Holroyd City Council

Financial Assessment, Sustainability and Benchmarking Report

12 April 2013

Prepared by NSW Treasury Corporation for Holroyd City 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 Holroyd City Council, the DLG and the Independent Local Government Review Panel. TCorp shall not be liable to Holroyd City 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

Section 1 Executive Summary

This report provides an independent assessment of Holroyd City 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. Where a council operates a Water or other Fund the financial capacity of these other Funds may be reviewed where considered necessary.

Council's financial position has been deteriorating over the review period, particularly in respect of the management of Council's assets and its operating position. Council has been unable to achieve operating surpluses when capital grants and contributions are excluded during the review period. Some other observations include:

- Council's underlying operating performance, as measured by EBITDA, has improved over the review period from $5.3m in 2009 to $9.0m in 2012
- Council's liquidity has remained adequate to meet their short term liabilities throughout the review period
- Council has been debt free since the 2010 financial year but did have capacity to manage borrowings during the review period that could have funded capital works
- Council's Own Source Operating Revenue Ratio has been above the benchmark in each year indicating Council has adequate fiscal flexibility
- Council experienced large increases in wages and salaries costs in 2012 and these costs will undermine the operating performance of the Council if not addressed

The Council reported $49.4m of Infrastructure Backlog in 2012 which represents 8.4% of its infrastructure asset value of $585.2m. Other observations include:

- The $49.4m total has increased from $32.6m in 2009 following the ongoing review of Council's AMP and the updated asset data collection
- Council's Asset Maintenance, Buildings and Infrastructure Backlog and Capital Expenditure Ratios have not met their respective benchmarks in 2011 and 2012 indicating that Council has not been able to invest adequate funds in these years to maintain, renew or expand their asset base. A continuation of this trend will likely impact on Council's long term Sustainability and increase the Infrastructure Backlog in the future

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

- Council has forecast the requirement of an SRV of 6% above the rate peg for six consecutive years from 2015 in order to meet the infrastructure asset maintenance and renewal funding identified within the AMP
- Council is projecting to post operating deficits in every year of the forecast period even if the proposed SRV is included

- Council is forecasting their liquidity position to remain adequate throughout the review period as indicated by the Unrestricted Current Ratio above the benchmark in each year although Council's reserves are forecast to reduce by approximately $35m (55%) during the forecast period
- Council needs to review their AMP to be satisfied that the current depreciation charges within their LTFP are accurate and, are not overstated and adversely affecting Council's forecast operating deficits and Capital Expenditure Ratio

Council's financial position is weak in the short to medium term. In respect of the long term Sustainability of the Council our key observations are:

- The continued operating deficits projected over the forecast period will eventually have a negative effect on Council's ability to be Sustainable and they will not be able to replace key infrastructure assets as they become due for renewal
- The ability of Council to continue to operate with current service levels will require a successful application of the proposed SRV that is included within the LTFP adopted scenario. Council will also be required to find additional revenue sources, cost efficiencies or reduce expenses to reach a Sustainable position
- Council will be required to invest additional funds in asset maintenance, renewals and purchases going forward if the standard of their asset base is not to deteriorate further and the Infrastructure Backlog is to be reduced

In respect of our Benchmarking analysis we have compared the Council's key ratios with other councils in DLG Group 3. Our key observations are:

- Council's financial flexibility as indicated by the Operating Ratio and Own Source Operating Revenue Ratio is generally below the group average
- Council has not forecast any borrowings therefore they have not been compared to the group in relation to capacity to utilise further borrowings from analysis of the DSCR and Interest Cover Ratio
- Council was in a sufficient liquidity position and is above the group average liquidity level with the majority of their funds placed in investments
- Council's Capital Expenditure Ratio is below the group average and they have a marginally higher level of Infrastructure Backlog in 2012
- Asset maintenance funding has been below the group average and benchmark and has been on a downward trend since 2010, decreasing below the benchmark and group average in 2012. Asset renewals have also been below benchmark in each year and on a downward trend since 2010, decreasing below the group average in 2011

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 report is to be provided to the DLG and 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

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, Council has advised that its current situation is largely influenced by inaccurate condition assessment ratings data for its major infrastructure asset classes and is working to reflect adjustments to the condition assessments currently being undertaken. It is anticipated that following the completion of these condition assessments that the revised operating position will improve.

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

Holroyd City Council	
Locality and Size	
Locality	Sydney Outer
Area	40.2 km²
DLG Group No.	3
Demographics	
Population as at 2011	99,163
% under 20	27%
% between 20 and 59	56%
% over 60	17%
Expected population in 2021	116,900
Operations	
Number of employees (FTE)	454
Annual revenue	$77.5m
Infrastructure	
Roads	333 km
Bridges	19
Infrastructure backlog value	$49.4m
Total infrastructure value	$585.2m

Holroyd City Council Local Government Area (LGA) is located in the west of Sydney, approximately 25 km from Sydney CBD. It is bounded by Parramatta City in the north and east, Fairfield City in the south and Blacktown City in the west.

The LGA is a mixed residential and industrial area, covering the suburbs of Girraween, Granville (part), Greystanes, Guildford (part), Guildford West, Harris Park (part), Holroyd, Mays Hill, Merrylands (part), Merrylands West, Parramatta (part), Pemulwuy, Pendle Hill (part), Smithfield (part), South Wentworthville, Toongabbie (part), Wentworthville (part), Westmead (part) and Yennora (part).

The LGA is known for its strong cultural diversity and mix of family-friendly neighbourhoods and active industry. There are approximately 31,000 people employed within the LGA. The LGA population is expected to grow strongly in the next 20 years and is one of the leading areas in the Sydney region for new migrants.

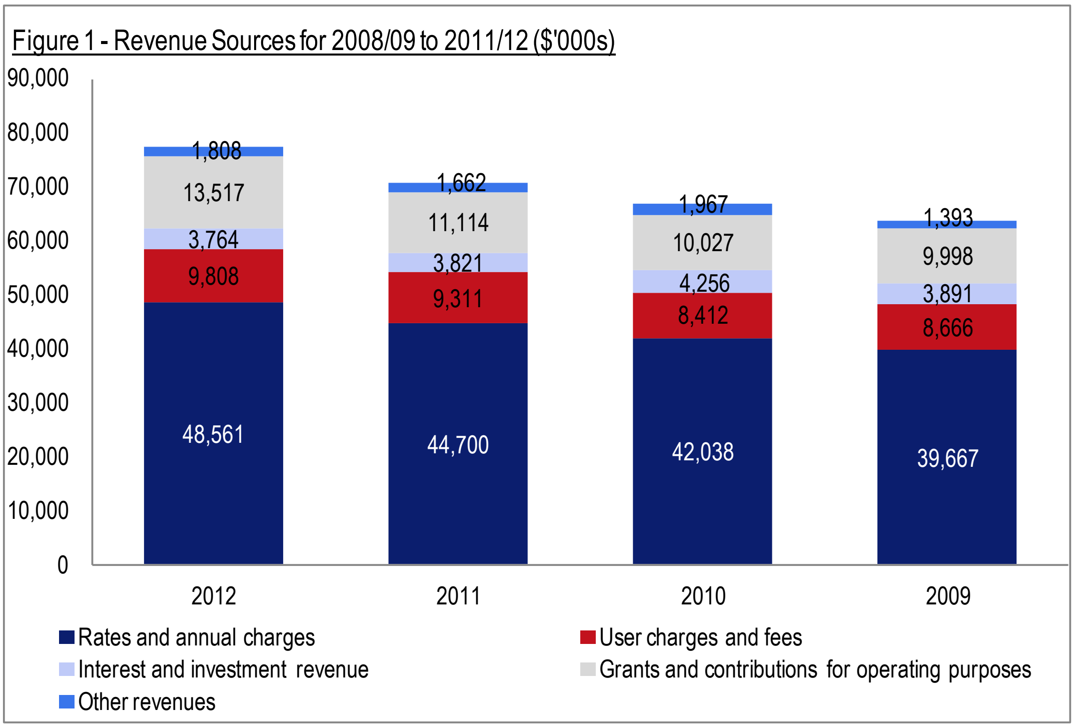
Within Council's Infrastructure, Property, Plant and Equipment (IPP&E) as at 30 June 2012 there was:

- $237.4m of stormwater drainage
- $219.6m of roads, bridges and footpaths
- $65.9m of other structures
- $53.7m of specialised buildings
- $8.5m of non specialised buildings

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.

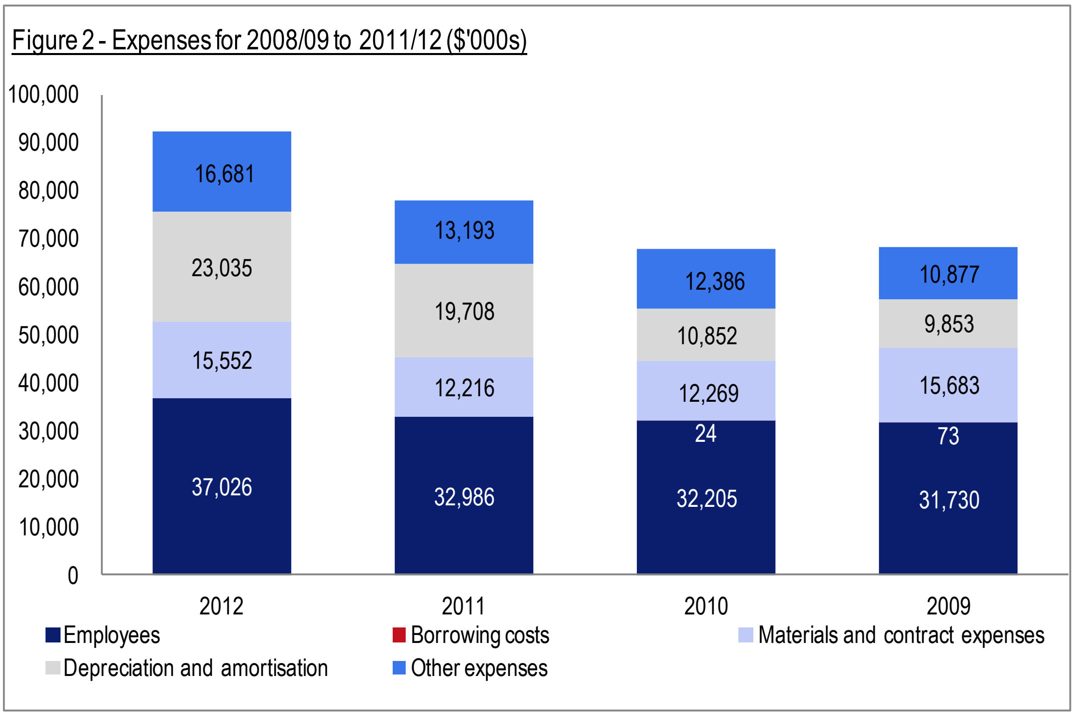
3.1: Revenue



Key Observations

- Total operating revenues have increased by $13.8m (21.8%) over the review period to $78.3m in 2012.
- Rates and annual charges are Council's largest revenue source and increased between 6.0% and 8.6% p.a. over the review period. The increases above the approved rate peg were driven by the domestic waste management services annual charge in each year. Council also benefitted from an infrastructure special rate levy in each year of between $2.0m and $2.2m that is permanently built into their revenue base. This began in 2008 to partially address the growing funding gap between Council's maintenance costs and actual available funds to meet these costs.
- User charges and fees have been on an upward trend over the period. Child/family day care is the largest contributor of $3.5m in 2012 with town planning fees of $1m the next largest.
- Operating grants and contributions have also been on an upward trend with the advance payment of the general purpose Financial Assistance Grants boosting revenues, especially in 2012 where an additional $1.3m was received. Council also benefitted from an increase of $0.5m in the child/family day care grant to $3.6m.
- Other revenues have generally been on an upward trend with the 2012 total including $0.9m from parking fines.

3.2: Expenses



Key Observations

- Total operating expenses have increased by $24.1m (35.3%) over the review period to $92.3m in 2012.
- Employee costs are Council's largest expense and increased by 12.2% in 2012. This increase was due to a $1.7m increase in salaries and wages, $1.7m in employee leave entitlements (ELE) and $0.4m in workers compensation insurance. The ELE contribution increased as a lower discount rate meant higher contributions were required. Equivalent full time employees increased by 8 to 454 as vacant positions were filled. An 18.5% increase in overtime and a 14.4% increase in casual staff occurred to meet the increased community demand for services. The increase related to Council covering staff absences from resignations and extended leave while also managing an increased maintenance workload, partly due to the excessive rainfall experienced during the year. Council has operated debt free since 2011.
- Materials and contracts costs remain at a similar level in 2012 to the 2009 total after a decrease in 2010. The increase of $3.3m in 2012 was due to a $2.1m increase in raw materials and consumables, $1.5m of which was due to increased park and local road maintenance and a $1.3m increase in other legal expenses of which Council had to pay $0.9m for a property settlement dispute.
- Depreciation has seen the largest increase of all expenses over the review period of 233.8%. The increase has occurred in conjunction with the Asset Revaluations with roads and drainage asset depreciation increasing by $8.9m in 2011 following the revaluation of those assets in 2010. The 2012 increase was driven by a $2.6m increase in other structures depreciation.

- Other expenses have been on an upward trend with an annual increase in 2012 of 26.4%. The largest increase was $1.8m of waste disposal tipping fees to $7.8m while information technology fees increased by $0.9m to $1.0m.

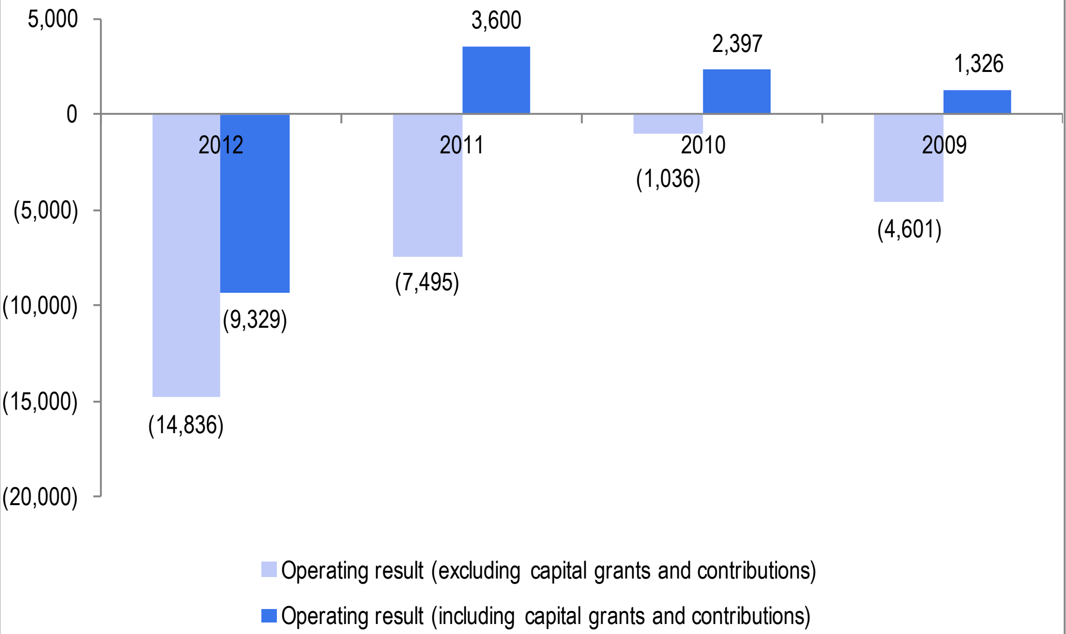
3.3: Operating Results

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's operating result has been in deficit in each year of the review period excluding capital grants and contributions and has grown strongly in the last two years.
- Council expenses include a non-cash depreciation expense, ($23.0m in 2012), which has increased by $13.2m over the past four years following the Asset Revaluations process, contributing to the worsening results. Whilst the non cash nature of depreciation can favourably impact on ratios such as EBITDA that focus on cash, depreciation is an important expense as it represents the allocation of the value of an asset over its useful life.
- The 12.2% increase in employee expenses in 2012 and increased depreciation were the main contributors to the growing deficit position in 2012.

3.4: Financial Management Indicators

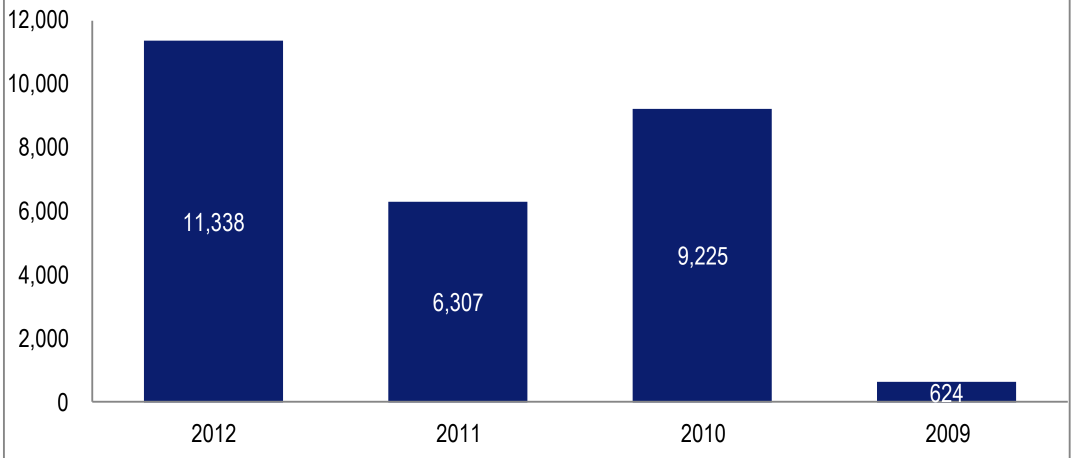
Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA ($'000s)	9,029	12,213	9,840	5,325
Operating Ratio	(17.9%)	(10.6%)	(1.6%)	(7.2%)
Interest Cover Ratio	N/A	N/A	410.00x	72.95x
Debt Service Cover Ratio	N/A	N/A	12.93x	6.57x
Unrestricted Current Ratio	3.43x	6.84x	6.55x	5.76x
Own Source Operating Revenue Ratio	69.7%	66.1%	71.9%	69.5%
Cash Expense Ratio	2.0 months	1.3 months	1.9 months	0.1 months
Net assets ($'000s)	853,326	861,859	970,439	750,347

Key Observations

- Council's underlying operating performance, measured by EBITDA, has increased over the review period although it has declined in 2012 as all operating expenses have seen double digit growth in that year.
- The Operating Ratio has been below the benchmark of negative 4% in three of the four years and the worsening operating results highlight that if the current trend continues then Council will face issues in relation to their long term Sustainability.
- As Council has operated debt free since 2011 the DSCR and Interest Cover Ratio are unable to be calculated in the subsequent years. Council did have the capacity to manage borrowings during the review period had they been utilised
- The Unrestricted Current Ratio has been above the 1.50x benchmark in all four years. It decreased in 2012 due to an increase in Council's current liabilities less specific purpose liabilities.
- The Own Source Operating Revenue Ratio has remained relatively consistent above the 60.0% benchmark due to Council's rates and annual charges being significantly larger in proportion than the other revenue sources.
- The Cash Expense Ratio has been below the 3.0 months benchmark in each review year because Council utilises term deposits and other investments to maximise their return on investment. These products are classified as investments as opposed to cash and cash equivalents and are why this ratio is below the benchmark.
- Council's Net Assets have increased over the review period due to the Asset Revaluations. In 2010 Council revalued their infrastructure assets which added $221.9m while an accounting adjustment relating to community land reduced the value of that land by $182.4m in 2011. Other structures increased in value by $45.6m in 2011 following their revaluation to partially offset the community land value decrease.
- When the Asset Revaluations are excluded there has been a marginal $0.1m decrease in the IPP&E asset base over the three year period, compared to the written down value of disposed assets and depreciation.

3.5: Statement of Cashflows

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



Key Observations

- Council's cash and cash equivalents have increased over the four year period. The majority of Council's funds remained in term deposit accounts classified under current investments.
- Overall cash, cash equivalents, and investments have increased from $48.3m in 2009 to $56.3m in 2012. Of the $56.3m, $23.4m is externally restricted, $22.7m is internally restricted and $10.2m is unrestricted.
- Within the investments portfolio of $45.0m valued at 30 June 2012, $25.0m is in current term deposits, and $20.0m in Negotiable Certificates of Deposit (NCDs) and FRNs.
- The level of cash and investments along with the Unrestricted Current Ratio above the benchmark indicates Council has sufficient liquidity.

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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)

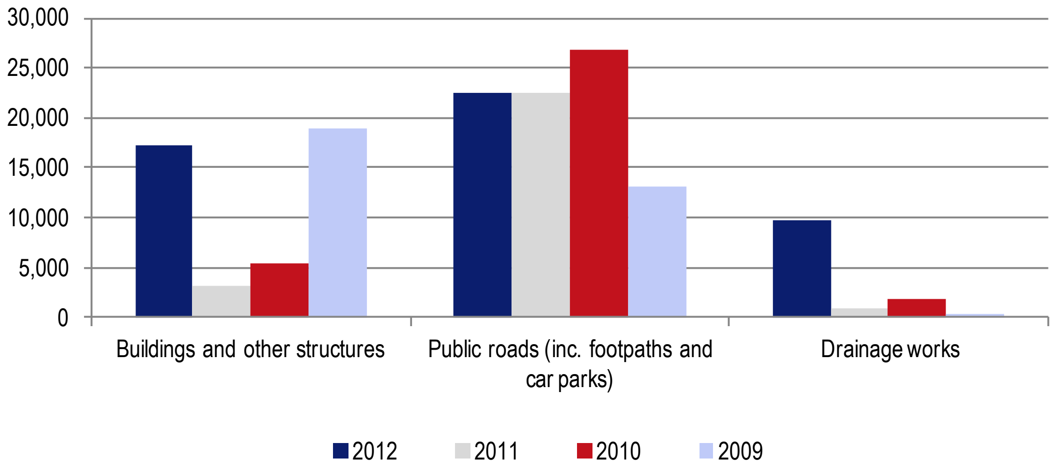
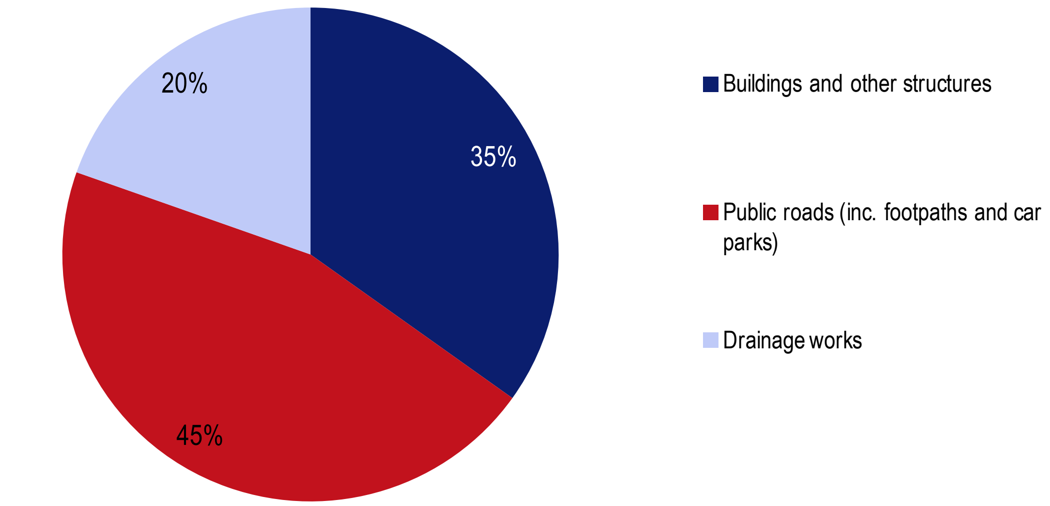


Figure 6 - Infrastructure Backlog Composition for 2011/12



Council's Infrastructure Backlog has increased from $32.6m in 2009 to $49.4m in 2012. Public roads remain the largest backlog category, valued at $22.5m in 2012. The increases in 2012 have come from a $14.0m increase in buildings Backlog value and other structures Backlog value and a $9.4m increase in outstanding drainage works Backlog value.

These increases were a result of Council's ongoing review of their Asset Management Plans and the Asset Revaluations. Council has advised TCorp that further asset assessments have been completed in relation to their road network that have identified the overall condition to be better than stated in 2012. Therefore it is likely that the maintenance expenses and Infrastructure Backlog for those assets will decrease in the 2013 financial accounts as Council continue to improve the data collection. Council has indicated that they are fast tracking condition assessments of their other asset classes that may result in further amendments to their expenses.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	49,445	26,627	34,178	32,552
Required annual maintenance ($'000s)	4,872	5,669	8,008	6,092
Actual annual maintenance ($'000s)	2,389	3,591	5,835	3,232
Total value of infrastructure assets ($'000s)	585,195	595,424	546,364	319,256
Total assets ($'000s)	881,553	890,288	996,246	774,402
Building and Infrastructure Backlog Ratio	0.08x	0.04x	0.06x	0.10x
Asset Maintenance Ratio	0.49x	0.63x	0.73x	0.53x
Building and Infrastructure Renewals Ratio	0.45x	0.70x	0.90x	0.68x
Capital Expenditure Ratio	0.85x	0.84x	1.25x	1.39x

The Building and Infrastructure Backlog Ratio has reduced over the period despite the actual backlog total increasing. This is due to the Asset Revaluations that increased the total value of infrastructure assets at a higher rate than the backlog.

The Asset Maintenance Ratio and Building and Infrastructure Renewals Ratio have remained below their 1.00x benchmark in each year and have shown the weakest result in 2012. The required annual maintenance number has fluctuated over the years as Council has refined its AMPs. The weaker ratios indicate that Council has not invested enough to be able to maintain the operating standard of their assets or renew them to a satisfactory standard.

Council's Capital Expenditure Ratio, which takes into account assets which improve performance or capacity, has been below the benchmark in 2011 and 2012. If the trend of the last two years continues it is likely that Council's Net Asset will deteriorate in quality over time.

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	4,397	135	306	5,298
Replacement/refurbishment of existing assets	11,067	17,240	13,735	8,634
Total	**15,464**	**17,375**	**14,041**	**13,932**

During 2011 Council's capital works program included:

- $9.6m spent on road and footpath renewals and upgrades
- $1.7m spent on the redevelopment of Hyland Road Shooting and Pigeon Club facilities
- $1.2m spent on the redevelopment of Merrylands Children's Centre
- $0.4m spent on the development of Lytton Street Park
- $0.3m spent on the MJ Bennett Reserve amenities building refurbishment

During 2012 Council's capital works program included:

- $11.6m spent on road and footpath renewals and upgrades
- $0.5m spent on the Holroyd Gardens adventure playground
- $0.5m spent on the Gipps Road sporting complex AFL clubroom
- $0.2m spent on the restoration of the Head Masters Cottage
- $0.2m spent on the Central Gardens kiosk refurbishment

3.7: Specific Risks to Council

- Inability to reduce the Infrastructure Backlog. Council's Infrastructure Backlog has increased over the review period following the revision of their AMP and the Asset Revaluation process. Council has posted consecutive deficits during the review period and are unable to meet the relevant asset ratio benchmarks which points to Council not being in a position to fund asset maintenance, renewal or new purchases. Council has set up an Infrastructure Working Party to review the long term infrastructure and operational costs and identify any additional funding sources over the next 10 year period.
- Level of service provision. Council is focusing on service delivery whilst its annual asset maintenance spend has decreased over the years. Council needs to consult with its community to identify what services are affordable or identify options for generating additional funds to meet the costs of the services required.
- Population growth. With Council located within one of the fastest growing regions of NSW, detailed planning has to apply when developing plans for the future growth of the LGA. In this regard, Council is currently in the process of implementing their new Development Control Plan, Local Environmental Plan and Section 94 Plan to facilitate the continued high level of development expected within the LGA. Council also plans to involve local businesses to stimulate and manage developments close to the CBD areas where the businesses are located.

Section 4 Review of Financial Forecasts

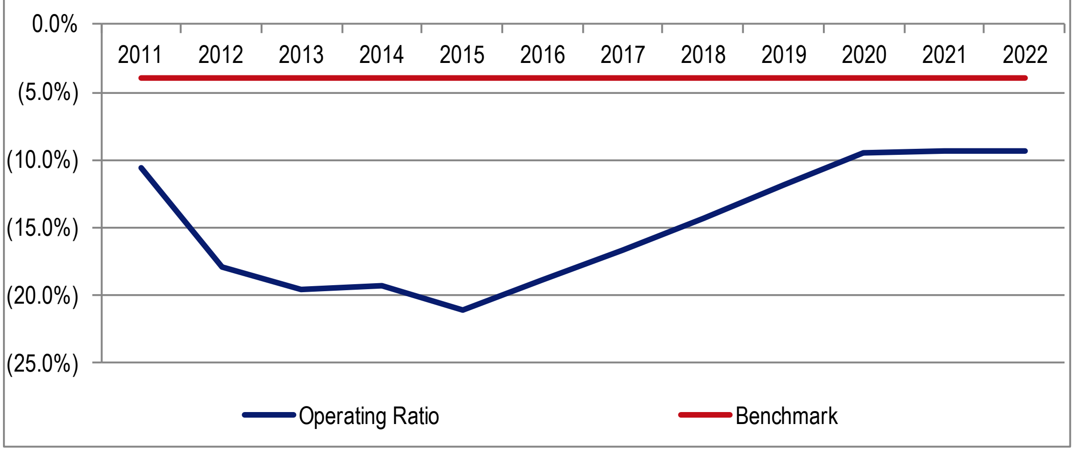
The financial forecast model shows the projected financial statements and assumptions for the next 10 years for Council's General Fund.

Council's LTFP forecast has three scenarios with the adopted 'base case' including a proposed SRV for six years at 6% above the annual rate peg from 2015. This is the scenario that we have based our analysis upon. The SRV has been included to provide funding for the increased spending on infrastructure maintenance and asset renewals required to fully fund the Council's AMP. The model has been prepared in real terms.

The second scenario includes a partial approval of the proposed SRV, highlighting larger operational deficits over the forecast period while the third scenario projects operating grants remaining at 2013 levels for the duration of the forecast and therefore reducing in real terms.

4.1: Operating Results

Figure 7 - Operating Ratio for General Fund

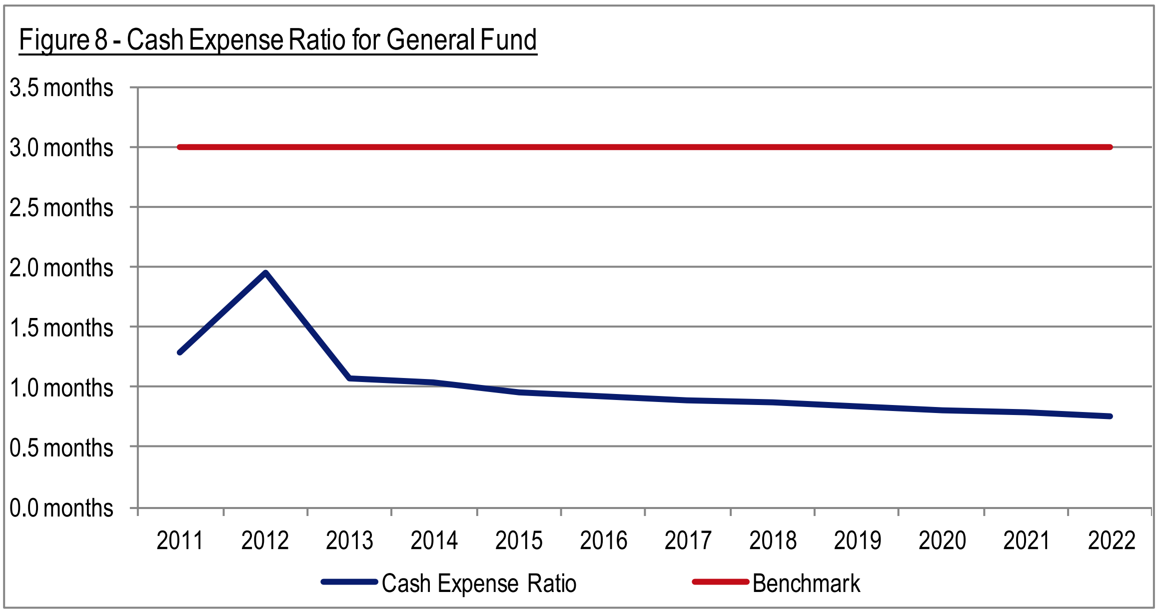


Council has projected that the Operating Ratio will remain below the benchmark throughout the forecast period. The Operating Ratio is forecast to deteriorate to negative 21.1% ($17.9m deficit) in 2015, before the unapproved SRV is forecast to commence. It then improves to negative 9.5% ($10.5m deficit) in 2020

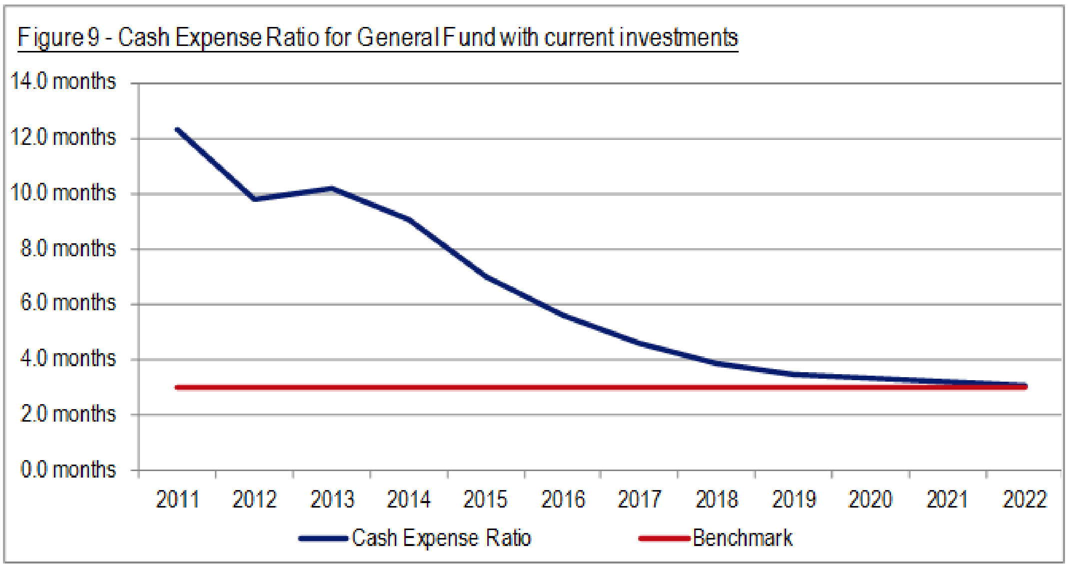
A continuous operating deficit indicates that Council is likely to face Sustainability issues in the long term. However Council has stated that the depreciation charges within the LTFP may be too high and that future versions of the AMP will review residual values, impairment issues and asset lives which may lead to lower depreciation amounts, boosting the operating results. However, this is still unlikely to bring the operating position into a surplus.

4.2: Financial Management Indicators

Liquidity Ratios



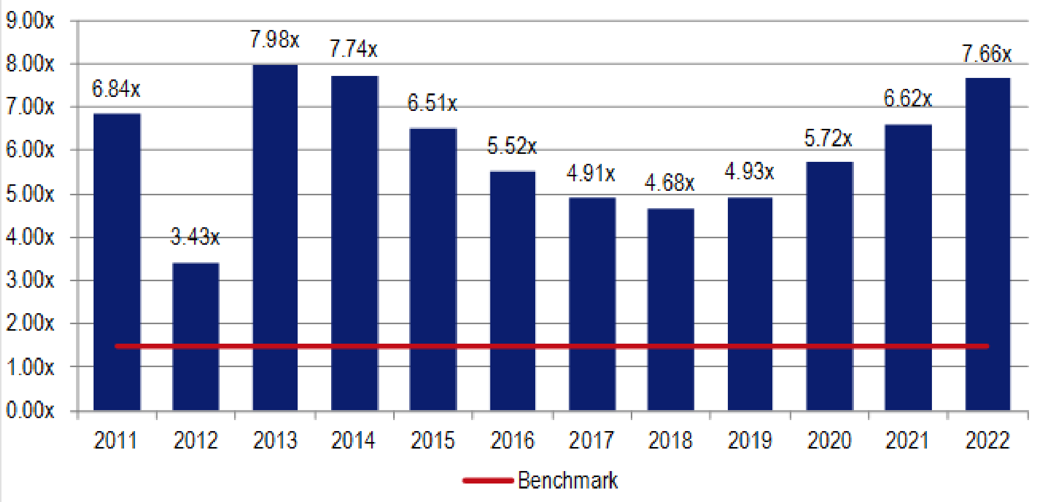
The Cash Expense Ratio is forecast to remain below the benchmark and gradually decline across the forecast period. This is due to Council forecasting a static cash and cash equivalents balance at the same level as the 2011 historic amount of $6.3m.



When current investments are included, the ratio remains above the benchmark but decreases over time as Council plans to utilise the reserves to assist funding infrastructure asset maintenance, renewals and purchases. The combined cash and current investments decrease gradually from 2013 and are at benchmark in 2022.

Council has modelled a static $6.3m cash and cash equivalents balance as a sufficient figure to manage Council's short term liquidity. Any annual change in funds flows to the current investments balance.

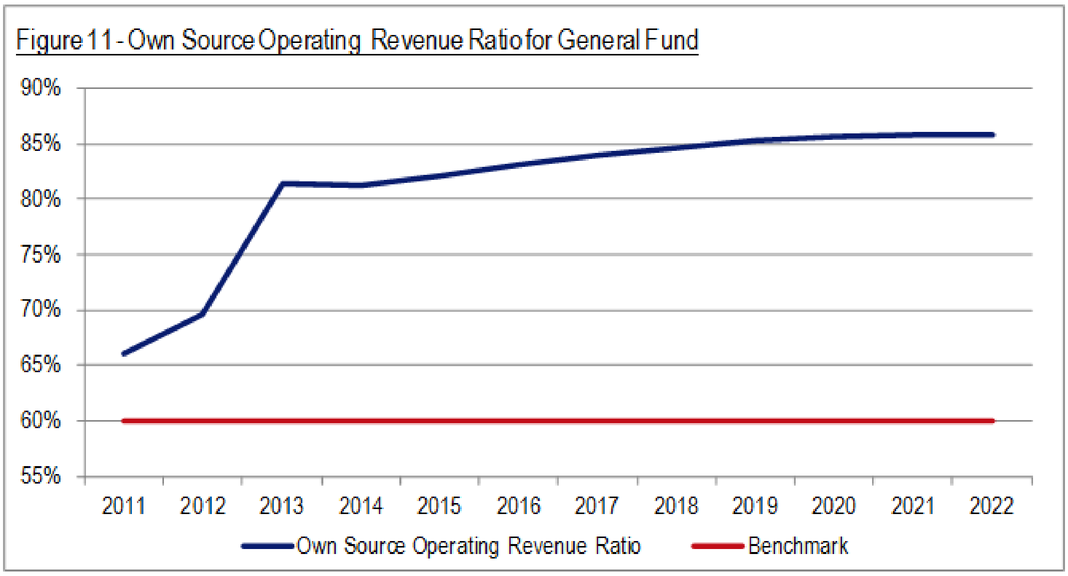
Figure 10 - Unrestricted Current Ratio for General Fund



The Unrestricted Current Ratio is forecast to remain above the benchmark for the duration of the forecast. While the current assets are projected to reduce over the forecast from $66.2m in 2013 to $33.7m in 2022, the external restrictions on the current assets also reduce and the numerator remains relatively strong. External restrictions are generally related to the amount of specific grants and contributions received by the Council. Council has forecast lower specific grants and contributions than historically received.

It therefore appears that despite the reduction in current assets (investments in particular), Council will have adequate liquidity over the medium term.

Fiscal Flexibility Ratios

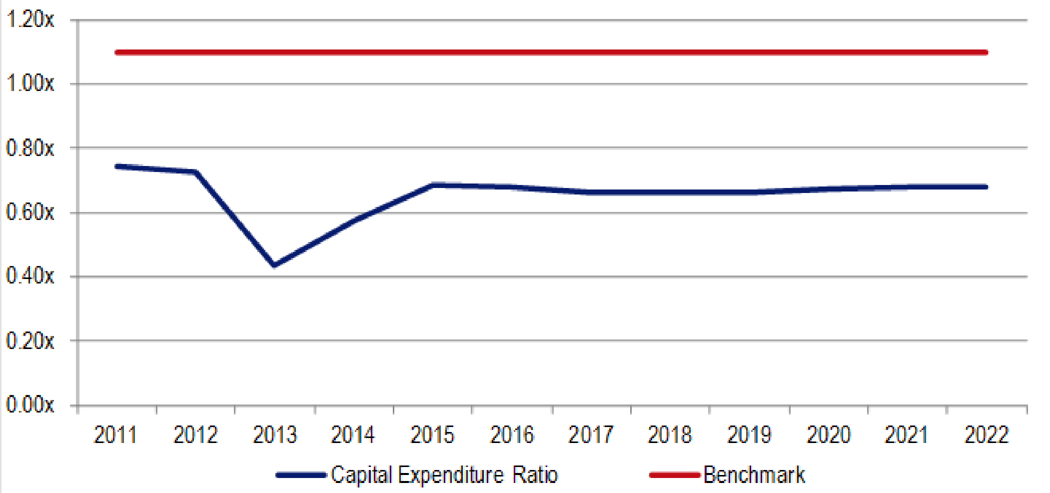


The Own Source Operating Revenue Ratio is projected to increase sharply in 2013 to 81% and to continue rising to 86% in 2020. This increase is due to capital and operating grants and contributions being forecast at a lower rate than historically received.

Council projects that they will remain debt free throughout the forecast period therefore the DSCR and Interest Cover Ratio are unable to be calculated. Analysis on Council's capacity to manage new borrowings is included within Section 4.5.

4.3: Capital Expenditure

Figure 12 - Capital Expenditure Ratio for General Fund



The Capital Expenditure Ratio is forecast to remain significantly below the benchmark during the review period, decreasing to a low of 0.44x in 2013 before stabilising at 0.68x in 2015.

Over the forecast period Council's cumulative capital expenditure on IPP&E purchases of $166.6m is $92.6m below the cumulative depreciation total of $259.2m. As stated in Section 4.1, Council has stated that the depreciation charges within the LTFP may be too high and that future versions of the AMP needs to review residual values, impairment issues and asset lives.

New South Wales
Treasury Corporation

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>

- Council has forecast the SRV for 6% above the assumed 3% rate peg in each of the six years from 2015. If this is not approved then Council will have to make amendments to their capital works programs and service levels
- Service levels are assumed to remain the same as currently provided
- CPI/Inflation has been forecast at 3.0% p.a. and has been applied to user charges and fees, operating grants and contributions, other revenues, depreciation and other expenses.
- Interest on investments has been forecast at 5.0% p.a.
- Employee expenses have been forecast to increase by 3.5% p.a. apart from 2013 when a 6.3% increase is forecast from the 2012 historical figure
- Materials and contracts expenses are projected to be below the 2012 $15.6m actual total in 2013 and 2014 before increasing to $19.1m in 2015 and continuing to increase by 3.4% p.a. thereafter
- Council is forecast to remain debt free throughout the period with Council utilising internal reserves to fund the scheduled capital expenditure program.
- Council has a low level of forecast capital expenditure against the forecast depreciation although they have stated that the depreciation charge may be too high within the current forecast and that further asset data collection and analysis is required.
- Council's assumptions are deemed to be reasonable with the exception of the forecast capital expenditure versus depreciation if Council is to maintain their asset base.

4.5: Borrowing Capacity

In our view, if Council is successful with the SRV application(s) then they may have the capacity to undertake borrowings to assist in addressing the Infrastructure Backlog. Until the details of any approved SRV's are available it is not considered prudent to recommend any borrowings.

4.6: Sustainability

General

Council's CSP is focussed on not losing the city identity as the LGA population continues to expand. The requirement to maintain infrastructure assets alongside the environment and natural resources are seen as a key component.

The vision of the CSP is of a 'Living Holroyd', a city that is Active; Growing; Balanced; Connected and Dynamic. These five strategic directives are the foundations for working toward the 'Living Holroyd' vision. Council will utilise a performance review and monitoring framework of their quarterly reports, annual audited report and a state of the city report at the end of every four year Delivery Program to measure the progress against the strategic directives.

Council also recognises that they are within one of the fastest growing areas in NSW and that they are strategically linked to the NSW State Plan that was released in 2009. The State Plan outlines a vision for the future of NSW and Council has connected their five strategic directives with the appropriate priorities of the State Plan. It is hoped that Council will be able to collaborate with regional partners and the State Government to work towards the State targets for the Western Sydney region of:

- Bringing jobs to the region
- Improve public transport and roads
- Expand and improve health and community facilities
- Improve community safety

Financial

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

- Council's current LTFP shows operating results below the benchmark and in deficit throughout the forecast period despite the proposed SRV being included in the model from 2015
- Compared to annual depreciation, capital expenditure is below what is required to maintain assets at an acceptable standard over the forecast period
- Council's long term Sustainability will be assisted by the approval of the proposed SRV within the LTFP, to retain the current levels of service and to meet the capital works program. However, it is forecast to remain in deficit which highlights that further options to raise revenues or reduce expenses need to be explored
- The revised AMP following the ongoing condition assessments of Council's major assets are likely to reduce the ongoing maintenance and depreciation expenses as experienced with the recently completed assessment of Council's road network

New South Wales
Treasury Corporation

Section 5 Benchmarking and Comparisons with Other Councils

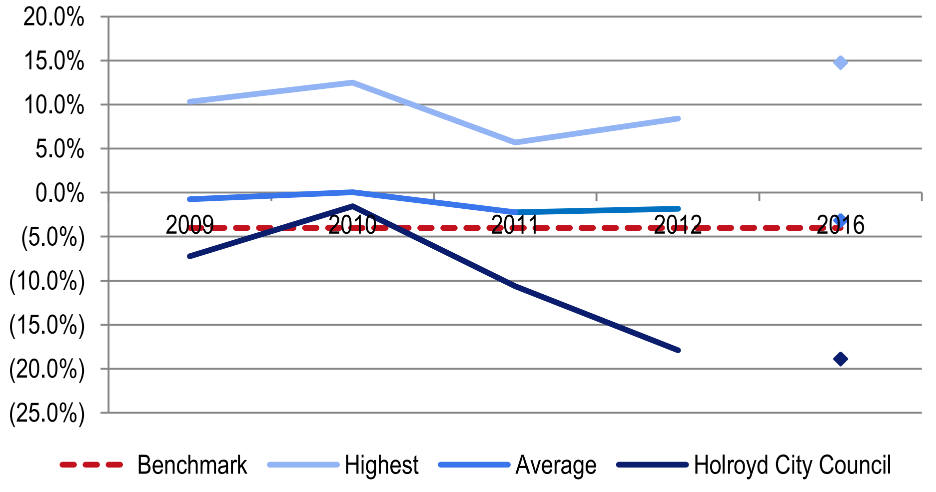
Each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis for councils operating more than one fund. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 3. There are 17 councils in this group and at the time of preparing this report, we have data for all of these councils.

In Figure 13 to Figure 20, 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 18 to 20 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.

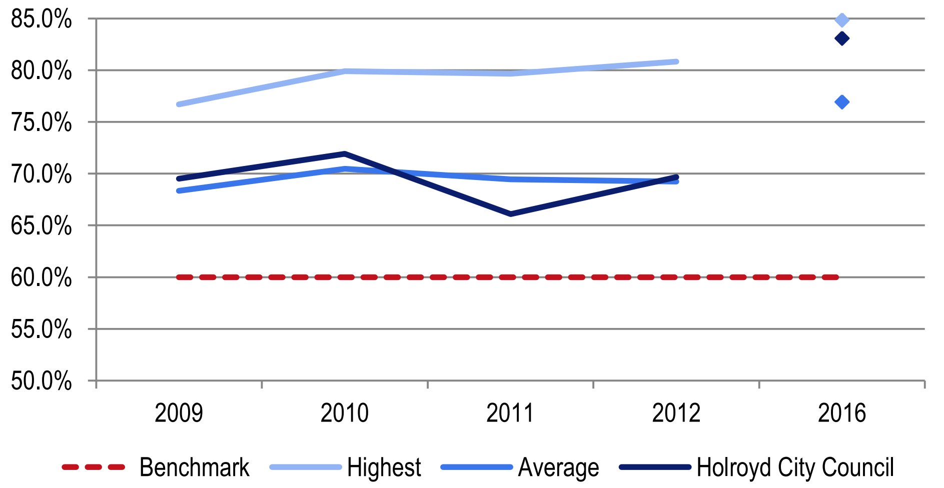
Financial Flexibility

Figure 13 - Operating Ratio Comparison



Council's Operating Ratio has been below the group average and benchmark since 2011 and is forecast to remain in that position in 2016.

Figure 14 - Own Source Operating Revenue Ratio Comparison



Council's Own Source Operating Revenue Ratio has remained above the benchmark in each year and has traversed the group average. It is forecast to increase further above the benchmark and also the group average although the reduction in forecast grants and contributions skews the ratio upwards in 2016.

Liquidity

Figure 15 - Cash Expense Ratio Comparison

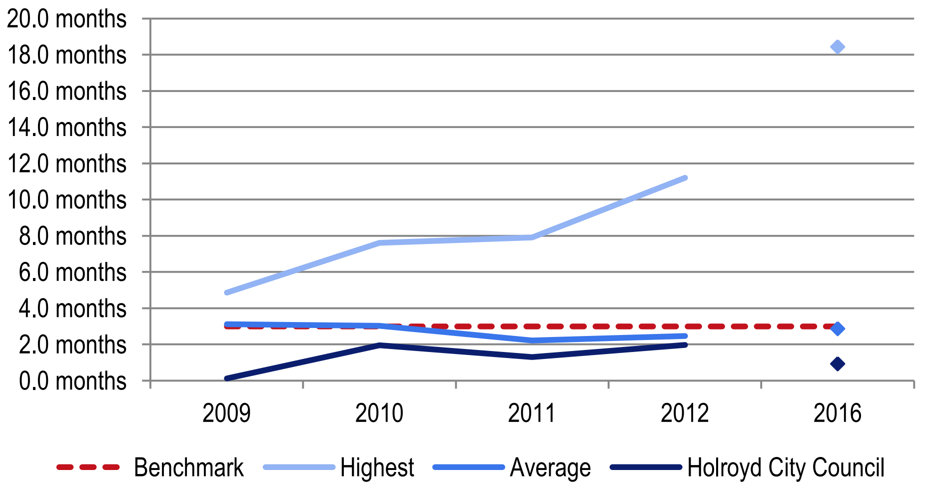
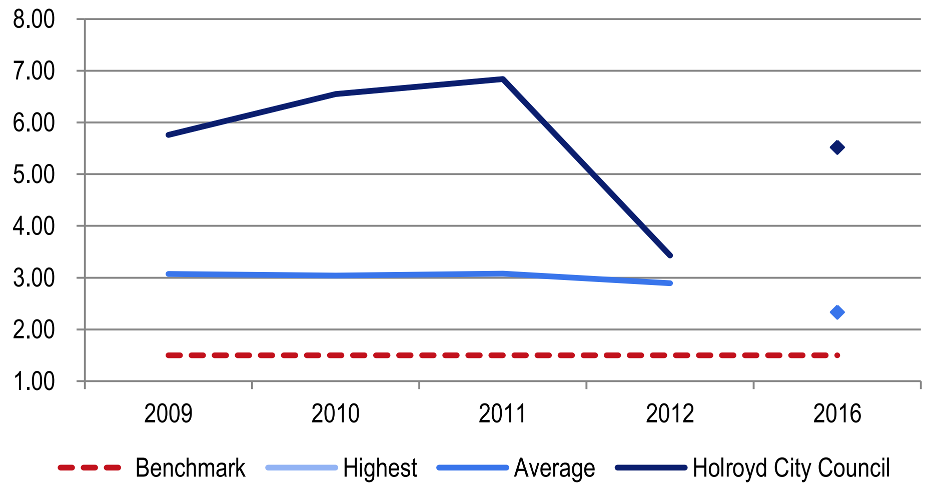


Figure 16 - Unrestricted Current Ratio Comparison



Council's Cash Expense Ratio has been below the group average and benchmark in each year and this is forecast to remain the position in the medium term. Council invests the majority of its funds within investments that are not captured within this ratio.

Council's Unrestricted Current Ratio has remained above the group average and benchmark in each year despite a sharp decrease in 2012. It is forecast to remain above both indicators in 2016 and increase from the 2012 result.

Debt Servicing

Council has been debt free since 2010 and has not forecast any borrowings within the LTFP therefore the DSCR and Interest Cover Ratio graphs have not been completed.

Asset Renewal and Capital Works

Figure 17 - Capital Expenditure Ratio Comparison

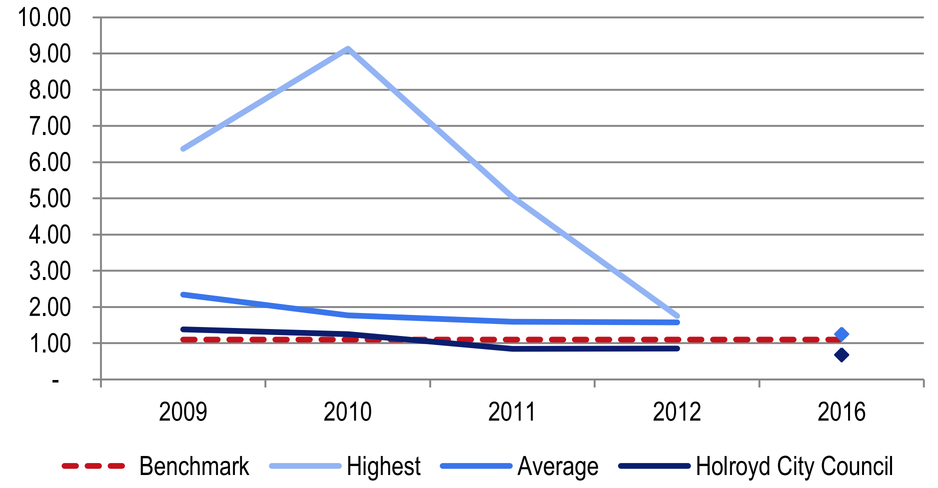
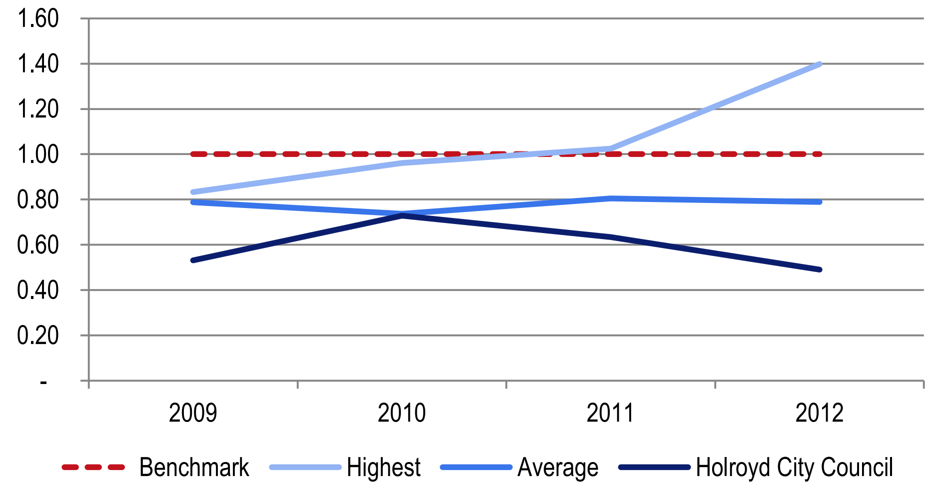


Figure 18 - Asset Maintenance Ratio Comparison



Council's Capital Expenditure Ratio has been below the group average in each year and reduced below the benchmark in 2011. The forecast medium term position is expected to remain the same.

Council's Asset Maintenance Ratio has been below the benchmark and group average in each review year.

Figure 19- Infrastructure Backlog Ratio Comparison

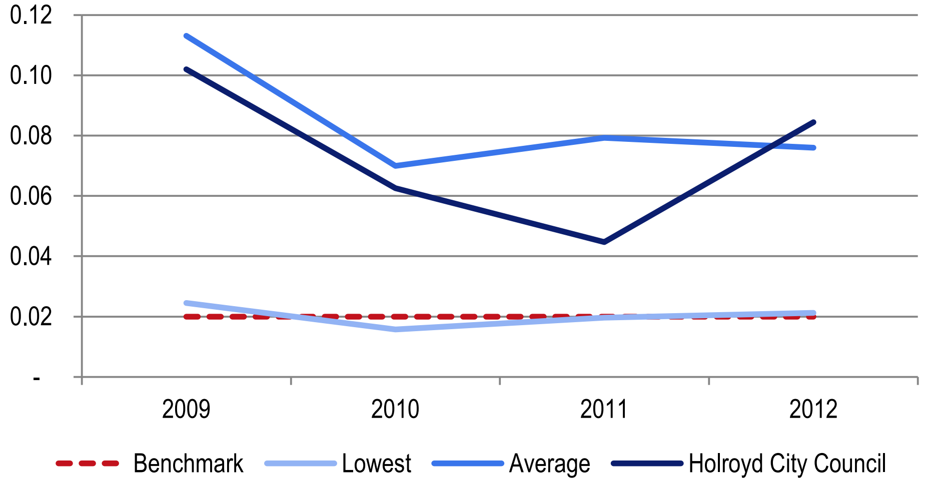
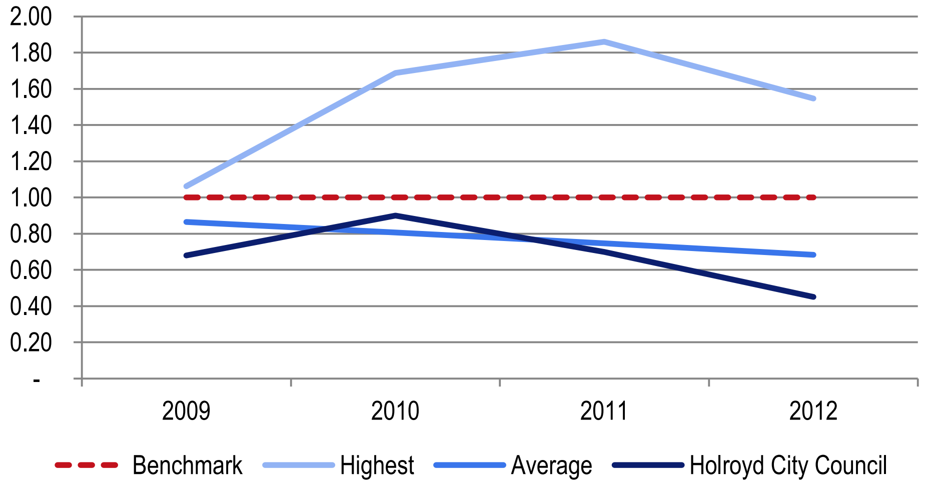


Figure 20 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog has been above the benchmark in each year but was below the group average until 2012. Council's Backlog increased as they revised their AMPs in this year.

Council's Building and Infrastructure Asset Renewal Ratio remained below the benchmark in each year and was also below the group average in each year apart from 2010.

Section 6 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's financial position is weak in the short term and is likely to deteriorate. The continued operating deficits forecast over the medium to long term will eventually impact Council's Sustainability by limiting its ability to replace key infrastructure assets as they become due for renewal.

We base our recommendation on the following key points:

- Council has posted operating deficits in each year when capital grants and contributions are excluded and these have grown significantly in the past two years
- The ability of Council to continue to operate with current service levels will be assisted by a successful application of the proposed SRV that is included within the LTFP adopted scenario. However, it appears that Council will also have to consider service level reviews as the level of operating deficits is not Sustainable with the projected levels of revenue. Any amendments to the proposed SRV will also result in Council having to review service levels and/or the scheduled capital works program, potentially leading to an increase of the Infrastructure Backlog
- Council's Asset Maintenance, Buildings and Infrastructure Backlog and Capital Expenditure Ratio's have not met their respective benchmarks in 2011 and 2012 indicating that Council has not been able to invest adequate funds in these years to maintain, renew or expand their asset base

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

- The review of Council's road network has recently been completed in the 2013 financial year and has highlighted the assets are in a better condition than stated in 2012. This indicates that the maintenance expenses and depreciation charges within the LTFP may be too high. Council has fast tracked the condition assessments of buildings and stormwater drainage as a result and future versions of the AMP will include the review data. If a decrease occurs in the annual depreciation and maintenance expenses, this will boost the operating results and assist Council to improve towards a break-even operating position
- Council is forecasting to remain debt free throughout the forecast period but if Council is successful with their SRV application then the utilisation of borrowings could be beneficial in assisting to reduce the Infrastructure Backlog
- Council has had sufficient cashflow and liquidity to maintain its operations and this is forecast to continue despite Council utilising a projected $35m of reserves across the forecast period. Additional funds are assumed to be invested in longer dated deposits

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	48,561	44,700	42,038	39,667	8.6%	6.3%	6.0%
User charges and fees	9,808	9,311	8,412	8,666	5.3%	10.7%	(2.9%)
Interest and investment revenue	3,764	3,821	4,256	3,891	(1.5%)	(10.2%)	9.4%
Grants and contributions for operating purposes	13,517	11,114	10,027	9,998	21.6%	10.8%	0.3%
Other revenues	1,808	1,662	1,967	1,393	8.8%	(15.5%)	41.2%
Total revenue	**77,458**	**70,608**	**66,700**	**63,615**	**9.7%**	**5.9%**	**4.8%**
Expenses							
Employees	37,026	32,986	32,205	31,730	12.2%	2.4%	1.5%
Borrowing costs	0	0	24	73	N/A	(100.0%)	(67.1%)
Materials and contract expenses	15,552	12,216	12,269	15,683	27.3%	(0.4%)	(21.8%)
Depreciation and amortisation	23,035	19,708	10,852	9,853	16.9%	81.6%	10.1%
Other expenses	16,681	13,193	12,386	10,877	26.4%	6.5%	13.9%
Total expenses	**92,294**	**78,103**	**67,736**	**68,216**	**18.2%**	**15.3%**	**(0.7%)**
Operating result	**(14,836)**	**(7,495)**	**(1,036)**	**(4,601)**	**(97.9%)**	**(623.5%)**	**77.5%**

Table 2 - Items excluded from Income Statement

Excluded items ($'000s)				
	2012	2011	2010	2009
Grants and contributions for capital purposes	5,507	11,095	3,433	5,927
Fair valuation movements in investments	29	(222)	(1,256)	(1,681)
Net share of interests in joint ventures and associated entities	346	356	120	0
Net gain from the disposal of assets	218	106	265	12,772
Other revenues - write back of duplicate payment	830	0	0	0

Table 3 - Balance Sheet

Balance Sheet ($'000s)	Year Ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Current assets							
Cash and equivalents	11,338	6,307	9,225	624	79.8%	(31.6%)	1378.4%
Investments	44,991	53,696	41,567	47,653	(16.2%)	29.2%	(12.8%)
Receivables	3,785	4,135	4,450	7,011	(8.5%)	(7.1%)	(36.5%)
Inventories	278	2,205	2,186	2,177	(87.4%)	0.9%	0.4%
Other	102	139	38	97	(26.6%)	265.8%	(60.8%)
Total current assets	60,494	66,482	57,466	57,562	(9.0%)	15.7%	(0.2%)
Non-current assets							
Receivables	324	493	456	393	(34.3%)	8.1%	16.0%
Infrastructure, property, plant & equipment	817,449	820,195	932,882	711,709	(0.3%)	(12.1%)	31.1%
Investments accounted for using the equity method	1,357	1,011	655	535	34.2%	54.4%	22.4%
Investment property	1,929	1,235	3,992	3,555	56.2%	(69.1%)	12.3%
Intangible assets	0	872	795	648	(100.0%)	9.7%	22.7%
Total non-current assets	821,059	823,806	938,780	716,840	(0.3%)	(12.2%)	31.0%
Total assets	**881,553**	**890,288**	**996,246**	**774,402**	**(1.0%)**	**(10.6%)**	**28.6%**
Current liabilities							
Payables	17,385	18,913	16,314	13,803	(8.1%)	15.9%	18.2%
Borrowings	0	0	0	737	N/A	N/A	(100.0%)
Provisions	9,583	9,033	8,849	9,092	6.1%	2.1%	(2.7%)
Total current liabilities	26,968	27,946	25,163	23,632	(3.5%)	11.1%	6.5%
Non-current liabilities							
Provisions	1,259	483	644	423	160.7%	(25.0%)	52.2%
Total non-current liabilities	1,259	483	644	423	160.7%	(25.0%)	52.2%
Total liabilities	**28,227**	**28,429**	**25,807**	**24,055**	**(0.7%)**	**10.2%**	**7.3%**
Net assets	**853,326**	**861,859**	**970,439**	**750,347**	**(1.0%)**	**(11.2%)**	**29.3%**

Table 4-Cashflow

Cashflow Statement ($'000s)	Year ended 30 June			
	2012	**2011**	**2010**	**2009**
Cashflows from operating activities	12,127	23,359	17,507	8,294
Cashflows from investing activities	(7,096)	(26,277)	(8,169)	(8,359)
Proceeds from borrowings and advances	0	0	0	0
Repayment of borrowings and advances	0	0	(737)	(738)
Cashflows from financing activities	0	0	(737)	(738)
Net increase/(decrease) in cash and equivalents	**5,031**	**(2,918)**	**8,601**	**(803)**
Cash and equivalents	11,338	6,307	9,225	624

Appendix B Glossary

Asset Revaluations

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

Collateralised Debt Obligation (CDO)

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

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

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

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

Division of Local Government (DLG)

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

Depreciation of Infrastructure Assets

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

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

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

EBITDA

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

Grants and Contributions for Capital Purposes

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

Grants and Contributions for Operating Purposes

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

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

Independent Commission Against Corruption (ICAC)

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

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

Independent Pricing and Regulatory Tribunal (IPART)

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

Infrastructure Backlog

Infrastructure backlog is defined as the estimated cost to bring infrastructure, 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.

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.