New South Wales Treasury Corporation

Richmond Valley Council

Financial Assessment, Sustainability and Benchmarking Report

16 April 2013

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

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Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by the Division of Local Government (DLG) as detailed in TCorp's letters of 22 December 2011 and 28 May 2012. The report has been prepared to assist the DLG and the Independent Local Government Review Panel in its consideration of the Sustainability of each local government area in NSW.

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

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

The report has been prepared for Richmond Valley Council, the DLG and the Independent Local Government Review Panel. TCorp shall not be liable to Richmond Valley 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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Index

New South Wales
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Section 1 Executive Summary

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

TCorp's approach has been to:

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

In respect of its financial performance, the Council has been reasonably well managed over the review period based on the following observations:

- EBITDA has improved since 2009 and has been driven by interest and investment revenue growth coupled with growing levels of operational grants and contributions
- Council has demonstrated sound liquidity management over the review period

  However, we note that the Operating Ratio has been consistently well below benchmark and after improving in 2010 has deteriorated in subsequent years.

The Council reported $80.0m of Infrastructure Backlog in 2012 which represents 19.0% of its infrastructure asset value of $420.8m. Other observations include:

- 64.3% ($51.4m) of the Backlog valuation relates to public roads and 15.5% ($12.4m) relates to buildings and other structures.
- Council's Backlog fluctuated between 2009 and 2011 due to capital works and ongoing development of Asset Management Plans (AMP)
- Council was recently subject to an infrastructure audit by Morrison Low which is expected to result in the reported Infrastructure Backlog decreasing by approximately 50% in the 2013 financial statements

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

- The LTFP incorporates the financial and operational impacts of delivering declining levels of service with current levels of funding
- IPP&E is forecast to decline over the LTFP from $382.7m in 2013 to $333.6m in 2022

In our view, the Council has the capacity to undertake additional borrowings of up to $14.7m. This is based on the following analysis:

- Based on a benchmark of DSCR>2.0x, up to $14.7m could be borrowed on a 10 year amortising loan at 7.5% p.a.

In respect of Council's current financial position, we consider Council to be in a weak and deteriorating financial position and can be considered to be unsustainable without significant changes to their financial performance. Our key observations are:

- Council's long term Sustainability from a financial perspective is weak, based on the forecast operating results that are consistently below benchmark
- Council population has increased over the past decade. If this trend continues Council may be able to achieve improving Own Sourced Operating Revenue Ratios
- In recent years, Council did not spend sufficient amounts on asset renewals. Based on the current version of the LTFP, this trend will continue which could lead to a reduction in the quality of the assets and ultimately impact service standards
- Council appear to be in a developing stage of the IP&R documentation, and the Infrastructure Backlog at 19.0% is a key area of concern
- Council has maintained a moderate level of borrowings over time. In the long term, an improving liquidity position could allow Council to take on further borrowings to address the Infrastructure Backlog, but this option may be restricted by consistent operating deficits
- Additional revenue sources are needed by Council to provide further asset renewal funding and Council needs to consider options in this area

In respect of our Benchmarking analysis we have compared the Council's key ratios with other councils in DLG Group 4. Our key observations are:

- Council's financial flexibility as indicated by the Operating Ratio and the Own Source Operating Revenue Ratio was generally below the peer group
- Council's liquidity position was mixed with above average Cash Expense Ratio and below average Unrestricted Current Ratio
- Council's debt servicing capacity was on average below the peer group
- Council's performance in terms of level of Infrastructure Backlog, maintenance of assets, capital expenditure and asset renewal was generally below to the group average

Section 2 Introduction

2.1: Purpose of Report

This report provides the Council with an independent assessment of their financial capacity, Sustainability and performance measured against a peer group of councils. It will complement their internal due diligence, and the IP&R system of the Council and the DLG, together with the work being undertaken by the Independent Local Government Review Panel.

The key areas focused on are:

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

2.2: Scope and Methodology

TCorp's approach was to:

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

In undertaking its work, TCorp relied on:

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

New South Wales
Treasury Corporation

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

- Council acknowledges that the findings of the report have been based on the historical financial results of Council and the Long Term Financial Plan provided to TCorp. Council has provided clarifying comments that have been included in the report and also notes the following:
    - Council has been under the management of a new Executive Team for the past 12 months
    - Under the direction of the new Executive Team, improvements are being introduced which include a surplus budget for both the current financial year and the four year delivery program, including a 2% salary saving, which is being achieved
    - The recent infrastructure audit by Morrison Low is expected to result in the reported Infrastructure Backlog decreasing by approximately 50% in the 2013 financial statements. Once this is incorporated into Council's AMP and LTFP, greater clarity will exist in respect of future funding requirements
    - Council considers that these improvements would result in an improved assessment of its Sustainability, when next such an assessment is undertaken

Definition of Sustainability

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

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

Benchmark Ratios

In conducting our review of the Councils' financial performance, forecasts and Sustainability we have measured performance against a set of benchmarks. These benchmarks are listed below.

Benchmarks do not necessarily represent a pass or fail in respect of any particular area. One-off projects or events can impact a council's performance against a benchmark for a short period. Other factors such as the trends in results against the benchmarks are critical as well as the overall performance against all the benchmarks.

As councils can have significant differences in their size and population densities, it is important to note that one benchmark does not fit all. For example, the Cash Expense Ratio should be greater for smaller councils than larger councils as a protection against variation in performance and financial shocks. Therefore these benchmarks are intended as a guide to performance.

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

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

2.3: Overview of the Local Government Area

Richmond Valley Council	
Locality and Size	
Locality	Richmond Tweed
Area	3,051.4 km²
DLG Group No.	4
Demographics	
Population	22,037
% under 20	27.4%
% between 20 and 59	46.3%
% over 60	26.3%
Expected population in 2021	23,900
Operations	
Number of employees (FTE)	198
Annual revenue	$47.1m
Infrastructure	
Roads	1,070 km
Bridges	124
Infrastructure backlog value	$80.0m
Total infrastructure value	$420.8m

Richmond Valley Council was formed in February 2000 as a result of the amalgamation of the former Casino Council and Richmond River Shire Council. The area of approximately 3,050 square kilometres has a total population of 22,037 and is growing at a rate of 1.4% per year (State average 1.2%).

Richmond Valley Council is located in the Northern Rivers region of north-eastern New South Wales. The area is named after the Richmond River, which flows through the LGA. The area under management is located adjacent to the Bruxner Highway, Pacific Highway, and the North Coast railway line.

It is a rural area for the most part, with most industries involving cattle and crop growing, such as sugar cane, wheat, and pecan plantation.

The top five industries based on the number employed are meat and meat product manufacturing (7.0%); school education (5.0%); sheep, beef cattle and grain farming (3.8%), hospitals (3.5%) and, hospitality services (3.5%).

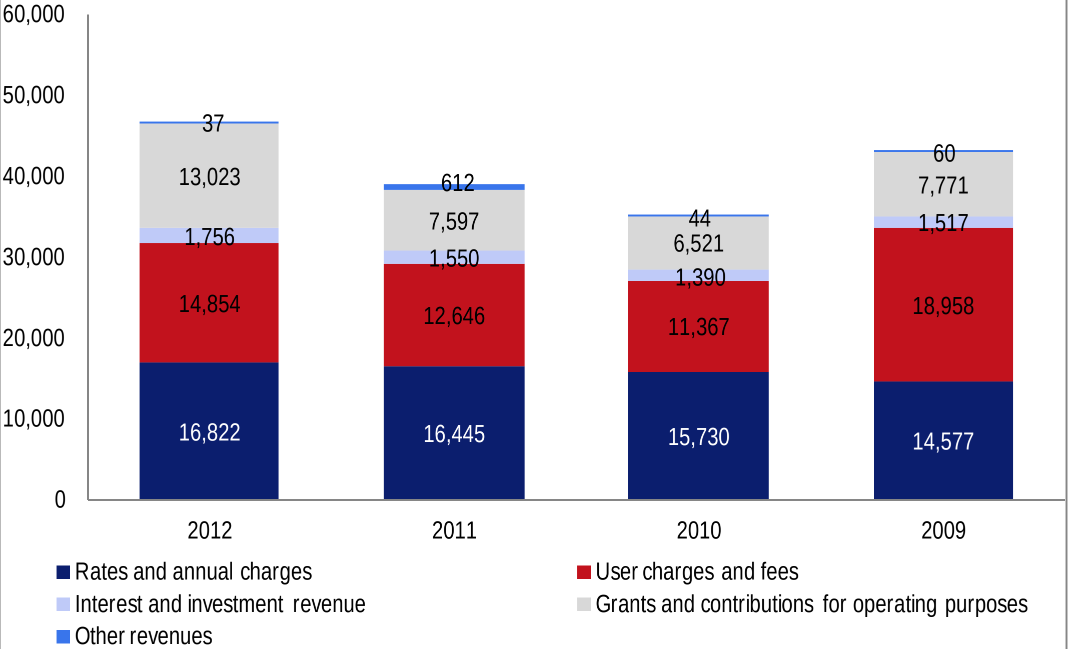
Economic growth of the LGA is also expected to increase with the emergence of the coal seam and natural gas discoveries. The demographics have recently been changing, reflecting a growth in the younger socio/economic group. This is reflected in the high demand level for residential land and increasing subdivisions.

Section 3 Review of Financial Performance and Position

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

3.1: Revenue

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



Key Observations

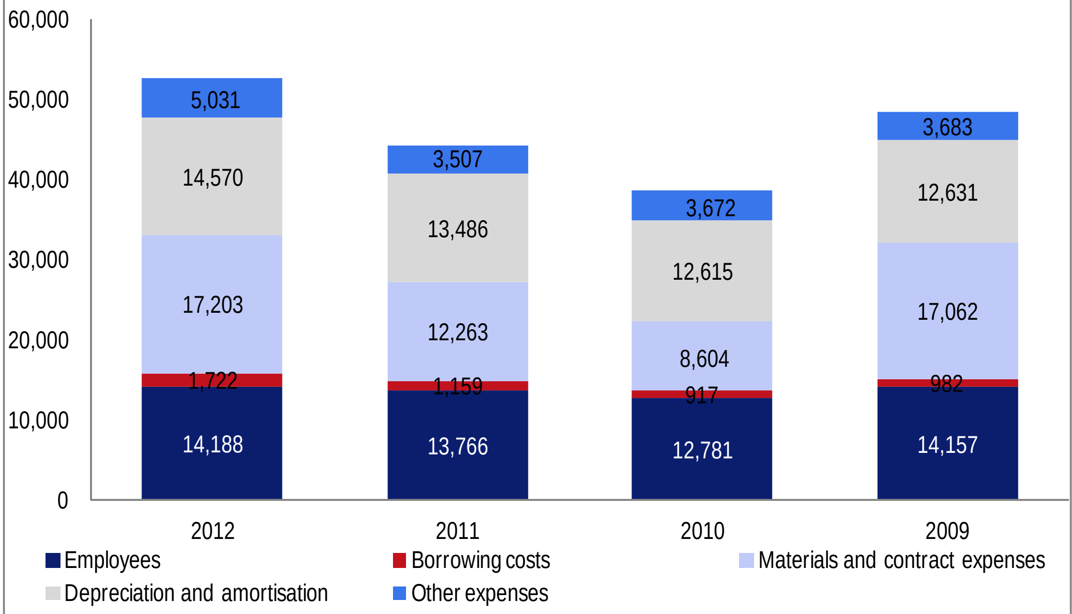
- Total revenue, excluding capital grants and contributions, increased by 8.4% to $46.5m over the review period. On a compounded annual basis, this equates to a 2.7% p.a. increase.
- Rates and annual charges have grown by 7.9% in 2010, 4.5% in 2011 and 2.3% in 2012. In 2009, Council's rates include a one-year SRV of 4.3% (total increase of 7.5% when including the rate peg) aimed at funding an urban stormwater drainage program, improvements to sporting grounds and gardens, road maintenance and various constructions. Rate revenue has generally been in line with rate peg increments in other years, with increases in domestic waste management and sewerage charges accounting for annual charge increases. Council had an SRV application declined by IPART in 2011, with lack of support from ratepayers and IPART's concerns over the capacity of ratepayers to pay the proposed SRV.
- User charges and fees can be volatile from year to year, depending on demand. This is notable with water supply service charges (13.0% growth p.a.) and waste disposal fees (27.3% growth p.a.). RMS fees have grown from $2.9m in 2009 to $4.2m due to various road projects. Private works were exceptionally high at $9.1m in 2009 (compared to $2.1m in 2012) due to increased works in that year.

New South Wales Treasury Corporation

- Council had exposures to equity markets and CDO assets and during the Global Financial Crisis were affected by fair value movements in investment securities. These items have been excluded from the income statement (refer to appendix A). Interest income has grown by $0.2m over the review period, reflecting an increase in short term cash deposits and declining levels of medium to long term investment securities.
- Grants and contributions for operating purposes of $13.0m in 2012 were impacted by $2.3m of natural disaster funding. In addition, the Federal Government brought forward one-half of the estimated 2013 local government Financial Assistance Grant (FAG) allocations for payment in the 2012 financial year.
- Council resigned as trust manager of Silver Sands Holiday Park in Evans Head. The NSW North Coast Holiday Parks have now taken over as Trust Managers, with all assets and liabilities having been transferred as at 25 February 2011. The related results in relevant years have been removed.

3.2: Expenses

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



Key Observations

- The overall trend in total expenses from 2009 to 2012 has been moderate growth, at a level of 1.1%, compounded annually.
- Full time equivalent employees have decreased from 229 in 2009 to 198 in 2012. Employee expenses fell by 0.3% as a result, however on a per employee basis, there was growth of 4.7% p.a. in cost.

New South Wales Treasury Corporation

- Materials and contracts expenses are mainly related to raw materials and consumables, and these have fluctuated historically with works for Council, RMS and private works.
- Depreciation expense growth (4.8% p.a.) has been relatively consistent with net asset growth (6.7% p.a.) over the four year period.
- Other expenses have generally increased with CPI, with the exception of electricity which has grown by 13.1% p.a. NSW Rural Fire Service and waste levies have increased by a combined $1.1m in 2012, and is the main driver of the 43.5% annual growth in 2012.

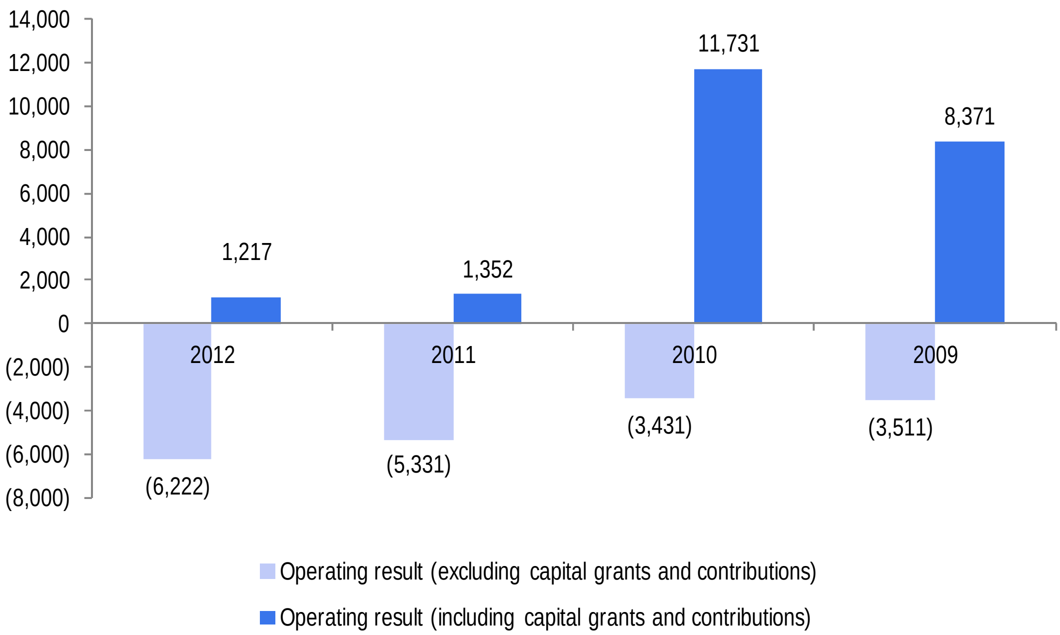
3.3: Operating Results

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

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

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

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



Key Observations

- Council have been operating at a deficit over the review period when capital grants and contributions are excluded. Having improved in 2009, the Operating ratio declined in both 2011 and 2012 to negative 11.8%. Although employee expenses have been well controlled in recent years, Council's revenues are restricted and general expenses have been rising, and this has compounded the operating deficit.

3.4: Financial Management Indicators

Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA ($'000s)	10,070	9,314	10,101	10,102
Operating Ratio	(13.4%)	(13.7%)	(9.8%)	(8.2%)
Interest Cover Ratio	5.85x	8.04x	11.02x	10.29x
Debt Service Cover Ratio	3.60x	4.64x	1.00x	3.65x
Unrestricted Current Ratio	1.93x	1.73x	1.45x	1.54x
Own sourced revenue	58.7%	63.9%	53.8%	61.2%
Cash expense ratio	8.6 months	8.3 months	9.0 months	5.9 months
Net assets ($'000s)	569,146	524,184	503,342	477,841

Key Observations

- Council's EBITDA has improved since 2009 and has been driven by interest and investment revenue growth coupled with prepaid operational grants and contributions.
- In 2010, the DSCR and Interest Cover Ratio were impacted by large repayments of borrowing and advances ($6.7m) and repayment of resident's village contributions ($2.4m). As a result, some of the above ratios did not meet respective benchmark in 2010.
- The DSCR and Interest Cover Ratios were generally above benchmark over the review period indicating Council has further flexibility to take on more debt.
- The Unrestricted Current Ratio has been generally above benchmark over the review period indicating liquidity was sufficient.
- Own Sourced Revenue Ratio fluctuated around benchmark level over the review period as a result of a varying levels of capital grants.
- Cash Expense Ratio has grown to 8.6 months in 2012. The ratio is above benchmark of 3.0 months, and indicates that Council had sufficient cash reserves to cover their short-term liabilities.
- Council's Net Assets increased by $91.3m to $569.1m in 2012, mainly as a result of Asset Revaluations. Council officers have indicated that all classes of assets have been revalued with the exception of roads, bridges and footpaths (which are forecast to be undertaken in 2013) and drainage assets (which are forecast for 2014).
- When the Asset Revaluations are excluded, the underlying trend in all three years has been a growing infrastructure, property, plant, and equipment (IPP&E) asset base with asset purchases being ($0.9m) greater than the combined value of disposed assets and annual depreciation.
- Council has total borrowings of $14.1m representing 2.5% of Net Assets.

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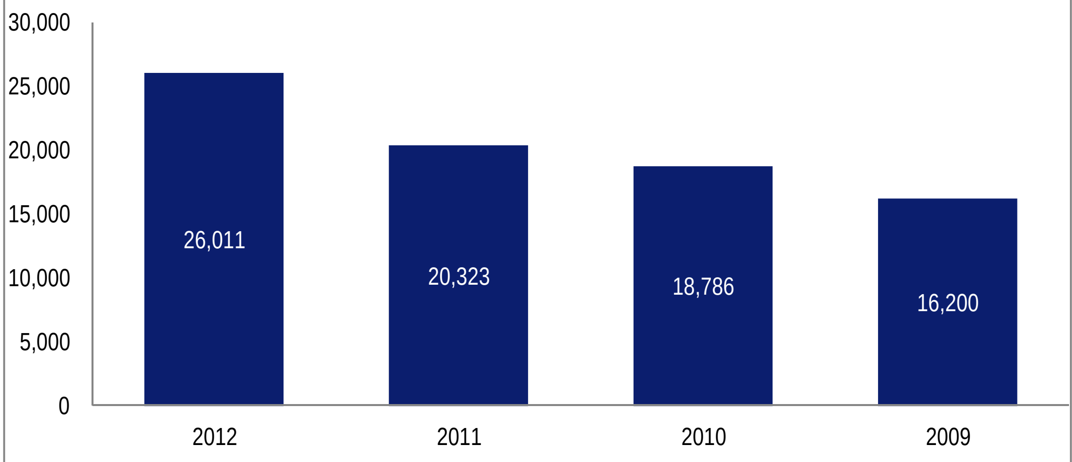
3.5: Statement of Cashflows

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



Key Observations

- Cash and cash equivalents have grown by 60.6% ($9.8m) over the four year period.
- Within Council's cash, cash equivalents, and investments totalling $30.7m, $26.5m was externally restricted, $4.2m internally restricted. Council hold no unrestricted assets.
- Of the total cash and investment securities 2012, $4.6m was held as investment securities. Council held investments in managed funds of $1.6m, CDOs (book value) of $0.8m and listed equity securities of $1.8m. Other long term financial assets were $0.4m
- Council currently holds one CDO (Nexus 4). The original investment value in 2005 was $1.0m and was valued at $0.8m as at 30 June 2012. Council expects to recover this investment in full on maturity (in June 2015) as it has no credit exposure on these securities.
- Council invested $9.2m in CDO's prior to the GFC for which it has recovered $0.4m in total (capital profit recovered and interest earned included).

Council officers indicated that all CDO investments held at this time are likely to receive all coupon payments and receive full return of principal at maturity. Council's independent investment advisors are also investigating potential switch options for other investments that whilst liquid are no longer providing any income stream.

3.6: Capital Expenditure

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

3.6(a): Infrastructure Backlog

Figure 5 - Infrastructure Backlog for 2008/09 to 2011/12($'000s)

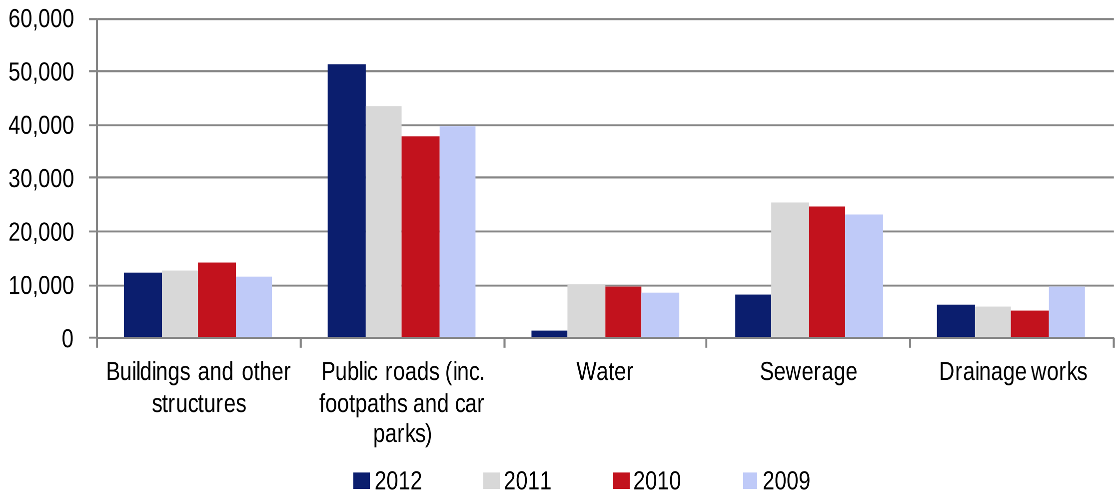
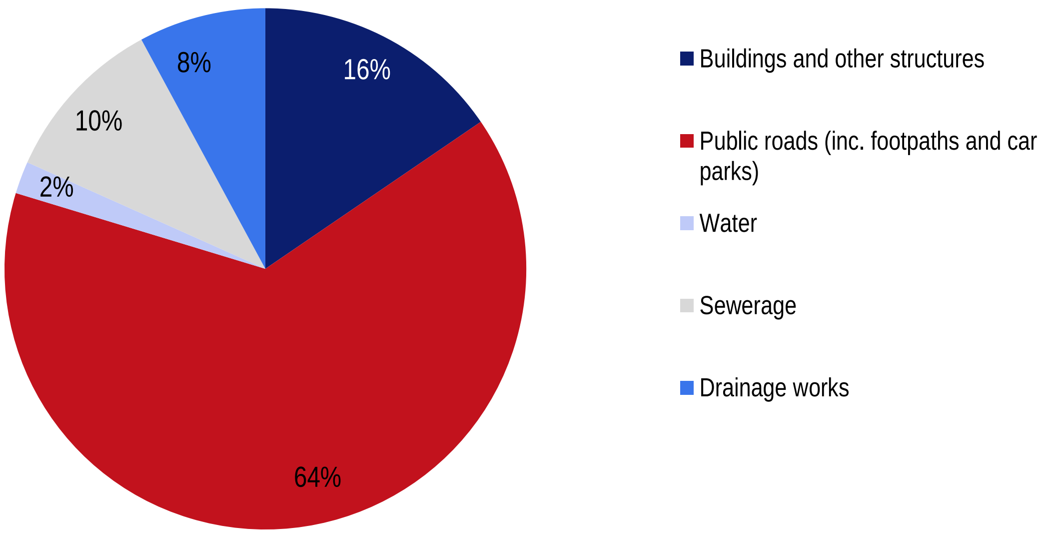


Figure 6 - Infrastructure Backlog Composition for 2011/12



Council reported an $80.0m Infrastructure Backlog in 2012, of which 64.3% ($51.4m) relates to public roads and 15.5% ($12.4m) relates to buildings and other structures. Council's Backlog valuation has declined since 2009, specifically in relation to sewerage assets where the Backlog has reduced from $23.1m to $8.3m in 2012 and water assets for which the Backlog has declined from $8.7m in 2009 to $1.6m in 2012. Conversely, the public roads Infrastructure Backlog has grown from $39.7m in 2009 to $51.4m in 2012.

Sewerage Infrastructure Backlog reduced in 2012 following a $9.0m Broadwater community sewerage asset upgrade. Council officers have indicated that water and sewer assets were externally valued in 2012 and a new method of valuation was adopted including full condition assessment and introduction of residual lives on certain assets. This method of valuation had the effect of significantly increasing the fair value of Council's water and sewer assets and also reflecting these assets in better condition than what had been previously reported. The previous valuation method was based on the age of asset rather than the actual condition. This had the effect of reducing the value of the Backlog related to these classes of assets.

Council is currently refining the fair value of its assets whereby the written down value is based on condition rather than age. Roads and drainage assets are the remaining classes of assets that will be subject to Revaluations (in 2013 and 2014 respectively). Council officers believe that these Revaluations will result in a decrease in the value of the Backlog related to roads and drainage assets.

Council have a well-developed AMP in place, however the Infrastructure Backlog remains relatively large, and is currently at 19.0% of the total value of infrastructure assets.

Council was one of the 22 councils that had an infrastructure audit by Morrison Low on behalf of DLG. Council officers have indicated that Council received verbal confirmation from this audit that the value of its Infrastructure Backlog was less than half of what was reported in the Special Schedule 8.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	80,038	98,378	91,773	92,700
Required annual maintenance ($'000s)	12,565	11,990	11,815	11,596
Actual annual maintenance ($'000s)	6,732	4,646	4,074	3,956
Total value infrastructure assets ($'000s)	420,754	373,986	359,669	344,429
Total assets ($'000s)	604,666	554,691	531,056	511,433
Building and Infrastructure Backlog Ratio	0.19x	0.26x	0.26x	0.27x
Asset Maintenance Ratio	0.54x	0.39x	0.34x	0.34x
Building and Infrastructure Asset Renewal Ratio	0.33x	0.37x	0.41x	0.79x
Capital Expenditure Ratio	1.09x	0.02x	1.65x	1.32x

Council's Building and Infrastructure Asset Renewals Ratio was well below the benchmark of 1.00x in all years reported, which indicates Council is spending at levels below the required amount on asset renewal.

New South Wales
Treasury Corporation

The Asset Maintenance Ratio is significantly below the 1.00x benchmark for the four years and this indicates that Council has not invested the required funds to maintain the operating standard of their assets.

The Capital Expenditure Ratio, which takes into account assets which improve performance or capacity, has been satisfactory and generally satisfying the benchmark of 1.10x. The ratio was low in 2011 and was impacted by Council disposal of a number of assets, with a total written down value of $18.2m.

3.6(c): Capital Program

The following figures are sourced from the Council's Annual Financial Statements at Special Schedule No. 8 and are not audited. New capital works are major non-recurrent projects.

Capital Program ($'000s)	Year ended 30 June			
	2012	2011	2010	2009
New capital works	8,024	9,812	8,222	4,780
Replacement/refurbishment of existing assets	10,058	8,702	13,715	14,144
Total	18,082	18,514	21,937	18,924

Major capital works in 2012 included

- $4.0m for roadworks across the council area;
- $3.2m for Broadwater's sewerage scheme;
- $2.7m for the RFS Rural Control Centre;
- $0.3m for the introduction of green waste service; and
- $0.2m for the upgrade of the Stan Payne Oval car park.

Council has applied for LIRS funding for an upgrade of their regional saleyards. The project has a total value of approximately $8.0m and Council has applied for a grant funding of $5.0m and the remainder of the funding will be through the borrowing under the LIRS ($3.0m).

3.7: Specific Risks to Council

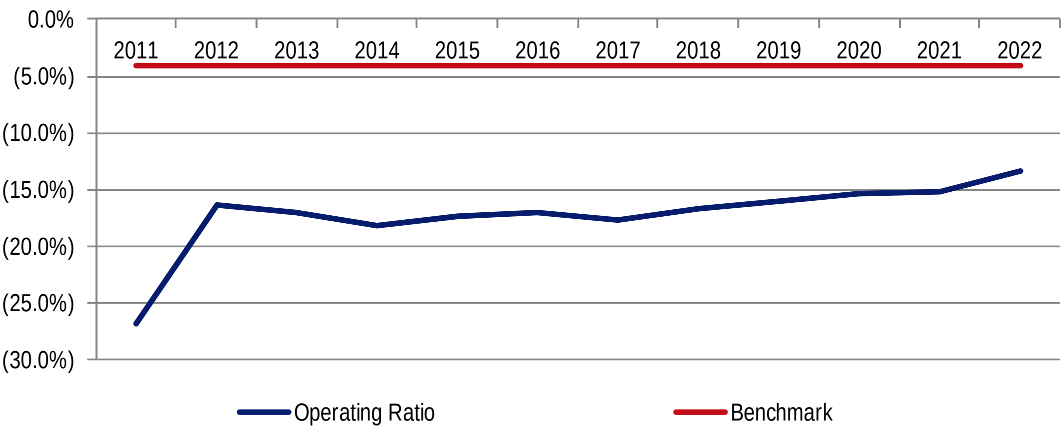
- Environmental and natural disasters. Richmond Valley is subject to the impacts of climate change and sea level rises as Council is located in a flood plain, on the coast and at a river entrance. The LGA has had five Natural Disaster Declarations since 2009 due to flooding and one bush fire. Council's management of this risk is substantially reliant on being able to receive both State and Federal funding under various "natural disaster" funds.
- Population growth. Natural resource discoveries could result in a shift to a younger demographic. This places pressure on existing infrastructure and services while increasing demand for new infrastructure and services. The Council has stated its awareness of the situation within its first Community Strategic Plan (CSP) and they have developed focus areas that will enable them to achieve their vision of how they want the LGA to be in 2024. The implementation of the CSP has been further defined within the Council's four year Delivery Plan and one year Operational Plan. As noted below, the IP&R process is a new concept to the Council and they may further refine their plan in future reviews.
- Infrastructure Backlog. Council has a significant Infrastructure Backlog that is not being adequately addressed. Continuous asset renewal and maintenance ratios that do not meet the respective benchmarks could affect the ability of Council to provide acceptable service levels to the community in the future.

Section 4 Review of Financial Forecasts

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

4.1: Operating Results

Figure 7- Operating Ratio for General Fund

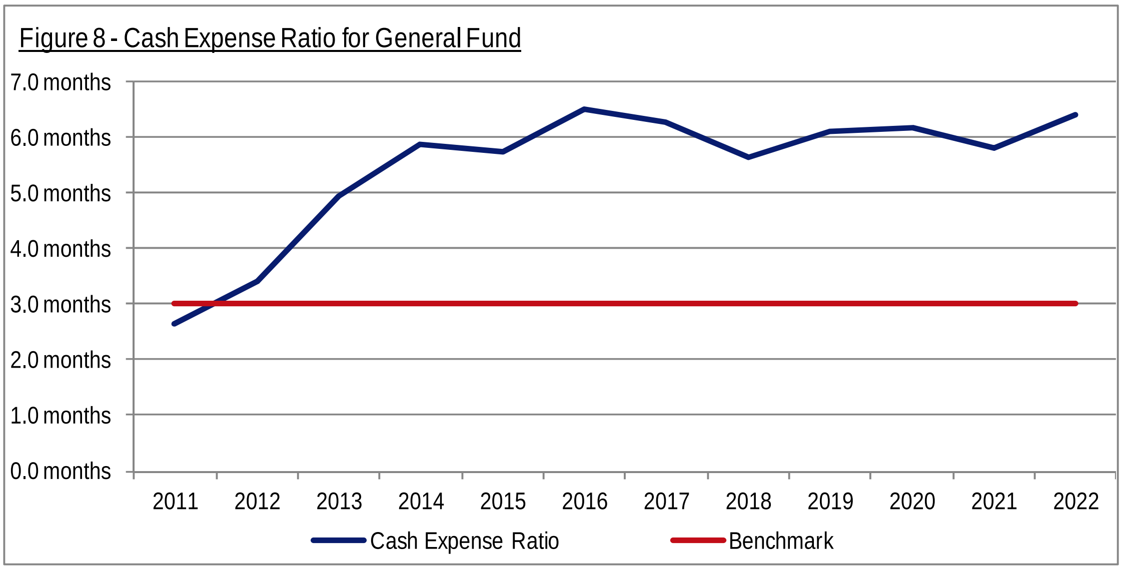


The General Fund shows deficit positions are expected in all 10 years when capital grants and contributions are excluded. The increased depreciation charges following the Asset Revaluations are impacting on this ratio.

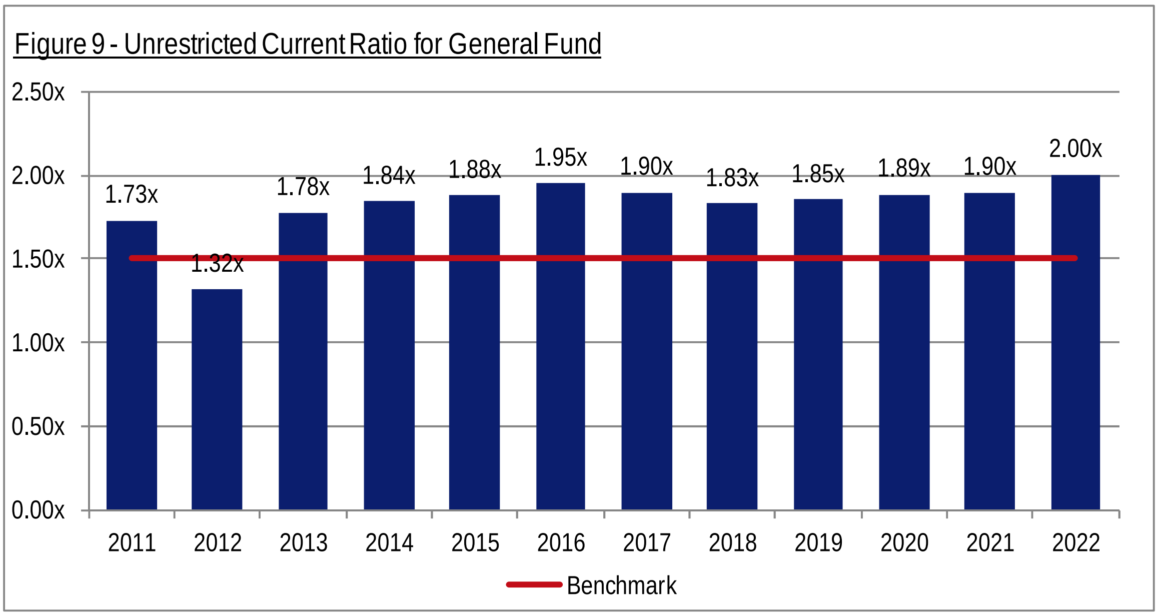
This ratio highlights that over the longer term Council could face financial Sustainability issues although the figure is due to improve throughout the model from the worst ratio deficit in 2011 of negative 26.8% to negative 13.3% in 2022.

4.2: Financial Management Indicators

Liquidity Ratios



Council's Cash Expense Ratio is above benchmark for all years forecast, with cash forecast to grow to $19.8m by 2022, based on a cash position of $8.9m in 2012. Council forecasts levels of investments to remain constant at $1.2m from 2013 and forecast the need for overdraft financing from 2019.



The Unrestricted Current Ratio indicates that Council will have satisfactory liquidity over the LTFP and Council will be able to service scheduled debt and capital expenditure requirements. Council forecast their final repayment of principal in 2014.

New South Wales
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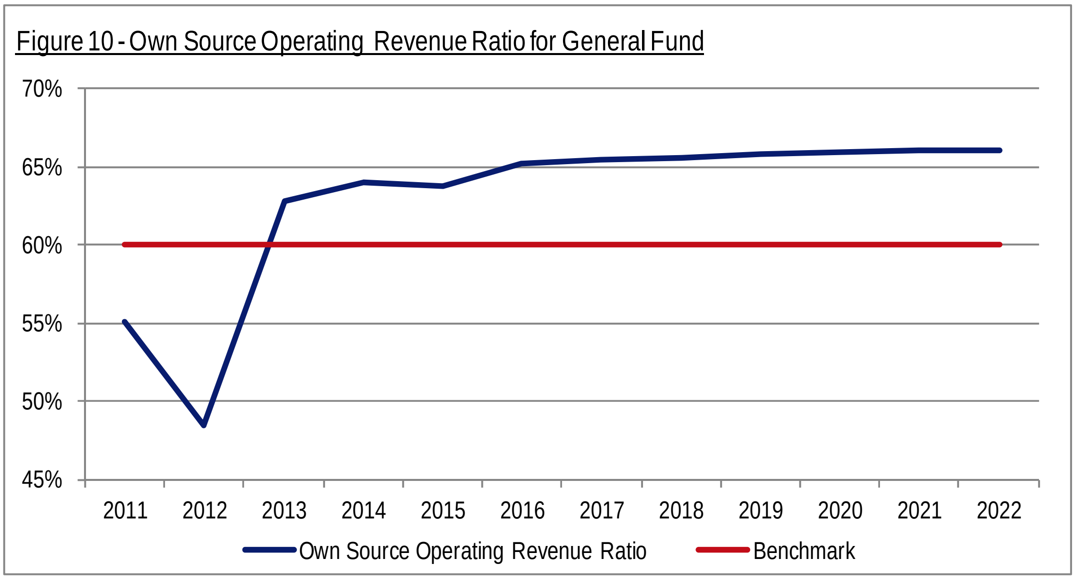
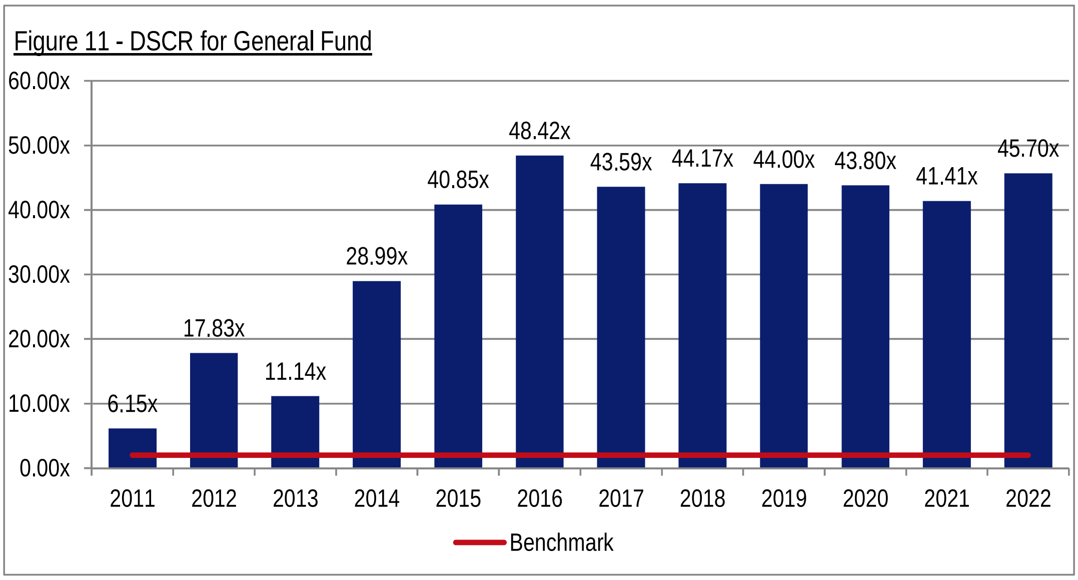
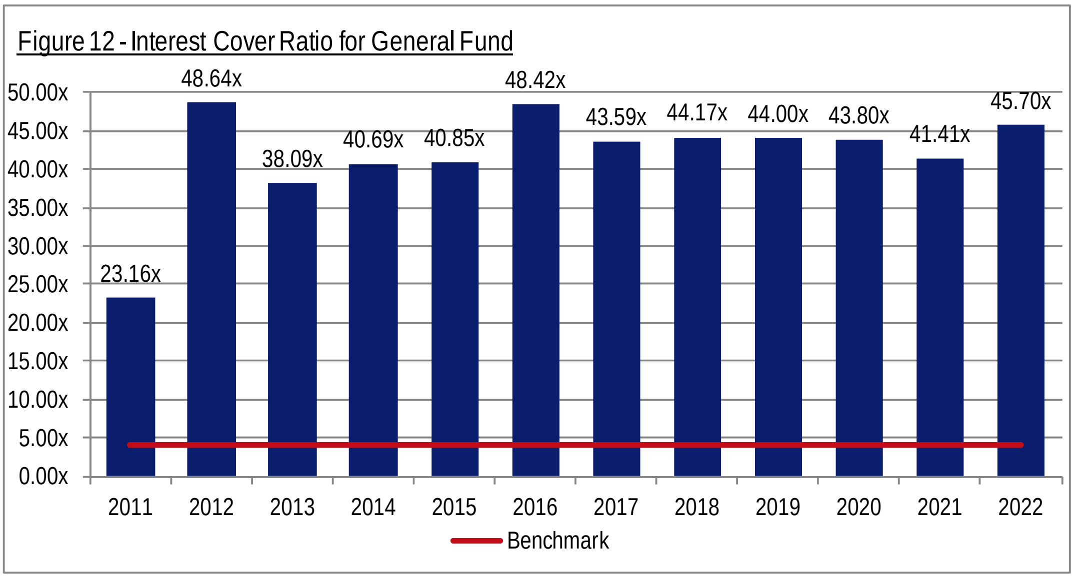
Fiscal Flexibility Ratios



Council's Own Sourced Operating Revenue Ratio is forecast to grow above 60.0% benchmark level in 2013. The early receipt of FAG in 2012 resulted in the sharp decline in 2012. Council believes that this level can be obtained when normal operating revenues are earned and large grants do not dilute own sourced revenues.

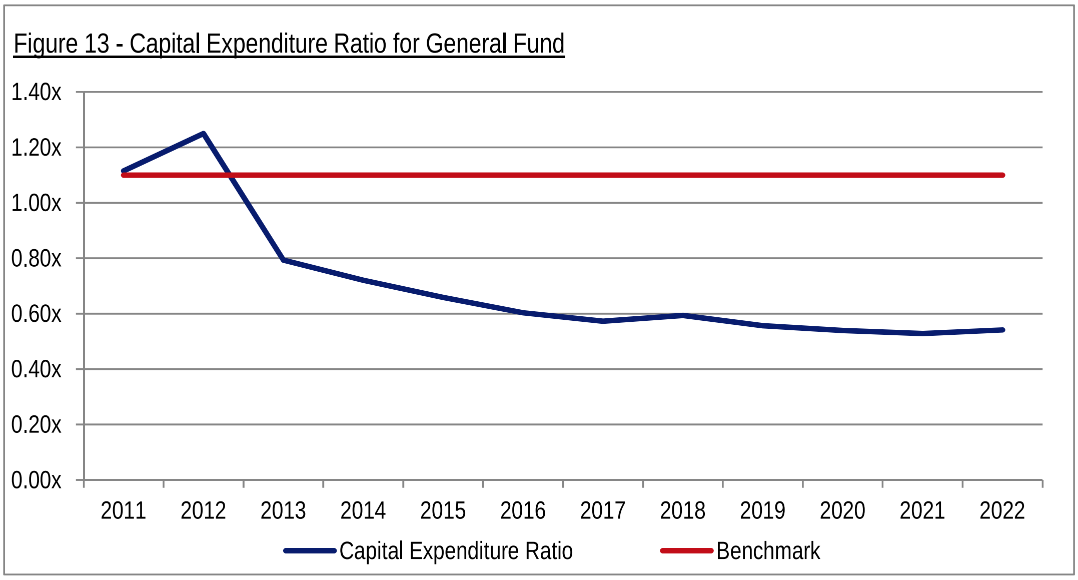


Council's DSCR is above benchmark and rises significantly in 2014 when Council will repay the last of their scheduled debt during the year. Council then do not project taking on any further debt for the term of the current LTFP.



The above graph shows that Council should have sufficient headroom to service future interest costs should they decide to take on additional borrowings.

4.3: Capital Expenditure



The Capital Expenditure Ratio is below benchmark from 2013 and on a downward trend. Asset Revaluations in 2012 resulted in depreciation increasing by 8.0% in 2012, and this has impacted the Capital Expenditure Ratio significantly.

Based on the current forecast capital expenditure contained in the LTFP, Council will experience a decline in the quality of its assets which ultimately could impact on service quality.

4.4: Financial Model Assumption Review

Councils have used their own assumptions in developing their forecasts.

In order to evaluate the validity of the Council's forecast model, TCorp has compared the model assumptions versus TCorp's benchmarks for annual increases in the various revenue and expenditure items. Any material differences from these benchmarks should be explained through the LTFP.

TCorp's benchmarks:

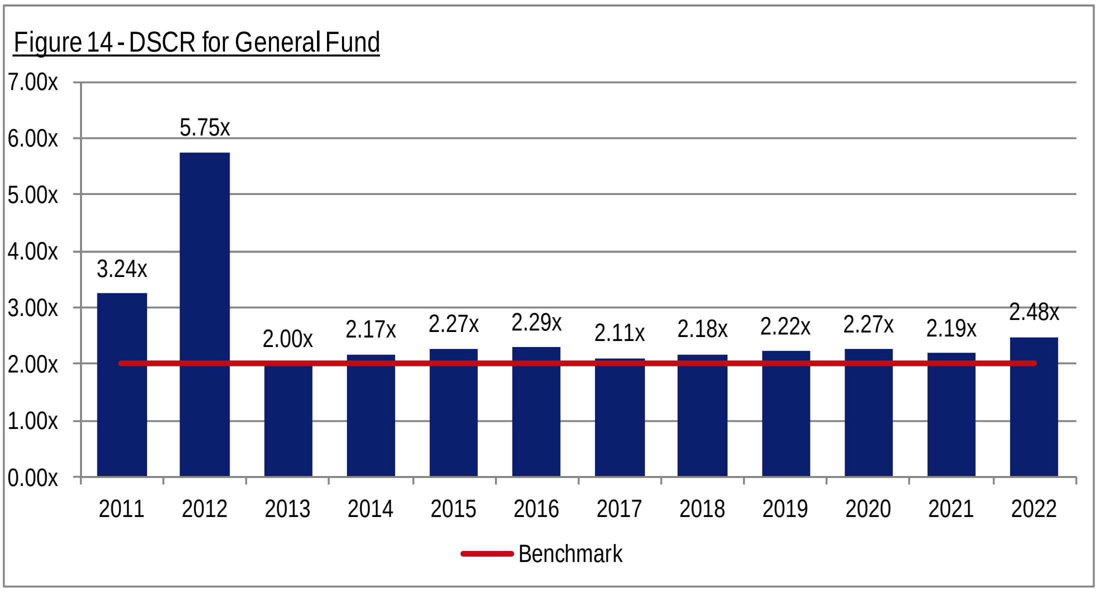
- Rates and annual charges: TCorp notes that the LGCI increased by 3.4% in the year to September 2011, and in December 2011, IPART announced that the rate peg to apply in the 2012/13 financial year will be 3.6%. Beyond 2013 TCorp has assessed a general benchmark for rates and annual charges to increase by mid-range LGCI annual increases of 3.0%
- Interest and investment revenue: annual return of 5.0%
- All other revenue items: the estimated annual CPI increase of 2.5%
- Employee costs: 3.5% (estimated CPI+1.0%)
- All other expenses: the estimated annual CPI increase of 2.5%

<u>Key Observations and Risks</u>

- The LTFP incorporates the financial impacts of delivering declining levels of service with current levels of funding. Council states in their AMP that future service levels will soon be determined in consultation with the community. Council officers have indicated that Council is always trying to improve the service levels.
- Total revenue excluding capital grants is forecast to grow at an average rate of 2.2% p.a.
- Based on the actual 2012 figures, rates and annual charges are forecast to increase by 4.7% ($0.5m) in 2013 due to different method of accounting of rates and annual charges in the 2012 financial statements and the LTFP (the financial statement value excludes internal Council's rates and annual charges). When using the same method of accounting, the adjusted forecast would be an increase of 2.2% ($0.3m). Rates and annual charges are forecast to increase by an average of 3.1% p.a. from 2014 onwards. Rates are forecast to grow with rate pegged increments and population growth forecasts.
- Employee expenses are forecast to grow at an average rate of 3.2% p.a.
- Based on the actual 2012 figures, user charges and fees are forecast to increase by 24.0% ($2.3m) in 2013 due to a different method of accounting used in the 2012 financial statements and the LTFP (the financial statement value excludes internal income such as internal plant hire, quarry sales and landfill fees). User charges and fees are forecast to decline by 8.0% ($0.9m) in 2014 due to Council's decision to close its bridge and prestressing business operation. User fees and charges are forecast to grow at an average rate of 3.2% p.a. from 2015 onwards.
- Other expenses grow at an average of 3.0% p.a., and other revenues grow at 2.5% p.a.
- IPP&E is forecast to decline over the LTFP from $382.7m in 2013 to $333.6m in 2022.
- The key assumptions that underpin the financial forecasts are considered to be reasonable

4.5: Borrowing Capacity

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



- Based on a benchmark of DSCR>2.0x, up to $14.7m could be borrowed in addition to the scheduled borrowings
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at 7.5% p.a.

4.6 Sustainability

In respect to transport, sewerage and stormwater infrastructure, Council does not have sufficient funding to provide the current services at the desired levels or provide new services in the long term. Current service levels cannot be maintained in the long (10 year) term based on consistent funding gaps, and service reductions would be required based on the forecast.

Council is in the developing stage of their AMP and has stated their need to reanalyse the gap in funding required to fund assets at the desired service levels, and detail the consequences on service levels and risk should additional funding not be provided. This further analysis will enable the relative costs and priorities to be balanced with the funding provided in Council's LTFP, and for consultation with the community. Council may have to identify suitable assets where reductions in service levels will not have a substantial impact on the users of the assets.

Based on the current AMPs, both the General Fund and Sewerage Fund have identified funding gaps, with only the Water Fund forecasting no funding gap in capital expenditure for maintenance and renewal.

The Infrastructure Backlog Ratio declined in 2012 as a result of scheduled capital works. Council appears to be in the developing stages of asset management and have identified funding shortfalls in capital expenditure requirements. However they are yet to finalise the most appropriate way to address this key area and have not had full community consultation regarding service provisions.

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

- Council's long term Sustainability from a financial perspective is weak, based on the forecast operating results that are consistently below benchmark
- Council population has increased over the past decade. If this trend continues Council may be able to achieve improving Own Sourced Operating Revenue Ratios
- In recent years, Council did not spend sufficient amounts on asset renewals. Based on the current version of the LTFP, this trend will continue which could lead to a reduction in the quality of the assets and ultimately impact service standards
- Council appears to be in a developing stage of the IP&R documentation, and the Infrastructure Backlog at 19.0% is a key area of concern.
- Council has maintained a moderate level of borrowings over time. In the long term, an improving liquidity position could allow Council to take on further borrowings to address the Infrastructure Backlog, but this option may be restricted by consistent operating deficits

As it is presented, Council's forecast position is not Sustainable without some corrective action required to be taken in the short and medium term. Service levels need to be reviewed and agreed with the community. This then needs to be input into Council's LTFP and maintenance and renewal spending needs to be reviewed so as to improve Council's performance in this area.

Section 5 Benchmarking and Comparisons with Other Councils

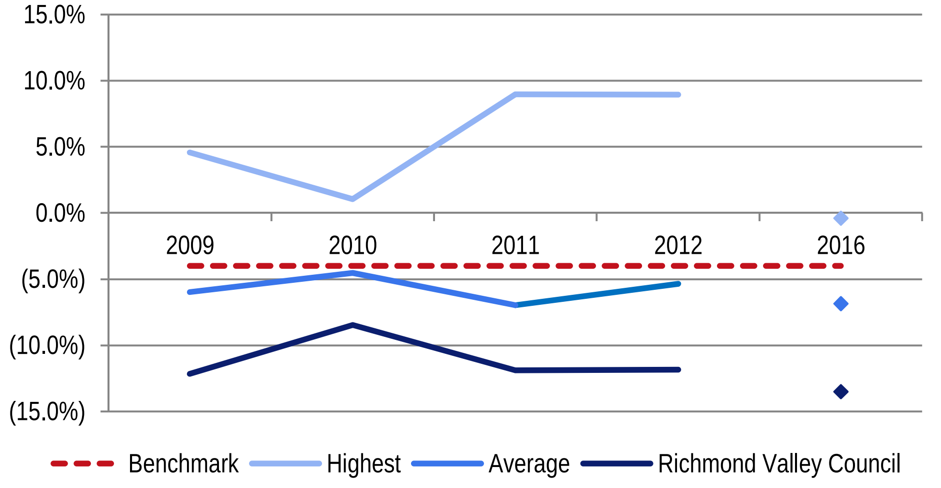
Each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis for councils operating more than one fund. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council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

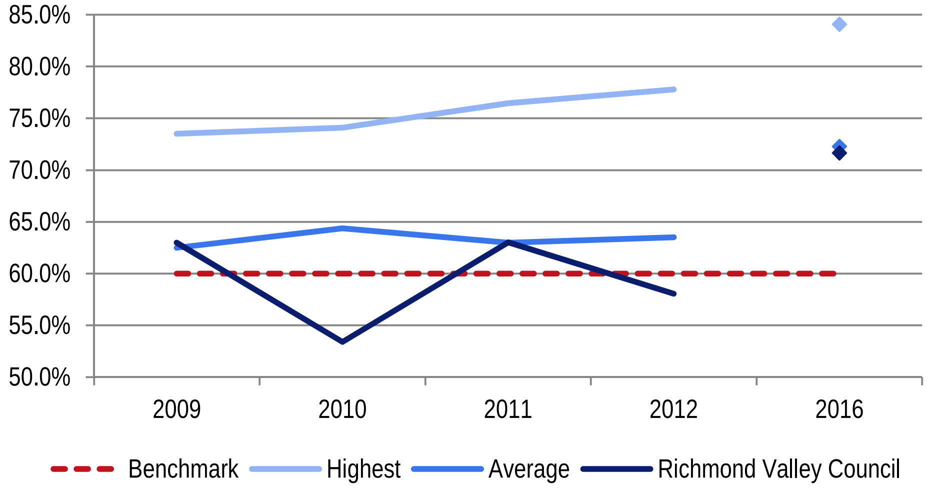
Financial Flexibility

Figure 15 - Operating Ratio Comparison



Council's Operating Ratio was consistently below the benchmark and the group average over the review period. Over the medium term, Council's ratio is forecast to remain weak and be below the peer group.

Figure 16 - Own Source Operating Revenue Ratio Comparison



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

Liquidity

Figure 17 - Cash Expense Ratio Comparison

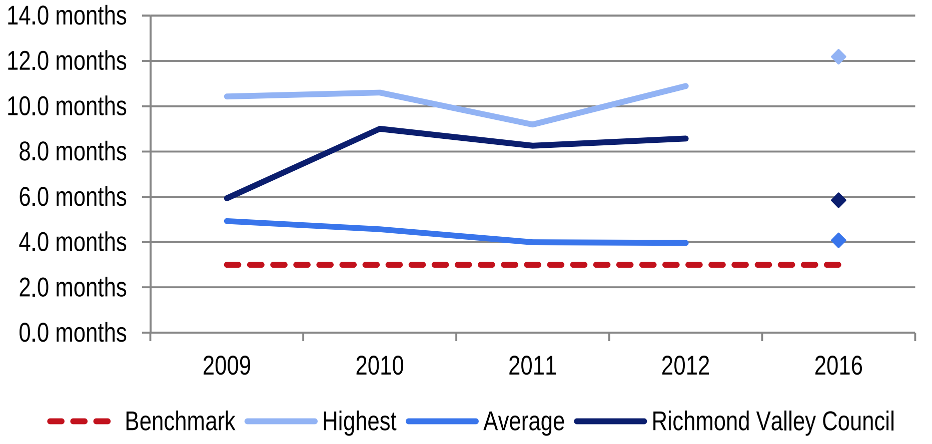
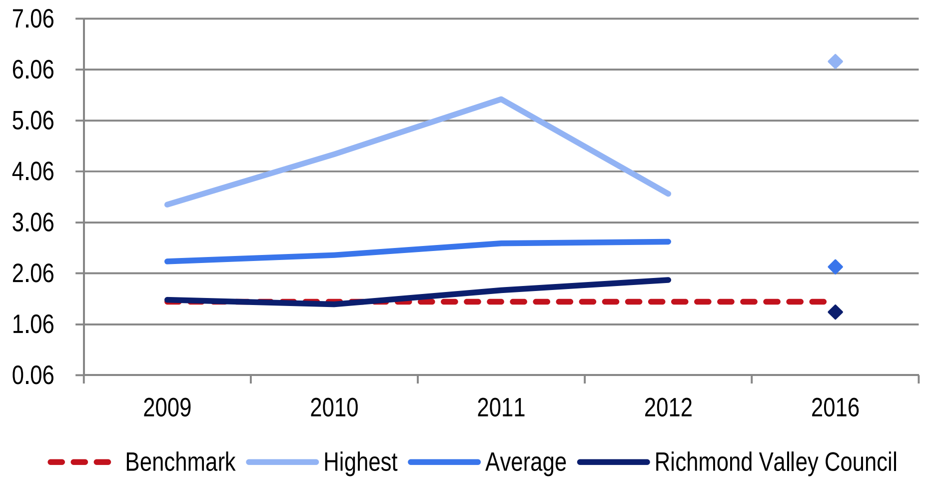


Figure 18 - Unrestricted Current Ratio Comparison



Council's liquidity position is generally sound with over benchmark Cash Expense Ratio and Unrestricted Current Ratio (with the exception of 2010). Council's Cash Expense Ratio consistently outperformed the group average while Council's Unrestricted Current Ratio was consistently below the peer group. Over the medium term, Council's liquidity position is forecast to remain mixed compared to the group average.

New South Wales Treasury Corporation

Debt Servicing

Figure 19 - Debt Service Cover Ratio Comparison

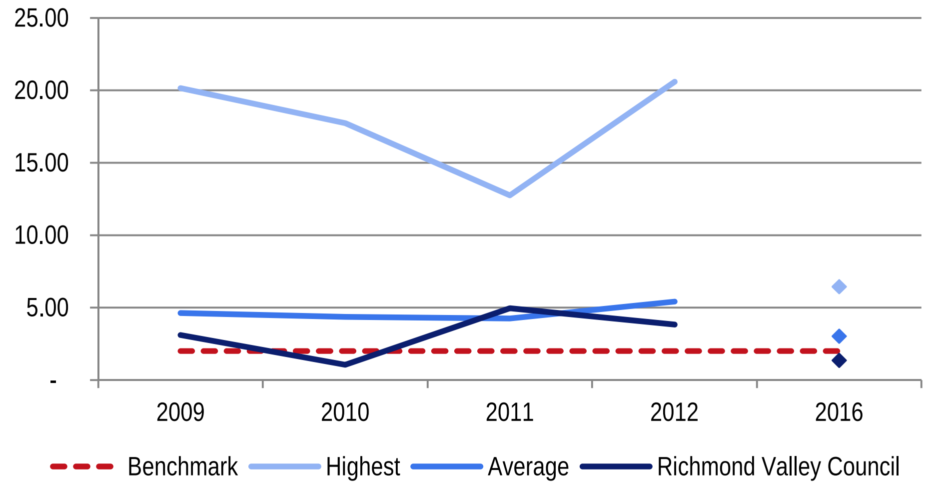
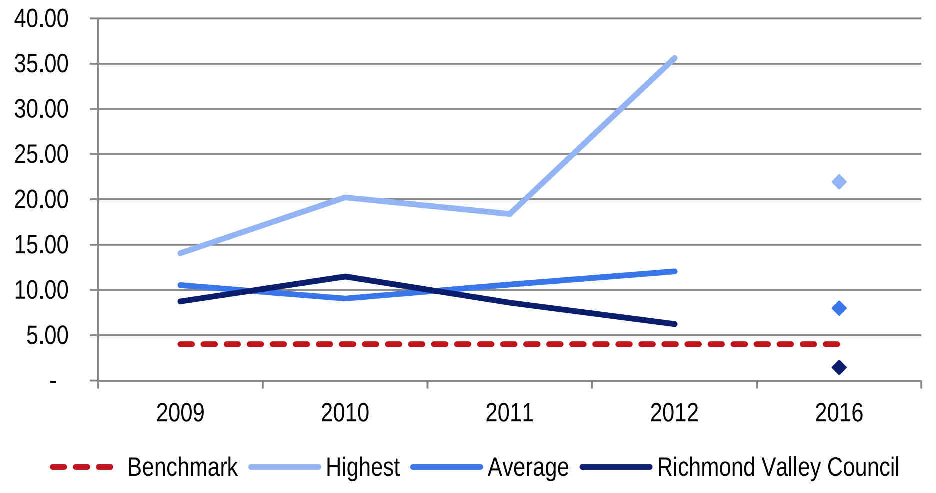


Figure 20 - Interest Cover Ratio Comparison



Council's debt servicing position has generally been sound with above benchmark debt servicing ratios (with the exception of the DSCR in 2010). Council's DSCR and Interest Cover Ratio were both below the group average in three of the past four years. Over the medium term, Council's consolidated debt servicing position is forecast to weaken and be below the benchmark and the peer group.

Asset Renewal and Capital Works

Figure 21 - Capital Expenditure Ratio Comparison

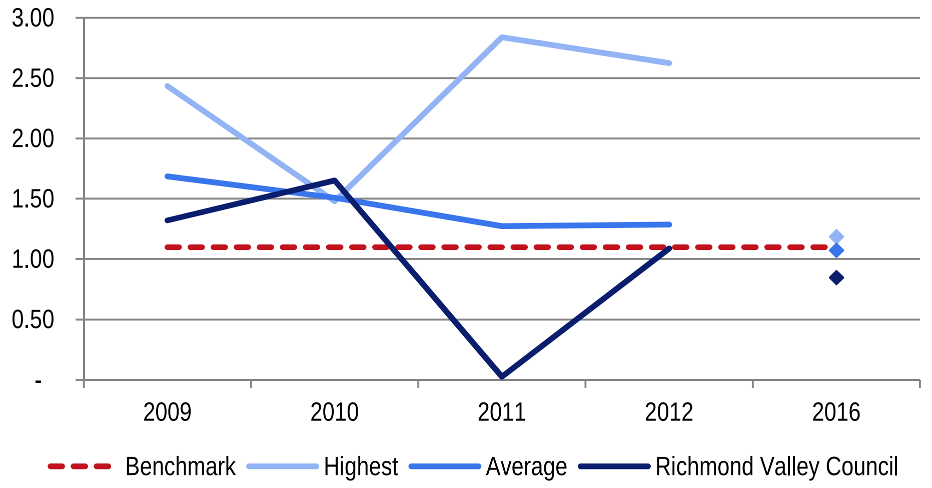


Figure 22 - Asset Maintenance Ratio Comparison

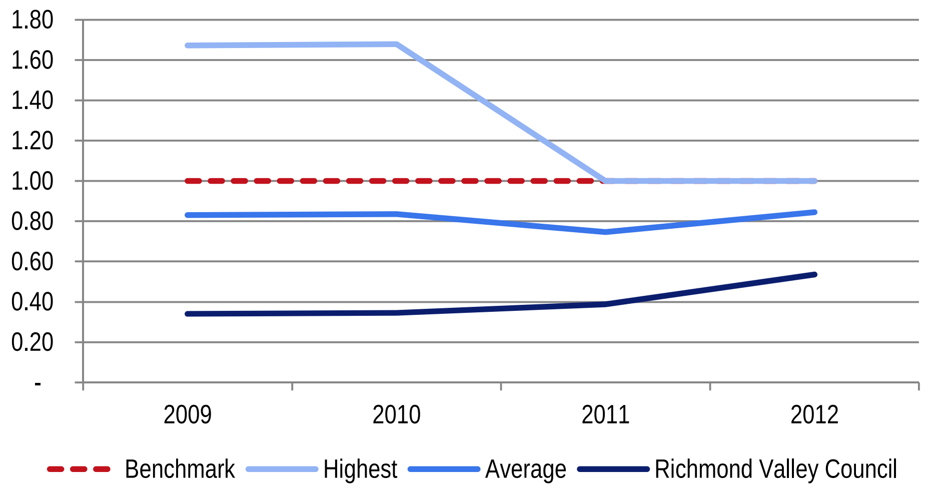


Figure 23 - Infrastructure Backlog Ratio Comparison

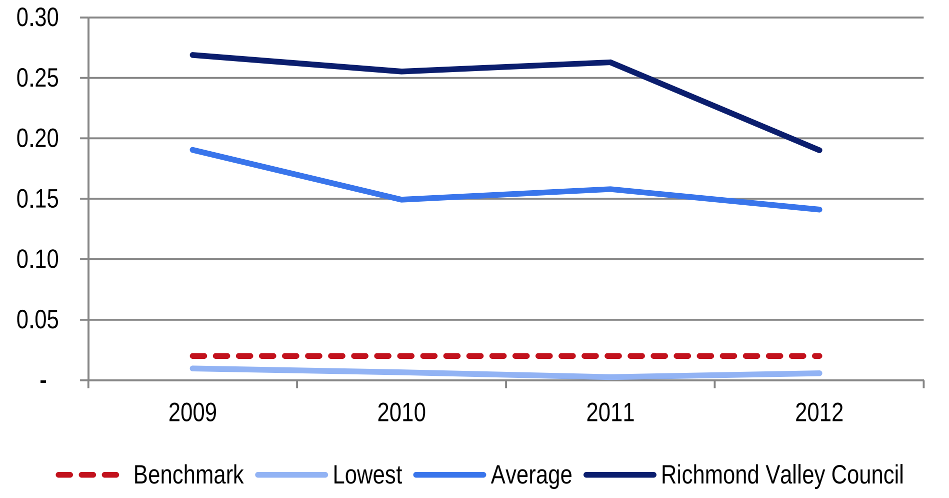
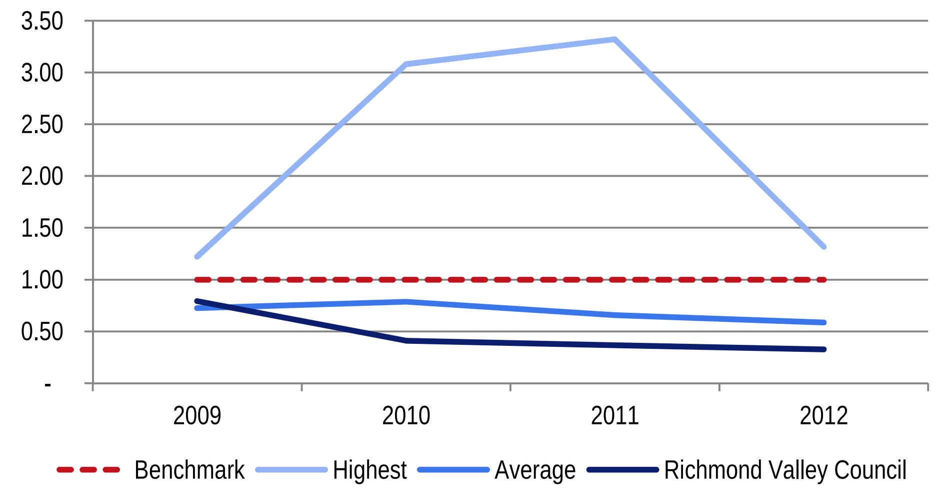


Figure 24 - Building and Infrastructure Asset Renewal Ratio



Council's level of Infrastructure Backlog was consistently well above the benchmark and the group average. Council's spending on maintenance of assets was as well below the benchmark and the peer group.

Council's Capital Expenditure Ratio was near or above the benchmark in three of the past four years and outperformed the group average in one of the past four years. Over the medium term, Council's ratio is forecast to be below the benchmark and the peer group.

Council's Building and Infrastructure Asset Renewal Ratio was consistently below the benchmark and below the group average in three of the past four years.

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 weak and deteriorating financial position and can be considered to be unsustainable without significant changes to their financial performance.

We base our recommendation on the following key points:

- The General Fund shows deficit positions are expected in all 10 years when capital grants and contributions are excluded
- The Capital Expenditure Ratio is below benchmark from 2013 and on a downward trend
- Council has not been spending sufficiently on asset maintenance and renewal and does not have the funding available to increase expenditure in these areas. Council is considering reviewing services so that can be set at levels that are sustainable but this needs to be agreed with the community
- Based on the current forecast capital expenditure contained in the LTFP, Council will experience a decline in the quality of its assets which ultimately could impact on service quality
- Additional revenue sources are urgently needed by Council to provide further funding and Council needs to consider options in this area

New South Wales Treasury Corporation

Appendix A Historical Financial Information Tables

Table 1- Income Statement

Income Statement ($'000s)	Year ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Revenue							
Rates and annual charges	16,822	16,445	15,730	14,577	2.3%	4.5%	7.9%
User charges and fees	14,854	12,646	11,367	18,958	17.5%	11.3%	(40.0%)
Interest and investment revenue	1,756	1,550	1,496	1,517	13.3%	3.6%	(1.4%)
Grants and contributions for operating purposes	13,023	7,597	6,521	7,771	71.4%	16.5%	(16.1%)
Other revenues	37	612	44	60	(94.0%)	1290.9%	(26.7%)
Total revenue	46,492	38,850	35,158	42,883	19.7%	10.5%	(18.0%)
Expenses							
Employees	14,188	13,766	12,781	14,157	3.1%	7.7%	(9.7%)
Borrowing costs	1,722	1,159	917	982	48.6%	26.4%	(6.6%)
Materials and contract expenses	17,203	12,263	8,604	17,062	40.3%	42.5%	(49.6%)
Depreciation and amortisation	14,570	13,486	12,615	12,631	8.0%	6.9%	(0.1%)
Other expenses	5,031	3,507	3,672	3,683	43.5%	(4.5%)	(0.3%)
Total expenses	52,714	44,181	38,589	46,394	19.3%	14.5%	(16.8%)
Operating result (excluding capital grants and contributions)	(6,222)	(5,331)	(3,431)	(3,511)	(16.7%)	(55.4%)	2.3%
Operating result (including capital grants and contributions)	1,217	1,352	11,731	8,371	(10.0%)	(88.5%)	40.1%

Table 2 - Items excluded from Income Statement

Excluded items	2012	2011	2010	2009
Grants and contributions for capital purposes	7,439	6,683	15,162	11,882
Fair Valuation Movements in Investments (unrealised capital gains/(losses)	640	640	530	(2,237)
Net Profit (Loss) from Discontinued Operations		(12,733)	422	(211)
Net gain (loss) from the disposal of assets	(3,236)	(4,810)	(1,018)	(3,137)

Table 3 - Balance Sheet

Balance Sheet ($'000s)	Year Ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Current assets							
Cash and cash equivalents	26,011	20,323	18,786	16,200	28.0%	8.2%	16.0%
Investments	1,972	4,775	4,424	8,629	(58.7%)	7.9%	(48.7%)
Receivables	9,970	8,463	6,845	8,190	17.8%	23.6%	(16.4%)
Inventories	2,067	1,977	2,613	5,071	4.6%	(24.3%)	(48.5%)
Other	501	2,269	2,384	265	(77.9%)	(4.8%)	799.6%
Total current assets	40,521	37,807	35,052	38,355	7.2%	7.9%	(8.6%)
Non-current assets							
Investments	2,654	3,401	5,754	8,179	(22.0%)	(40.9%)	(29.6%)
Receivables	2,193	1,923	2,020	1,080	14.0%	(4.8%)	87.0%
Inventories	854	418	419	633	104.3%	(0.2%)	(33.8%)
Infrastructure, property, plant & equipment	558,435	511,127	487,790	463,159	9.3%	4.8%	5.3%
Invtangible Assets	9	15	21	27	(40.0%)	(28.6%)	(22.2%)
Total non-current assets	564,145	516,884	496,004	473,078	9.1%	4.2%	4.8%
Total assets	604,666	554,691	531,056	511,433	9.0%	4.5%	3.8%
Current liabilities							
Payables	5,338	5,916	7,618	5,508	(9.8%)	(22.3%)	38.3%
Borrowings	1,048	767	785	6,726	36.6%	(2.3%)	(88.3%)
Provisions	5,476	5,178	5,507	5,534	5.8%	(6.0%)	(0.5%)
Total current liabilities	11,862	11,861	13,910	17,768	0.0%	(14.7%)	(21.7%)
Non-current liabilities							
Borrowings	20,771	16,024	11,353	12,136	29.6%	41.1%	(6.5%)
Payables	308	501	378	1,839	(38.5%)	32.5%	(79.4%)
Provisions	2,579	2,121	2,073	1,849	21.6%	2.3%	12.1%
Total non-current liabilities	23,658	18,646	13,804	15,824	26.9%	35.1%	(12.8%)
Total liabilities	35,520	30,507	27,714	33,592	16.4%	10.1%	(17.5%)
Net assets	569,146	524,184	503,342	477,841	8.6%	4.1%	5.3%

Table 4-Cashflow

Cash Flow Statement ($'000s)	Year ended 30 June			
	2012	2011	2010	2009
Cash flows from operating activities	13,710	11,918	25,454	14,257
Cash flows from investing activities	(13,050)	(15,034)	(14,480)	(5,563)
Proceeds from borrowings and advances	6,100	5,500	756	1,089
Repayment of borrowings and advances	(1,072)	(847)	(9,142)	(1,789)
Cash flows from financing activities	5,028	4,653	(8,386)	(700)
Net increase/(decrease) in cash and equivalents	5,688	1,537	2,588	7,994
Cash and equivalents	26,011	20,323	18,786	16,200

New South Wales Treasury Corporation

Appendix B Glossary

Asset Revaluations

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

Collateralised Debt Obligation (CDO)

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

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

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

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

Division of Local Government (DLG)

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

Depreciation of Infrastructure Assets

Linked to the asset revaluations process stated above, IPART’s analysis of case study councils found that this revaluation process resulted in sharp increases in the value of some council’s assets. In some

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

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

cases this has led to significantly higher depreciation charges, and will contribute to higher reported operating deficits.

EBITDA

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

Grants and Contributions for Capital Purposes

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

Grants and Contributions for Operating Purposes

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

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

Independent Commission Against Corruption (ICAC)

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

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

Independent Pricing and Regulatory Tribunal (IPART)

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

Infrastructure Backlog

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

Integrated Planning and Reporting (IP&R) Framework

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

Local Government Cost Index (LGCI)

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

Net Assets

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

Roads and Maritime Services (RMS)

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

Section 64 Contribution

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

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

Section 94 Contribution

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

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

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

Special Rate Variation (SRV)

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

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

The applications are reviewed and approved by IPART.

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 / (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.