New South Wales
Treasury Corporation

Singleton Council

Financial Assessment and Benchmarking Report

3 October 2012

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

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Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by the Division of Local Government (DLG) as detailed in TCorp's letters of 22 December 2011 and 28 May 2012. The report has been prepared as part of the Local Infrastructure Renewal Scheme (LIRS) announced by the NSW Government.

The report has been prepared based on information provided to TCorp as set out in Section 2.2 of this report. TCorp has relied on this information and has not verified or audited the accuracy, reliability or currency of the information provided to it for the purpose of preparation of the report. TCorp and its directors, officers and employees make no representation as to the accuracy, reliability or completeness of the information contained in the report.

In addition, TCorp does not warrant or guarantee the outcomes or projections contained in this report. The projections and outcomes contained in the report do not necessarily take into consideration the commercial risks, various external factors or the possibility of poor performance by the Council all of which may negatively impact the financial capability and sustainability of the Council. The TCorp report focuses on whether the Council has reasonable capacity, based on the information provided to TCorp, to take on additional borrowings within prudent risk parameters and the limits of its financial projections.

The report has been prepared for Singleton Council, the LIRS Assessment Panel and the DLG. TCorp shall not be liable to Singleton 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 Singleton Council's (the Council) financial capacity and its ability to undertake additional borrowings. The analysis is based on a review of the historical performance, current financial position, and long term financial forecasts. It also benchmarks the Council against its peers using key ratios.

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

Council has made one application for the timber bridge replacement program at Bourke's Crossing for $2.2m.

TCorp's approach has been to:

- Review the most recent three years of Council's consolidated financial results
- Conduct a detailed review of the Council's 10 year financial forecasts. The review of the financial forecasts focused on the particular Council fund that was undertaking the proposed debt commitment. For the Council, the project is being funded from the General Fund so we focused our review on the General Fund

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

- Council has improved its operating results over the last three years with an operating surplus (excluding capital grants and contributions) in 2011
- Approximately 64% of the Council's revenue base is derived from own sourced revenue (annual charges, and user charges and fees). They can rely upon these revenue streams on an ongoing basis for financial flexibility
- Operating expenses appear to be generally well managed
- Council's performance indicators are all strong and improving over the period

The Council reported $12.1m of infrastructure backlog in 2011 with an infrastructure asset value of $319.6m. This is a relatively small level of backlog compared to other NSW councils although it is increasing and needs to be addressed. Other observations include:

- The infrastructure backlog has almost doubled since 2009
- Council has spent less than required on maintenance in two of the last three years
- Council is forecasting to spend more than required in the first two years of its financial forecast and then substantially less than required over the remaining years of the forecast

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

- The General Fund shows operating deficit positions are expected in six of the 10 years when capital grants and contributions are excluded
- The 10 year financial forecasts include a capital expenditure program that reduces over time and appears to be lower than what may be required to maintain a sound asset base. The impact of this lower level of capital investment is that other ratios such as cash reserves and

liquidity continue to improve over time as investments are not made into new or renewal assets and cash is held
- Overall it appears that the Council will have ample liquidity throughout the next 10 year period to service all short term liabilities and currently scheduled capital expenditure and related long term liabilities
- Council's level of fiscal flexibility is sound as within the General Fund, own source revenue is trending higher and reaches a level above 70% during the forecast period
- With the exception of our comments regarding the future capital program, other key assumptions within the financial forecasts are considered to be reasonable

In our view, the Council has the capacity to undertake the additional borrowings of $2.2m for the LIRS project. This is based on the following analysis:

- The DSCR remains well above a benchmark of 2.0x in the 10 year forecast
- The Interest Cover Ratio is well above the benchmark of 4.0x in the 10 year forecast
- Council's liquidity is sound

In respect of the Benchmarking analysis TCorp has compared the Council's key ratios, on a consolidated basis, with other councils in DLG group 4. The key observations are:

- Council's financial flexibility, as indicated by the Operating Ratio and Own Source Operating Revenue Ratio, is generally above the group's average
- Council was in a sufficiently liquid position which is forecast to be above the group's average liquidity level over the medium term
- Council has a lower level of gearing to its peers and its DSCR and Interest Cover Ratio were above benchmark and the group's average over the review period
- Council has a comparatively low level of Infrastructure Backlog and high level of asset maintenance, however its Building and Infrastructure Asset Renewal and Capital Expenditure Ratios have been at or below the group's average in the past three years

Section 2 Introduction

2.1: Purpose of Report

This report provides the Council with an independent assessment of their financial capacity and performance measured against a peer group of councils which will complement their internal due diligence, and the IP&R system of the Council and the DLG.

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

The key areas focused on are:

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

2.2: Scope and Methodology

TCorp's approach was to:

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

In undertaking its work, TCorp relied on:

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

Benchmark Ratios

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

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

Therefore these benchmarks are intended as a guide to performance.

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

Ratio	Benchmark
Operating Ratio	> (4.0%)
Cash Expense Ratio	> 3.0 months
Unrestricted Current Ratio	> 1.5x
Own Source Operating Revenue Ratio	> 60.0%
Debt Service Cover Ratio (DSCR)	> 2.0x
Interest Cover Ratio	> 4.0x
Infrastructure Backlog Ratio	< 0.02x
Asset Maintenance Ratio	> 1.0x
Building and infrastructure asset renewal ratio	> 1.0x
Capital Expenditure Ratio	> 1.1x

2.3: Overview of the Local Government Area

Singleton Council LGA	
Locality & Size	
Locality	Hunter
Area	4895.7km^2
DLG Group	4
Demographics	
Population	24,331
% under 18	29%
% between 18 and 64	62%
% over 65	10%
Expected population 2021	27,200
Operations	
Number of employees (FTE)	204
Annual revenue	$44.2m
Infrastructure	
Roads	911 km
Bridges	59
Infrastructure backlog value	$12.1m
Total infrastructure value	$319.6m

Singleton Council Local Government Area (LGA) is located 200km northwest of Sydney and 80km inland from Newcastle. Major towns and villages within the LGA include Singleton, Broke, Bulga, Camberwell, Jerrys Plains, Putty, and rural areas include Whittingham, Mt Olive and Elderslie.

The commercial centre supports the industrial sector which is largely based on coal mining and electricity generation. There is a dairy and beef cattle sector with a new mushroom industry.

The wine and tourism industry is part of the well known Hunter Valley.

Singleton has a growing population which is expected to continue to grow at around 1.1%p.a.

2.4: LIRS Application

The Council has made one LIRS application.

Project: Timber Bridge Replacement Program – Bourke's Crossing

Description: Replace existing timber bridge with a concrete bridge and approaches over Glendon Brook at Mitchells Flat, near Singleton.

Amount of loan facility: $2.2m

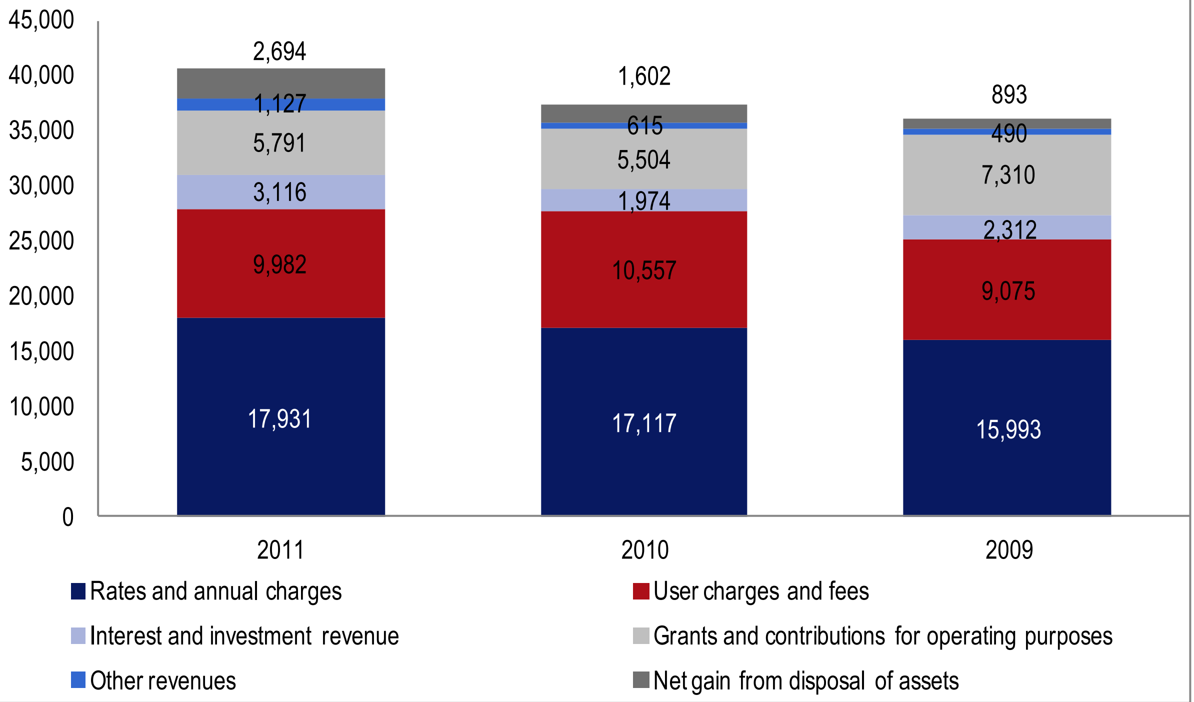
Term of loan facility: 10 years

Section 3 Review of Financial Performance and Position

In reviewing the financial performance of the Council, TCorp has based its review on the annual audited accounts of the Council unless otherwise stated.

3.1: Revenue

Figure 1 - Revenue Sources for 2008/09 to 2010/11 ($'000s)



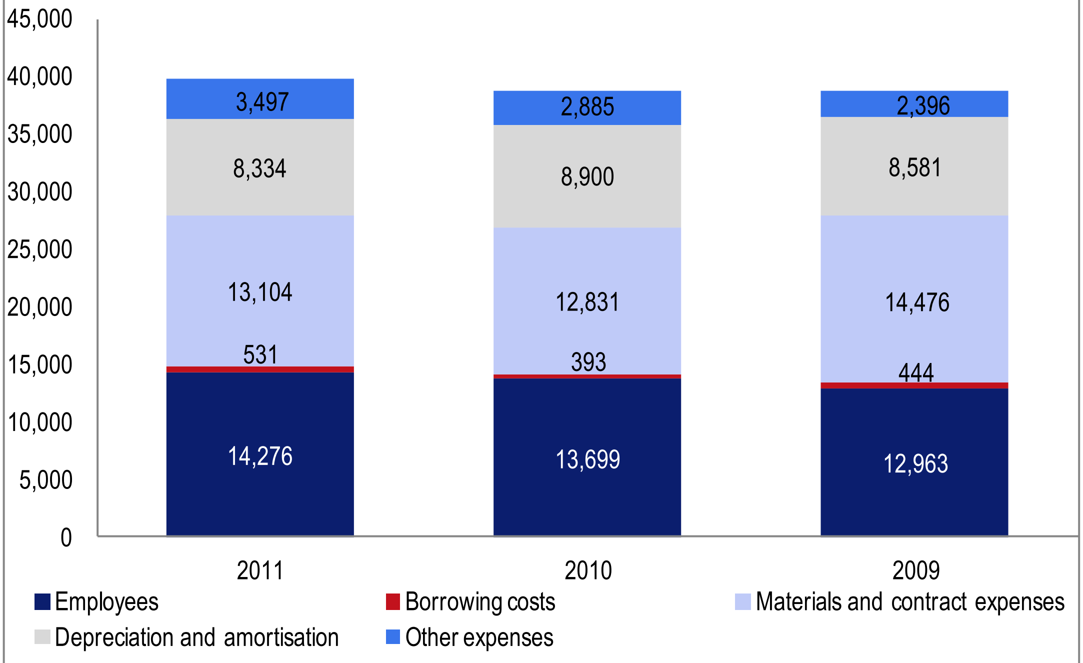
Key Observations

- Rates and annual charges have been increasing by an average of 5.9% p.a. over the last three years. The Council currently has two special rate variations. The first variation started in the 2002/03 financial year for a period of 15 years. It is used for infrastructure renewal projects' loan repayments. The second variation was for a 9.19% increase in general income, starting in 2006/07, to fund costs associated with the parks and facilities infrastructure strategy including asset renewal and maintenance.
- User fees and charges spiked in 2010 due to increases in tipping fees, private works and RTA works.
- Council's own sourced revenue of 62% to 67% has been above the benchmark of 60% over the period.
- Interest and Investment revenue has been volatile over the period. While cash and investment balances have been increasing over the period, returns have been fluctuating with 2010 being the low point.

- Operating grants and contributions fell substantially in 2010 due to specific purpose transport grants for flood works and road to recovery finishing.

3.2: Expenses

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



Key Observations

- Employee costs have been rising by an average of 4.9% p.a. over the period. The increases were broadly over most categories including salaries and wages, leave entitlements, workers compensation insurance and a reduced level of cost capitalisation.
- Materials and contract expenses dropped sharply in 2010 due to a $1.6m reduction in raw materials caused by a spike in raw materials in 2009. Excluding the 2010 spike, materials and contract expenses have only grown by 1% p.a. since 2008
- Depreciation and amortisation has been volatile over the period mainly within the roads, bridges and footpaths category. In 2010 there was a $33.6m transfer to roads, bridges and footpaths, which is a correction of previous overstated depreciation in previous years, which increased the written down value substantially. In 2011, depreciation on roads, bridges and footpaths reduced by $1m due to increases in the assessed useful life of the assets.
- Other expenses have been increasing by around $0.5m p.a. due to increases in the waste and emergency services levies, street lighting and insurance costs
- The Council appears to manage its expenses well with no stand out increases noted besides the depreciation and amortisation expenses comments above

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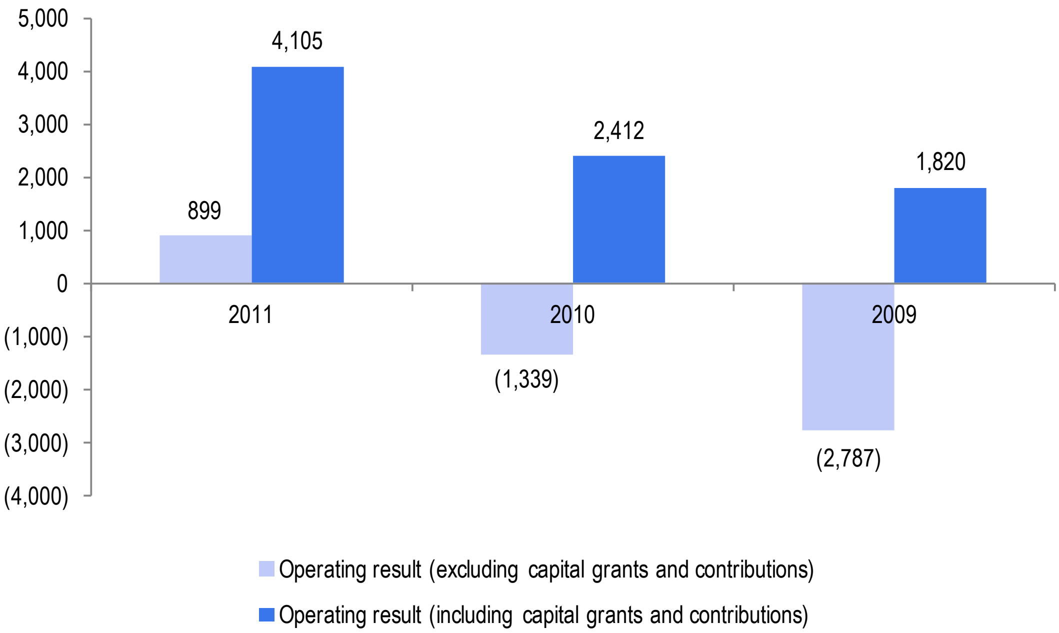
3.3: Operating Results

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 2010/11 ($'000s)



Key Observations

- The Council has posted a net operating surplus excluding capital grants and contributions in 2011, with operating results improving over the period
- The improving results are a combination of revenue increases driven by special rate variations on rates and annual charges and council effectively managing expense increases

3.4: Financial Management Indicators

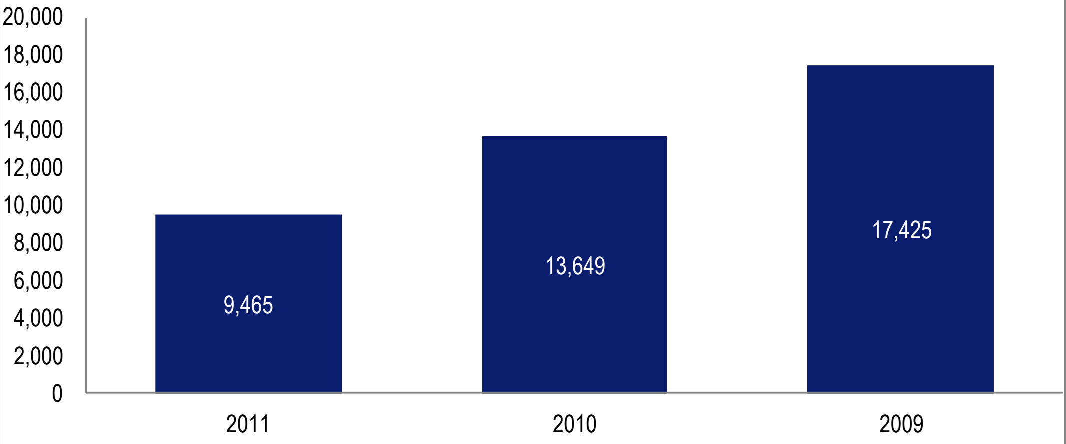
Performance Indicators	Year ended 30 June		
	2011	**2010**	**2009**
EBITDA ($'000's)	9,764	7,954	6,238
Operating Ratio	2.2%	(3.6%)	(7.7%)
Interest Cover Ratio	18.39x	20.24x	14.05x
Debt Service Cover Ratio	9.25x	10.01x	5.46x
Unrestricted Current Ratio	2.02x	1.80x	1.68x
Net assets ($'000's)	592,295	571,901	397,540

Key Observations

- The Council's EBITDA has been improving over the period in line with the Council's overall operating result. The Council has a strong Interest Cover Ratio and Debt Service Cover Ratio indicating the Council has the ability to carry more debt
- The Operating Ratio has been above the benchmark of negative 4.0% over the last two years and has been improving over the period
- The Unrestricted Current Ratio has been above the benchmark of 1.50x over the last three years and has been increasing, indicating that Council has sound liquidity
- Net assets increased significantly in 2010 and 2011 due to Revaluations and adjustments to Infrastructure, Property, Plant and Equipment of over $170m and $16m respectively
- When asset revaluations and adjustments are excluded, Infrastructure, Property, Plant and Equipment have been marginally declining with asset purchases being less than the combined value of disposed assets and annual depreciation. Since 2009 this amounts to a $2.2m decrease in Infrastructure, Property, Plant and Equipment assets
- Council has total borrowings of $7.6m. This represents a total debt level of only 1.3% of net assets

3.5: Statement of Cashflows

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



Key Observations

- Council's cash and cash equivalents has been decreasing each year primarily due to the purchase of investment securities of around $10m p.a. The majority of investments are in term deposits and Council has small amounts of investments in FRNs and CDOs ($4.7m and $0.5m respectively).
- In total, the Council has cash and investments of $51.9m in 2011 of which $46.5m is externally restricted and $5.4m is internally restricted. The majority of the external restrictions relate to water, sewerage and domestic waste as well as developer contributions. Council has no unrestricted cash and investments
- Within the investments portfolio of $37.2m, Council has current deposits of $29.6m and non-current deposits of $7.6m, floating rate notes of $4.7m and CDOs of $0.5m
- Overall the cash balances along with the Unrestricted Current Ratio suggest the Council was able to meet their day to day obligations

3.6: Capital Expenditure

The following section predominantly relies on information obtained from Special Schedules 7 and 8 that accompany the annual financial statements. These figures are unaudited and are therefore Council's estimated figures.

3.6(a): Infrastructure Backlog

Figure 5 - Infrastructure Backlog for 2008/09 to 2010/11 ($'000's)

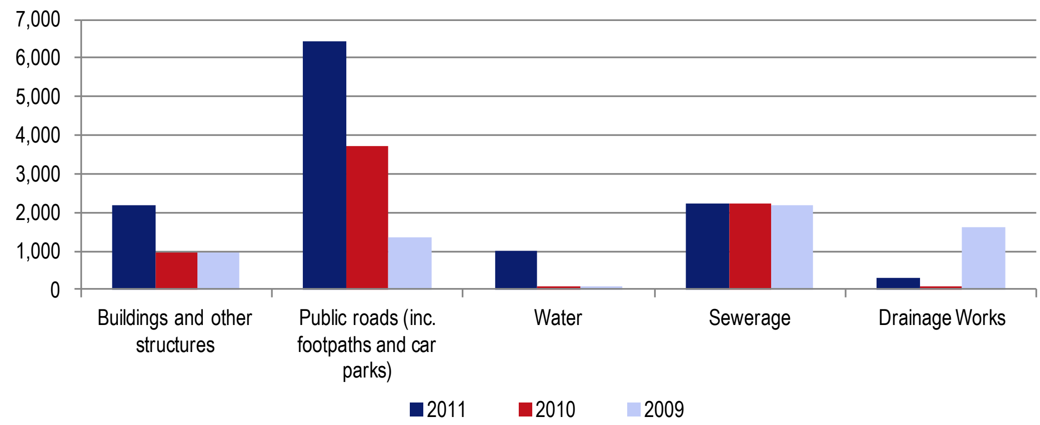
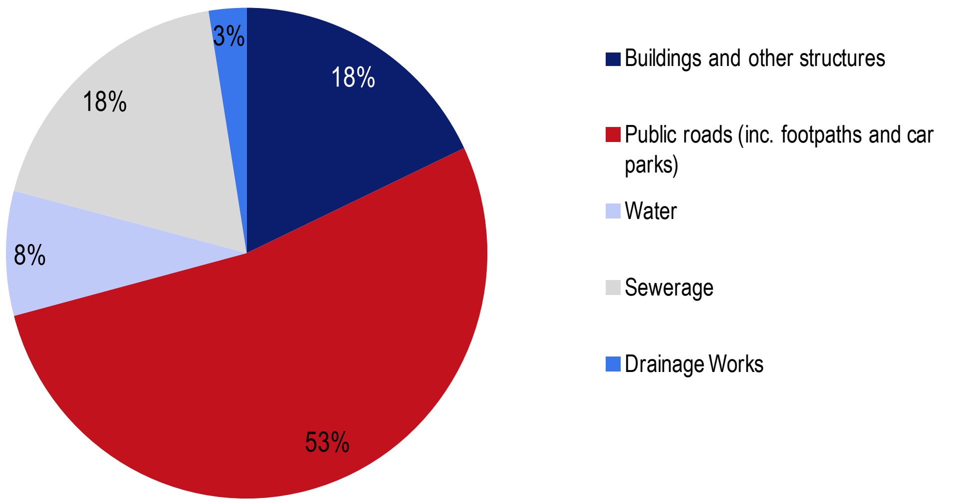


Figure 6 - Infrastructure Backlog Composition for 2010/11



The Council reported a $12.1m backlog in 2011 that is mainly related to roads, buildings and sewerage at 53%, 18% and 18% respectively.

In order to effectively manage their infrastructure maintenance task, Council made a conscious decision to not maintain 100km of unsealed road. Council has recently agreed to contribute $50,000 towards the maintenance of this section of road, but normal practice is to provide no funds towards these. Maintenance of these roads is left with the local residents.

The infrastructure backlog has almost doubled since 2009 mainly due to public roads however the total backlog is relatively small compared to other councils.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June		
	2011	2010	2009
Bring to satisfactory standard ($'000's)	12,129	7,028	6,151
Required annual maintenance ($'000's)	7,524	4,629	7,041
Actual annual maintenance ($'000's)	5,753	5,784	6,371
Total value of infrastructure assets ($'000's)	319,574	298,886	317,594
Total assets ($'000's)	609,557	588,051	411,747
Infrastructure Backlog Ratio	0.04x	0.02x	0.02x
Asset Maintenance Ratio	0.76x	1.25x	0.90x
Building and Infrastructure Renewals Ratio	0.40x	0.63x	0.76x
Capital Expenditure Ratio	0.79x	0.96x	1.02x

Council has a relatively low infrastructure backlog of 0.04x, however, it has almost doubled since 2009 while the total value of infrastructure assets has only increased marginally.

Both the Building and Infrastructure Asset Renewal Ratio and the Capital Expenditure Ratio are not meeting the benchmarks.

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. Capital works are major non-recurrent projects.

Capital Program ($'000's)	Year ended 30 June		
	2011	2010	2009
New capital works	3,618	3,770	5,693

Council only provides new capital works and not replacement or refurbishment works. New capital works have dropped significantly since 2009.

Over the last couple of years capital works included:

- Roads $4.3m
- Plant and Equipment $2.8m
- Buildings $2.4m
- Bridges $0.6m

3.7: Specific Risks to Council

- Environmental and natural disasters. Singleton has had two natural disaster declarations in the last three years. Council's management of this risk is substantially reliant on being able to receive both State and Federal funding under various "natural disaster" funds.
- Ageing population. The NSW Statistical Local Area Population Projections, 2006-2036 shows that the proportion of people over 65 in Singleton will increase from 10% in 2006 to 18% in 2036. An ageing population places pressure on existing infrastructure and services, with consideration required for future service requirements that may have implications in terms of future service provision.
- Council has a long term SRV that is due to finish in 2018. Council will need to either adjust to slower income growth from 2018 or consider other options for replacing this income stream.
- Employee costs. Employee costs have been growing at around 4.9% over the last three years. This level of growth is above the average employee cost levels that should be achieved.
- Deterioration of Council infrastructure assets. Over the last three years the infrastructure backlog has almost doubled and actual maintenance has been reducing while required maintenance has been increasing. If this trend continues the Council's infrastructure backlog will continue to grow and may be reflected in lower quality infrastructure assets.

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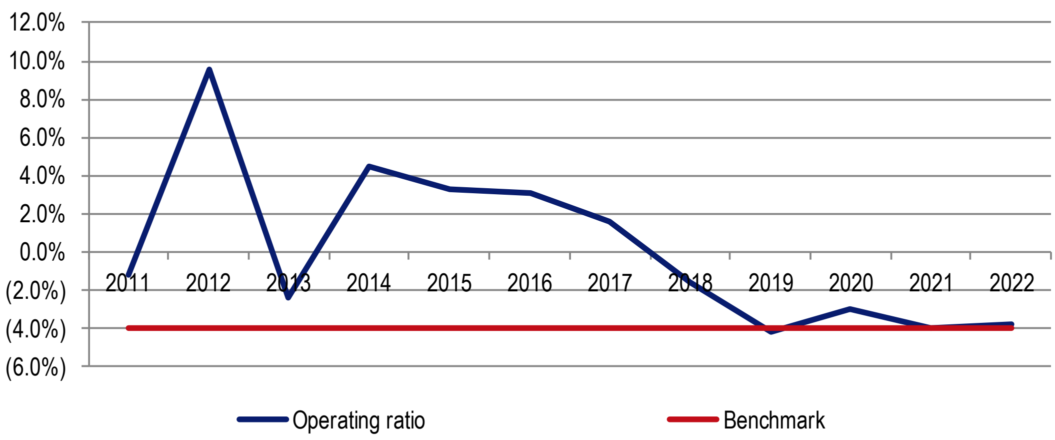
Section 4 Review of Financial Forecasts

The financial model shows the projected financial statements and assumptions for the next 10 years. The model we received included the $2.2m loan with the LIRS subsidy and the capital cost of the Timber Bridge Replacement Program. We have manually removed the subsidy from the model because the outcome of the LIRS application was not available at the time of writing this report.

The LIRS loan relates to the General Fund, therefore we have focused our financial analysis solely upon this Fund. Council's consolidated position includes both a Water and Sewer Fund however these are operated as independent entities, which unlike the General Fund are 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



The overall trend in operating results is deteriorating over the forecast period due to decreases in the gains on the sale of investment properties.

The operating results in 2012 are forecast to spike due to a gain of $8.4m from the sale of investments in real estate development. This masks a $1.2m fall in general purpose operating grants and a $0.8m fall in interest and investment revenue. The fall in 2013 is due to a $6.2m fall in gains on the sale of investment properties.

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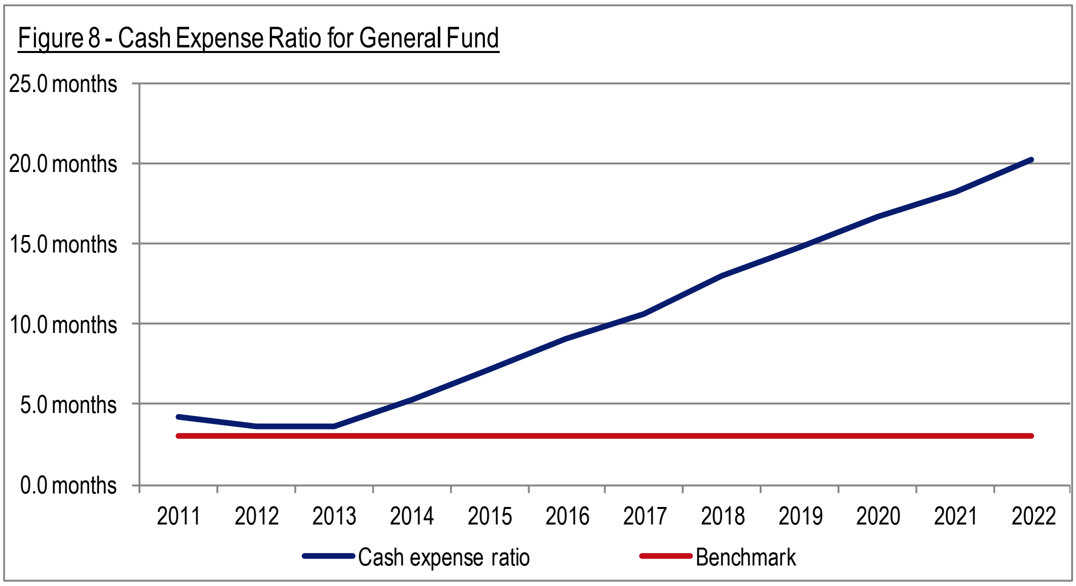
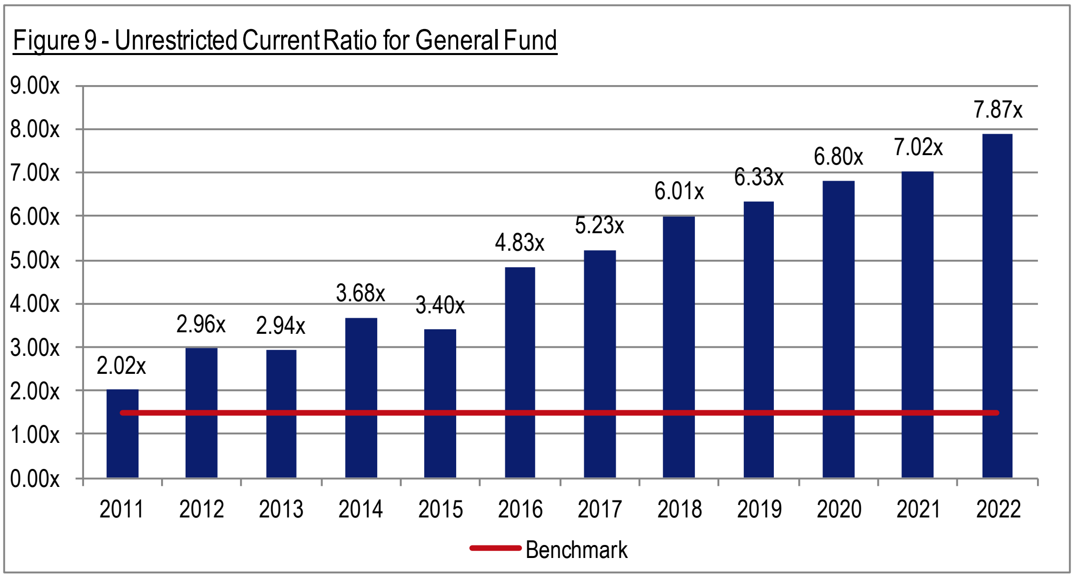
4.2: Financial Management Indicators

Liquidity Ratios

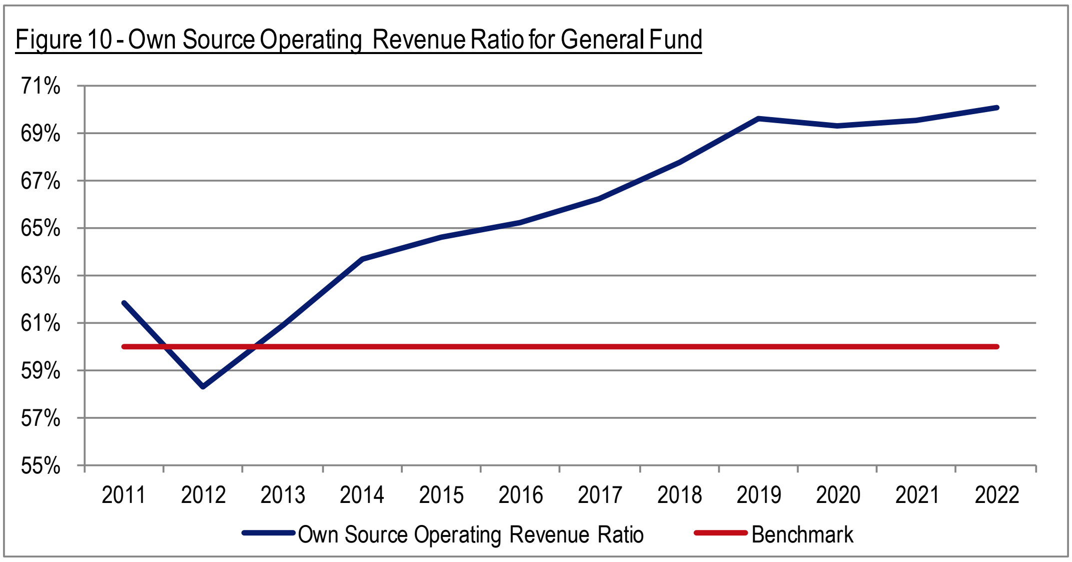




* The unrestricted current ratio for 2011 was not provided for the general fund so we have used the consolidated unrestricted current ratio.

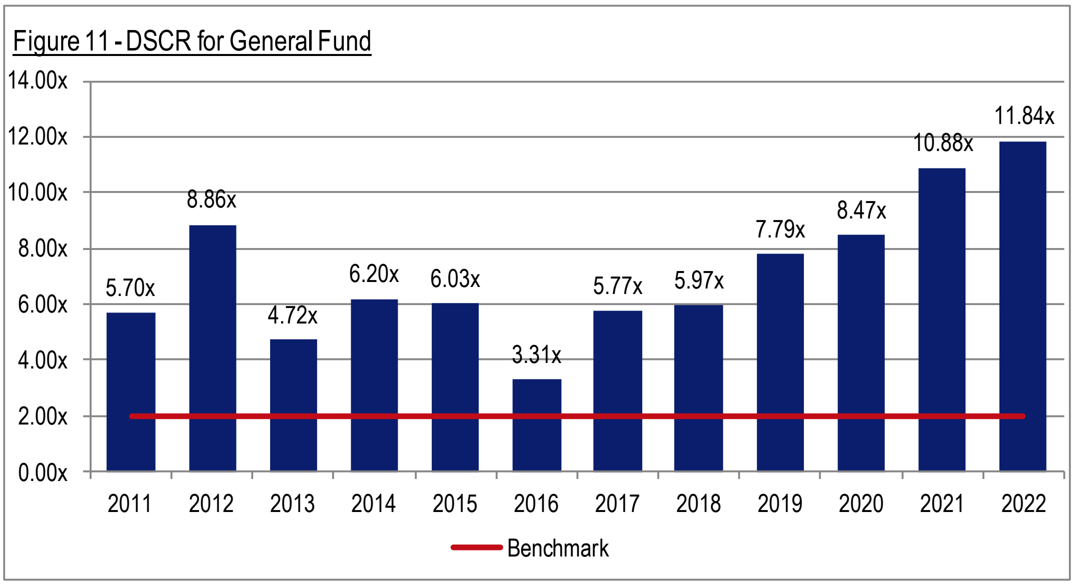
The Council starts with a strong liquidity position and it increases significantly over the forecast period.

Fiscal Flexibility Ratios



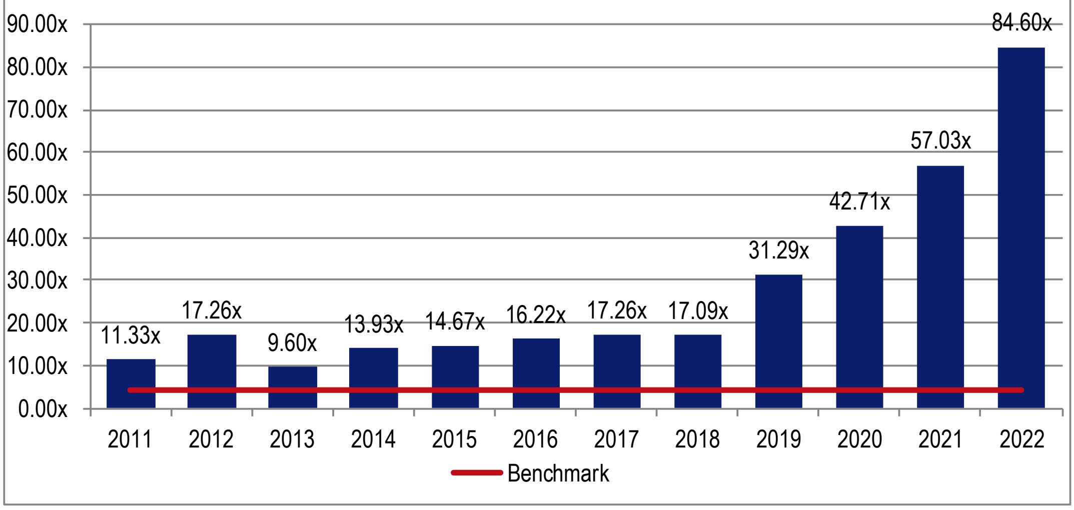
The Council's Own Source Operating Revenue Ratio increases significantly over the forecast period due to falls in gains on the disposal of investment properties and falls in capital grants.

Council's own source revenue ratio dips below benchmark in 2012 due to the one off $8.4m gain on the sale of investment properties skewing the proportion of own source revenue.



The overall trend in the DSCR is an improvement over the forecast period. The ratio dips in 2016 due to a debt repayment of $2.3m, though there is a new loan of $1.3m taken in 2016 which could be used to partially meet the increased debt repayment.

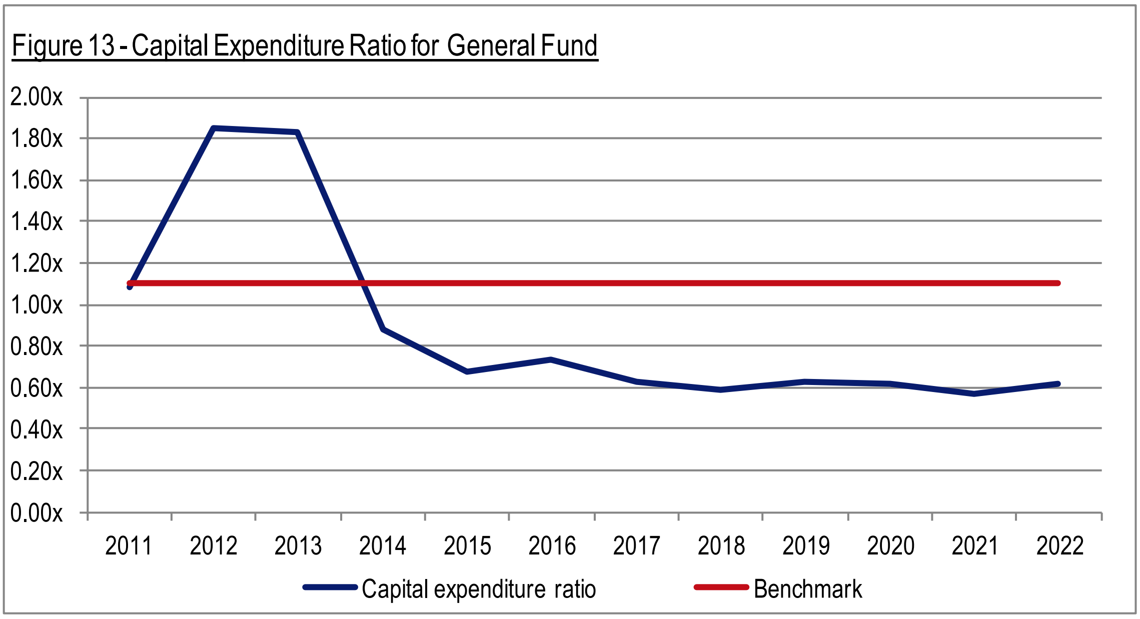
Figure 12 - Interest Cover Ratio for General Fund



The Council's Interest Cover Ratio starts at a high level and increases significantly over the forecast period.

With both the DSCR and Interest Cover Ratios being very high and increasing, this suggests that the Council would be able to service substantially more debt over the forecast period.

4.3: Capital Expenditure



The capital expenditure ratio deteriorates over the forecast period and is below the benchmark for most of the period due to falling capital expenditure and increasing depreciation costs. This suggests that the infrastructure backlog may continue to increase. This issue may be compounded if service level demands increase over the forecast period, which is likely to happen with forecast increases in population over the period.

The total deficit figure for capital expenditure versus depreciation across the 10 year period amounts to $14.1m in nominal terms.

In the Asset Management Plan, Council concedes that current asset management maturity does not meet requirements and it has a plan to meet requirements in the future.

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 rates 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%
- Interest and investment revenue: annual return of 5%
- All other revenue items, the estimated annual CPI increase of 2.5%
- Employee costs: 3.5% (estimated CPI+1%)
- All other expenses: the estimated annual CPI increase of 2.5%

<u>Key Observations and Risks</u>

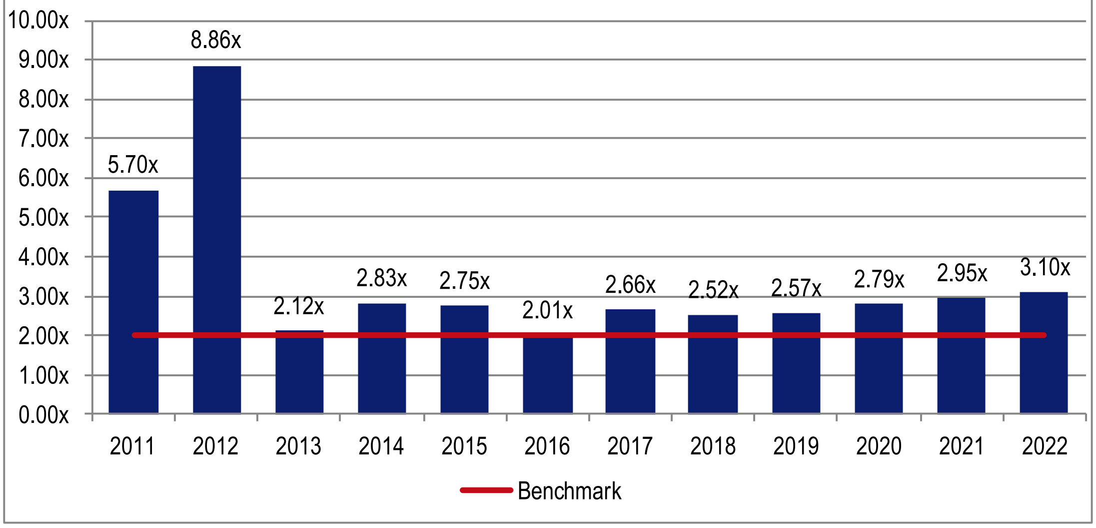
- Council has assumed CPI at 3% p.a. and most of the revenue items escalate at this rate including rates and annual charges revenue from 2014
- It appears as though interest and investment revenues have been increased at 3% p.a. from 2015 which may be understating interest and investment revenues
- Employee costs growth rates vary over the forecast period but average 3.49% p.a.
- Materials and contracts expenses growth rates vary over the forecast period but average 1.6% p.a. though the LTFP states 3% p.a.
- Growth in other expenses vary but average 2.8% p.a.
- As the performance of the Council improves over the forecast period in most categories, with the exception of capital expenditure it appears that Council has not fully forecast the future required capital program. This explains why cash ratios are improving, as capital expenditure is understated
- Apart from the comments on the capital expenditure program overall, the assumptions used by Council appear to be reasonable

4.5: Borrowing Capacity

When analysing the financial capacity of the Council, we believe Council will be able to undertake an increased level of debt funding in addition to the LIRS loan facilities. Some comments and observations are:

- Based on a benchmark of DSCR>2x, $13.5m could be borrowed in addition to the $2.2m borrowings proposed under LIRS in 2012/13 and the $1.3m borrowings included in 2015/16 in the general fund
- As the DSCR ratio improves from 2016 onwards there could be further capacity to take on increased borrowings from that point however we would recommend a subsequent review of the Council's financial position nearer the time to confirm if this remains the case. This is particularly related to the potential understatement of the required capital expenditure program
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at a 7% interest rate

Figure 14 - DSCR for General Fund with additional $13.5m in 2012



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Section 5 Benchmarking and Comparisons with Other Councils

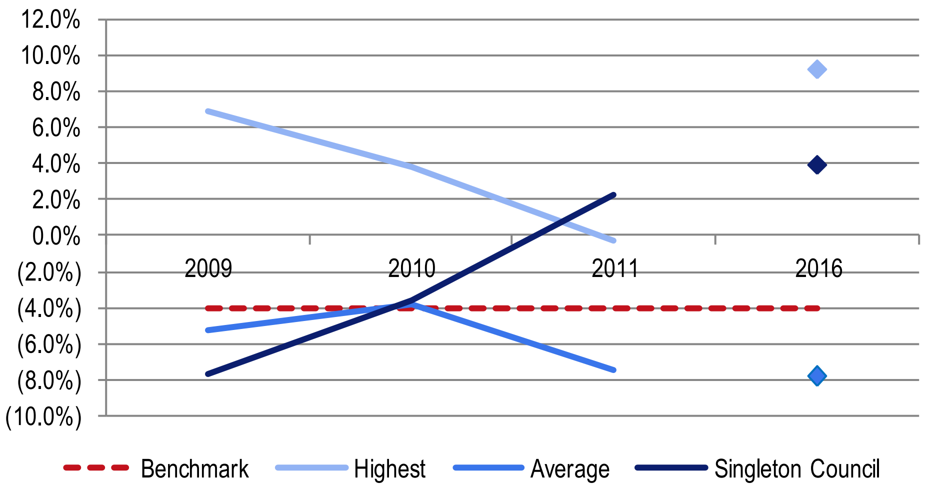
As discussed in section 2 of this report, each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis (that is, for councils that operate more than one fund, the results of all funds are included). This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 4. There are 32 councils in this group and at the time of preparing this report, we have data for 19 of these councils.

In Figure 15 to Figure 21, the graphs compare the historical performance of Council with the benchmark for that ratio, with the average for the Group, with the highest performance (or lowest performance in the case of the Infrastructure Backlog Ratio where a low ratio is an indicator of strong performance), and with the forecast position of the Council as at 2016 (as per Council's LTFP). Figures 22 to 24 do not include the 2016 forecast position as those numbers are not available.

Where no highest line is shown on the graph, this means that Council is the best performer in its group for that Ratio.

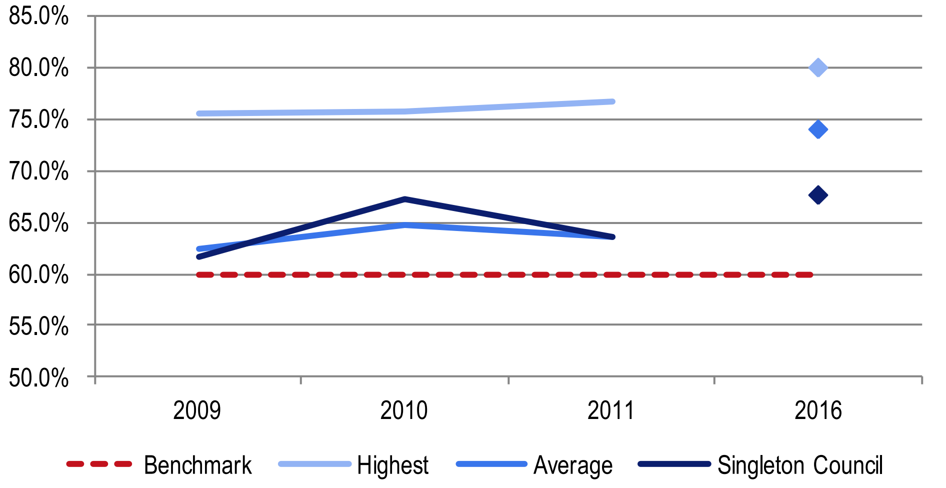
Financial Flexibility

Figure 15 - Operating Ratio Comparison



Council's Operating Ratio has improved significantly over the review period to be well above benchmark and the group's average in 2011. Council is forecast to maintain its strong operating results over the medium term, in contrast to its peer group which is forecast to deteriorate.

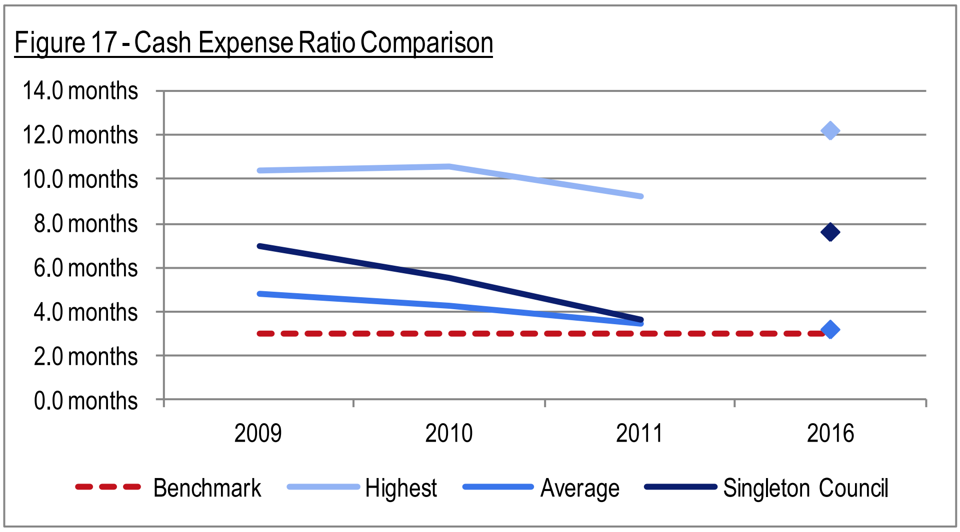
Figure 16 - Own Source Operating Revenue Ratio Comparison

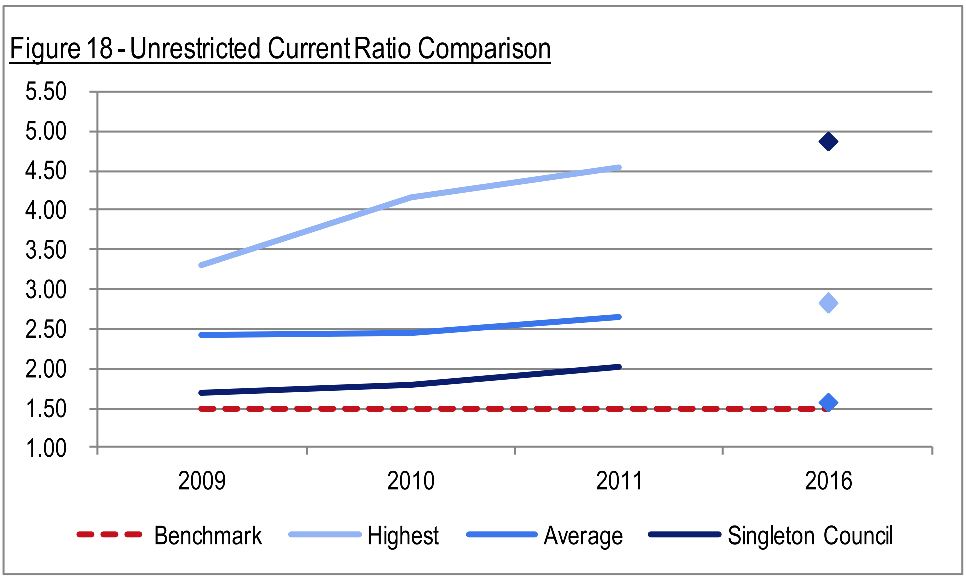


Council's Own Source Operating Revenue Ratio is broadly in line with the group's average and has been above benchmark in the past three years.

Overall, Council's financial flexibility is above the group's average and is forecast to remain sound.

Liquidity





Council's Cash Expense Ratio has been declining from its high levels in the past two years, resulting in Council matching the group's average in 2011. Council is forecast to return to higher levels over the medium term, well above its peer group and the benchmark.

Unrestricted Current Ratio was below the group's average in the past three years but above benchmark levels, indicating Council's ability to meet its debt payments is sufficient in the short-term. This is forecast to improve over the medium term, in contrast to other councils in the group.

Overall, Council's liquidity position is sound and forecast to improve substantially, due to lower forecast levels of capital investment resulting in higher levels of cash being held.

Debt Servicing

Figure 19 - Debt Service Cover Ratio Comparison

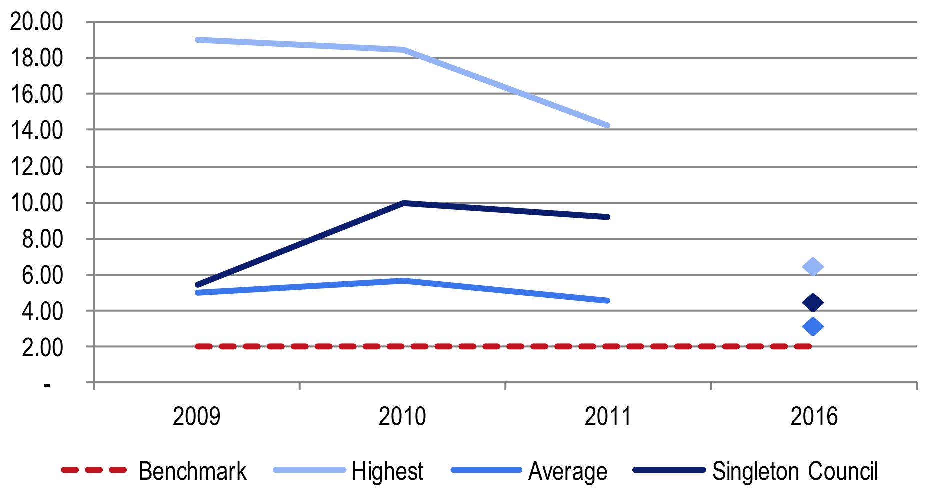
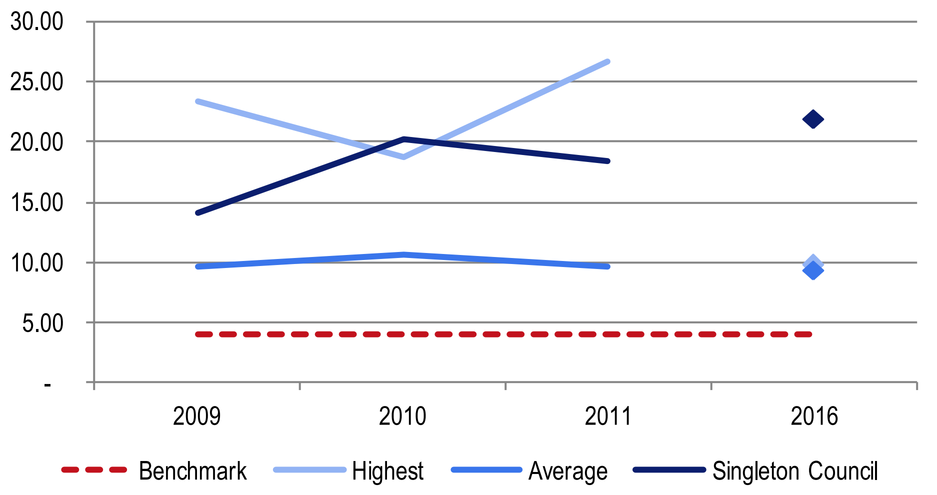


Figure 20 - Interest Cover Ratio Comparison



Over the review period, Council was above benchmark DSCR and Interest Cover Ratio and this is forecast to continue over the medium term. Council performed strongly against its peers indicating that its gearing levels are lower than other councils in the group.

Asset Renewal and Capital Works

Figure 21 - Capital Expenditure Ratio Comparison

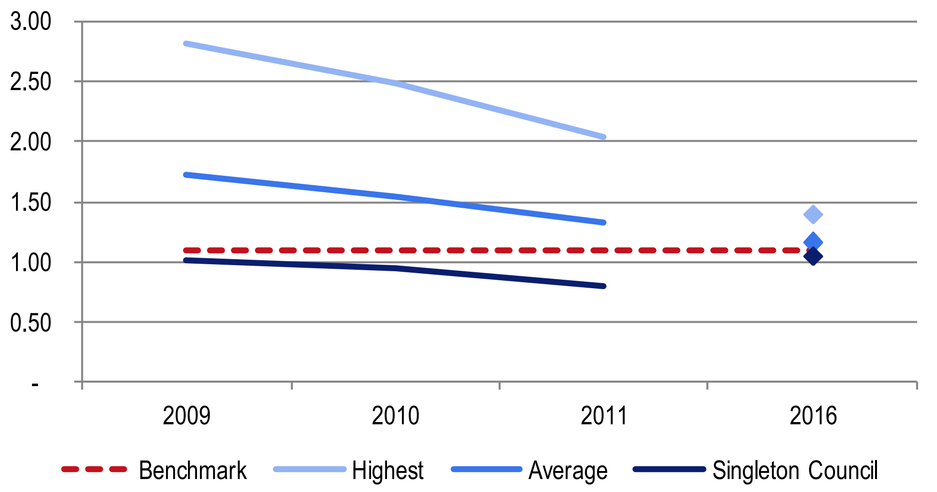


Figure 22 - Asset Maintenance Ratio Comparison

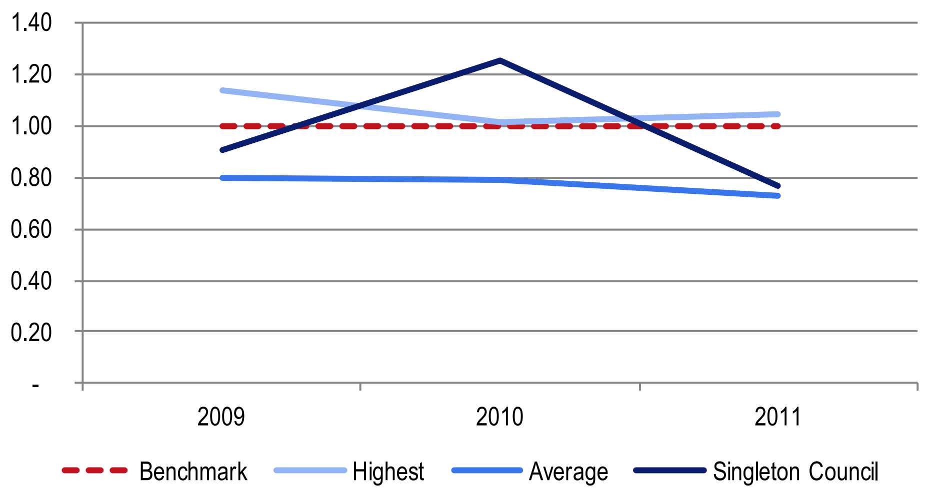


Figure 23- Infrastructure Backlog Ratio Comparison

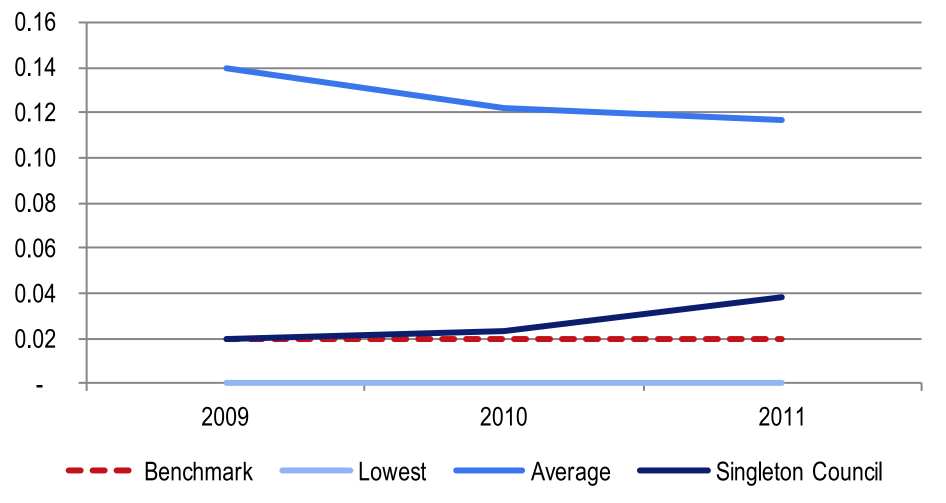
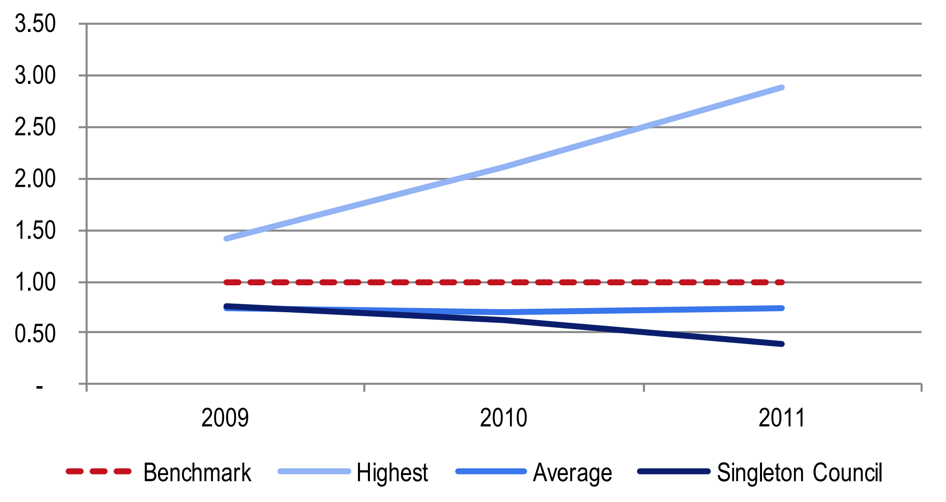


Figure 24 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog has been below the group's average in the past three years, and has remained at or close to benchmark over the same period. Similarly, Council's Capital Expenditure Ratio, Asset Maintenance Ratio, and Building and Infrastructure Asset Renewal Ratio have generally tracked benchmark levels, although have declined in 2011.

Overall, Council has kept its existing assets well maintained and its Infrastructure Backlog low.

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 in a sound financial position. Both past performance and the financial forecasts support our findings that Council has sufficient financial capacity to service the additional borrowings proposed under its LIRS applications.

As noted in our report, the forecast analysis has been focused on the General Fund where the LIRS application relates, whereas the historical analysis has focused on the consolidated Audited Accounts.

We base our recommendation on the following key points:

- Council has sufficient capacity to manage the additional $2.2m debt supported by a DSCR and Interest Cover Ratio above the benchmarks in all 10 years of its financial forecast and has the capacity to service additional debt of $13.5m
- Council has ample liquidity to manage their short term liabilities during the 10 year forecast period
- Council has maintained control of expenses in the past three years except for the comments on the depreciation expenses
- Council has a relatively low level of borrowings at $7.6m, only 1.3% of net assets
- Council has a relatively small infrastructure backlog at $12.1m that equates to 3.8% of total infrastructure, property, plant and equipment assets

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

- Operating deficit results excluding capital grants and contributions are forecast to start in 2018 and then stabilise over the remaining forecast period. These operating deficit results are all close to the benchmark of negative 4%. This is a significant issue that could impact the long term financial sustainability of the Council. We recommend Council considers its options for improving its performance in this area, either by further and on-going cost controls, or securing new or additional revenue in future years
- Whilst depreciation is fully funded by sufficient capital expenditure in the first two years of the financial forecasts, it appears that for the last eight years of the forecast a much lower level of capital expenditure has been forecast. We would therefore recommend these figures be reviewed by Council and would recommend ongoing analysis to verify them in the future
- Council has indicated that their Asset Management Plan requires further refinement and as the IP&R system is an ongoing process we believe that the Council will become more accomplished in providing data that will interlink between the IP&R documents and the financial forecasts

As Council improves its Asset Management Plan it should ensure that the financial forecasts accurately reflect required levels of capital expenditure. This will then have flow on effects to cash reserves and borrowing needs that could be used to meet the updated capital expenditure required

New South Wales
Treasury Corporation

Appendix A Historical Financial Information Tables

Table 1- Income Statement

Income Statement ($'000)	Year ended 30 June			% annual change	
	2011	**2010**	**2009**	**2011**	**2010**
Revenue					
Rates and annual charges	17,931	17,117	15,993	4.8%	7.0%
User charges and fees	9,982	10,557	9,075	(5.4%)	16.3%
Interest and investment revenue	3,116	1,974	2,312	57.9%	(14.6%)
Grants and contributions for operating purposes	5,791	5,504	7,310	5.2%	(24.7%)
Other revenues	1,127	615	490	83.3%	25.5%
Net gain from disposal of assets	2,694	1,602	893	68.2%	79.4%
Total revenue	**40,641**	**37,369**	**36,073**	**8.8%**	**3.6%**
Employees	14,276	13,699	12,963	4.2%	5.7%
Borrowing costs	531	393	444	35.1%	(11.5%)
Materials and contract expenses	13,104	12,831	14,476	2.1%	(11.4%)
Depreciation and amortisation	8,334	8,900	8,581	(6.4%)	3.7%
Other expenses	3,497	2,885	2,396	21.2%	20.4%
Total expenses	**39,742**	**38,708**	**38,860**	**3.5%**	**(0.4%)**
Operating result	**899**	**(1,339)**	**(2,787)**	**144.4%**	**52.0%**

Table 2 - Items excluded from Income Statement

Excluded items ($'000)			
	2011	**2010**	**2009**
Grants and contributions for capital purposes	3,206	3,751	4,607
Gain on recognition of interest-free loan	0	480	0
Increase (Decrease) in the fair value of investments	314	190	(538)
Impairments	305	0	0

Table 3 - Balance Sheet

Balance Sheet ($'000)	Year Ended 30 June			% annual change	
	2011	2010	2009	2011	2010
Current assets					
Cash and equivalents	9,465	13,649	17,425	(30.7%)	(21.7%)
Investments	34,863	28,773	21,493	21.2%	33.9%
Receivables	3,547	3,006	3,370	18.0%	(10.8%)
Inventories	3,339	2,775	2,757	20.3%	0.7%
Other	68	113	86	(39.8%)	31.4%
Total current assets	51,282	48,316	45,131	6.1%	7.1%
Non-current assets					
Investments	7,576	3,592	1,000	110.9%	259.2%
Receivables	81	102	83	(20.6%)	22.9%
Inventories	4,281	4,142	4,524	3.4%	(8.4%)
Infrastructure, property, plant & equipment	546,299	531,899	361,009	2.7%	47.3%
Investments accounted for using the equity method	38	0	0	N/A	N/A
Total non-current assets	558,275	539,735	366,616	3.4%	47.2%
Total assets	**609,557**	**588,051**	**411,747**	**3.7%**	**42.8%**
Current liabilities					
Payables	3,616	3,773	3,121	(4.2%)	20.9%
Borrowings	623	525	402	18.7%	30.6%
Provisions	2,982	3,020	3,203	(1.3%)	(5.7%)
Total current liabilities	7,221	7,318	6,726	(1.3%)	8.8%
Non-current liabilities					
Borrowings	6,934	5,857	4,662	18.4%	25.6%
Provisions	3,107	2,975	2,819	4.4%	5.5%
Total non-current liabilities	10,041	8,832	7,481	13.7%	18.1%
Total liabilities	**17,262**	**16,150**	**14,207**	**6.9%**	**13.7%**
Net assets	**592,295**	**571,901**	**397,540**	**3.6%**	**43.9%**

Table 4-Cashflow

Cashflow Statement ($'000)	**Year ended 30 June**		
	2011	**2010**	**2009**
Cashflows from operating activities	8,754	10,601	8,303
Cashflows from investing activities	(14,113)	(15,695)	(22,326)
Proceeds from borrowings and advances	1,700	1,720	1,100
Repayment of borrowings and advances	(525)	(402)	(698)
Cashflows from financing activities	1,175	1,318	402
Net increase/(decrease) in cash and equivalents	**(4,184)**	**(3,776)**	**(13,621)**
Cash and equivalents	9,465	13,649	17,425

Appendix B Glossary

Asset Revaluations

In assessing the financial sustainability of NSW councils, IPART found that not all councils reported assets at fair value.[1] In a circular to all councils in March 2009[2], DLG required all NSW councils to revalue their infrastructure assets to recognise the fair value of these assets by the end of the 2009/10 financial year.

Collateralised Debt Obligation (CDO)

CDOs are structured financial securities that banks use to repackage individual loans into a product that can be sold to investors on the secondary market.

In 2007 concerns were heightened in relation to the decline in the "sub-prime" mortgage market in the USA and possible exposure of some NSW councils, holding CDOs and other structured investment products, to losses.

In order to clarify the exposure of NSW councils to any losses, a review was conducted by the DLG with representatives from the Department of Premier and Cabinet and NSW Treasury.

A revised Ministerial investment Order was released by the DLG on 18 August 2008 in response to the review, suspending investments in CDOs, with transitional provisions to provide for existing investments.

Division of Local Government (DLG)

DLG is a division of the NSW Department of Premier and Cabinet and is responsible for local government across NSW. DLG's organisational purpose is "to strengthen the local government sector" and its organisational outcome is "successful councils engaging and supporting their communities". Operating within several strategic objectives DLG has a policy, legislative, investigative and program focus in matters ranging from local government finance, infrastructure, governance, performance, collaboration and community engagement. DLG strives to work collaboratively with the local government sector and is the key adviser to the NSW Government on local government matters.

Depreciation of Infrastructure Assets

Linked to the asset revaluations process stated above, IPART's analysis of case study councils found that this revaluation process resulted in sharp increases in the value of some council's assets. In some cases this has led to significantly higher depreciation charges, and will contribute to higher reported operating deficits.

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

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

EBITDA

EBITDA is an acronym for “earnings before interest, taxes, depreciation, and amortisation”. It is often used to measure the cash earnings that can be used to pay interest and repay principal.

Grants and Contributions for Capital Purposes

Councils receive various capital grants and contributions that are nearly always 100% specific in nature. Due to the fact that they are specifically allocated in respect of capital expenditure they are excluded from the operational result for a council in TCorp’s analysis of a council’s financial position.

Grants and Contributions for Operating Purposes

General purpose grants are distributed through the NSW Local Government Grants Commission. When distributing the general component each council receives a minimum amount, which would be the amount if 30% of all funds were allocated on a per capita basis. When distributing the other 70%, the Grants Commission attempts to assess the extent of relative disadvantage between councils. The approach taken considers cost disadvantage in the provision of services on the one hand and an assessment of revenue raising capacity on the other.

Councils also receive specific operating grants for one-off specific projects that are distributed to be spent directly on the project that the funding was allocated to.

Independent Commission Against Corruption (ICAC)

ICAC was established by the NSW Government in 1989 in response to growing community concern about the integrity of public administration in NSW.

The jurisdiction of the ICAC extends to all NSW public sector agencies (except the NSW Police Force) and employees, including government departments, local councils, members of Parliament, ministers, the judiciary and the governor. The ICAC's jurisdiction also extends to those performing public official functions.

Independent Pricing and Regulatory Tribunal (IPART)

IPART has four main functions relating to the 152 local councils in NSW. Each year, IPART determines the rate peg, or the allowable annual increase in general income for councils. They also review and determine council applications for increases in general income above the rate peg, known as “Special Rate Variations”. They approve increases in council minimum rates. They also review council development contributions plans that propose contribution levels that exceed caps set by the Government.

Infrastructure Backlog

Infrastructure backlog is defined as the estimated cost to bring infrastructure to a satisfactory standard, measured at a particular point in time. It is unaudited and stated within Special Schedule 7 that accompanies the council’s audited annual financial statements.

Integrated Planning and Reporting (IP&R) Framework

As part of the NSW Government's commitment to a strong and sustainable local government system, the *Local Government Amendment (Planning and Reporting) Act 2009* was assented on 1 October 2009. From this legislative reform the IP&R framework was devised to replace the former Management Plan and Social Plan with an integrated framework. It also includes a new requirement to prepare a long-term Community Strategic Plan and Resourcing Strategy. The other essential elements of the new framework are a Long-Term Financial Plan (LTFP), Operational Plan and Delivery Program and an Asset Management Plan.

Local Government Cost Index (LGCI)

The LGCI is a measure of movements in the unit costs incurred by NSW councils for ordinary council activities funded from general rate revenue. The LGCI is designed to measure how much the price of a fixed "basket" of inputs acquired by councils in a *given period* compares with the price of the same set of inputs in the *base period*. The LGCI is measured by IPART.

Net Assets

Net Assets is measured as total assets less total liabilities. The Asset Revaluations over the past years have resulted in a high level of volatility in many councils' Net Assets figure. Consequently, in the short term the value of Net Assets is not necessarily an informative indicator of performance. In the medium to long term however, this is a key indicator of a council's capacity to add value to its operations. Over time, Net Assets should increase at least in line with inflation plus an allowance for increased population and/or improved or increased services. Declining Net Assets is a key indicator of the council's assets not being able to sustain ongoing operations.

Roads and Maritime Services (RMS)

The NSW State Government agency with responsibility for roads and maritime services, formerly the Roads and Traffic Authority (RTA).

Section 64 Contribution

Development Servicing Plans (DSPs) are made under the provisions of Section 64 of the *Local Government Act 1993* and Sections 305 to 307 of the *Water Management Act 2000*.

DSPs outline the developer charges applicable to developments for Water, Sewer and Stormwater within each Local Government Area.

Section 94 Contribution

Section 94 of the *Environmental Planning and Assessment Act 1979* allows councils to collect contributions from the development of land in order to help meet the additional demand for community and open space facilities generated by that development.

It is a monetary contribution levied on developers at the development application stage to help pay for additional community facilities and/or infrastructure such as provision of libraries; community facilities; open space; roads; drainage; and the provision of car parking in commercial areas.

The contribution is determined based on a formula which should be contained in each council's Section 94 Contribution Plan, which also identifies the basis for levying the contributions and the works to be undertaken with the funds raised.

Special Rate Variation (SRV)

A SRV allows councils to increase general income above the rate peg, under the provisions of the *Local Government Act 1993*. There are two types of special rate variations that a council may apply for:

- a single year variation (section 508(2)) or
- a multi-year variation for between two to seven years (section 508A).

The applications are reviewed and approved by IPART.

Ratio Explanations

Asset Maintenance Ratio

Benchmark = Greater than 1.0x

Ratio = actual asset maintenance / required asset maintenance

This ratio compares actual versus required annual asset maintenance, as detailed in Special Schedule 7. A ratio of above 1.0x indicates that the council is investing enough funds within the year to stop the infrastructure backlog from growing.

Building and Infrastructure Renewals Ratio

Benchmark = Greater than 1.0x

Ratio = Asset renewals / depreciation of building and infrastructure assets

This ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation. Asset renewal represents the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance.

Cash Expense Cover Ratio

Benchmark = Greater than 3.0 months

Ratio = current year's cash and cash equivalents / (total expenses – depreciation – interest costs) * 12

This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow.

Capital Expenditure Ratio

Benchmark = Greater than 1.1x

Ratio = annual capital expenditure / annual depreciation

This indicates the extent to which a council is forecasting to expand its asset base with capital expenditure spent on both new assets, and replacement and renewal of existing assets.

Debt Service Cover Ratio (DSCR)

Benchmark = Greater than 2.0x

Ratio = operating results before interest and depreciation (EBITDA) / principal repayments (from the statement of cash flows) + borrowing interest costs (from the income statement)

This ratio measures the availability of cash to service debt including interest, principal and lease payments

Infrastructure Backlog Ratio

Benchmark = Less than 0.02x

Ratio = estimated cost to bring assets to a satisfactory condition (from Special Schedule 7) / total infrastructure 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.

New South Wales
Treasury Corporation

7 March 2013

Anthony Egan

Director Business Support

Singleton Council

Civic Centre 12-14 Queen Street

Singleton NSW 2330

Updated Benchmarking Section for the LIRS Assessment Report Dated 3 October 2012

Dear Anthony,

Following our Financial and Assessment and Benchmarking Report dated 3 October 2012 which was prepared as a part of the Local Infrastructure Renewal Scheme (LIRS), TCorp has progressed to review all the 152 councils within NSW and have now collected additional data from peers within your Division of Local Government (DLG) Group.

Please find enclosed an updated version of 'Section 5: Benchmarking and Comparisons with Other Councils' including data from the financial year ended 30 June 2012 for all the NSW councils in Group 4.

We hope you find this information useful. Please contact us if you have any questions about this matter.

Yours sincerely,

Jasmine Green

New South Wales Treasury Corporation

Updated Section 5 Benchmarking and Comparisons with Other Councils

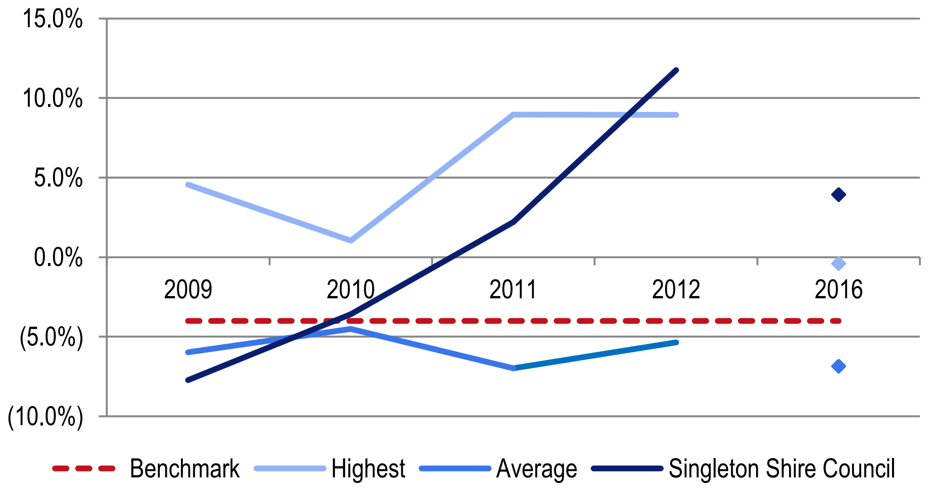
Each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis (that is, for councils that operate more than one fund, the results of all funds are included). This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 4. There are 31 councils in this group and at the time of preparing this report, we have data for all of these councils.

In Figure 15 to Figure 24, the graphs compare the historical performance of Council with the benchmark for that ratio, with the average for the Group, with the highest performance (or lowest performance in the case of the Infrastructure Backlog Ratio where a low ratio is an indicator of strong performance), and with the forecast position of the Council as at 2016 (as per Council's LTFP). Figures 22 to 24 do not include the 2016 forecast position as those numbers are not available.

Where no highest line is shown on the graph, this means that Council is the best performer in its group for that ratio. For the Interest Cover Ratio and Debt Service Cover Ratio, we have excluded from the calculations, councils with very high ratios which are a result of low debt levels that skew the ratios.

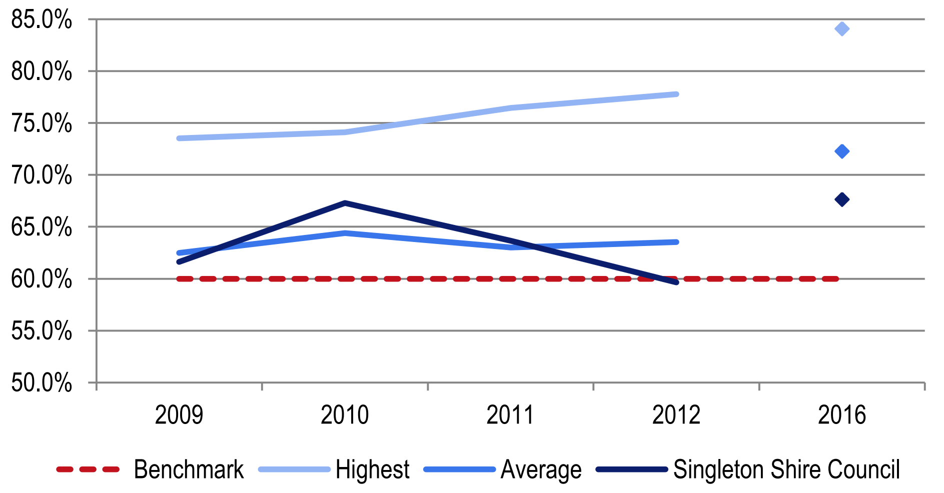
Financial Flexibility

Figure 15 - Operating Ratio Comparison



Council's Operating Ratio has improved significantly over the review period to be well above benchmark and the group's average from 2010 to 2012. Council is forecast to maintain its strong operating results over the medium term, in contrast to its peer group which is forecast to deteriorate.

Figure 16 - Own Source Operating Revenue Ratio Comparison



Council's Own Source Operating Revenue Ratio is broadly in line with the group's average though it has deteriorated to benchmark in 2012. In the medium term Council is forecasting an improving ratio that will be above the benchmark but below the group average.

Overall, Council's financial flexibility is above the group's average and is forecast to remain sound.

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Liquidity

Figure 17 - Cash Expense Ratio Comparison

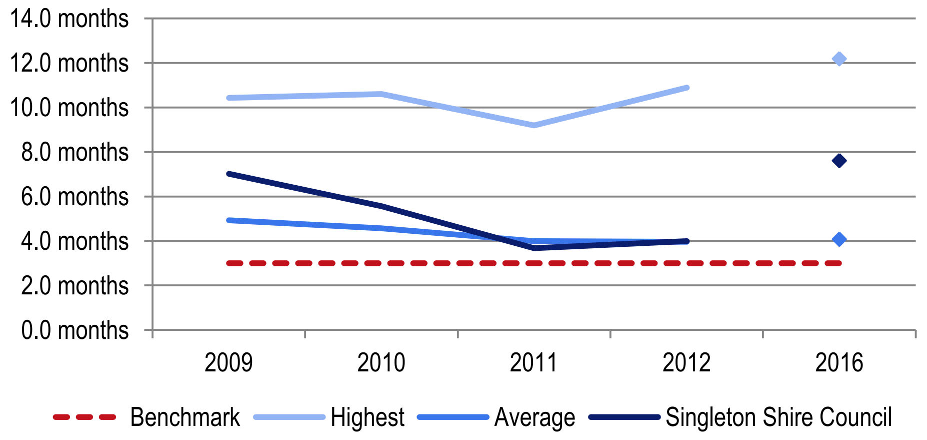
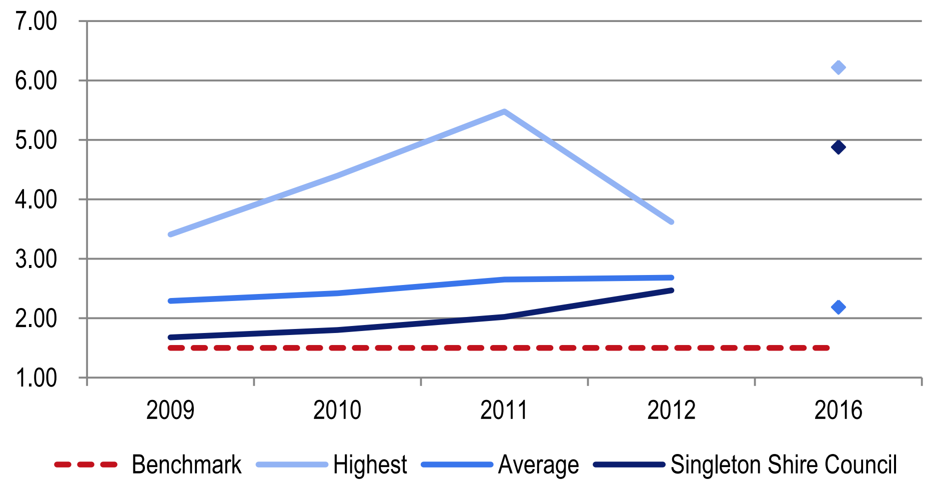


Figure 18 - Unrestricted Current Ratio Comparison

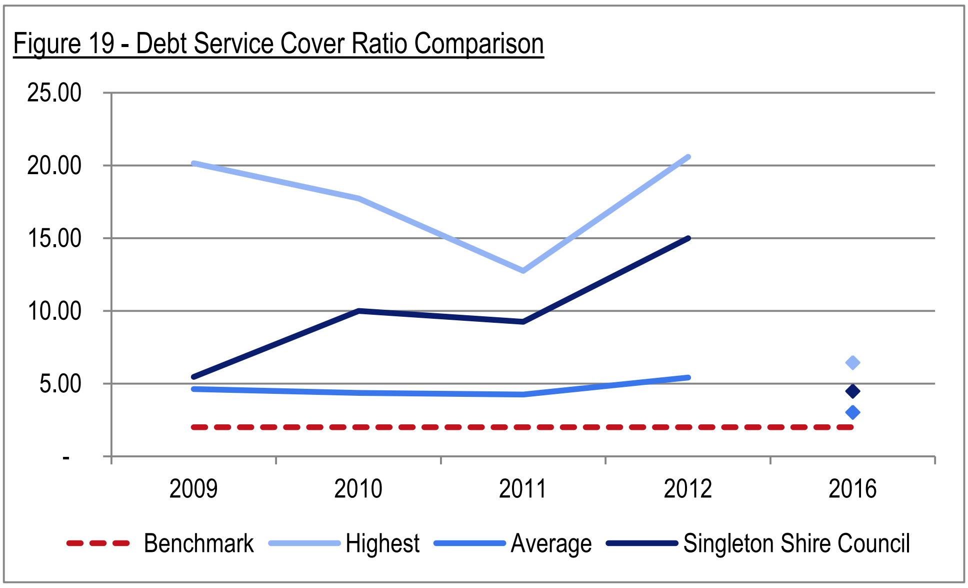


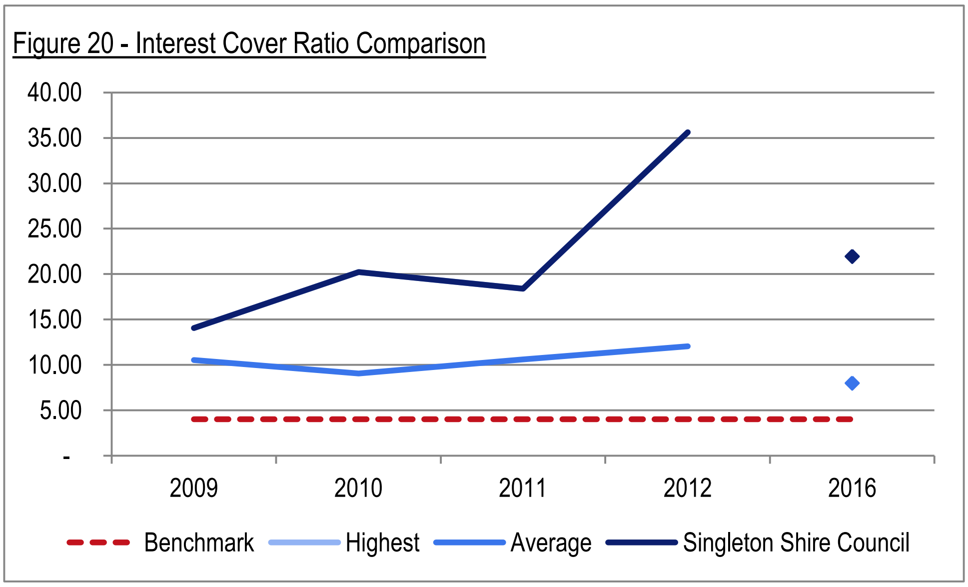
Council's Cash Expense Ratio has been declining from its high levels in the past three years, resulting in Council matching the group average in 2012. Council is forecast to return to higher levels over the medium term, well above its peer group and the benchmark.

The Unrestricted Current Ratio was below the group average in the past four years but above benchmark levels, indicating Council's ability to meet its debt payments is sufficient in the short-term. This is forecast to improve over the medium term, in contrast to the group average.

Overall, Council's liquidity position is sound and forecast to improve substantially, due to lower forecast levels of capital investment resulting in higher levels of cash being held.

Debt Servicing





Over the review period, Council had an above benchmark and group average DSCR and Interest Cover Ratio and this is forecast to continue over the medium term. Council performed strongly against its peers indicating that its gearing levels are lower than other councils in the group.

Asset Renewal and Capital Works

Figure 21 - Capital Expenditure Ratio Comparison

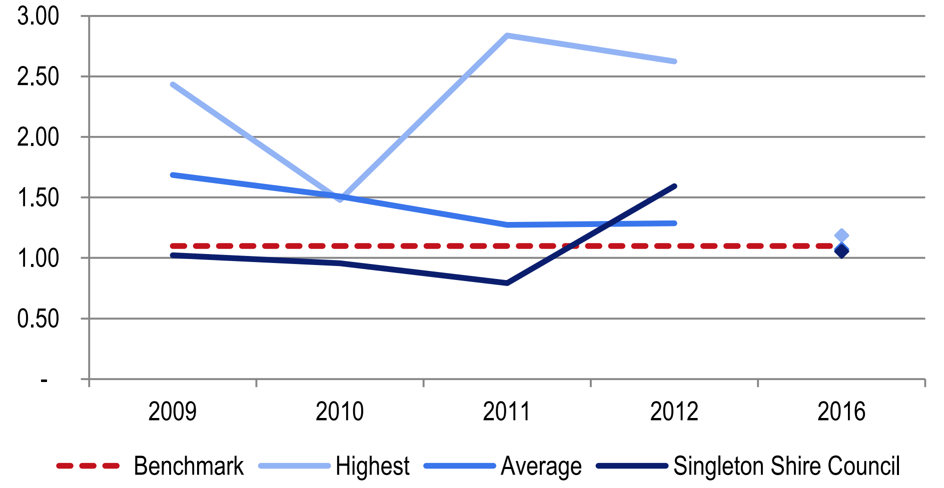


Figure 22 - Asset Maintenance Ratio Comparison

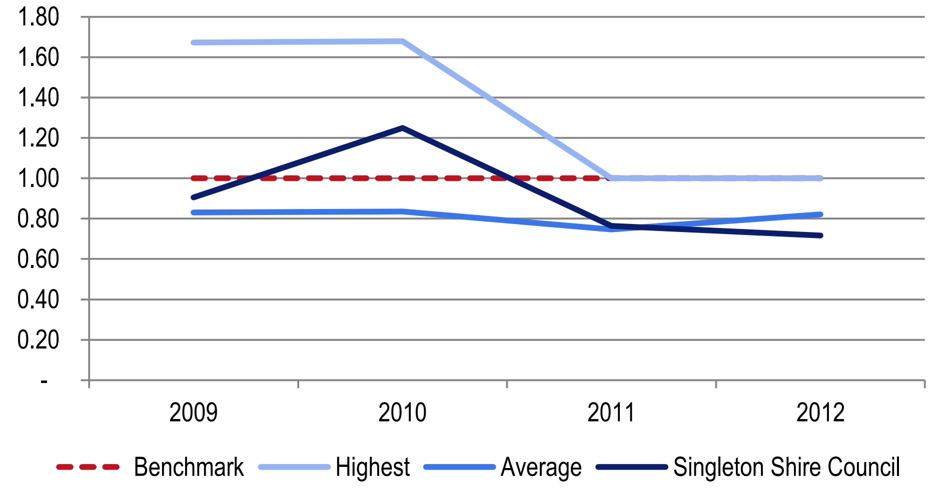


Figure 23 - Infrastructure Backlog Ratio Comparison

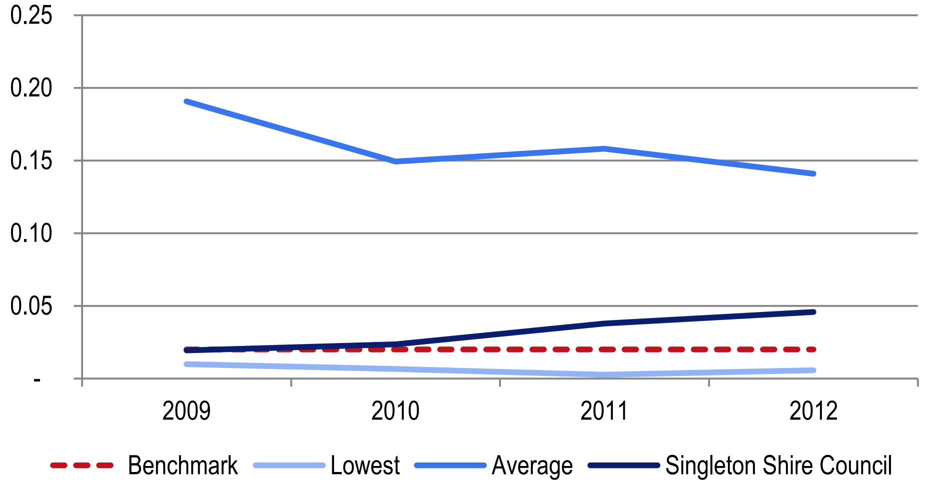
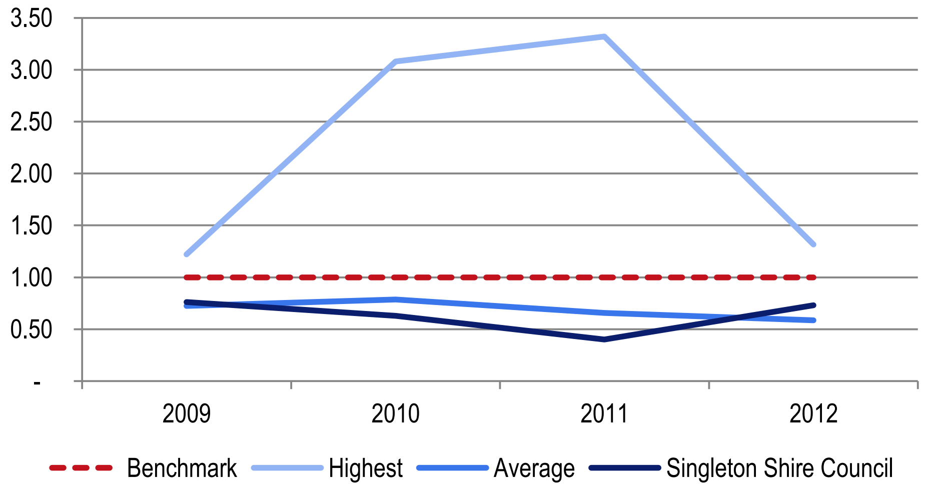


Figure 24 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog has been below the group's average in the past four years, and has marginally deteriorated from close to benchmark to above the benchmark. Council's Asset Maintenance Ratio has deteriorated to be below the group average and benchmark in 2012. Council's Capital Expenditure Ratio and Building and Infrastructure Asset Renewal Ratio improved in 2012 to be above the group averages.

Overall, Council has kept its existing assets well maintained and its Infrastructure Backlog relatively low.