Sustainability and Benchmarking Report

10 April 2013

Prepared by NSW Treasury Corporation for Jerilderie Shire 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 Jerilderie Shire Council, the DLG and the Independent Local Government Review Panel. TCorp shall not be liable to Jerilderie Shire Council or have any liability to any third party under the law of contract, tort and the principles of restitution or unjust enrichment or otherwise for any loss, expense or damage which may arise from or be incurred or suffered as a result of reliance on anything contained in this report.

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Section 1 Executive Summary

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

TCorp's approach has been to:

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

Considering Council's small rate base and large area of operations, the Council has been reasonably managed over the review period based on the following observations:

- Council's underlying performance (measured by EBITDA) has increased over the review period partly due to advance Financial Assistance Grants (FAG) payments
- The Unrestricted Current Ratio, Cash Expense Ratio and Council's level of cash and investments indicate that it had sufficient liquidity
- Council's DSCR and Interest Cover Ratio demonstrate that it can repay its debt obligations
- Council has implemented a program of road maintenance to keep its assets at a good to satisfactory level

We have also made the following observations:

- Council has reported operating deficits in each of the years and this has worsened over the review period due to rising costs and increased depreciation expense following Asset Revaluations
- Council has been reliant on external sources of funds particularly operating grants
- Council has not completed Asset Management Plans for all of its assets

The Council reported $2.1m of Infrastructure Backlog in 2012 which represents 3.8% of its infrastructure asset value of $55.6m. Other observations include:

- Council has implemented a program of road maintenance to keep its assets at a good to satisfactory level
- Council needs to complete its Asset Management Plan so its infrastructure maintenance requirements and the valuation of the Backlog can be more accurately assessed

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

- Council is forecast to continue reporting operating deficits which improve slightly in the medium to long term but this level of deficits are likely to affect Council's ability to continue delivering services at its current level
- Council continues to be reliant on operating grants and contributions. Own sourced revenue is 48% to 49% of their income

- Council will not spend sufficient amounts on capital expenditure to renew and replace its existing assets

In our view, the Council does not have the capacity to undertake additional borrowings in addition to what is already included in the LTFP. This is based on its continuing operating deficits and declining population.

In respect of the long term Sustainability of the Council we consider the Council to be Sustainable in the short term only but facing greater pressures in the long term. Our key observations are:

- Council's liquidity has been and is forecast to remain sound
- Council's Operating Ratio is well below benchmark in all review years and in the forecast period
- Council is at risk of any changes in policies regarding grants and contributions because of its reliance on these funding sources
- Council has spent sufficient amounts on asset maintenance but it needs to finalise its Asset Management Plan so its capital expenditure requirements (including funding needed to support its program) can be fully assessed

TCorp has conducted Benchmarking analysis to compare the Council's key ratios with other councils in DLG Group 8. The key observations are:

- Council's financial flexibility was below the benchmark level over the review period but outperformed the group average in the Own Source Operating Revenue result
- Council's liquidity result was above the benchmark level but below the group average over the review period. The forecast for Council's Cash Expense Ratio and Unrestricted Current Ratio is above the benchmark but below the group average in the medium term
- Council's debt servicing capacity was above benchmark levels but largely below the group average over the review period as indicated by Council's Debt Service Cover Ratio and Interest Cover Ratio
- Council's asset renewal and capital works position was largely below the benchmark and group average levels over the review period, apart from its Infrastructure Backlog Ratio where Council is close to benchmark and much lower than 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 Council's internal due diligence, the IP&R system of the Council and the DLG, together with the work being undertaken by the Independent Local Government Review Panel.

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

The key areas focused on are:

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

2.2: Scope and Methodology

TCorp's approach was to:

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

In undertaking its work, TCorp relied on:

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

Definition of Sustainability

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

"A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community."

Benchmark Ratios

In conducting our review of the Councils' financial performance, forecasts and Sustainability we have measured performance against a set of benchmarks. These benchmarks are listed below. Benchmarks do not necessarily represent a pass or fail in respect of any particular area. One-off projects or events can impact a council's performance against a benchmark for a short period. Other factors such as the trends in results against the benchmarks are critical as well as the overall performance against all the benchmarks. As councils can have significant differences in their size and population densities, it is important to note that one benchmark does not fit all.

For example, the Cash Expense Ratio should be greater for smaller councils than larger councils as a protection against variation in performance and financial shocks.

Therefore these benchmarks are intended as a guide to performance.

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

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

2.3: Overview of the Local Government Area

Jerilderie Shire Council LGA	
Locality & Size	
Locality	Murray
Area	3,373
DLG Group	8
Demographics	
Population as at 2011	1,496
% under 18	376
% between 18 and 59	699
% over 60	421
Expected population 2025	1,300
Operations	
Number of employees (FTE)	45
Annual revenue	$8.1m
Infrastructure	
Roads	1,098.2km
Bridges	13
Infrastructure backlog value	$2.1m
Total infrastructure value	$55.6m

Jerilderie Shire Council Local Government Area (LGA) is located 640km South West of Sydney, 321km North of Melbourne and 145km South of Griffith. The LGA shares a border with Urana, Berrigan, Conargo and Murrumbidgee LGAs. The major road connection to the LGA is through the Newell Highway. 38.4% of the LGA's population is employed by the sheep, beef cattle and grain farming industry. The next biggest category of employment is the local government sector, employing 5.4% of the employed people in the LGA.

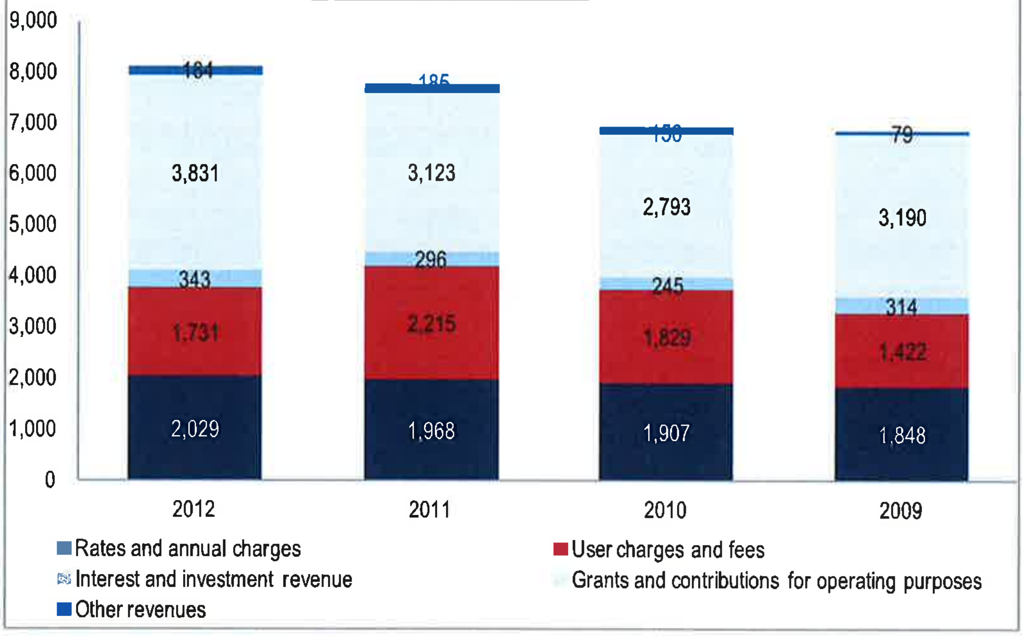
The LGA's population has declined from 1,642 people in the 2006 census to 1,496 people in 2011. It is forecast to continue to decline. The LGA experienced a number of years of drought which ended in the financial year 2011. The LGA was subsequently declared a natural disaster area due to flooding in March 2012.

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)

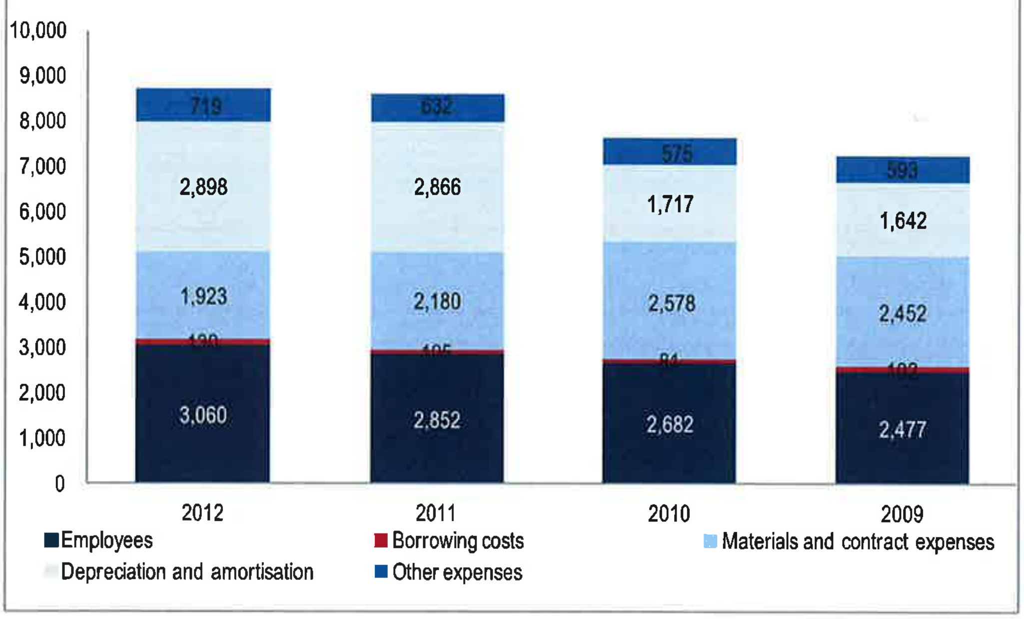


Key Observations

- Council's rates and annual charges have been increasing at annual rate of 3.1% to 3.2% in line with the rate peg. Council received 92.0% ($1.4m) of its ordinary rates from farmland.
- Declining population has not adversely affected Council's rate income because although population density is decreasing, the amount of farmland rate assessment has not declined.
- In 2012, 54.5% ($0.9m) of its user charges and fees is from RMS (formerly known as RTA) for Council's work on State roads. 31.8% ($0.6m) is related to fees on private works. Total user charges and fees fluctuated mainly due to year to year variations in these categories particularly in RMS work.
- Operating grants and contributions made up 47.2% of the Council's revenue (excluding capital grants and contributions) in 2012. Council received the first two quarters of the 2013 instalments of the Financial Assistance Grants in the 2012 financial year. The advance payments totalled $1.0m. In the financial years 2009 to 2011, Council received only one quarter of advance payment each of $0.4m to $0.5m p.a. The advance payments distort Council's operating results because they are accounted for as revenue in the year of receipt, not in the years they relate to.
- Council's other revenue is sourced from various rebates and $52k p.a. from rental income.

3.2: Expenses

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



Key Observations

- Employee costs have been increasing at an average rate of 7.3% p.a. while full time equivalent employees have increased slightly from 43 in 2009 to 45 in 2012. The increase in 2010 is due to higher superannuation and worker's compensation insurance costs. The increase in 2012 is partly due to a Council resolution to incentivise long term employees with an additional 2% salary increase. This one-off increase was awarded to a third of the workforce and is seen as a way of retaining long term experienced staff.
- Materials and contract expenses vary from year to year depending on the amount of RMS and Rural Fire Service work. The decrease in materials and contracts expenses from 2010 to 2012 is due to an increased focus on road resheeting and resealing work which are accounted as capital works instead of being expensed.
- Depreciation expense increased by $1.15m (66.9%) in 2011 after the Asset Revaluation process. The water supply network and sewerage network also increased in value in 2011.

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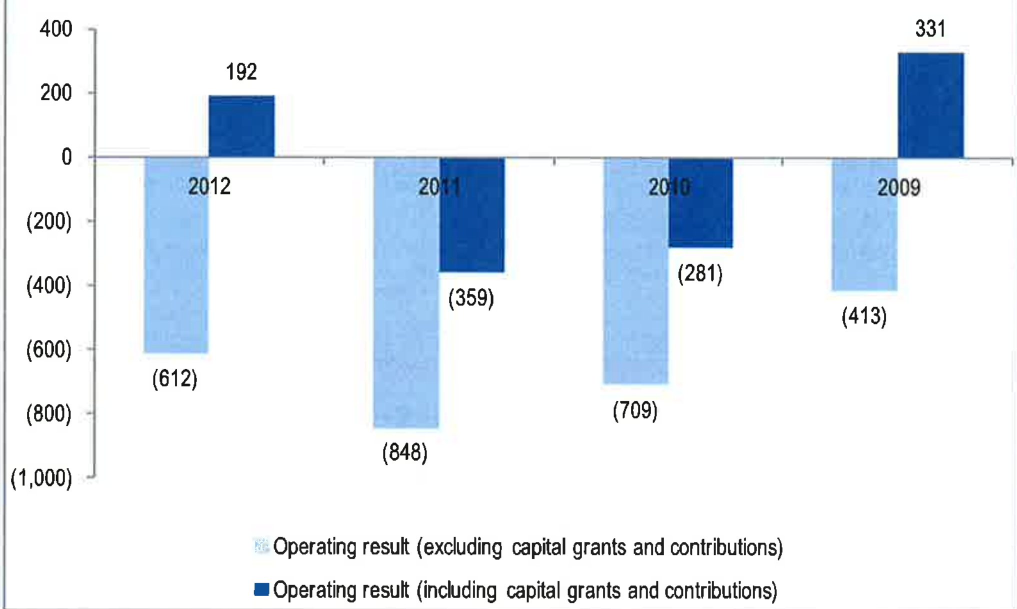
3.3: Operating Results

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 consistently reported operating deficits when capital grants and contributions are excluded.
- The deficits increased from 2009 to 2011 due to rising employee expenses coupled with lower rates of revenue growth.
- The improvement in its operating results in 2012 is attributed to the advance payment of operating grants and contributions.
- Council expenses in 2012 include a non-cash depreciation expense of $2.9m. 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

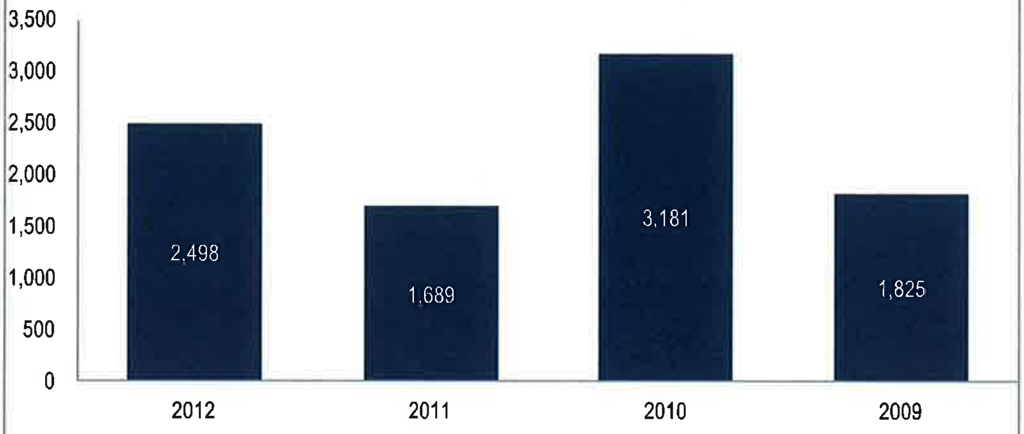
Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA ($'000s)	2,416	2,123	1,089	1,331
Operating Ratio	(7.5%)	(10.9%)	(10.2%)	(6.0%)
Interest Cover Ratio	18.58x	20.22x	13.44x	13.05x
Debt Service Cover Ratio	9.94x	11.12x	6.52x	6.93x
Unrestricted Current Ratio	5.09x	4.24x	5.64x	5.94x
Own Source Operating Revenue Ratio	42.1%	50.5%	50.8%	43.0%
Cash Expense Ratio	5.3 months	3.6 months	6.5 months	4.0 months
Net assets ($'000s)	93,601	93,859	93,788	55,288

Key Observations

- Council's underlying operating performance (measured using EBITDA) has improved since 2009, although the additional prepayment of financial assistance grants by the Federal government has partly driven this.
- The Operating Ratio has fluctuated over the period and is lower in 2012 than 2009 mainly due to increased depreciation expense after the Revaluation process. In 2012 this was partly offset by the prepaid grant payments.
- Both the Interest Cover Ratio and the Debt Service Cover Ratio indicate that the Council can afford to repay its borrowing obligations when they fall due.
- Council's Unrestricted Current Ratio is well above benchmark in all review years indicating that its liquidity is sound.
- Council's Unrestricted Current Ratio is also well above benchmark in all review years indicating that Council can meet its day to day liquidity needs.
- The Own Source Operating Revenue Ratio is below the benchmark of 60% in all the review years. This shows the Council's reliance on external funds to finance its operations. This is a common issue for small rural councils with lower population density.
- Council's Net Assets have increased by approximately $38.3m since 2009 to $93.6m in 2012. Asset Revaluations increased the value of Council's water supply network and sewerage network. The decrease in Net Assets in 2012 is partly due to a devaluation of its water supply network.
- When the Asset Revaluations are excluded, the underlying trend in all three years has been a decrease in the infrastructure, property, plant and equipment (IPP&E) asset base with asset purchases being less than the combined value of disposed assets and annual depreciation. Over the three years this amounted to a $1.8m decrease in IPP&E assets.
- Council has existing borrowings of $0.9m representing 0.9% of Council's Net Assets.

3.5: Statement of Cashflows

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



Key Observations

- Cash and cash equivalents have fluctuated over the period depending on the level of term deposit investments. Overall, Council's total cash, cash equivalents and investments have increased each year. The increase was $2.2m over the review period.
- The cash balances along with the Unrestricted Current Ratio indicate Council had satisfactory liquidity.
- Of the $6.6m in cash, cash equivalents and investments, $2.9m is externally restricted, $3.1m is internally restricted and $0.5m is unrestricted.
- Council allocate the majority of its investments to term deposits except for $87k in other available for sale assets.

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)

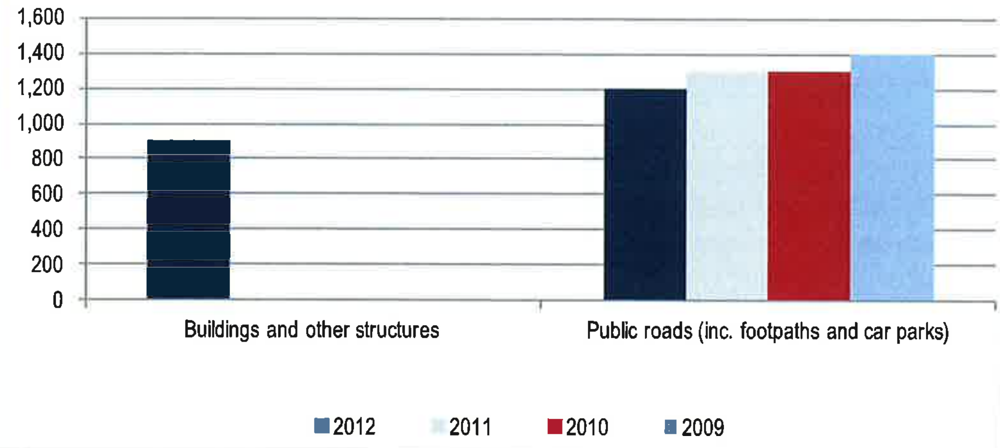
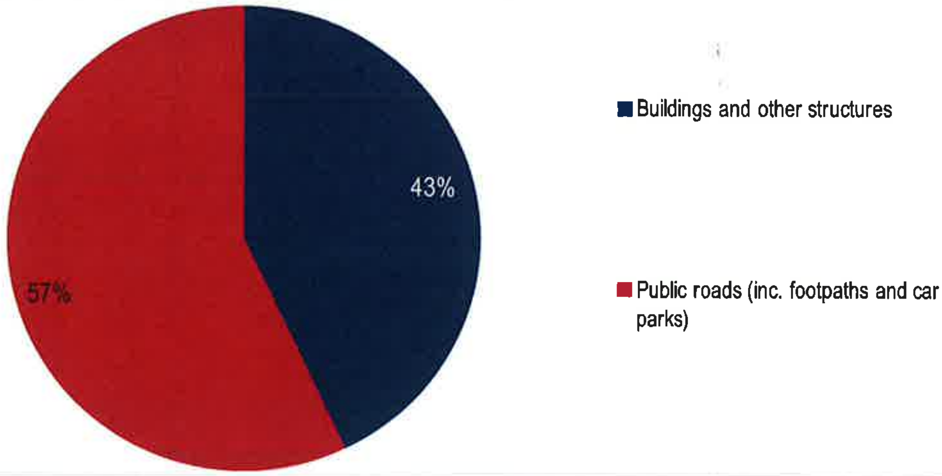


Figure 6 - Infrastructure Backlog Composition for 2011/12



Council is in the process of drafting its Asset Management Plan and the backlog valuation may change as a result.

In 2012, a majority of the Council's reported backlog is related to its public roads assets which only include the cost to bring bridges, footpaths, kerbs and gutters to a satisfactory condition. Council considers its roads to be in a good to satisfactory condition because of up to date maintenance work, and a continuous program of resealing and replacements over the years. As at 2012, Council valued its bridges backlog at $0.7m and its kerb and gutter backlog at $0.5m.

The increase in the buildings and other structures backlog valuation is due to the inclusion of an estimated $0.9m to bring the swimming pool to a satisfactory level. Council has factored this restoration work into 2013 in the LTFP.

Council has water, sewerage and drainage works assets but it has not recorded a backlog value against these assets. Council has identified that some of these assets are required to be upgraded in the short term. As with the case of other councils, the valuation of the backlog may increase after the completion of the Asset Management Plan.

The value of the Backlog will likely to change as Council continues to progress through its asset management strategy planning process.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	2,100	1,300	1,300	1,400
Required annual maintenance ($'000s)	2,154	2,657	2,925	2,212
Actual annual maintenance ($'000s)*	2,154	2,657	2,925	2,212
Total value of infrastructure assets ($'000s)	55,628	56,194	57,378	46,327
Total assets ($'000s)	96,787	96,938	96,255	57,676
Building and Infrastructure Backlog Ratio	0.04x	0.02x	0.02x	0.03x
Asset Maintenance Ratio	1.00x	1.00x	1.00x	1.00x
Building and Infrastructure Renewals Ratio	0.91x	0.38x	0.82x	0.57x
Capital Expenditure Ratio	0.77x	0.58x	0.88x	1.25x

*Note: In Special Schedule 7 of the financial statements, Council reported the "program maintenance works for current year" not the "actual annual maintenance" as reported by most other councils

Council's estimated cost to bring assets to a satisfactory standard has increased over the review period. The current draft Asset Management Plan indicates that sufficient funds are being applied to infrastructure maintenance except for the resealing of roads. The shortfall is estimated by staff to be around $240k p.a. This estimate may change as the Asset Management Plan is refined.

The Building and Infrastructure Renewals Ratio is below benchmark in all review years which shows that Council is not adequately replacing its depreciating assets.

Council's Capital Expenditure Ratio is below benchmark in three of the four review years. Part of the decrease in the Ratio is due to increased depreciation expense after the Asset Revaluation process. Council spent $2.3m on additional assets net disposed assets compared to $2.2m in 2009.

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	354	161	165	1,220
Replacement/refurbishment of existing assets	2,897	1,840	1,699	1,283
Total	**3,251**	**2,001**	**1,864**	**2,503**

Over the course of 2006 to 2012, Council has undertaken a $1m streetscape redevelopment project. The project included realigning traffic flows, replacing footpaths and roads, replacement of kerb and gutter, connection of underground power and tree planting. Council has also completed several road projects on behalf of RMS on the Newell Highway and other regional roads.

3.7: Specific Risks to Council

- Ageing population. The LGA has an older average population than the State. This places demand on services and infrastructure for retirees such as health services. This is one of the key challenges identified in the Community Strategic Plan and Council has included specific strategies to deal with this in its delivery program such as organising the annual seniors week event.
- Declining population particularly youth population. Young people are leaving the area for education and employment opportunities. This leads to a trend of declining population and flow on effect to the local economy. Council, as one of the largest employers of the region, is providing traineeship and apprenticeship opportunities to provide training and employment, and retain the youths. This is also an important part of Council's workforce strategy as older staff retires, they need to pass on their knowledge and skills to the workforce.
- Weather events. Agriculture is an important part of the LGA's local economy. Recent drought and flood events have adversely affected the agricultural sector. Council is reliant on various grants and contributions in the event of natural disasters. Council is also an active participant on forums which discusses local water security issues.
- RMS revenue. Revenue from work on state roads is currently an important part of Council's revenue source. It also shares the cost of fleet operation and employee expense. The Treasurer has recently announced the examination of greater contestability for these contracts. The Council is currently drafting a strategy to secure more RMS work opportunities and to deal with the potential risk of losing contracts.

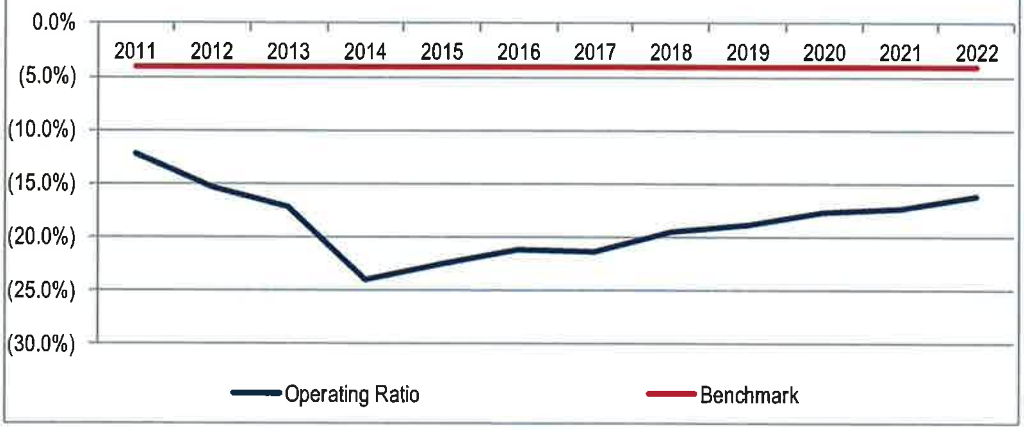
- Local economic growth. Attracting business and industry, and growing the economy is a key issue raised by the community. Council needs to continue to maintain quality infrastructure to support commercial activities and businesses in the region.

Section 4 Review of Financial Forecasts

The financial forecast model shows the projected financial statements and assumptions for the next 10 years. We have focused our financial analysis upon the General Fund as although Council's consolidated position includes both a Water and Sewer Fund these are operated as independent entities, which unlike the General Fund are more able to adjust the appropriate fees and charges to meet all future operating and investing expenses.

4.1: Operating Results

Figure 7 - Operating Ratio for General Fund



Council's Operating Ratio is well below benchmark in all forecast years. It is expected to decrease in the short term as flood restoration works on state roads are completed and grants from flood works on Council managed roads are finished. The Ratio is forecast to increase gradually in the medium to long term because Council assumes a steady growth of rates, annual charges, and operating grants and contributions.

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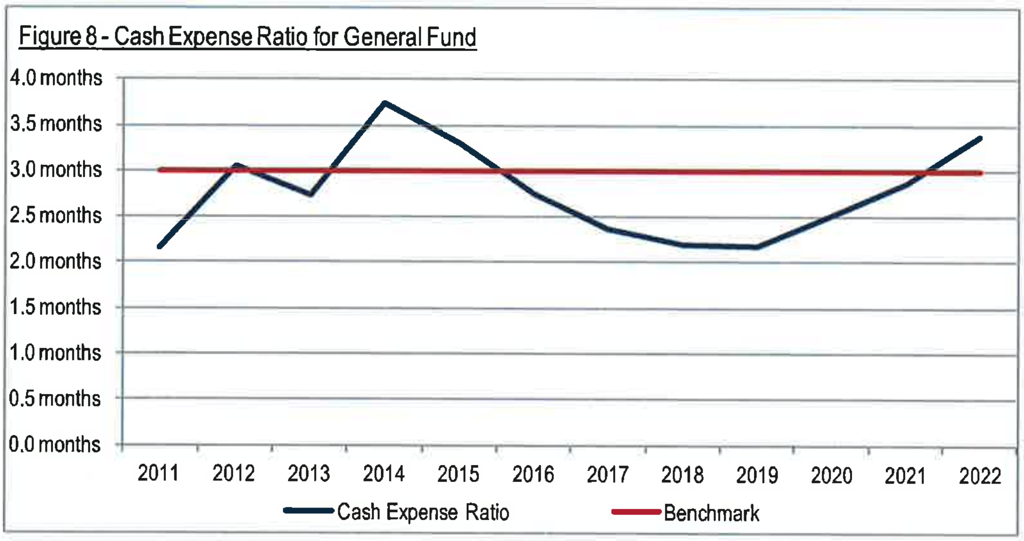
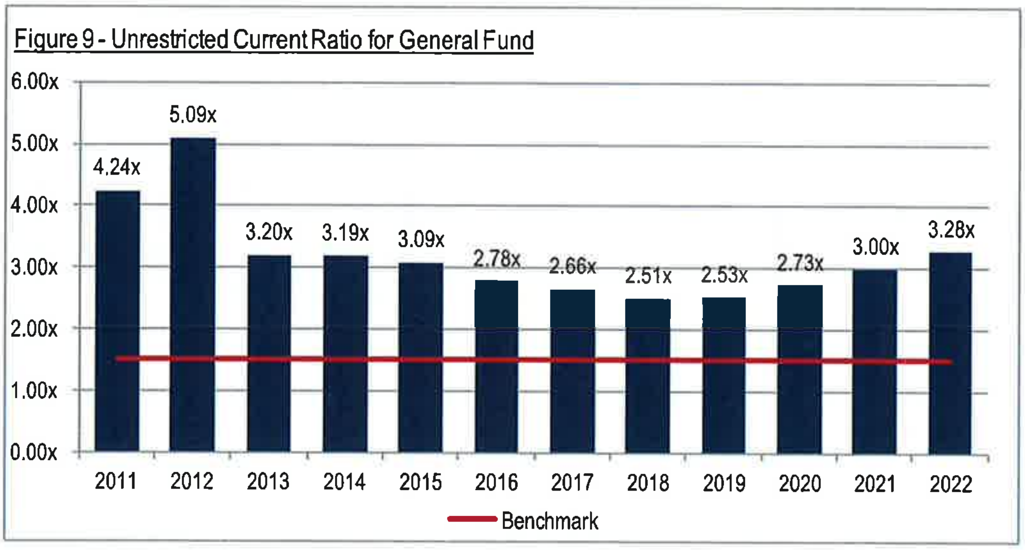
4.2: Financial Management Indicators

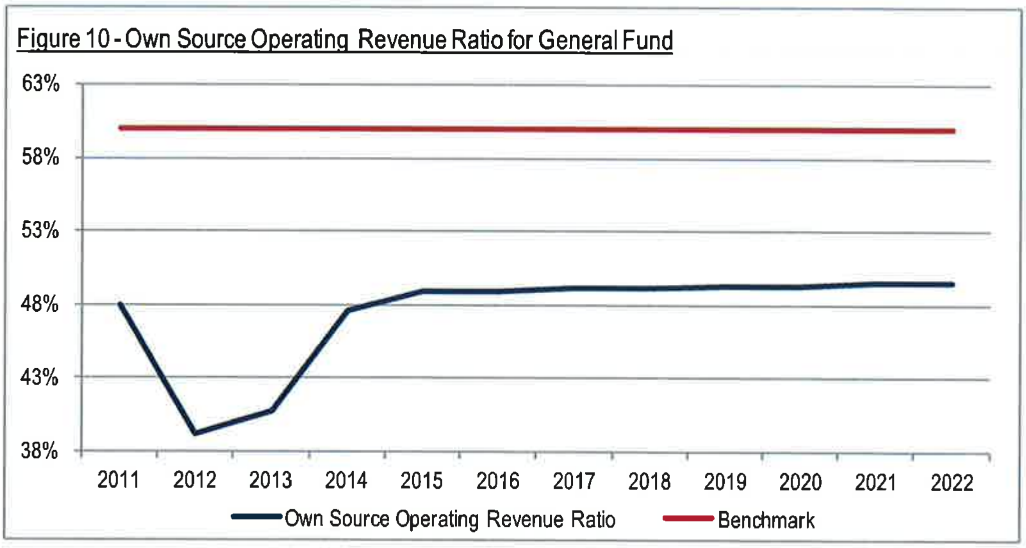
Liquidity Ratios





Cash Expense Ratio is forecast to dip in 2013 due to higher materials and contract expenses from increased flood restoration work on roads. It is forecast to decrease in the medium term as Council spends money on capital expenditure. The improvement from 2019 is related to lower borrowing costs as debt is repaid and less capital expenditure outlay.

Fiscal Flexibility Ratios



The Own Source Operating Revenue Ratio is below benchmark in all forecast years. The dip in 2012 is due to prepayment of Federal grants which negatively skews the Ratio due to timing differences. The Ratio is lower in 2013 due to higher capital and operating grants and contribution, mostly for flood restorations. The Ratio is forecast to increase to around 48 to 49% in the medium to long term after the restoration grants have finished. This is a level consistent with historical results.

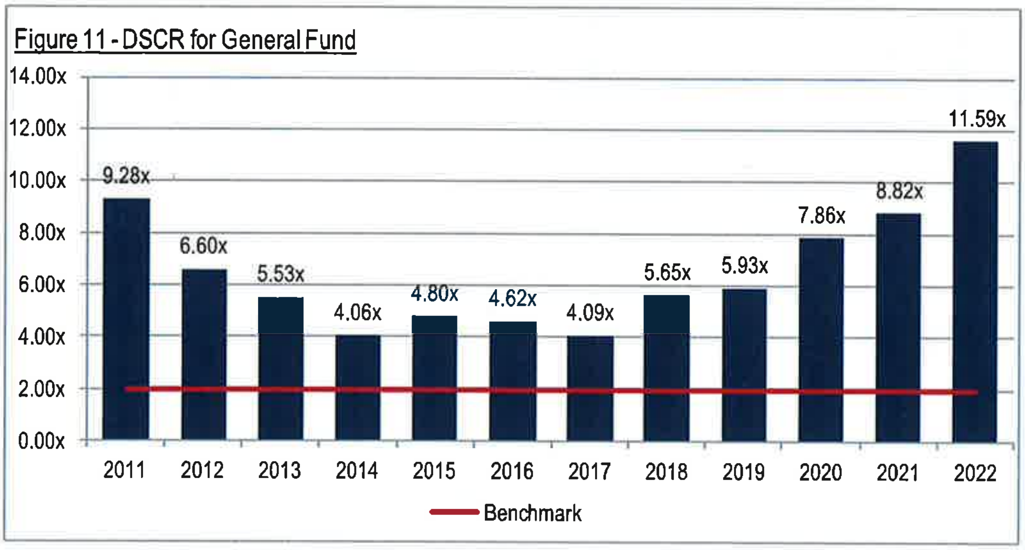
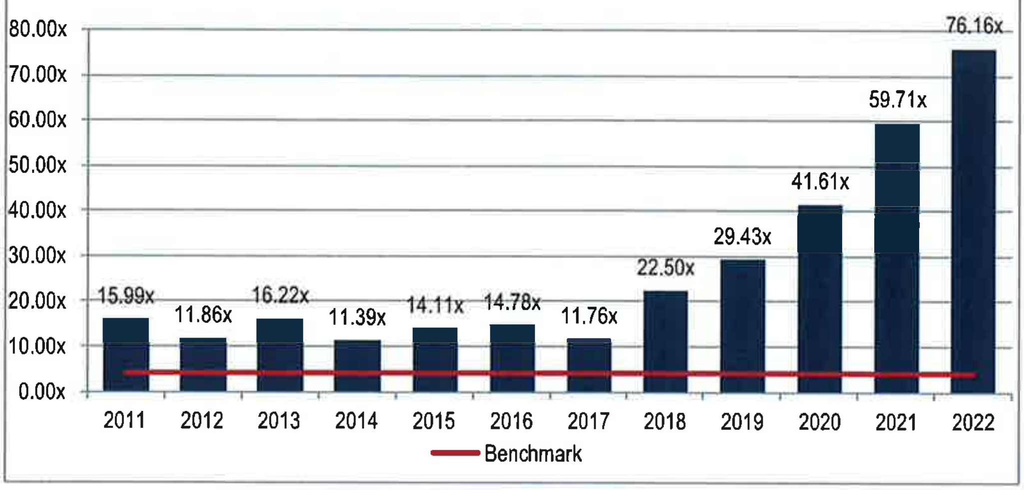


Figure 12 - Interest Cover Ratio for General Fund



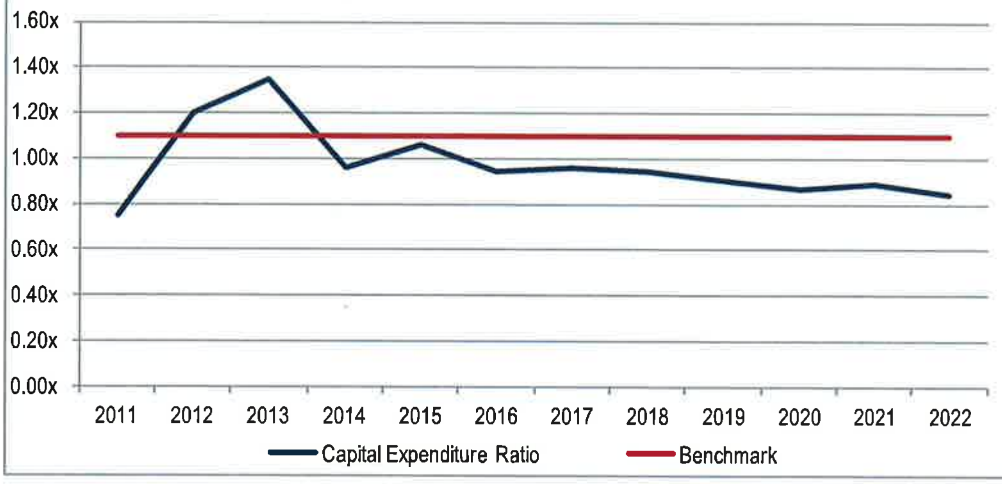
Both the DSCR and Interest Cover Ratio forecast indicate that the Council has the ability to repay its debt obligations as they fall due. As at 30 September 2012, Council had $0.8m of debt outstanding which relates to the streetscape project. The General Fund also has $0.2m of outstanding loan borrowed from the Sewer Fund. The internal loan was used for the construction of the library.

The LTFP includes a $0.6m loan to be drawn in 2013 to fund the swimming pool restoration project alongside $0.2m of Council's own funds and Council is seeking capital grants to assist. An internal loan of $0.25m is forecast to be drawn in 2013 for the first stage of the Wunnamurra Estate residential land development. Council has undertaken some preliminary work on land it owns and proposes to develop a 37 lot residential subdivision in two stages. Council is forecasting to sell two to three blocks each year at an estimated $0.08m p.a. to $0.12m p.a. The second stage is expected in 2018 and is forecast to cost $0.2m of reserve funds.

Council is also forecast to borrow $0.2m internally in 2015 to construct executive employee residential housing. The housing scheme is used to attract future employees particularly as current employees reach retirement.

4.3: Capital Expenditure

Figure 13 - Capital Expenditure Ratio for General Fund



The Capital Expenditure Ratio is below benchmark in most of the forecast years and is forecast to gradually decline. The peak in 2013 is related to work on the swimming pool restoration. Council has factored in a level of renewal capital expenditure in the medium to long term. The actual capital expenditure will depend on the level of capital grants and contributions received and subject to amendment following completion of the Asset Management Plan.

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

- Rates and annual charges are forecast to increase at an average rate of 3.0% p.a. which is consistent with historical results. The declining population has meant a decrease in population density but has not affected the farmland rate base substantially.
- User charges and fees are forecast to increase by an average of 1.9% p.a. except for 2013 which will benefit from RMS revenue
- Operating grants and contributions increase within a range from 2.5% to 3.3% p.a.
- Employee costs are forecast to increase at average rate of 3.2% p.a. except for 2013 which is budgeted to increase by 5.5% because some employees are promoted to the next pay bracket.
- Materials and contracts expense is forecast to be flat which seems optimistic. This item is linked to the amount of private works and RMS work the Council is forecasting to perform
- Capital grants and contributions is forecast to be around $0.7m to $0.8m p.a. This is consistent with historical receipts
- Overall, TCorp finds that the assumptions used in Council's forecast are reasonable with exceptions noted above

4.5: Borrowing Capacity

When analysing the financial capacity of the Council we believe Council does not have capacity to raise additional loan funding in addition to its existing debt facilities and those proposed in its LTFP. Some comments and observations are:

- Continuing operating deficits pose a risk to the Council's Sustainability and its ability to undertake long term borrowings

4.6: Sustainability

General

As discussed in section 3.7, the LGA's economy faces some substantial Sustainability issues including challenges in the agricultural sector and declining population. These issues have been aggravated by adverse weather events and uncertainties over water supply.

Financial

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

- Council's current LTFP shows operating results well below benchmark throughout the forecast
- Operating grants make up a significant part of Council's operating revenue. While no change is anticipated, any adverse change to this revenue source would negatively impact Council's ability to be Sustainable
- Renewal capital expenditure is below what is required to maintain assets at an acceptable standard over the forecast period. Council has implemented a program of maintenance to keep road assets at an estimated satisfactory level. Council needs to fully complete its Asset Management Plan for this area to be more adequately assessed
- Council's DSCR and Interest Cover Ratio are above benchmark for the entire forecast period which indicates Council has the capacity to take on additional borrowings above what is currently included in the LTFP. However, given Council's continuing operating deficits, additional long term debt will pose a risk to Council's financial Sustainability.
- Council's long term Sustainability is also dependent on improving on the forecast LTFP levels of revenue, employee expenses and materials and contracts expenses

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Section 5 Benchmarking and Comparisons with Other Councils

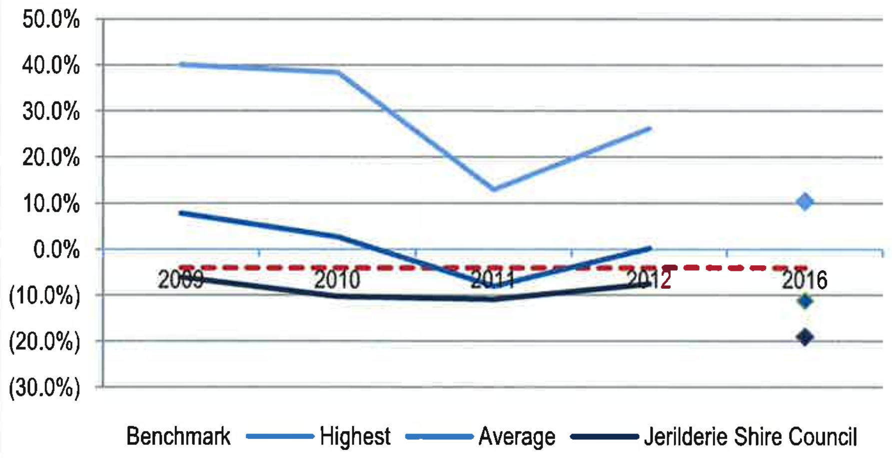
Each council's performance has been assessed against ten key benchmark ratios. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 8. There are 4 councils in this group and at the time of preparing this report, we have data for 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 underperformed against the benchmark and group average over the review period.

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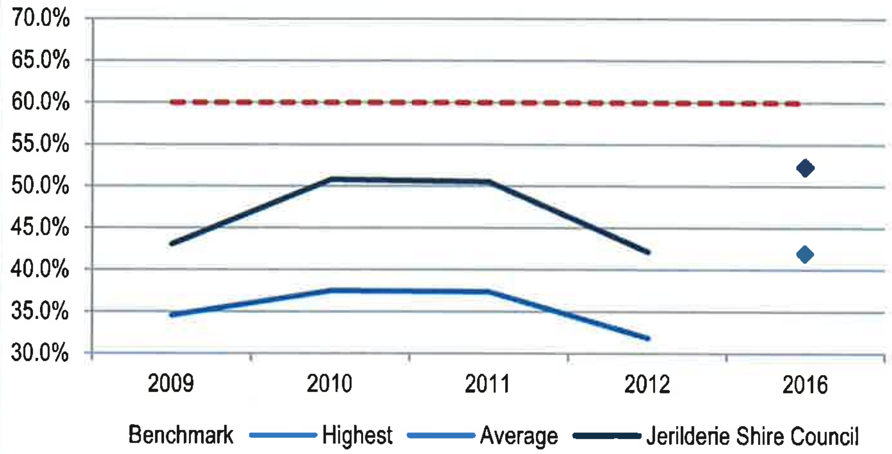
Figure 15 - Own Source Operating Revenue Ratio Comparison



Council's Own Source Operating Revenue Ratio result was above group average but below the benchmark level over the review period. The forecast for the Ratio is to improve in the medium term.

Overall, Council's financial flexibility was below the benchmark level over the review period.

Liquidity

Figure 16 - Cash Expense Ratio Comparison

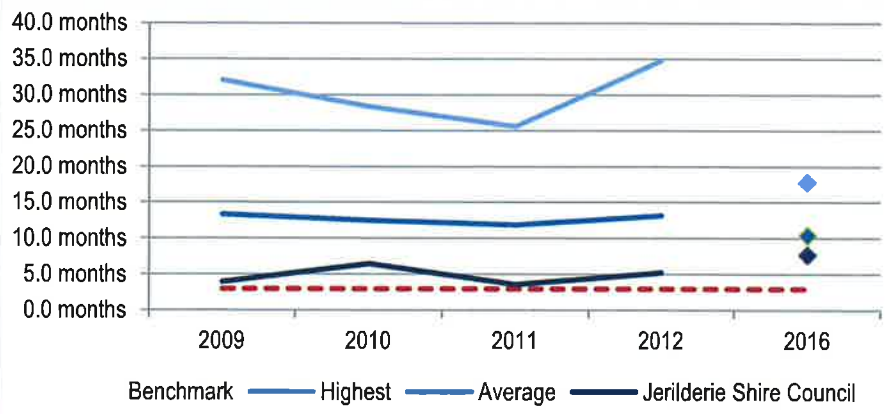
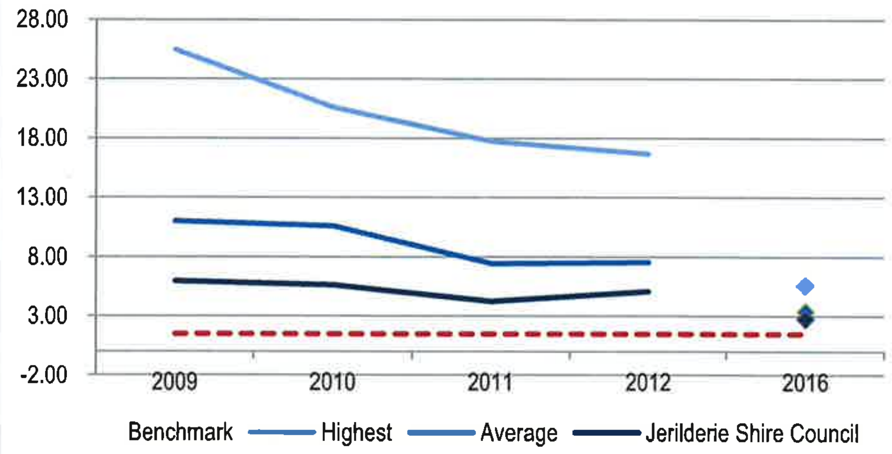


Figure 17 - Unrestricted Current Ratio Comparison



Both Council's Cash Expenses Ratio and Unrestricted Current Ratio results were above the benchmark level but below the group average over the review period. The medium term forecast for both Ratios is to remain near the group averages and above the benchmark levels.

Overall, Council's liquidity was strong over the review period.

Debt Servicing

Figure 18 - Debt Service Cover Ratio Comparison

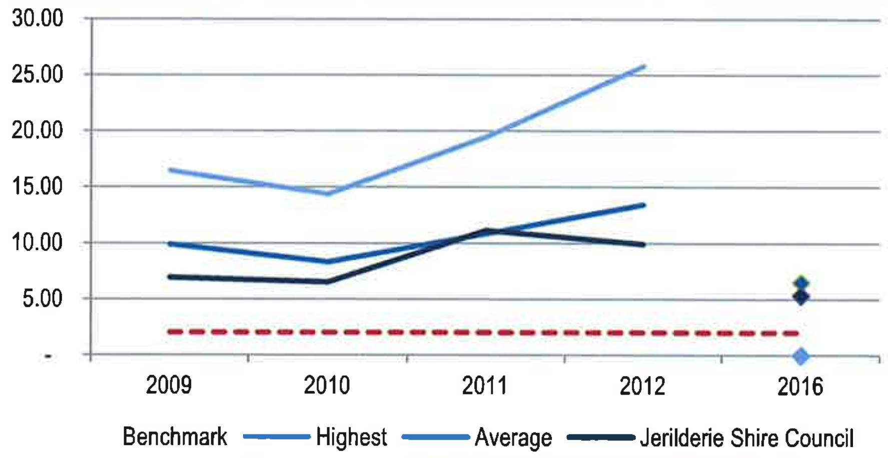
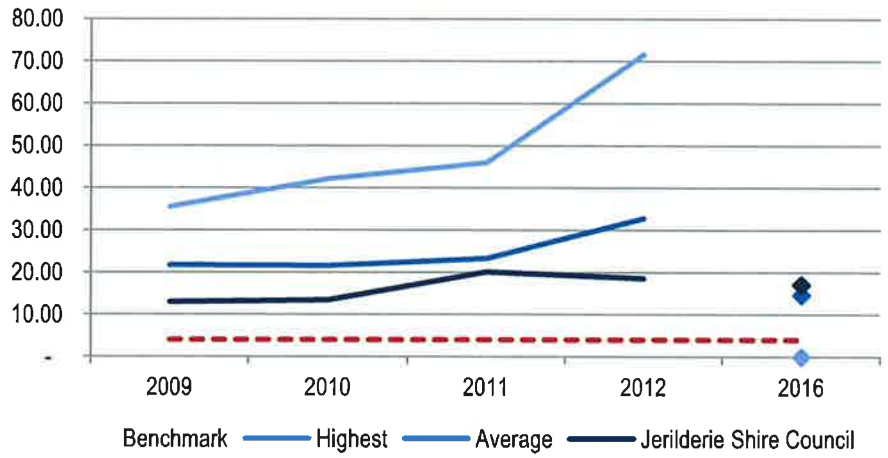


Figure 19 - Interest Cover Ratio Comparison



Council's Debt Service Ratio and Interest Cover Ratio both outperformed benchmark but were largely below group average levels over the review period. Both Ratios are forecast to remain at above benchmark levels in the medium term.

Figure 20 - Capital Expenditure Ratio Comparison

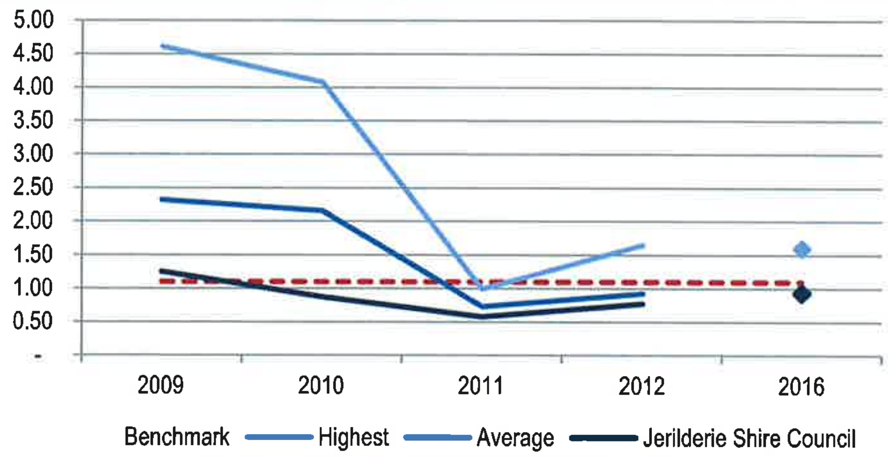


Figure 21 - Asset Maintenance Ratio Comparison

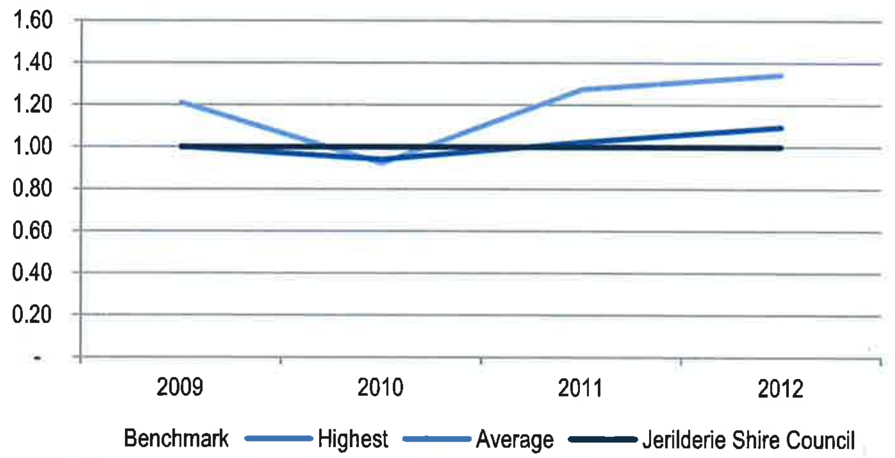


Figure 22 - Infrastructure Backlog Ratio Comparison

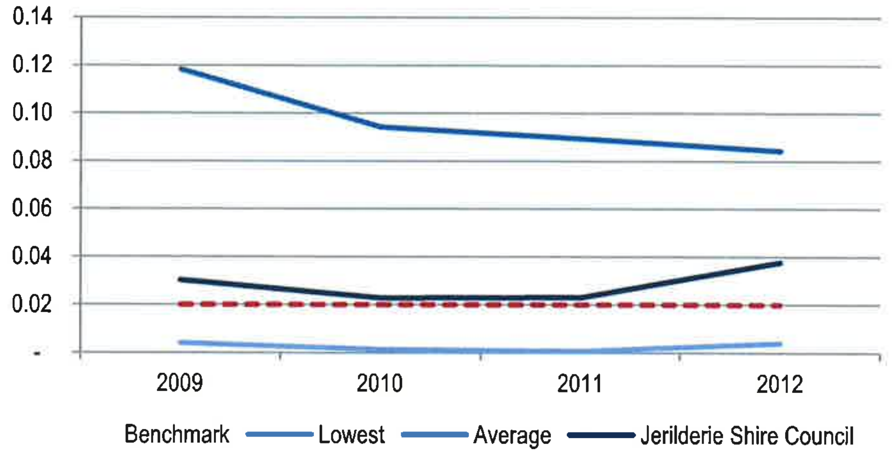
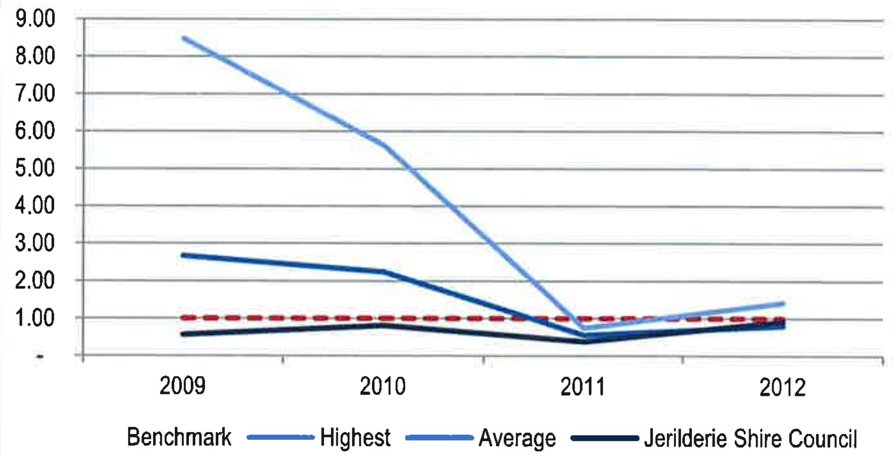


Figure 23 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog performed strongly against the group average and was close to the benchmark over the review period.

Both Council's Capital Expenditure Ratio and Building and Infrastructure Asset Renewal Ratio largely underperformed against the group average and the benchmark over the review period. Council's Asset Maintenance Ratio performed in line with the benchmark over the review period and performed below the group average in 2012.

Section 6 Conclusion and Recommendations

Based on our review of both the historic financial information and the 10 year financial forecast within Council's long term financial plan we consider Council to be marginally Sustainable in the short term. With the continuing operating deficits, it is difficult for the Council to be sustainable in the long term. We base our recommendation on the following key points:

- Council has sufficient cashflow and liquidity to maintain its operations but service levels may deteriorate as operating ratios continue to decline
- Council is highly dependent on grants and contributions increasing gradually to cover inflation
- Based on currently reported estimates, Council has spent sufficient amounts on maintenance but not on capital expenditure to renew and replace assets but this needs to be revisited when the Asset Management Plan is complete

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

- Council needs to control its employee costs, and materials and contract expenses so they do not increase at rates above what is assumed in the LTFP
- Council needs to complete its Asset Management Plan and reassess its level of capital expenditure and asset maintenance costs

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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	2,029	1,968	1,907	1,848	3.1%	3.2%	3.2%
User charges and fees	1,731	2,215	1,829	1,422	(21.9%)	21.1%	28.6%
Interest and investment revenue	343	296	245	314	15.9%	20.8%	(22.0%)
Grants and contributions for operating purposes	3,831	3,123	2,793	3,190	22.7%	11.8%	(12.4%)
Other revenues	184	185	150	79	(0.5%)	23.3%	89.9%
Total revenue	**8,118**	**7,787**	**6,924**	**6,853**	**4.3%**	**12.5%**	**1.0%**
Expenses							
Employees	3,060	2,852	2,682	2,477	7.3%	6.3%	8.3%
Borrowing costs	130	105	81	102	23.8%	29.6%	(20.6%)
Materials and contract expenses	1,923	2,180	2,578	2,452	(11.8%)	(15.4%)	5.1%
Depreciation and amortisation	2,898	2,866	1,717	1,642	1.1%	66.9%	4.6%
Other expenses	719	632	575	593	13.8%	9.9%	(3.0%)
Total expenses	**8,730**	**8,635**	**7,633**	**7,266**	**1.1%**	**13.1%**	**5.1%**
Operating result (excluding capital grants and contributions)	**(612)**	**(848)**	**(709)**	**(413)**	**27.8%**	**(19.6%)**	**(71.7%)**
Operating result (including capital grants and contributions)	**192**	**(359)**	**(281)**	**331**	**153.5%**	**(27.8%)**	**(184.9%)**

Table 2 - Items excluded from Income Statement

Excluded items ($'000s)				
	2012	2011	2010	2009
Grants and contributions for capital purposes	804	489	428	744
Net gain/(loss) from the disposal of assets	(407)	24	(7)	(15)

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	2,498	1,689	3,181	1,825	47.9%	(46.9%)	74.3%
Investments	4,055	3,779	1,609	2,551	7.3%	134.9%	(36.9%)
Receivables	1,034	1,566	713	1,142	(34.0%)	119.6%	(37.6%)
Inventories	301	280	263	297	7.5%	6.5%	(11.4%)
Other	170	141	231	168	20.6%	(39.0%)	37.5%
Total current assets	8,058	7,455	5,997	5,983	8.1%	24.3%	0.2%
Non-current assets							
Receivables	0	0	0	4	N/A	N/A	(100.0%)
Infrastructure, property, plant & equipment	88,698	89,425	90,200	51,631	(0.8%)	(0.9%)	74.7%
Intangible assets	31	58	58	58	(46.6%)	0.0%	0.0%
Total non-current assets	88,729	89,483	90,258	51,693	(0.8%)	(0.9%)	74.6%
Total assets	96,787	96,938	96,255	57,676	(0.2%)	0.7%	66.9%
Current liabilities							
Payables	470	471	247	350	(0.2%)	90.7%	(29.4%)
Borrowings	122	113	86	82	8.0%	31.4%	4.9%
Provisions	1,744	1,554	1,372	1,309	12.2%	13.3%	4.8%
Total current liabilities	2,336	2,138	1,705	1,741	9.3%	25.4%	(2.1%)
Non-current liabilities							
Borrowings	743	865	683	573	(14.1%)	26.6%	19.2%
Provisions	107	76	79	74	40.8%	(3.8%)	6.8%
Total non-current liabilities	850	941	762	647	(9.7%)	23.5%	17.8%
Total liabilities	3,186	3,079	2,467	2,388	3.5%	24.8%	3.3%
Net assets	93,601	93,859	93,788	55,288	(0.3%)	0.1%	69.6%

Table 4-Cashflow

Cashflow Statement ($'000s)	Year ended 30 June			
	2012	**2011**	**2010**	**2009**
Cashflows from operating activities	3,825	2,145	1,787	1,348
Cashflows from investing activities	(2,903)	(3,846)	(545)	(2,049)
Proceeds from borrowings and advances	0	295	200	200
Repayment of borrowings and advances	(113)	(86)	(86)	(90)
Cashflows from financing activities	(113)	209	114	110
Net increase/(decrease) in cash and equivalents	**809**	**(1,492)**	**1,356**	**(591)**
Cash and equivalents	2,498	1,689	3,181	1,825