PARKES SHIRE COUNCIL

Fit For The Future

Financial Model and Benchmark Ratios

JUNE 2015

PARKES SHIRE COUNCIL

Fit For the Future: Financial Modelling section 3.4 of Council Improvement Plan

Meeting the Fit for the Future Benchmarks

Parkes Shire Council is positioned to meet all Fit for the Futue benchmarks by 2017/18 with 42% of the benchmarks met by 2015/16 and 71% met by 2016/17.

Commentary is provided for each of Council's ratios in relation to the benchmark.

Information on how Council will meet the benchmark in the coming years is also presented.

✗ Benchmark not met

✓ Benchmark met

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
1. Operating Performance Ratio	✗	✗	✓	✓	✓	✓
2. Own Source Revenue Ratio	✗	✗	✗	✓	✓	✓
3. Building and Infrastructure Asset Renewal Ratio	✓	✓	✓	✓	✓	✓
4. Infrastructure Backlog Ratio	✓	✓	✓	✓	✓	✓
5. Asset Maintenance Ratio	✗	✗	✗	✓	✓	✓
6. Debt Service Ratio	✓	✓	✓	✓	✓	✓
7. Real Operating Expenditure Per Capita over time	✓	✗	✓	✓	✓	✓

1. Operating Performance Ratio

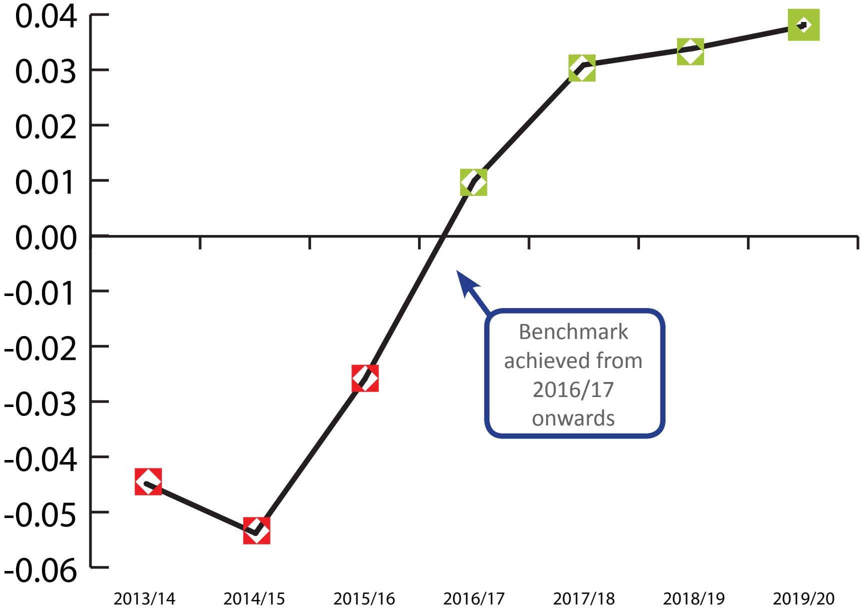
Benchmark: **=> 0**

(greater or equal to break-even average over 3 years)

Formula:

$$\frac{\text{Total continuing operating revenue (excl. capital grants \& contributions) less operating expenses}}{\text{Total continuing operating revenue (excl. capital grants \& contributions)}}$$

	Historical					Projected					
	Financial Year			3 Year Average	Meets FFTF Benchmark?	Financial Year					
	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	0.025	-0.030	-0.139	-0.045	No	0.058	0.031	0.038	0.024	0.039	0.050



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Rolling 3 Year Average	-0.054	-0.026	0.010	0.031	0.034	0.038
Meets FFTF Benchmark?	No	No	Yes	Yes	Yes	Yes

Purpose of Operating Performance Ratio:
This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on result:

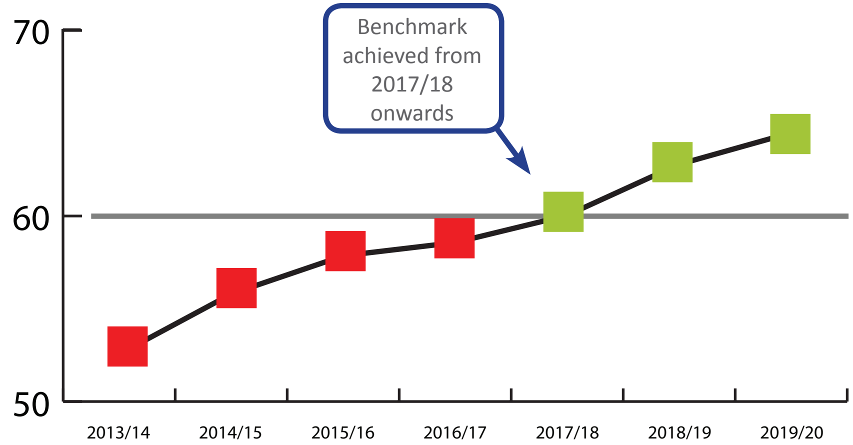
The benchmark for this ratio is 0.0 or better; meaning the operating result excluding capital grants and contributions is required to be a surplus. Council's average operating performance ratio over the previous three years was -0.045. Council has worked pro-actively towards containing expenditure within operating revenue.

How will Council meet this benchmark in the future?

Council has been approved for a Special Rate Variation which has been forecasted to achieve operating surpluses over the life of the current long term financial plan and the revised improved long term financial plan. Measures which are being introduced include decreasing expenditure by implementing efficiency measures. These efficiency measures are being identified through on-going service reviews, business improvements being identified, and following lean methodologies. Through service reviews, increasing operating revenue by increased income from user fees and charges in line with cost of service provided.

2. Own Source Revenue Ratio

	Historical					Projected					
	Financial Year			3 Year Average	Meets FFTF Benchmark?	Financial Year					
Benchmark: **> 60%** (greater than 60% average over 3 years)	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Formula: Total continuing operating revenue (excl. capital grants & contributions) / Total continuing operating revenue (incl. capital grants & contributions)	51.60%	50.70%	55.80%	52.53%	✗	58.70%	56.20%	59.80%	64.30%	64.60%	64.80%



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Rolling 3 Year Average	55.80%	57.87%	58.59%	60.07%	62.85%	64.56%
Meets FFTF Benchmark?	✗	✗	✗	✓	✓	✓

Purpose of Own Source Revenue Ratio:
This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.

Commentary on result:

Council had an Own Source Revenue Ratio of 55.80% in 2013/14 with a 3 year moving average of 52.53%. The ratio is forecasted to improve to be above the benchmark in 2017/18 with a 3 year moving average of 60.07%, and 64.56% in 2019/20.

How will Council meet this benchmark in the future?

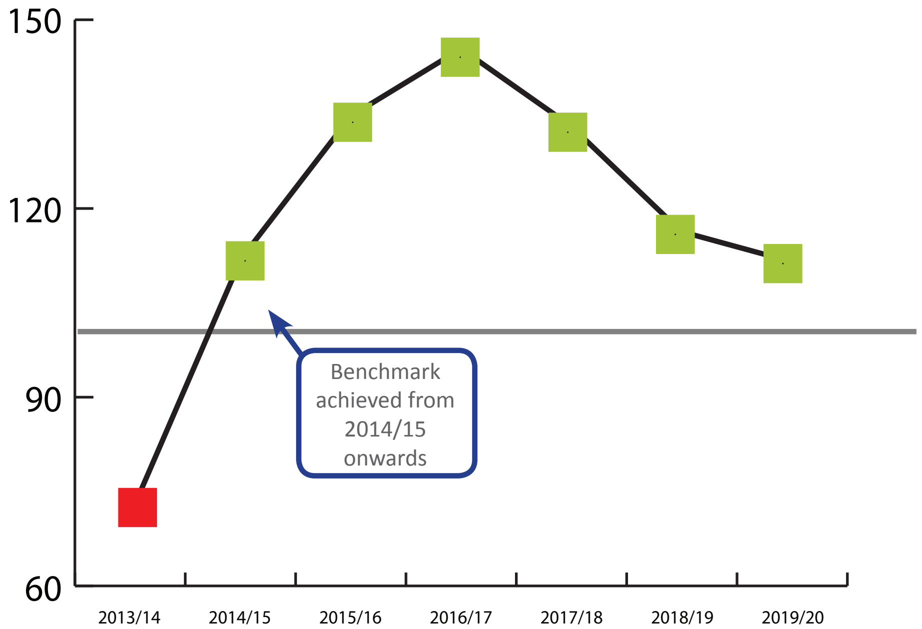
Council has been approved for a Special Rate Variation which has been forecasted to achieve operating surpluses over the life of the current long term financial plan and the revised improved long term financial plan. Measures which are being introduced include decreasing expenditure by implementing efficiency measures. These efficiency measures are being identified through on-going service reviews, business improvements being identified, and following lean methodologies. Through service reviews, increasing operating revenue by increased income from user fees and charges in line with cost of service provided.

3. Building and Infrastructure Asset Renewal Ratio

Benchmark: **> 100%** (greater than 100% average over 3 years)

Formula: Asset renewals (building & infrastructure) / Depreciation, amortisation & impairment(building & infrastructure)

	Historical					Projected					
	Financial Year			3 Year Average	Meets FFTF Benchmark?	Financial Year					
	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	45.80%	**111.90%**	**81.90%**	**71.38%**	✗	**149.10%**	**159.60%**	**127.80%**	**112.60%**	**108.80%**	**113.20%**



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Rolling 3 Year Average	**112.00%**	**134.82%**	**145.53%**	**133.18%**	**116.35%**	**111.55%**
Meets FFTF Benchmark?	✓	✓	✓	✓	✓	✓

Purpose of Building and Infrastructure Asset Renewal Ratio:
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on result:

Council's 3 year moving average was 71.38% in 2013/14. This is quite low due a below average renewal program prior to 2012/13. In the previous two years, this ratio has improved to 111.90% (2012/13), and 81.90% (2013/14). With the funds received from the Special Rate Variation, an extensive asset renewal program has been identified to address the Infrastructure Backlog, and concentrate on the renewal of Council's assets.

How will Council meet this benchmark in the future?

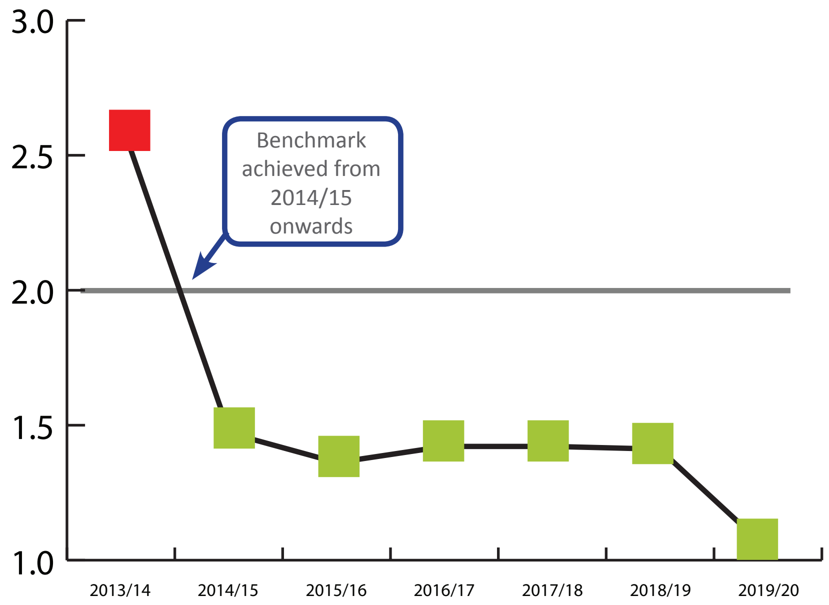
With the proposed asset renewal program, this benchmark is forecasted to be achieved as through consultation, the community has made it clear that they did not wish to see a decline in the levels of service or a deterioration of Council's assets. Through the Special Rate Variation, the funds are predominantly allocated to the capital expenditure and asset renewal program. Council has revalued the Transport Assets in 2015, and this has seen a decrease in Depreciation of approximately $265,000 per annum which will improve this ratio. Council has also adopted a strategy of managing its asset renewal program based on asset renewal modeling. This approach matches the required expenditure for asset renewal with the actual condition of the assets based on physical condition assessment.

4. Infrastructure Backlog Ratio

Benchmark: **< 2%** (less than 2% average over 3 years)

Formula: Estimated cost to bring assets to a satisfactory condition / Total value of infrastructure & building assets

	Historical					Projected					
	Financial Year			3 Year Average	Meets FFTF Benchmark?	Financial Year					
	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	9.37%	4.49%	2.62%	5.49%	✗	1.47%	1.36%	1.42%	1.42%	1.41%	1.04%



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Yearly Ratios	1.47%	1.36%	1.42%	1.42%	1.41%	1.04%
Meets FFTF Benchmark?	✓	✓	✓	✓	✓	✓

Purpose of Infrastructure Backlog Ratio:
This ratio shows the asset renewal backlog as a proportion of the total value of a council's infrastructure.

Commentary on result:

Council's ratio for 2013/14 was 2.62%. This ratio will improve over the next few years due to Council's asset renewal strategy determined as a result of the approved Special Rate Variation. Council has allocated $8.4M from the Special Rate Variation towards predominantly the renewal of assets over the delivery program period 2013/14 to 2016/17. From the years following the current delivery program period, approximately $3.7M per annum is available towards the renewal of assets. This has resulted to date in the Infrastructure Backlog Ratio decreasing, and is forecasted to continue to decrease.

How will Council meet this benchmark in the future?

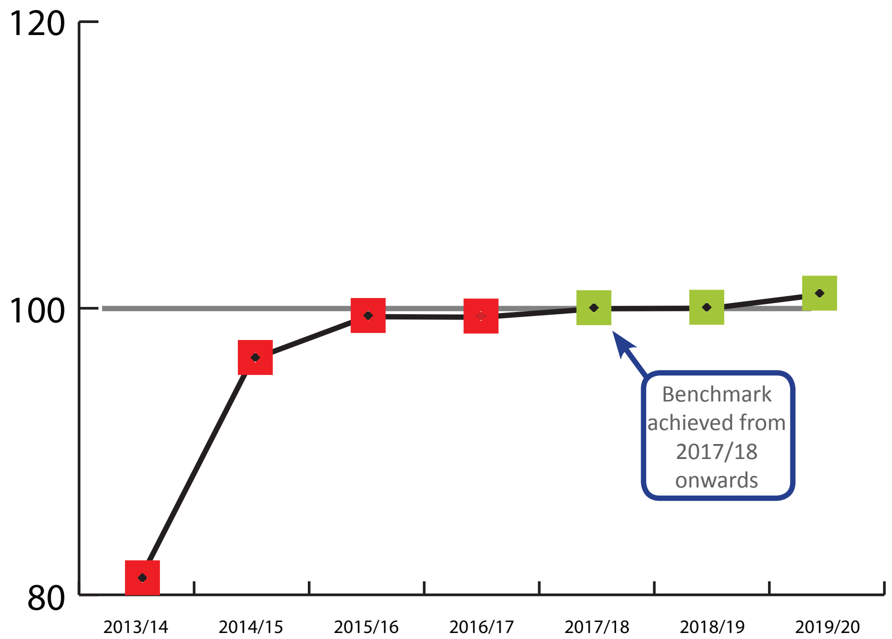
Council's asset renewal funding available estimates that the Infrastructure Backlog Ratio will decrease over the life of the Revised Improved Long Term Financial Plan 2015/16 to 2024/25. It is forecasted that the ratio will decrease from current 2.62% to approximately 1.04% in 2019/20. In 2015, Council has obtained the latest condition assessments of the road networks, and stormwater drainage network, and the renewal program has been determined by the latest assessment data gathered.

5. Asset Maintenance Ratio

Benchmark: **=> 100%**
(equal to or greater than 100% average over 3 years)

Formula: $\frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$

Historical					Projected					
Financial Year			3 Year Average	Meets FFTF Benchmark?	Financial Year					
2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
61.20%	94.30%	96.20%	80.70%	✗	98.70%	103.40%	96.30%	100.50%	103.20%	99.60%



	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Rolling 3 Year Average	96.50%	99.51%	99.47%	100.07%	100.10%	101.11%
Meets FFTF Benchmark?	✗	✗	✗	✓	✓	✓

Purpose of Asset Maintenance Ratio:
This ratio compares required asset maintenance. As ratio above 100% indicates Council is investing enough funds to stop the infrastructure backlog through insufficient funds.

Commentary on result:

The benchmark for this ratio is for the three year average to be greater than or equal to 100%. Council should be spending at least the required expenditure on asset maintenance as shown in Special Schedule 7 - Report on Infrastructure Assets of the annual financial statements. Council's 3 year average to 2013/14 was 80.70%, which indicates that Council had not been spending sufficient on the maintenance on its assets.

How will Council meet this benchmark in the future?

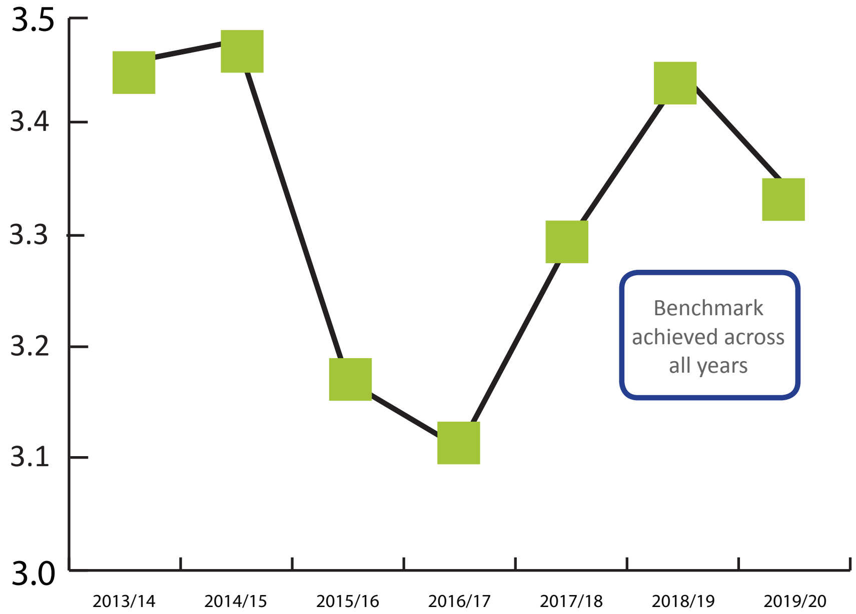
With the increase in the asset renewal program, it is anticipated that the maintenance cost required will reduce as the assets are restored to a satisfactory condition. In the preparation of the 2015/16 to 2024/25 draft revised Long Term Financial Plan, it was identified that Council needed to increase the amount of maintenance. The plan identified Council could reduce the renewals program by $200,000, and increased the maintenance on unsealed road maintenance by $200,000.

6. Debt Service Ratio

Benchmark: **> 0% =< 20%** (greater than 0% and less than or equal to 20% average over 3 years)

Formula: Debt service cost (interest expense & principal repayments) / Income from continuing operations (excl. capital items & specific purpose grants/contributions)

	Historical					Projected					
	Financial Year			3 Year Average	Meets FFTF Benchmark?	Financial Year					
	2011/12	2012/13	2013/14			2014/15	2015/16	2015/16	2017/18	2018/19	2019/20
	2.11%	**4.43%**	**3.94%**	**3.46%**	✓	**2.88%**	**3.01%**	**3.01%**	**3.43%**	**3.46%**	**3.25%**



	20114/15	2015/16	2016/17	2017/18	2018/19	2019/20
Rolling 3 Year Average	**3.48%**	**3.17%**	**3.11%**	**3.30%**	**3.45%**	**3.34%**
Meets FFTF Benchmark?	✓	✓	✓	✓	✓	✓

Purpose of Debt Service Ratio:
This ratio measures the availabilty of operating cash to service debt including interest, principal and lease payments.

Commentary on result:

Council approved its Borrowing Policy in June 2014, which outlined the guidelines for external borrowings. The use of borrowings to fund infrastructure renewal is considered the best means of enabling intergenerational equity of Council's infrastructure assets, distributing costs between current and future users of that infrastructure. After being debt free from 1998 to 2009, Council has recently been in a position where infrastructure asset renewal required the use of loan funds. Council's aim is to keep the consolidated debt service ratio at a level below 10% so that it does not impose too much of a burden on future generations to service the debt. Council General Fund debt service ratio (ratio of principal and interest payments divided by estimated recurrent revenue) is 3.94% for the year ended June 30th, 2014. This is estimated to decrease to 3.45% when proposed borrowings are completed in 2015/16, and also factors in the forecast increase in revenue. This level is considered to be manageable based upon planned revenue forecasts.

How will Council meet this benchmark in the future?

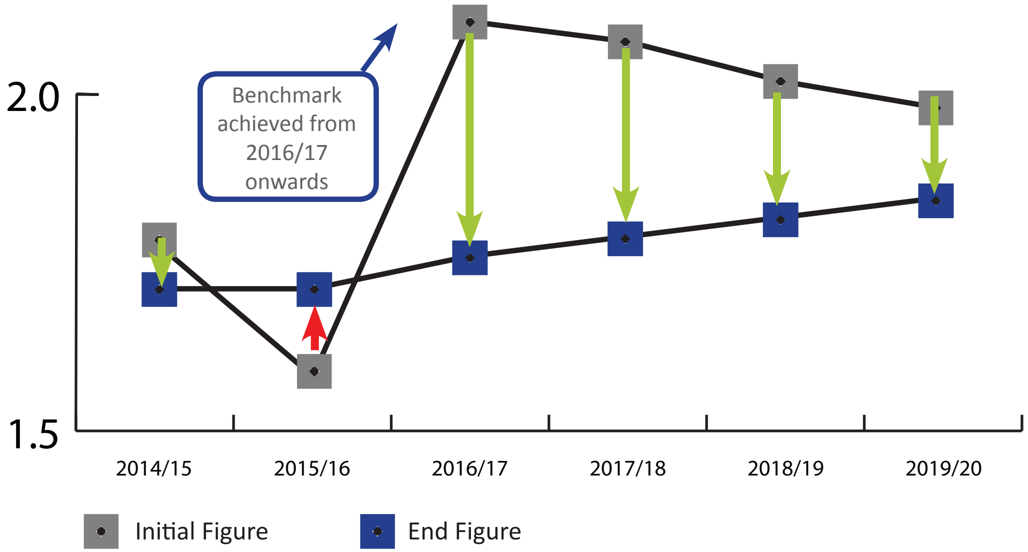
Council's Borrowing Policy provides the framework and budgeting protocol for the determination of future Council's Long Term Financial Plans, and Operational Plans. This protocol is within the benchmarks established.

7. Real Operating Expenditure Per Capita over time

Benchmark: Decreasing Expenditure Over Time
(a decease in real operating expenditure per capita over time)

Formula: $\dfrac{\text{Expenditure deflated by CPI}}{\text{Population}}$

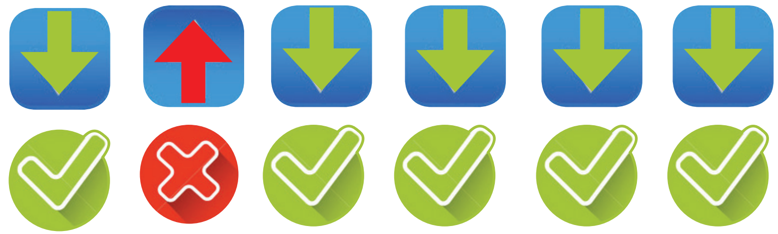
Historical					Meets FFTF Benchmark?	Projected					
Financial Year						Financial Year					
2009/10	2010/11	2011/12	2012/13	2013/14		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
$1.54	$1.65	$1.46	$1.42	$1.40		$1.78> $1.74	$1.58> $1.71	$2.11> $1.76	$2.08> $1.79	$2.02> $1.82	$1.98> $1.85



2014/15 2015/16 2016/17 2017/18 2018/19 2019/20

Rolling 3 Year Average (increase/decrease)

Meets FFTF Benchmark?



Purpose of Real Operating Expenditure Per Capita over Time:
This indicator measures productivity changes over time based on the movement in real per capita expenditure. Based on the assumption that service levels remain constant, a decline in real expenditure per capita indicates efficiency improvements (i.e. the same level of output per capita is achieved with reduced expenditure).

Commentary on result:

The basis for this indicator is that a Council can realise natural efficiencies as populations increases (through lower average cost of service delivery and representation). It can also assess how well a council is able to make the necessary adjustments to maintain current efficiency if population is declining (e.g. appropriate reductions in staffing or other costs). Council currently meets this benchmark.

How will Council meet this benchmark in the future?

Council currently meets this benchmark and should continue to meet this benchmark over the next ten years provided the growth in Parkes in realised, and operational costs are contained. It is anticipated that with the planned national Infrastructure of the Inland Rail, that Parkes will receive a boost to the local economy. Providing Council controls its expenditure and continues to work on Business Improvement, and implementation of efficiency measures through this anticipated period of growth, it is anticipated that this benchmark will continue to be achieved.

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