



New South Wales
Treasury Corporation

Eurobodalla Shire Council

Financial Assessment and Benchmarking Report

8 October 2012

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

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

- Council have based their forecast on an increase in level of asset servicing to maintain Council infrastructure to address most of the infrastructure gap between existing and required asset maintenance
- General Fund results are adversely affecting the consolidated results. Water and Sewer fund results are showing surplus revenue almost every year of the forecast
- The forecast shows deficit positions are expected in all 10 years when capital grants and contributions are excluded. This indicates Council could face financial sustainability issues in the future
- Overall Council's level of fiscal flexibility is sound as own sourced revenue is maintained at levels above 70% from 2013
- The Council may face liquidity issues in the future as cash expense ratios are below benchmark. However if Council's investments are considered then they will have sufficient liquidity throughout the next 10 years to service all short term liabilities and scheduled capital expenditure

In our view the Council has the capacity to undertake the combined additional borrowings of \$1.4m for the LIRS project. This is based on the following analysis

- The DSCR remains above benchmark of 2.00x in nine out of the 10 years forecast. High principal repayments constrain borrowing capacity particularly in 2013/14
- Interest Cover remains above benchmark for the entire forecast period.

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

- Council's financial flexibility was sound, as indicated by the Operating Ratio and the Own Source Operating Revenue Ratio which generally outperformed the group's average
- Council's liquidity position was sufficient but generally underperformed the group's average
- Council has a higher level of gearing than its peers, although its DSCR and Interest Cover Ratio were acceptable in the past three years
- Council's Infrastructure Backlog was below the group's average but above the benchmark throughout the review period. Council's asset maintenance and asset renewal were generally deficient when compared with the benchmark and the group's average. Capital works were sufficient but are forecast to decline over the medium term

3.7: Specific Risks to Council

- Population growth. The LGA's population is expected to reach 49,748 people by 2030. Population growth will place additional pressure on existing infrastructure and services which will continue to decline unless the backlog is reduced. As part of their asset management strategy Council have undertaken a lifecycle review of its assets and have recognised the need to spend significantly more on infrastructure maintenance and renewal. Council have prepared the LTFP based upon maintaining its assets incorporating increased maintenance levels to address most of the infrastructure gap for roads but it does not address the backlog.
- Ageing Population. Eurobodalla Shire Council also has an increasing ageing population and has the highest percent of population over 85 in NSW and the second highest over 65. This will continue to place pressure on existing services and increase demand for aged care and community health facilities. Council have a Community Development program in place to address the identified needs in the community with volunteers providing significant support to the delivery of the program. Services for the aged are generally funded by grants each year.
- High unemployment. The main employment industries are tourism and related industries, retail, healthcare and construction. The current dependence on construction and tourism makes the LGA vulnerable to economic and seasonal fluctuations. Compared to the State, the LGA has a higher unemployment rate.
- Climate change and its impacts. The LGA has had five natural disaster declarations since 2009 which include three for storms, one for flood and one for bushfire. Council is reliant on State and Federal grants and funding for various natural disaster funds. Council is aware of their exposure to these impacts and have a flood plan in place for Moruya Floodplain and Reedy Creek. Council are also implementing risk management works and policies to mitigate future risk to the community.

Figure 22 - Infrastructure Backlog Ratio Comparison

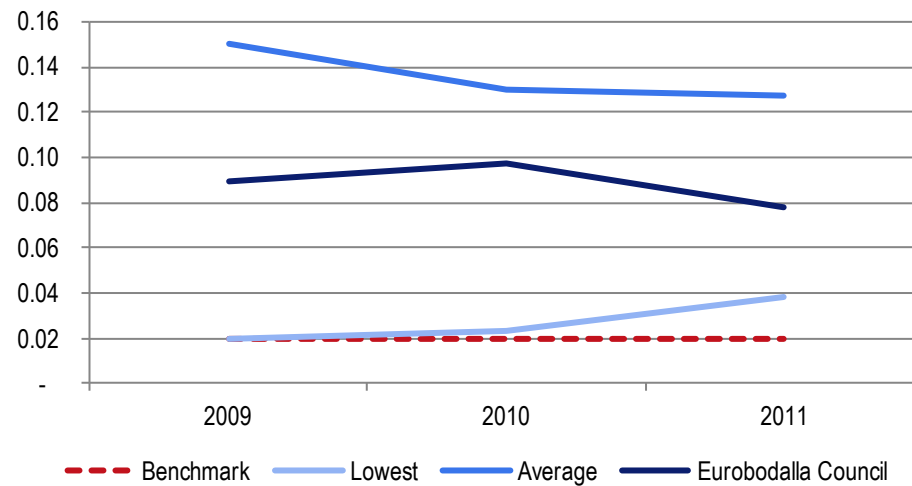
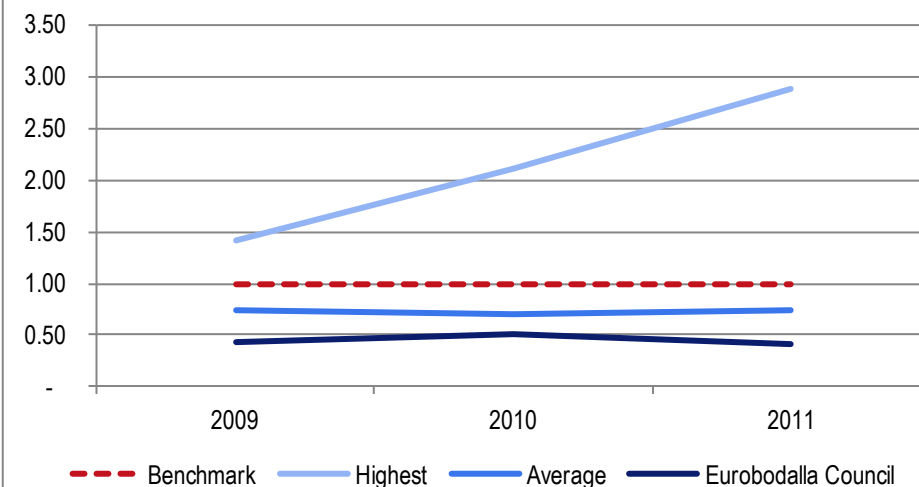


Figure 23 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog was above benchmark but below the group's average in the past three years. Council's Asset Maintenance Ratio and Building and Infrastructure Asset Renewal Ratio were generally lower than the benchmark and the performance of other councils, indicating that Council is underspending on asset renewal and maintenance.

However, Council's Capital Expenditure Ratio generally outperformed the group's average and benchmark, suggesting that Council has prioritised capital works over asset maintenance. Council's Capital Expenditure Ratio is forecast to decline over the medium term in line with other councils.