ATTACHMENT A

Cowra Shire Council

Financial Assessment and Sustainability Report

Date:	10 June 2015

Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by Cowra Shire Council (the Council) as detailed in TCorp's letter of 8 April 2015.

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1 Executive Summary

In March 2013 TCorp provided Cowra Shire Council (the Council) with a Financial Assessment, Sustainability and Benchmarking Report as part of the work undertaken for the Independent Local Government Review Panel.

In the report TCorp made the following observations:

- Council posted increasing operating deficits when capital grants and contributions were excluded over the review period and operating deficits were forecast to continue throughout the 10 year LTFP
- Council had sufficient liquidity over the review period and was expected to have sufficient liquidity through the 10 year LTFP
- Council's own source operating revenue was equal to or above the benchmark over the review period and was expected to remain above the benchmark over the 10 year period
- Council was likely to face an infrastructure funding gap over the 10 year LTFP as capital expenditure was forecast to be below the required levels
- Integration of Council's AMPs to the LTFP was required to provide accurate analysis of Council's forecast infrastructure funding gap

In April 2013, TCorp provided Council with a Financial Sustainability Rating (FSR) of Sound with an Outlook of Negative. This Negative Outlook was a result of the expected continuation of operating deficits and a forecast shortfall in funding relating to Council's infrastructure assets.

Following receipt of the report Council has completed a number of initiatives with a view to focusing on improved operating performance. This includes upgrading their LTFP to include their AMP's as well as reassessing their asset base and completing internal audits.

Council has continued its voluntary participation in the regional collaboration of 16 councils known as CENTROC and has also been part of the recent pilot program through CENTROC for the Joint Organisation of Council's. This was recommended by the Local Government Independent Review Panel with a view to exploring further cost savings through collaboration in the region.

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

- Council has completed the LTFP on the basis of continuing current service levels along with improving a select number of services as discussed with the community in 2012 and included in Council's Community Strategic Plan.
- Council has forecast operating surpluses from 2016 onwards. This is a significant improvement from the operating deficits that have been experienced over the review period and which were previously forecast to continue.
- Council is forecast to retain its financial flexibility as indicated by the Own Source Operating Ratio being above benchmark in each year of the forecast.
- Council is forecasting cash and cash equivalents to increase over the review period from $5.4m in 2015 to $19.7m in 2024 while current liabilities are forecast to remain static. This results in a continuous improvement of Council's Unrestricted Current Ratio.

- Council has now included its AMP data within the LTFP and allocated sufficient funds to cover the asset operations, maintenance, renewals and new capital purchases

In relation to the long term Sustainability of the Council, our key observations are:

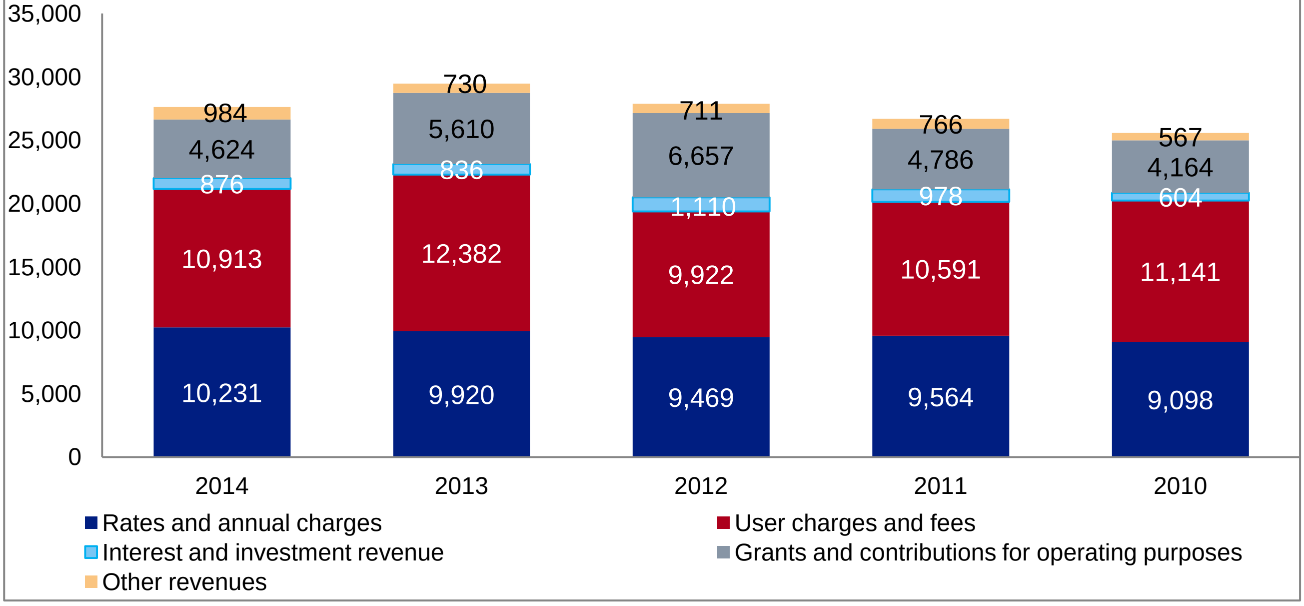
- Council is currently considered to have a Sustainability rating of Moderate with an Outlook of Positive. Under TCorp's methodology, a council rated as Moderate is considered to be in an acceptable position, with its performance in line with the benchmark for the ratios used to calculate the FSR. The Positive outlook indicates that the FSR is expected to improve during the next three years based on Council's operating performance as detailed in the LTFP.
- The forecast continuous operating surpluses should enable Council to remain sustainable over the medium to long term.
- Council is forecast to remain in a sound liquidity position with cash and cash equivalents increasing over time. However, TCorp notes that the additional funds could potentially be utilised to eradicate the backlog over the review period.
- Council's LTFP has improved with the integration of their AMP's and has enabled Council to allocate sufficient funds to fund their asset maintenance and renewals. This should ensure that there is no increase in Council's Infrastructure Backlog over the review period.
- The major difference between where Council is now compared to the analysis compiled in TCorp's previous report in 2013 is that there is a clear improvement projected that is expected to improve Council's operating position over the next 10 years.

2 Review of Financial Performance and Position

TCorp has updated its review to include five years of actual results including the 2013 and 2014 annual audited accounts of the Council.

2.1 Revenue

Figure 1 - Revenue Sources for 2009/10 to 2013/14 ($'000s)

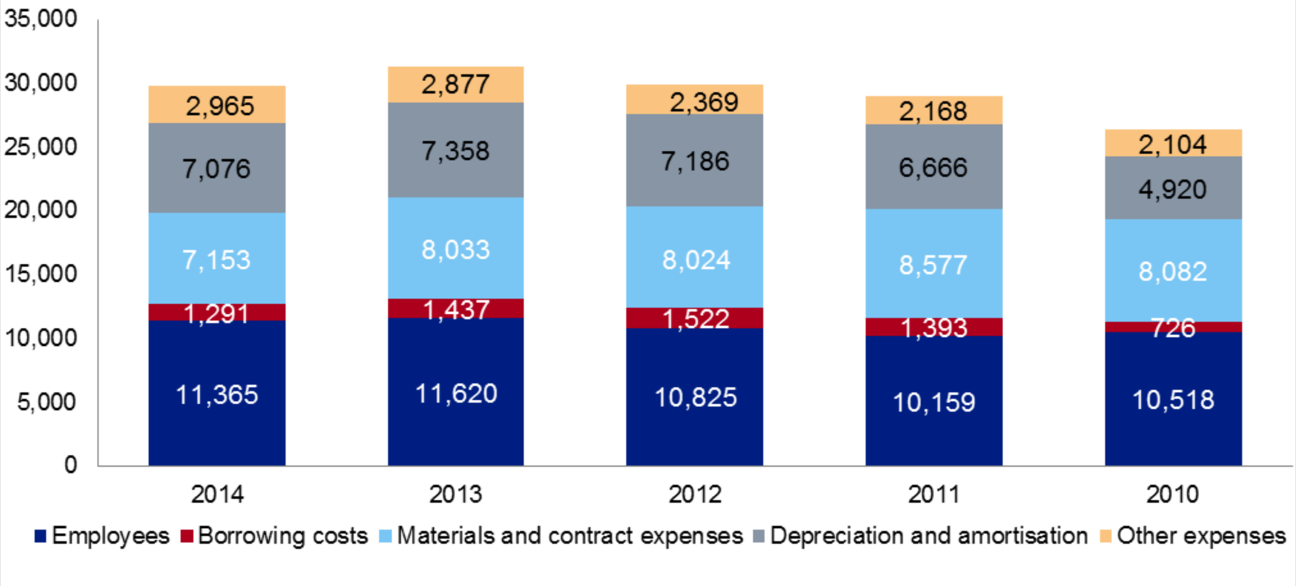


Key Observations

- Revenue has increased by $2.1m (8.0%) over the five year review period to $27.6m. The growth in revenue was impacted by a $1.9m (6.3%) decrease in 2014 as detailed below.
- Rates and annual charges have increased year on year in 2013 and 2014 following a marginal decrease in 2012. Over the five year period the average annual increase has equated to 3.1%.
- User charges and fees have fluctuated over the five years and spiked in 2013 because of an increase in water supply user charges of $1.1m and RMS user charges of $0.8m that resulted in a 24.8% annual increase. The decrease in 2014 was because of lower RMS user charges that reduced by $1.6m because of reduced works being completed on state roads within the Local Government Area (LGA).
- Interest and investment revenue has reduced in line with the reduced returns available as the term deposit rates have reduced with the Reserve Bank of Australia's cash rate.
- Operating grants and contributions have reduced in both 2013 and 2014. The decrease in 2013 occurred because of a reduction in the Financial Assistance Grant (FAG) of $1.1m while the 2014 FAG reduced by a further $2.0m to $2.2m after the Federal Government stopped the prepayment of 50% of the annual FAG payment that had occurred in previous years. The total should regularise from 2015 onwards and boost the figures going forward.
- Other revenues increased by $0.3m in 2014 driven by a $0.2m increase in non-domestic recycling income.

2.2 Expenses

Figure 2 - Expenses for 2009/10 to 2013/14 ($'000s)



Key Observations

- Annual Expenses have increased by $3.5m (13.3%) to $29.9m over the five year review period.
- Employee expenses increased by 7.3% in 2013 before reducing by 2.2% in 2014. The reduction occurred because worker's compensation insurance reduced by $0.2m and capitalised labour costs increased by $0.2m.
- Borrowing costs had increased year on year to 2012 but have reduced in both 2013 and 2014. The decrease in 2014 occurred despite a net increase in borrowings of $3.8m during the year with Council benefitting from the $2.9m subsidised loan that was successfully applied for during the second round of the Local Infrastructure Renewal Scheme.
- Materials and contracts expenses have reduced in 2014 because of a $1.2m (50.1%) decrease in contractor and consultancy costs however Council has advised that $0.9m was incorrectly allocated to this item from raw materials and consumables in 2013. This overall decrease was because of a reduction in the RMS works completed.
- Depreciation has been relatively stable over the past two years in line with a stable infrastructure asset base over this period. Council has completed a revaluation of their asset base in 2013 & 2014 and expect depreciation to reduce in future years.
- Other expenses increased by $0.5m (21.4%) in 2013 which was driven by a $0.2m increase in contributions to other levels of Government and a $0.2m increase in electricity and heating costs.

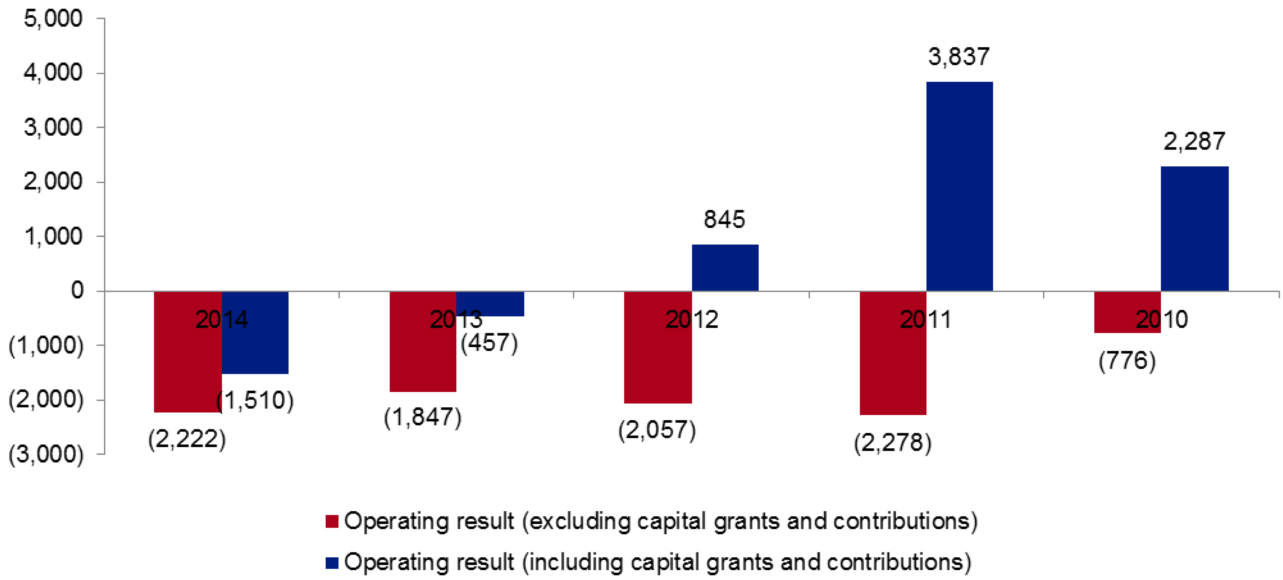
2.3 Operating Results

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 2009/10 to 2013/14 ($'000s)



Key Observations

- Council's operating result when excluding capital grants and contributions has remained consistently below a break even position and also TCorp's benchmark of negative 4% in the past four years. TCorp recommends councils continue to aim for a minimum break even position over the medium to long term.
- Council's operating result including capital grants and contributions has declined since 2011 because of its capital grants and contributions reducing year on year. The one-off nature of the majority of these grants and contribution highlights how inconsistent these items can be.

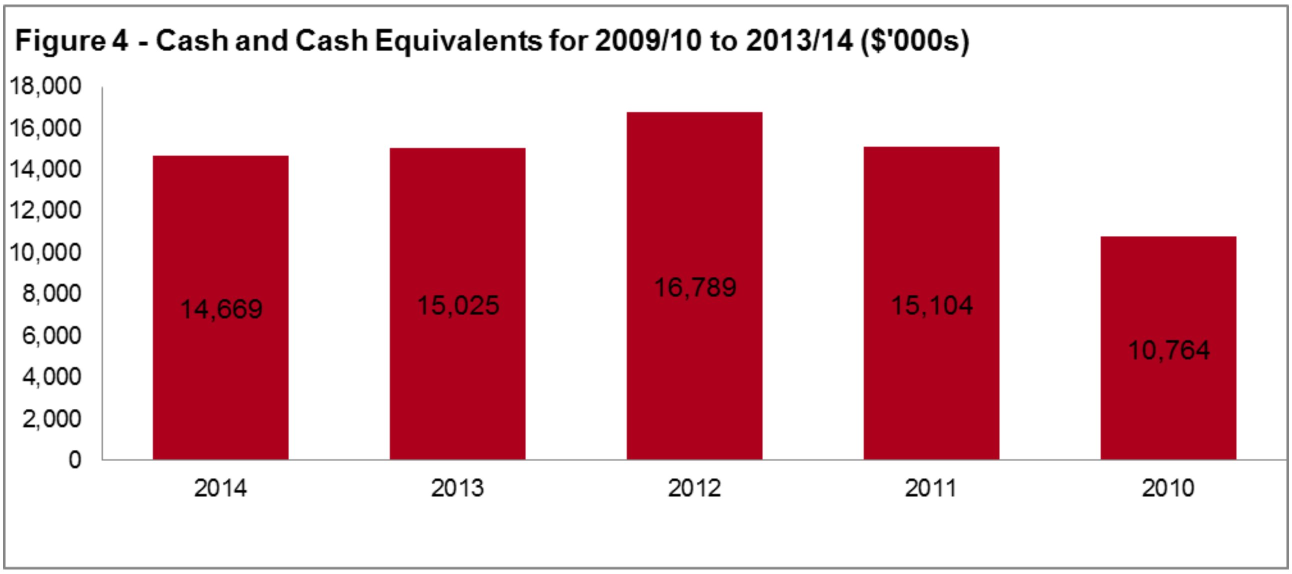
2.4 Financial Management Indicators

Performance Indicators	Year ended 30 June				
	2014	2013	2012	2011	2010
EBITDA ($'000s)	6,145	6,948	6,651	5,781	4,870
Operating Ratio	(8.0%)	(6.3%)	(7.4%)	(8.5%)	(3.0%)
Interest Cover Ratio	4.76x	4.84x	4.37x	4.15x	6.71x
Debt Service Cover Ratio (DSCR)	2.38x	1.31x	2.95x	2.86x	3.39x
Unrestricted Current Ratio	3.02x	3.27x	2.53x	4.05x	2.71x
Own Sourced Operating Revenue Ratio	74.6%	72.2%	63.0%	61.4%	70.7%
Cash Expense Ratio *	9.3 months	8.0 months	9.5 months	8.7 months	6.2 months
Net assets ($'000s)	597,715	597,014	589,794	572,254	566,364

Key Observations

- Council's EBITDA decreased in 2014 following the strongest result in 2013. The reduction in 2014 is because of the reduced FAG grant received in the year that should regularise in 2015.
- As detailed in Section 2.3, the Operating Ratio has remained below benchmark since 2011.
- Council's DSCR and Interest Cover Ratio have remained above their relative benchmarks in each year with the exception of the DSCR in 2013 when a large capital repayment was met. Council has utilised $5.1m of new borrowings in 2014, increasing total borrowings to $20.3m with the majority of these new borrowings relating to the Water Fund.
- Council's liquidity has remained sound over the review period as indicated by the Unrestricted Current Ratio and Cash Expense Ratio. The Cash Expense Ratio in 2014 includes $2.0m of current term deposits classified under investments. TCorp has reviewed this ratio and amended the calculation from 2014 to benefit any Council that is utilising term deposits to increase their investment return.
- Council's Own Source Operating Revenue Ratio has remained above the benchmark with the increase in 2013 and 2014 because of the reduction in both operating and capital grants and contributions. This ratio would be expected to decrease once the full annual FAG is received in 2015 onwards.
- Council's net assets have increased over the review period following the Asset Revaluations in 2010. This is expected given Council's average Capital Expenditure Ratio being above the benchmark for the review period. Council has completed another revaluation of their asset base in 2015 that is reflected in their LTFP.

2.5 Statement of Cashflows



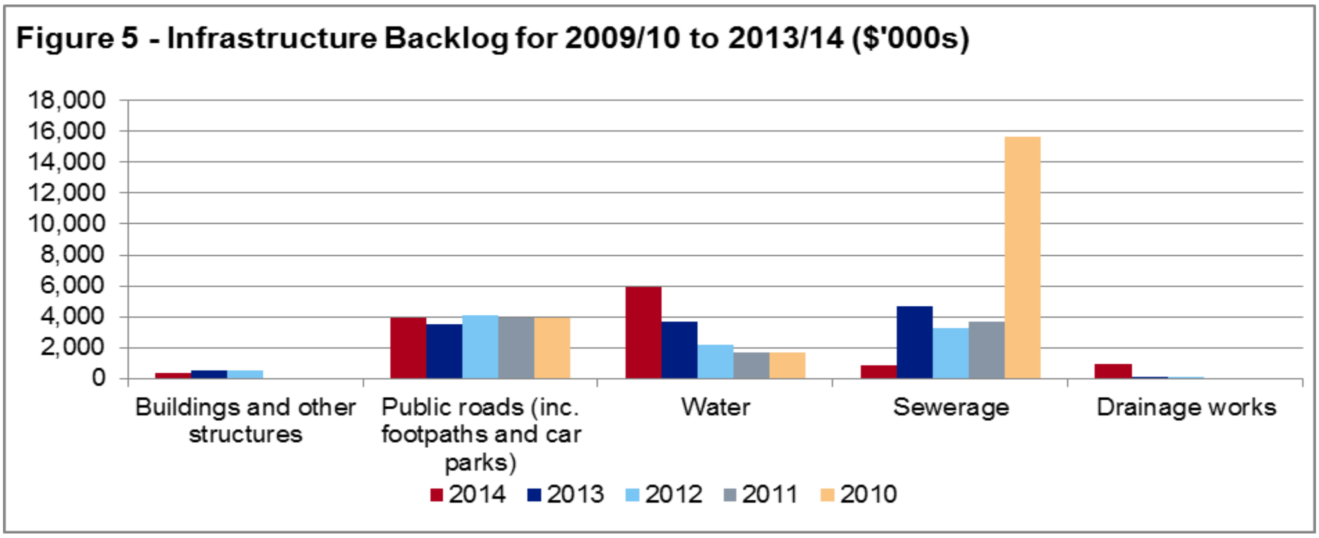
Key Observations

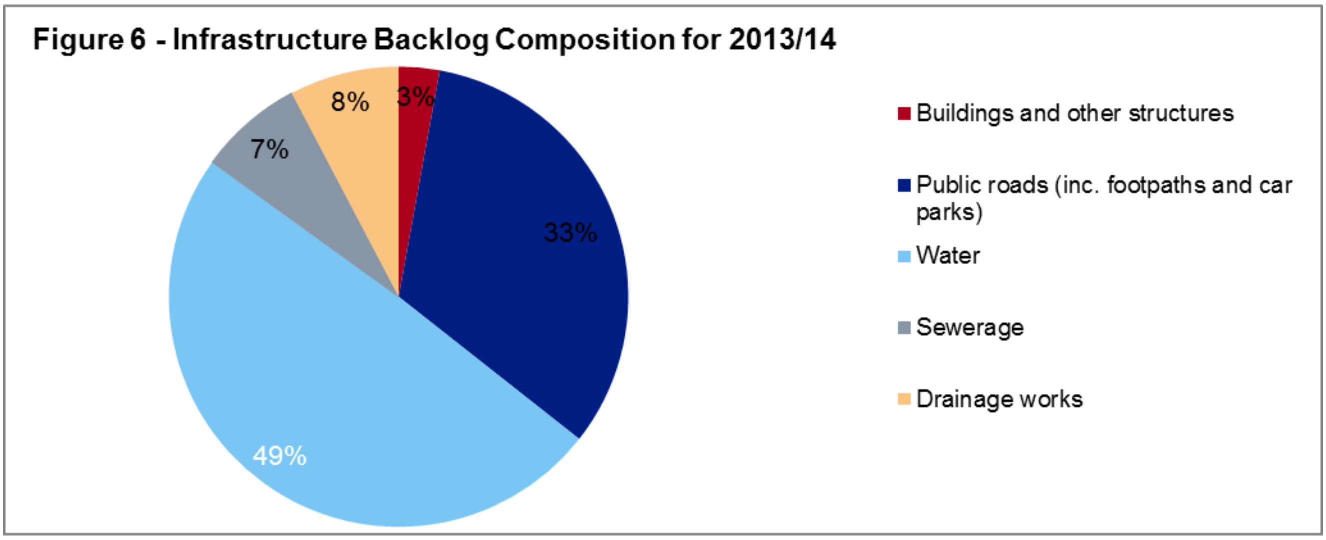
- Council's cash and cash equivalents has remained relatively stable since 2011 with the relatively small decrease in 2014 because of Council investing $2.0m in longer term deposits classified as current investments.
- Of the total cash and investments of $16.7m in 2014, $12.5m was externally restricted, $3.9m was internally restricted and $0.3m was unrestricted.

2.6 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.

2.6.1 Infrastructure Backlog





Council's Infrastructure Backlog has increased to $12.0m from $10.2m in 2012. The water asset backlog has increased to $5.9m in 2014 from $2.2m in 2012 while sewerage assets have reduced to $0.9m from $3.3m in 2012.

A review of these asset classes was completed in March 2014 therefore the 2014 figures are considered accurate and up to date. The latest review has led to Council extending their building and infrastructure asset lives which will subsequently reduce the annual depreciation going forward.

2.6.2 Infrastructure Status

Infrastructure status	Year ended 30 June				
	2014	2013	2012	2011	2010
Bring to satisfactory standard ($'000s)	12,010	12,485	10,229	9,310	21,305
Required annual maintenance ($'000s)	5,907	8,847	7,487	3,471	15,466
Actual annual maintenance ($'000s)	4,624	6,709	5,525	3,553	15,548
Total value infrastructure assets ($'000s)	273,974	269,915	540,449	535,297	526,371
Total assets ($'000s)	624,293	620,022	616,506	598,378	586,781
Infrastructure Backlog Ratio	0.04x	0.05x	0.02x	0.02x	0.04x
Asset Maintenance Ratio	0.78x	0.76x	0.74x	1.02x	1.01x
Building and infrastructure asset renewal ratio	0.73x	0.52x	0.63x	0.53x	0.66x
Capital Expenditure Ratio	1.26x	0.84x	0.85x	1.85x	2.12x

Council's Infrastructure Backlog Ratio has increased since 2012 because of the re-classification of bulk earthworks within road assets that is not included within the value of infrastructure assets in the ratio calculation. This reduction in the value of infrastructure assets by $280.6m has seen the ratio increase above the 0.02 times benchmark.

Asset maintenance funding has remained below desired levels for the past three years with the five year average at 0.86 times. This indicates that Council's infrastructure assets are likely to deteriorate over the medium term as they are not being maintained satisfactorily.

The Building and Infrastructure Asset Renewal Ratio has been below the benchmark in each year but has improved in 2014. As with the Asset Maintenance Ratio, this ratio requires improvement over the medium and long term if Council's Infrastructure Backlog is not to increase.

The Capital Expenditure Ratio has fluctuated over the five year period but has averaged 1.38x over that period, above the 1.1x benchmark. This indicates that Council has been funding new asset purchases rather than the existing asset base.

2.6.3 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				
	2014	2013	2012	2011	2010
New capital works	4,001	1,706	2,206	2,173	3,833
Replacement/refurbishment of existing assets	4,123	2,667	2,599	10,638	6,473
Total	8,124	4,373	4,805	12,811	10,306

Council has completed a number of capital works in the past two years that include:

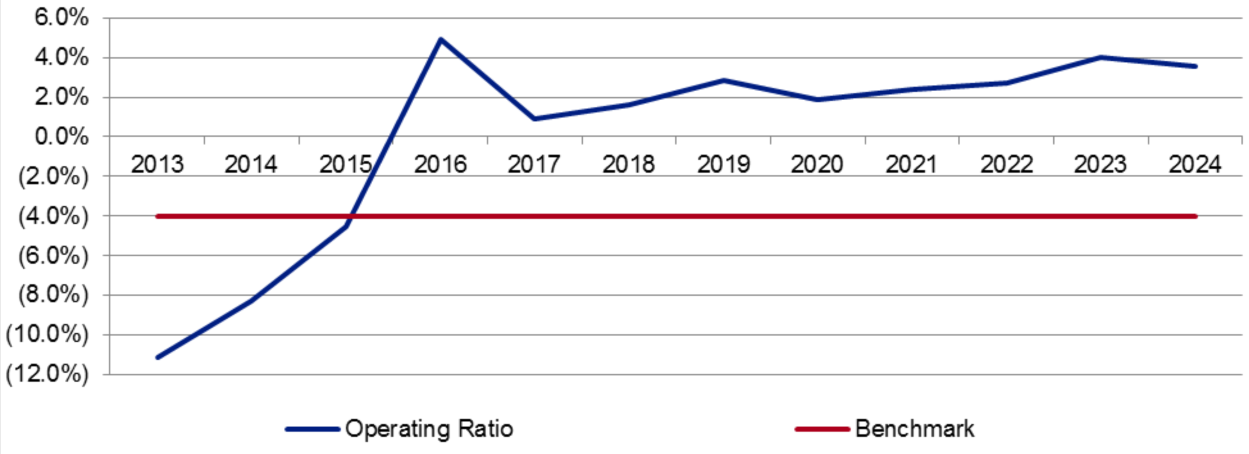
- $1.2m on rural resealing
- $1.1m on Stage 2 of the Cowra Peace Precinct development
- $0.9m on gravelling and grading
- $0.8m on gravel resheeting
- $0.7m on plant purchases
- $0.7m on the replacement of a bridge on Greenethorpe – Koorawatha Road
- $2.3m on Stage 2 & 3 of the Cowra water treatment plant upgrade (Water Fund)
- $0.7m on Stage 1 of a treatment plant automation (Water Fund)
- $0.4m on plant at Darbys Falls (Water Fund)
- $0.5m on a mains replacement (Sewer Fund)

3 Review of Financial Forecasts

The revised 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.

3.1 Operating Results

Figure 7- Operating Ratio for General Fund

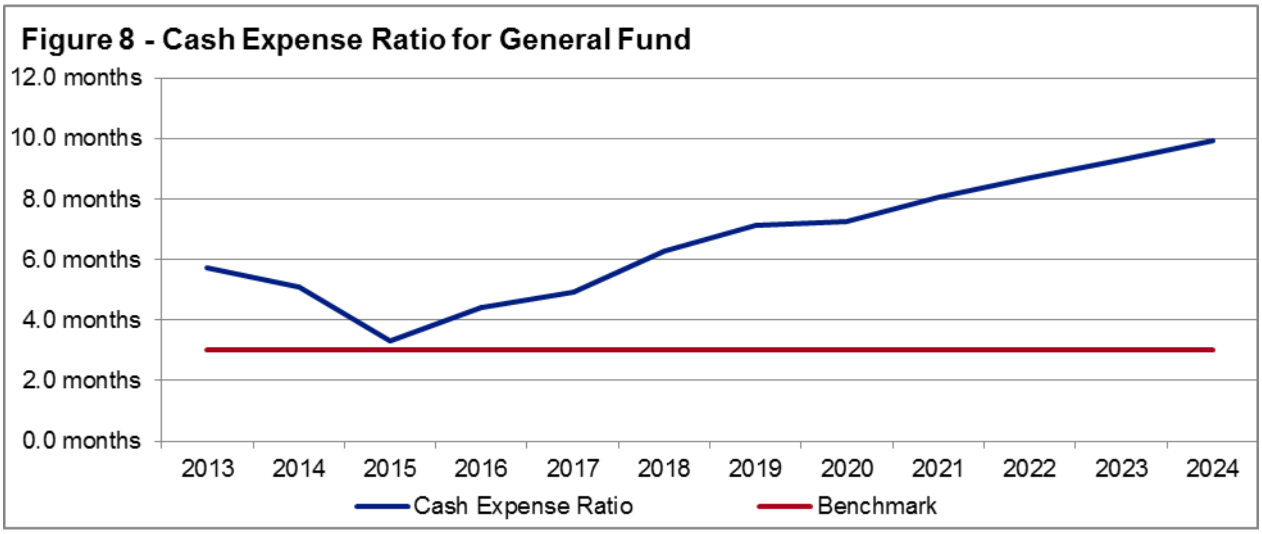


Council's Operating Ratio is forecast to improve from an operating deficit of $1.6m in 2014 and $1.0m in 2015, to a surplus of $1.1m in 2016 before decreasing to a surplus of $0.2m in 2017 and gradually improving thereafter.

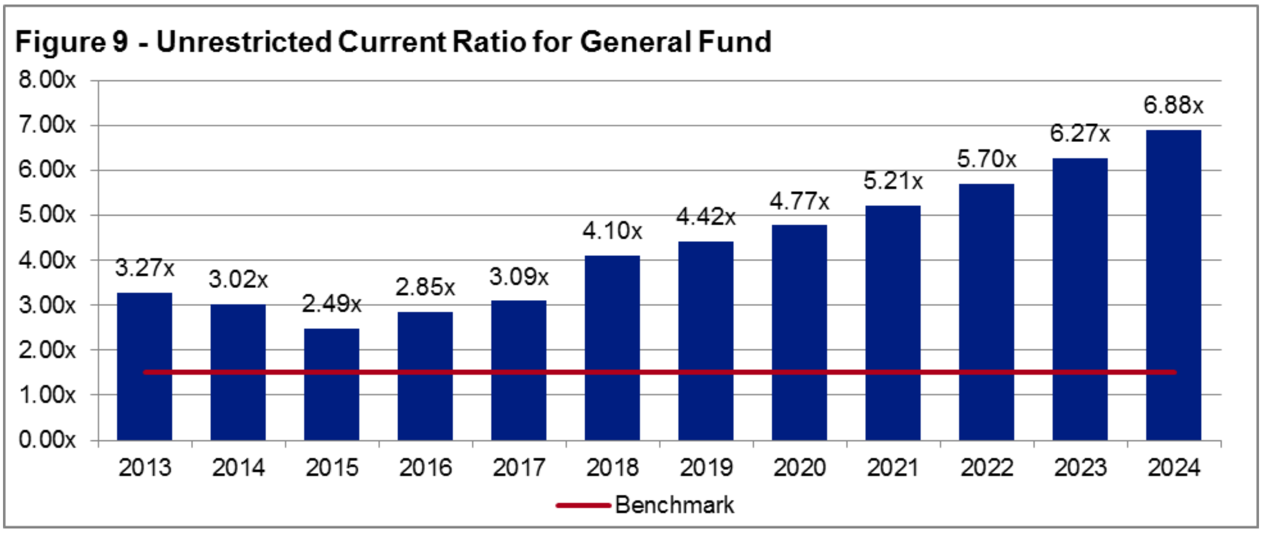
Two factors are driving the significant improvement in the operating result in 2016. First, Council has completed their latest asset revaluation process and this is projected to decrease the annual depreciation from 2016 onwards. Second, Council is forecasting to receive an additional one-off $0.7m roads to recovery grant with the associated labour costs being capitalised.

3.2 Financial Management Indicators

Liquidity Ratios



The Cash Expense Ratio is forecast to remain above the benchmark throughout the 10 year forecast and improve year on year following the decrease in 2015. The decrease in 2015 is because of an increased investment in property plant and equipment under investing activities.

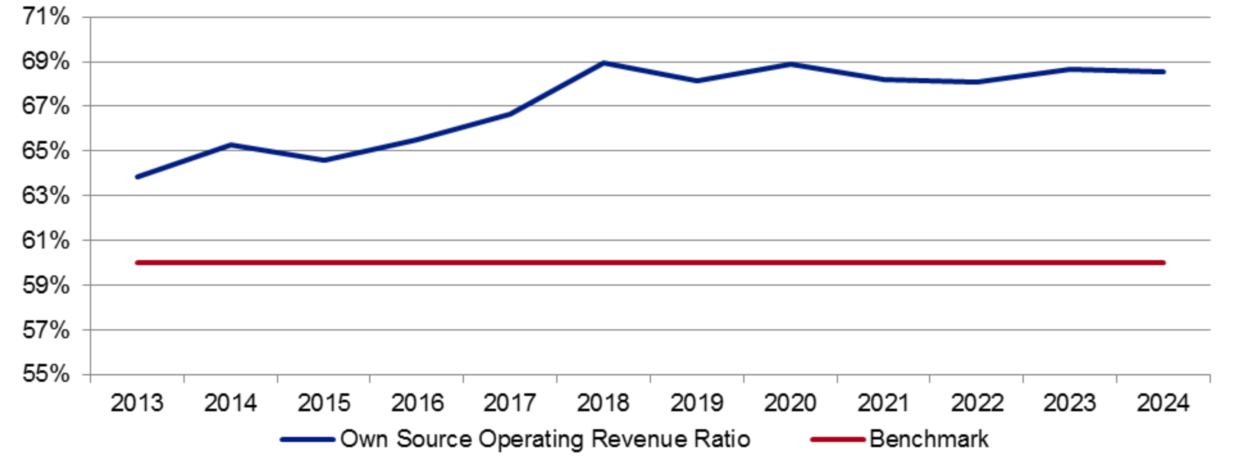


The trend of the Unrestricted Current Ratio is very similar to that of the Cash Expense Ratio with an initial dip in 2015 followed by year on year improvements.

The trend of these two ratios leads TCorp to believe that the LTFP may need further work to improve the second five years data of the 10 year period in relation to Council's liquidity. The balance sheet for the General Fund indicates that cash and cash equivalents will grow from $5.4m in 2015 to $11.0m in 2019 and on to $19.7m in 2024. As the forecast capital expenditure over the second five years of the LTFP is lower than the initial five years, the increased cash reserves could be used to increase capital expenditure, if this is required.

Fiscal Flexibility Ratios

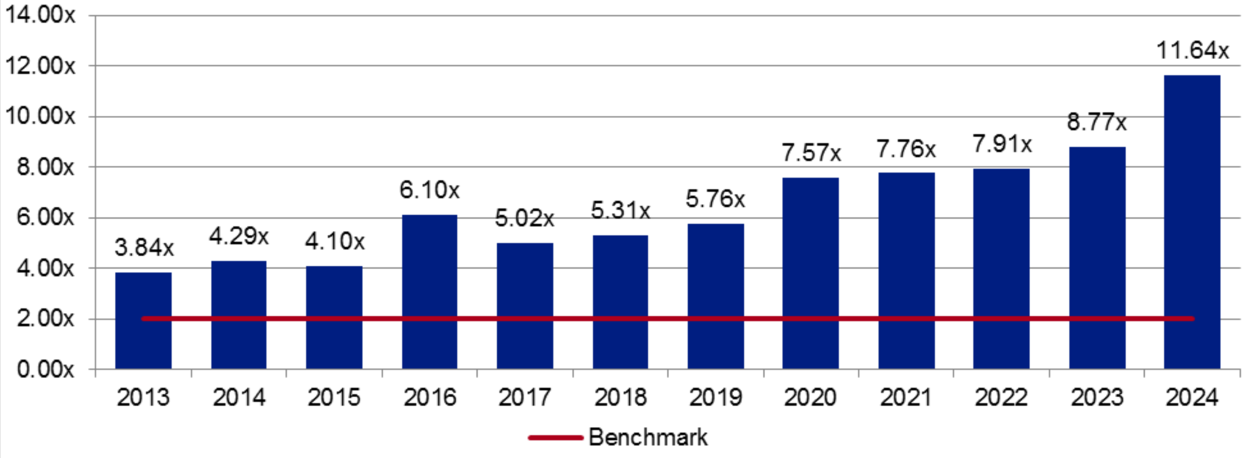
Figure 10 - Own Source Operating Revenue Ratio for General Fund



Council's own source operating revenue is forecast to continue to remain above the 60% benchmark and stabilise around 68-69% from 2018. Rates and annual charges are forecast to increase steadily while user charges and fees fluctuate a lot more as they reflect the specific works expected to be completed for the Roads and Maritime Service (RMS) and also capital works on Council assets which are capitalised.

Overall these two items are expected to increase at a marginally higher level than the operating and capital grants and contributions.

Figure 11 - DSCR for General Fund

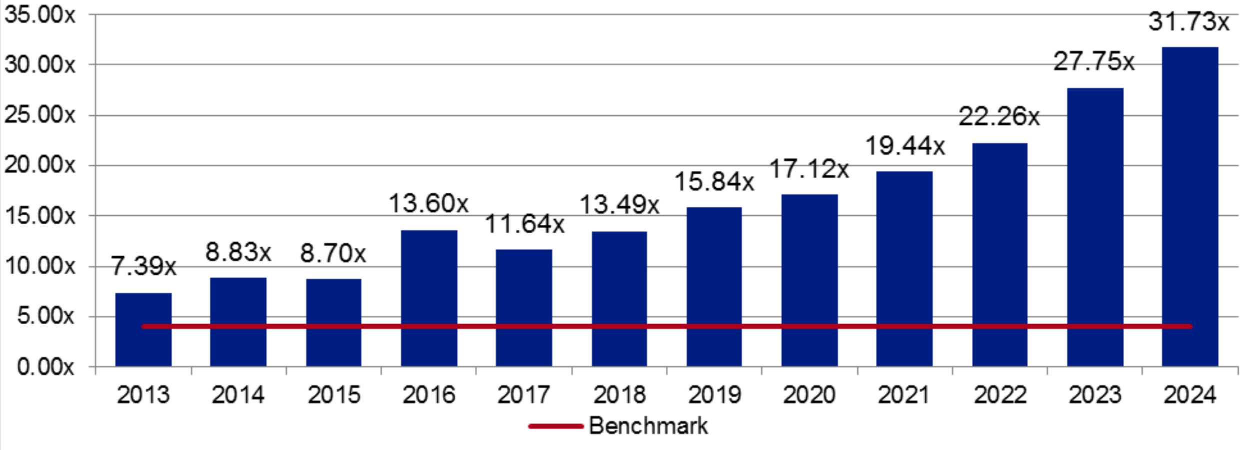


Council has forecast that it will not require any significant additional borrowings in the General Fund other than $0.63m of borrowings spread between 2015 and 2017. This compares to projected debt repayments of $3.98m over the 10 year LTFP.

This reduction in borrowings over time, along with a marginal improvement in EBITDA from 2017 drives the expected improvement in the DSCR over the forecast period.

The additional roads to recovery operating grant of $0.7m in 2016 results in the spike in the ratio in that year as this improves the EBITDA relative to the other years.

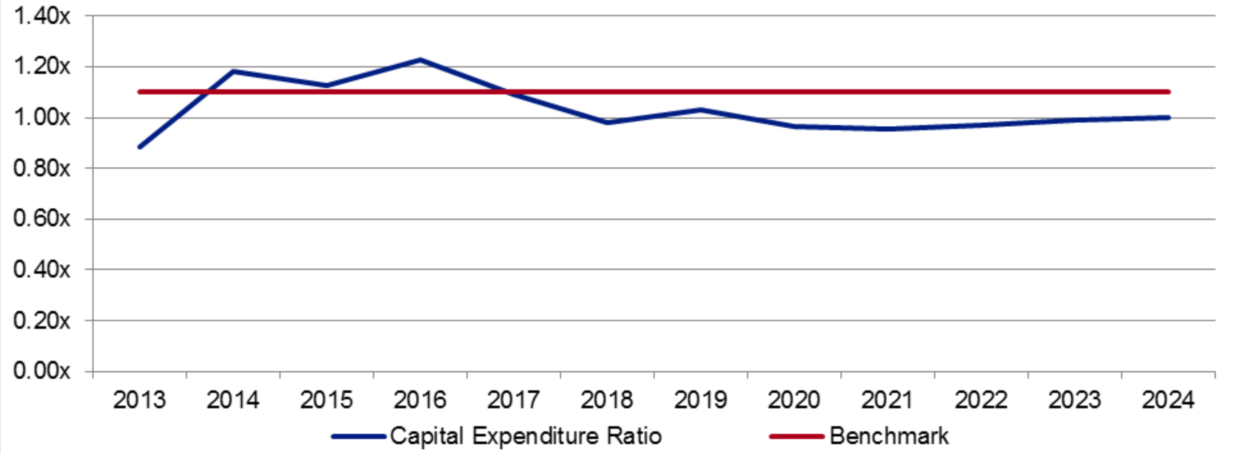
Figure 12 - Interest Cover Ratio for General Fund



As with the DSCR, the Interest Cover Ratio improves over time as Council's borrowings reduce. The trend shows that Council does have the capacity to undertake further borrowings if the forecast is accurate and the operating surpluses are achieved.

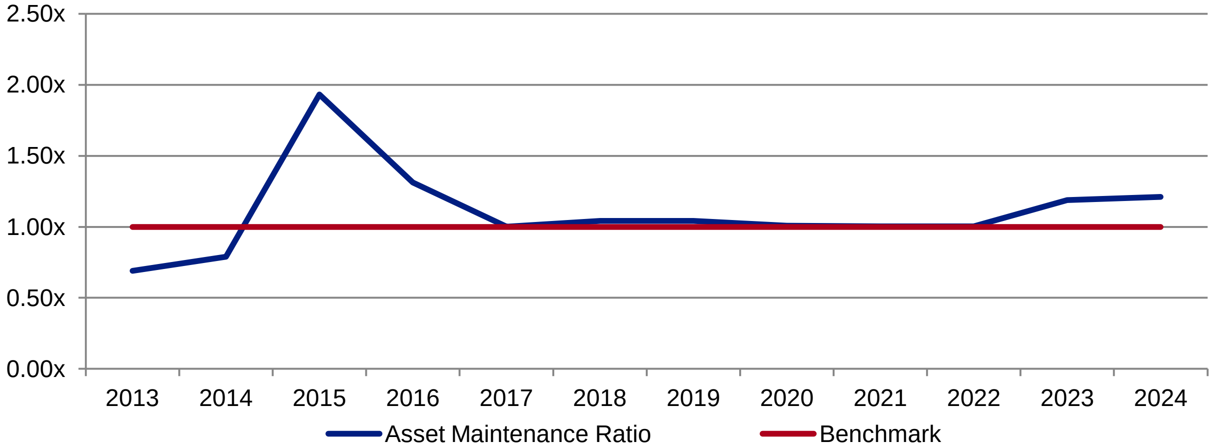
3.3 Capital Expenditure

Figure 13 - Capital Expenditure Ratio for General Fund



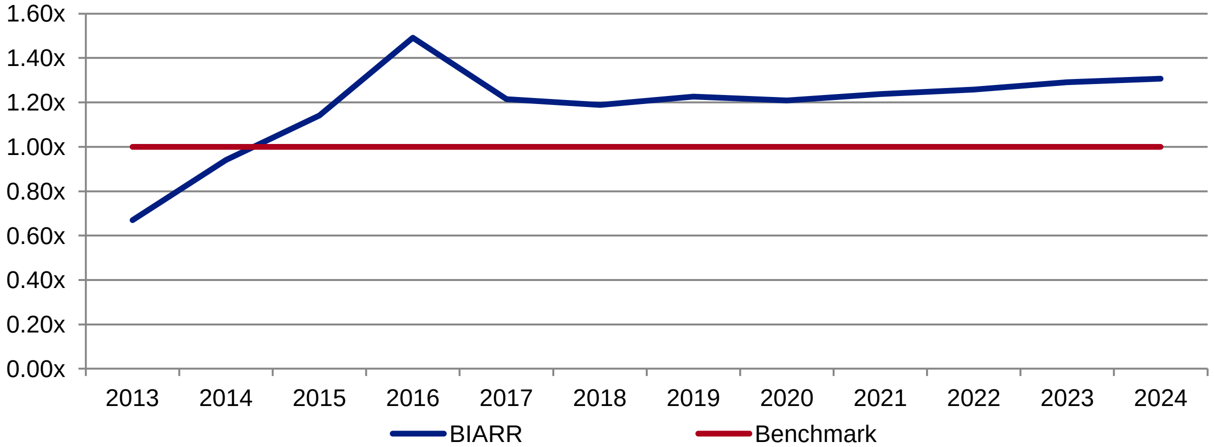
Council's Capital Expenditure Ratio is forecast to remain above the benchmark until 2018 when it remains around 1.0 times for the remaining seven years. While the LGA has had a reduction in population recently, modelling indicates low growth in the future. A ratio of 1.0 times should therefore be adequate over the next 10 years.

Figure 14 - Asset Maintenance Ratio for General Fund



Council's projected asset maintenance is forecast to increase above or in line with the benchmark throughout the review period. The standout result is in 2015 when a ratio of 1.93 times is projected however Council has confirmed that this is not an anomaly therefore additional asset maintenance is forecast as a one-off in this year.

Figure 15 - BIARR for General Fund



The Buildings and Infrastructure Asset Renewal Ratio is forecast to improve and spike however the spike is a year later than the Asset Maintenance Ratio. This spike is because of the forecast decrease in depreciation following the revaluation of Council's asset base that is built into the LTFP to begin in 2016.

The ratio reduces in 2017 as Council reduces its asset renewals to levels closer to the new depreciation totals however the ratio remains between 1.19 and 1.34 times through to 2024.

The renewals figures appear to be higher than required and Council may be able to save money by reducing their asset renewals to a level around the benchmark. The majority of the renewals relates to roads within the LGA. Despite the high levels of renewals, Council's Infrastructure Backlog is forecast to remain between $0.9m and $1.0m (0.5%) from 2016.

3.4 Financial Model Assumption Review

Council has used its 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 Local Government Cost Index (LGCI) increased by 3.4% in the year to September 2011, 2.8% in 2012, and 3.6% in 2013 and 3.4% in 2014. In December 2013 IPART announced that the rate peg to apply in the 2014/15 financial year will be 2.3%. Beyond 2015 TCorp has assessed a general benchmark for rates and annual charges to increase by mid-range LGCI annual increases of 3.0%.
- IPART developed the LGCI to use for setting the maximum allowable increase in general income for local government in NSW (rate peg). The LGCI is the measure of movement in the unit costs incurred by NSW council activities funded from the general rate base.
- 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%

Key Observations and Risks

- Council's LTFP is forecast on the assumption that existing service levels will be retained or in some circumstances improved. This is following community consultation in 2012 that updated Council's Community Strategic Plan.
- The majority of revenue and expense items are forecast to increase between 2.0% and 3.4% p.a.
- Council's user charges and fees revenue and materials and contracts expenses fluctuate year to year which is predominantly related to the level of RMS works completed in each year.
- Operating grants and contributions are forecast to increase by 30.2% in 2015 in line with a full year's FAG being received.
- Wages are assumed to increase by 2.7-2.8% p.a. which is marginally above the average annual increase in employee costs of 2.0% p.a. over the review period and is therefore deemed reasonable.
- As detailed, the latest revaluation of Council's building and infrastructure assets has extended the useful life of these assets. The annual depreciation is therefore forecast to reduce from $4.9m in 2014 to $3.5m p.a. from 2016 onwards. While Council did not include the depreciation reduction to $3.5m in 2015 within the LTFP, it is now their plan to book the revised total in 2015, therefore the 2015 operating result should see a further improvement to what has been forecast in the LTFP.

3.5 Sustainability

Based on the information received and the revised LTFP, TCorp believes Council to currently be in a Moderate Sustainability position. The Outlook for Council is currently Positive.

In considering the longer term financial Sustainability of the Council we make the following additional comments in relation to their General Fund:

- Council is forecasting an improvement in their operating performance that will enable small operating surpluses in each year. This is a key deliverable in ensuring that Council is sustainable in the medium and long term.
- Council's Own Source Operating Revenue is forecast to remain above the benchmark providing Council with sufficient financial flexibility.
- A build up in cash and cash equivalents is projected despite Council forecasting most of their asset ratios to be at or above benchmark through the 10 year forecast.
- Despite the build-up in cash and cash equivalents, Council's Infrastructure Backlog is forecast to remain between $0.9m and $1.0m within the General Fund. The additional funds could potentially be utilised to eradicate the backlog over the review period.
- Council has proven over the review period that they can manage their employee costs well with the annual increase equalling 2.0% over the past five years despite an increase in full time equivalent employees to 167 in 2014 from 158 in 2010.
- Council's I,P,P&E is forecast to remain relatively stable with no new major projects forecast that could possibly impact Council's operations and cash flows.
- Council's LTFP is more robust now that the data from the AMP has been integrated. TCorp expects that Council will continue to improve the LTFP accuracy and functionality with future iterations of the model.
- Council has commissioned a number of internal audits during the five year review period that have identified operational improvement opportunities that have subsequently been implemented.
- Council has participated in the CENTROC Joint Organisation of Council's pilot that has focussed on regional collaboration and cost savings.
- Strategic business plans for the Water and Sewer Fund have been developed with the NSW Office of Water, and have subsequently been adopted by Council. TCorp has not viewed these plans however Council management has stated that these plans confirm the continued financial viability and ability to maintain and augment the Water and Sewer Fund infrastructure assets.

4 Conclusion and Recommendations

Based on our review of both the historic financial information and the 10 year financial forecast within Council's LTFP we consider Council to have a Sustainability rating of Moderate with an Outlook of Positive. The major difference between where Council is now compared to the analysis compiled in TCorp's previous report in 2013 is that there is a clear improvement projected that is expected to improve Council's operating position over the next 10 years.

We base our recommendation on the following key points:

- Council is forecasting to achieve an operating surplus from 2016 onwards within their General Fund. This is an improvement from the historic operating deficits.
- Council continues to hold financial flexibility that could enable them to boost revenues if required.
- Council has integrated their AMP's into their LTFP and this has allocated sufficient funds to asset maintenance, renewals and new purchases.
- Council has been proactive in reviewing their operational performance and has actively contributed to regional forums as they investigate options as to how cost savings or improved efficiencies can be achieved.

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

- Council is occasionally impacted by floods within the LGA every 10 to 13 years. These floods normally result in Council having to delay or amend their scheduled capital program. While outside of Council's control, any further natural disasters could impact Council's ability to achieve the forecast capital program within the current forecast timeframes, with resources having to be allocated to urgent repair works at the expense of the scheduled capital program. These are however, infrequent events.
- While Council has forecast that their Capital Expenditure Ratio, Asset Maintenance Ratio and Buildings and Infrastructure Renewals Ratio will improve to be at adequate levels over the forecast period, the Infrastructure Backlog is projected to remain relatively constant from 2016 onwards although this would be below the benchmark at 0.5%. This is despite the projected increase in Council's cash and cash equivalents over the 10 year forecast.

Appendix A Historical Financial Information Tables

Table 1-Income Statement

Income statement	Year ended 30 June					% annual change			
	2014	2013	2012	2011	2010	2014	2013	2012	2011
Revenue									
Rates and annual charges	10,231	9,920	9,469	9,564	9,098	3.1%	4.8%	(1.0%)	5.1%
User charges and fees	10,913	12,382	9,922	10,591	11,141	(11.9%)	24.8%	(6.3%)	(4.9%)
Interest and investment revenue	876	836	1,110	978	604	4.8%	(24.7%)	13.5%	61.9%
Grants and contributions for operating purposes	4,624	5,610	6,657	4,786	4,164	(17.6%)	(15.7%)	39.1%	14.9%
Other revenues	984	730	711	766	567	34.8%	2.7%	(7.2%)	35.1%
Total revenue	**27,628**	**29,478**	**27,869**	**26,685**	**25,574**	**(6.3%)**	**5.8%**	**4.4%**	**4.3%**
Expenses									
Employees	11,365	11,620	10,825	10,159	10,518	(2.2%)	7.3%	6.6%	(3.4%)
Borrowing costs	1,291	1,437	1,522	1,393	726	(10.2%)	(5.6%)	9.3%	91.9%
Materials and contract expenses	7,153	8,033	8,024	8,577	8,082	(11.0%)	0.1%	(6.4%)	6.1%
Depreciation and amortisation	7,076	7,358	7,186	6,666	4,920	(3.8%)	2.4%	7.8%	35.5%
Other expenses	2,965	2,877	2,369	2,168	2,104	3.1%	21.4%	9.3%	3.0%
Total expenses	**29,850**	**31,325**	**29,926**	**28,963**	**26,350**	**(4.7%)**	**4.7%**	**3.3%**	**9.9%**
Operating result (excluding capital grants and contributions)	**(2,222)**	**(1,847)**	**(2,057)**	**(2,278)**	**(776)**	(20.3%)	10.2%	9.7%	(193.6%)
Operating result (including capital grants and contributions)	**(1,510)**	**(457)**	**845**	**3,837**	**2,287**	(230.4%)	(154.1%)	(78.0%)	67.8%

Table 2 - Items excluded from Income Statement

Excluded items	2014	2013	2012	2011	2010
Grants and contributions for capital purposes	712	1,390	2,902	6,115	3,063
Net gain/(loss) from the disposal of assets	229	171	122	(4)	83

Table 3 – Employee Numbers

	2014	2013	2012	2011	2010
Full Time Equivalent Employees at year end	167	162	157	161	158

Table 4 – Balance Sheet

Balance sheet ($'000s)	Year ended 30 June					% annual change			
	2014	2013	2012	2011	2010	2014	2013	2012	2011
Current assets									
Cash and cash equivalents	14,669	15,025	16,789	15,104	10,764	(2.4%)	(10.5%)	11.2%	40.3%
Investments	2,000	0	0	1,000	0	N/A	N/A	(100.0%)	N/A
Receivables	4,030	5,235	6,217	4,322	6,059	(23.0%)	(15.8%)	43.8%	(28.7%)
Inventories	1,213	1,232	1,296	1,226	1,254	(1.5%)	(4.9%)	5.7%	(2.2%)
Other	175	175	154	133	132	0.0%	13.6%	15.8%	0.8%
Total current assets	22,087	21,667	24,456	21,785	18,209	1.9%	(11.4%)	12.3%	19.6%
Non-current assets									
Receivables	0	0	0	49	36	N/A	N/A	(100.0%)	36.1%
Infrastructure, property, plant & equipment	602,206	598,355	592,050	576,544	568,536	0.6%	1.1%	2.7%	1.4%
Total non-current assets	602,206	598,355	592,050	576,593	568,572	0.6%	1.1%	2.7%	1.4%
Total assets	**624,293**	**620,022**	**616,506**	**598,378**	**586,781**	**0.7%**	**0.6%**	**3.0%**	**2.0%**

Balance sheet ($'000s)	Year ended 30 June					% annual change			
	2014	2013	2012	2011	2010	2014	2013	2012	2011
Current liabilities									
Payables	2,180	2,419	2,427	1,908	2,224	(9.9%)	(0.3%)	27.2%	(14.2%)
Borrowings	1,061	1,246	4,426	4,369	652	(14.8%)	(71.8%)	1.3%	570.1%
Provisions	3,510	3,476	3,573	2,874	2,951	1.0%	(2.7%)	24.3%	(2.6%)
Total current liabilities	6,751	7,141	10,426	9,151	5,827	(5.5%)	(31.5%)	13.9%	57.0%
Non-current liabilities									
Payables	0	0	0	14	25	N/A	N/A	(100.0%)	(44.0%)
Borrowings	19,281	15,329	15,746	16,537	14,132	25.8%	(2.6%)	(4.8%)	17.0%
Provisions	546	538	540	422	433	1.5%	(0.4%)	28.0%	(2.5%)
Total non-current liabilities	19,827	15,867	16,286	16,973	14,590	25.0%	(2.6%)	(4.0%)	16.3%
Total liabilities	**26,578**	**23,008**	**26,712**	**26,124**	**20,417**	**15.5%**	**(13.9%)**	**2.3%**	**28.0%**
Net assets	**597,715**	**597,014**	**589,794**	**572,254**	**566,364**	**0.1%**	**1.2%**	**3.1%**	**1.0%**

Table 5 - Cashflow

Cash Flow Statement ($'000s)	Year ended 30 June				
	2014	2013	2012	2011	2010
Cash flows from operating activities	6,560	7,785	7,213	11,656	4,660
Cash flows from investing activities	(10,683)	(5,952)	(4,794)	(13,438)	(10,686)
Proceeds from borrowings and advances	5,061	250	0	6,753	4,888
Repayment of borrowings and advances	(1,294)	(3,847)	(734)	(631)	(711)
Cash flows from financing activities	3,767	(3,597)	(734)	6,122	4,177
Net increase/(decrease) in cash and equivalents	**(356)**	**(1,764)**	**1,685**	**4,340**	**(1,849)**

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 (now OLG) with representatives from the Department of Premier and Cabinet and NSW Treasury.

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

Office of Local Government (OLG)

OLG (previously DLG) is an Office in the Planning and Environment cluster and is responsible for local government across NSW. OLG’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 OLG has a policy, legislative, investigative and program focus in matters ranging from local government finance, infrastructure, governance, performance, collaboration and community engagement. OLG 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.

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.

[1] IPART “Revenue Framework for Local Government” December 2009 p.83
[2] DLG “Recognition of certain assets at fair value” March 2009

Financial Sustainability Rating (FSR)
The FSR is an assessment of a council's capacity to meet its financial commitments in the short, medium and long term. The FSR for each Council has been determined based on the review and consideration of a Council's historical performance against a set of benchmark indicators. The rating methodology consists of seven FSR categories. The FSR is calculated using weighted benchmarks according to the relative importance of each benchmark in terms of a Council's financial capacity and sustainability.

Grants and Contributions for Capital Purposes

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

Grants and Contributions for Operating Purposes

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

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

Independent Commission Against Corruption (ICAC)

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

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

Independent Pricing and Regulatory Tribunal (IPART)

IPART has four main functions relating to the 152 local councils in NSW. Each year, IPART determines the rate peg, or the allowable annual increase in general income for councils. They also review and determine council applications for increases in general income above the rate peg, known as "Special Rate Variations". They approve increases in council minimum rates.

They also review council development contributions plans that propose contribution levels that exceed caps set by the Government.

Infrastructure Backlog

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

Integrated Planning and Reporting (IP&R) Framework

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

Local Government Cost Index (LGCI)

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

Net Assets

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

Roads and Maritime Services (RMS)

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

Outlook

The Outlook assigned to Council is TCorp's assessment of the potential movement of Council's FSR within the next three years. The outlook methodology consists of three categories. A positive Outlook indicates that a Council's FSR is likely to improve in the short term, whilst a Neutral Outlook indicates that the FSR is likely to remain unchanged. A Negative Outlook indicates that a Council's FSR is more likely to deteriorate and is a sign of a general weakening in performance and sustainability.

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.

Sustainability

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.

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 + current term deposits / (total expenses – depreciation – interest costs)*12

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

Capital Expenditure Ratio

Benchmark = Greater than 1.1x

Ratio = annual capital expenditure / annual depreciation

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

Debt Service Cover Ratio (DSCR)

Benchmark = Greater than 2.0x

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

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

Building and Infrastructure Backlog Ratio

Benchmark = Less than 0.02x

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

This ratio shows what proportion the backlog is against total value of a council's infrastructure.

Interest Cover Ratio

Benchmark = Greater than 4.0x

Ratio = EBITDA / interest expense (from the income statement)

This ratio indicates the extent to which a council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon a council's operating cash.

Operating Ratio

Benchmark = Better than negative 4%

Ratio = (operating revenue excluding capital grants and contributions – operating expenses) / operating revenue excluding capital grants and contributions

This ratio measures a council's ability to contain operating expenditure within operating revenue.

Own Source Operating Revenue Ratio

Benchmark = Greater than 60%

Ratio = rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)

This ratio measures the level of a council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue.

Unrestricted Current Ratio

Benchmark = 1.5x (taken from the IPART December 2009 Revenue Framework for Local Government report)

Ratio = Current assets less all external restrictions / current liabilities less specific purpose liabilities

Restrictions placed on various funding sources (e.g. Section 94 developer contributions, RMS contributions) complicate the traditional current ratio because cash allocated to specific projects are restricted and cannot be used to meet a council's other operating and borrowing costs. The Unrestricted Current Ratio is specific to local government and is designed to represent a council's ability to meet debt payments as they fall due.

ATTACHMENT A

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